



## **SPECIAL STUDY**

# **Evaluation of EBRD's investments in the West Bank & Gaza**

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**European Bank**  
for Reconstruction and Development



**Independent  
Evaluation**

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## Abbreviations

|         |   |
|---------|---|
| AFD     | French Development Agency   |
| AML/CFT | Anti-Money Laundering and Countering the Financing of Terrorism regime                  |
| ASB     | Advice for Small Businesses   |
| DFI     | Development financial institution   |
| EBRD    | European Bank for Reconstruction and Development  |
| EIB     | European Investment Bank  |
| EU      | European Union  |
| EUD     | EU Delegation   |
| EvD     | Evaluation Department   |
| FCDO    | The Foreign, Commonwealth & Development Office of the United Kingdom                    |
| FI      | Financial institution; the Bank's Financial Institutions Group                          |
| FLRC    | First Loss Risk Cover   |
| FSFM,   | Frankfurt School of Finance and Management  |
| Gol     | Government of Israel  |
| IFC     | International Finance Corporation   |
| IFI     | International financial institution   |
| MDTF    | Multi-Donor Trust Fund  |
| MSME    | Micro, small and medium sized enterprise(s)   |
| NIA     | Net Income Allocation   |
| NPL     | Non-performing loan   |
| OECD    | Organisation for Economic Cooperation and Development                                   |
| PA      | Palestinian Authority   |
| PFI     | Partner financial institution (i.e. EBRD client bank or non-bank financial institution) |
| SBI     | Small Business Initiative   |
| SBS     | Small Business Support team (now renamed Advice for Small Business team ASB)            |
| SGI     | Strategic Gender Initiative   |
| SME     | Small and medium-sized enterprise(s)  |
| TA      | Technical assistance  |
| TC      | Technical cooperation   |
| USAID   | The United States Agency for International Development                                  |
| WB&G    | West Bank and Gaza  |
| WiB     | Women in Business   |

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**KEY MESSAGES**

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- I. Considering that EBRD is a relatively new player in the region and its first investment took place in 2018; the evaluation team found that **EBRD has been effective at strengthening the capacity of financial intermediaries under Theme 2**. Around 95% of investment approved under the NIA Trust Fund was directed at that theme. The numerous ASB activities on the ground have also been highly appreciated by SME clients.
- II. **The WBG team consisting of three people working from Amman proves to be a dedicated group that adapted to a difficult environment and remained agile to get deals in place**. The team has been working in close collaboration with other bankers and teams at HQ and other locations. EBRD is perceived as a professional, trustworthy and well-respected counterpart by clients.
- III. **Partnerships with other DFIs and the European Union can be further leveraged for the next consolidation phase of EBRD's investments in the region**. These partnerships will enable an efficient policy dialogue to convey stronger messages to the Palestinian Authorities. EBRD should identify better synergies between investments and policy dialogue, in particular in the energy sector, and support new legal and regulatory developments in the region. Stronger presence on the ground could contribute to enhancing policy dialogue, developing corporate deals, raising funds, helping the development of partnerships as well as sending a positive signal to the market and clients.
- IV. **EBRD should use opportunities to diversify its investment toolkit**, reinforce its specialised credit lines, revise its current operations under the Trade Facilitation Programme and remain innovative to compete against peers in the region.
- V. **The Bank should clarify the opportunities of operations in Gaza**. The EBRD has not made any investment operation in Gaza. Since its Engagement Strategy involves both the West Bank and Gaza, the evaluation team suggests to assess the demand and opportunities for private sector support and clarify EBRD's position and intention with respect to its involvement in Gaza.

## Executive summary

The Bank's engagement in the West Bank & Gaza (WB&G) has to be assessed five years following its approval by the EBRD Board of Governors. At the request of Management, the independent evaluation department (EvD) committed to carry out the evaluation of EBRD's investments in the WB&G before May 2022.

This evaluation was performed in a short timeframe to deliver findings and recommendations on time for Management's next Net Income Allocation request and to inform the strategic engagement update in the WB&G that Management is undertaking.<sup>1</sup> Because of the Covid-19 crisis, EvD did not have the opportunity to visit the WB&G and therefore collected all relevant evidence remotely for the purpose of this report.

EBRD has engaged in activities in the WB&G under three strategic themes aimed at (1) enhancing private sector led growth through direct support for competitiveness and innovation, (2) strengthening the capacity of financial intermediaries with a particular focus on increasing access to finance for MSMEs and (3) fostering energy efficiency and sustainability.

The questions posed by the evaluation team on EBRD's investments activities in the WB&G are based on four evaluation criteria and grouped under the four headings below:

- I. Relevance: To what extent have EBRD's activities in the WB&G been responsive to the needs of the private sector in the region, donors and the WB&G authorities?

The evaluation team found that EBRD's activities were generally aligned with the WB&G private sector needs and the PA's National Development Plan. The members of the Multi Donor Trust Fund (the United Kingdom, the Netherlands and Spain) support the Bank's strategy in the WB&G. Donors are satisfied with the original priorities identified by the Bank and have expressed their views on where they would like to see further EBRD engagement.

- II. Internal and External coherence: How coherent have the Bank's activities in the WB&G been internally and externally?

The evaluation team found that EBRD's activities are well aligned with its strategic agenda. Activities in the WB&G are generally i) consistent with the Small Business Initiative's priorities, ii) aligned with and supportive of the strategies for Financial Institutions, and iii) consistent with and supportive of the strategic direction of EBRD's Energy review.

EBRD teams, including bankers who are not based in Amman, worked well together to execute investments. In addition to Banking, OGC, OCCO, LTT, the Gender and Economic Inclusion and ASB team are involved in the implementation of projects in the WB&G.

Coordination with other IFIs has improved through the establishment of the EU-Palestine Investment platform, which creates potential for collaboration in policy areas.

- III. Effectiveness: What are the early results achieved by the Bank in the region; and to what extent Bank's projects have achieved, or are positioned to achieve, their intended objectives?

The evaluation team found that the Bank has been effective to varying degrees in achieving the aims set by the three strategic themes. Some good progress can be seen in providing finance to partner financial institutions and clients were highly appreciative of the effective use of Technical Cooperation in connection with the Bank's investments. EBRD's investment portfolio is heavily concentrated in theme (2) with the bulk of investments comprising loans made to partner financial institutions. Investment under the theme (1) has been limited to one direct lending to corporate and one youth impact bond, as evidence shows that EBRD

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<sup>1</sup> The Approach Paper setting the rationale, scope and methodology of this evaluation was approved mid-August 2021 and published on the intranet end of August 2021.

suffers from a competitive disadvantage vis-à-vis pricing compared to other DFIs and local Banks. EBRD continues to seek its first substantive investment under theme (3).

IV. **Efficiency:** Have EBRD's resourcing and management supported efficiently the achievement of its intended results?

The evaluation team assessed efficiency through four areas: (i) the use of resources, (ii) the use of funds, (iii) reporting and (iv) visibility. The evaluation team found that the Bank has generally used resources and funds allocated to its WB&G activities in an efficient manner. The evaluation identified gaps in the reporting structure under the results framework for the 2017 WB&G engagement strategy. Interviewees repeatedly highlighted that EBRD's visibility and effectiveness on the ground is constrained by the absence of a local presence. It is recognised that personal interactions are key to develop business in that region and increase presence in whatever form will help the WBG team achieving its objectives.

The evaluation team draws the following lessons from EBRD's first five years of operation in the WB&G:

- ✓ The operations in the WB&G confirm that contextualisation of approach is indispensable to effective operations in a fragile and conflict affected area.
- ✓ An aligned and strengthened collaboration between IFIs is essential to facilitate meaningful policy dialogue with the authorities.
- ✓ Presence on the ground is a catalyst to improve visibility and therefore effectiveness for corporate clients, funds raising and to reinforce links with other development actors.
- ✓ The need for better data and analytics is key to success in order to understand local context and to inform the design and deployment arrangements of supportive action, as well as the ability to analyse risk and foresee likely future developments.
- ✓ The use of a tailored toolkit which involves technical cooperation and blended finance proved to be effective in developing business in the WB&G.
- ✓ Without concessional financing future EBRD activities will be constrained. Including concessional financing would be a way to increase the volume of operations to further support the private sector in the WB&G.

Based on the findings identified under each question and the lessons extracted, the evaluation makes three recommendations with respect to EBRD's continued engagement in the region further developed under Section 4.

**Recommendation 1: Strengthen EBRD's profile on the ground by further leveraging the presence of the EU Delegation in the WB&G to better inform the Bank's strategy and outreach towards developing the private sector.** This, together with a strengthened presence on the ground, in line with other DFIs and major donors, would enhance the Bank's interaction with the private sector, participation in policy dialogue and key regulatory discussions, cooperation with other DFIs and fund-raising prospects.

**Recommendation 2: Diversify EBRD's investments toolkit in the WB&G with the view of expanding its activities across all three strategic themes,** including through i) the enhancement of the use of blended finance and first-loss guarantees with donor support; ii) the assessment of the performance of the Trade Facilitation Programme; and iii) an update of the diagnostic of the energy sector as a mean to clearly identify constraints and ways for EBRD to address them.

**Recommendation 3: Continue to engage in policy dialogue and develop technical assistance to support reforms that help overcome key barriers to economic recovery and key infrastructure development and enhance the synergy between policy reforms and investments.**

# 1. Introduction and Evaluation Approach

## 1.1 Background

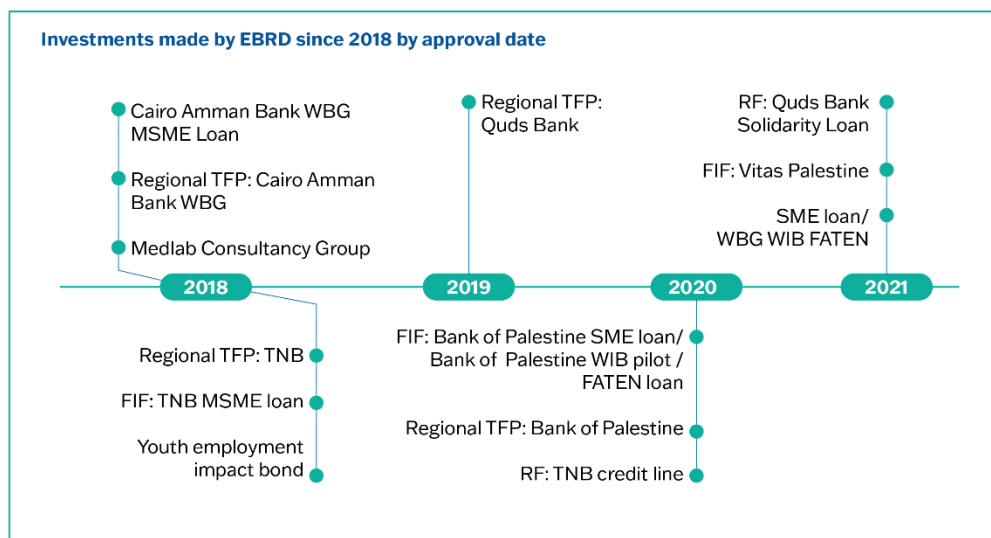
In January 2015, EBRD received a request from the Palestinian Authority (PA) to extend its operational activities to the West Bank & Gaza (WB&G). In its request, the PA noted that EBRD's financing instruments and policy advice could provide valuable support for private entrepreneurship and market-oriented transition in the WB&G, while complementing the existing efforts of international and bilateral financial institutions in promoting prosperity, stability and peace in the WB&G, and the wider region.

In May 2017, EBRD started operations through the establishment of two Trust Funds. One Trust Fund is funded by EBRD's net income allocation (NIA) of up to €100 million provided over the course of five years with an initial allocation of €30 million. The second Trust Fund is a Multi-donor account (MDA) Trust Fund with contributions from three donors, the Netherlands, the UK and Spain. In July 2018, EBRD started its Advice for Small Business Programme, which is funded by the EU.

As stated in the EBRD's engagement paper, the majority of international support in the WB&G has focussed on public sector spending, capacity building and infrastructure, with more than 90% of IFI/DFI support provided to or through public sector counterparts. Therefore the Bank's focus on the private sector aims to be complementary to that other IFIs/DFIs engaged in the WB&G. EBRD operations focused on supporting the development of the private sector by providing direct loans to corporates, supporting financial intermediaries and fostering energy efficiency and sustainability.

Since 2017 EBRD has financed 16 projects worth €58 million and €5.4 million of TC and policy dialogue related projects.

The timeline below illustrates the investments made by EBRD since 2018 by approval date.





## 1.2 Objective and scope of this evaluation

Upon request of the Audit Committee in 2020, the evaluation team undertook an evaluation of EBRD's investments in the West Bank & Gaza (WB&G) with the objective to provide Board and Management with useful findings and recommendations aimed at improving the effectiveness of the Bank's effort in fostering transition in the region.

**The scope of this evaluation covers the Bank's activities from the launch of EBRD's operations in 2017 until December 2021.** The evaluation team places a particular focus on the period from May 2020 to the last quarter of 2021 as Management has already conducted an assessment for period from 2017-May 2020.<sup>2</sup>

This evaluation considers all EBRD activities including investments, advisory and policy work under the three themes/ strategic objectives established by EBRD in its Engagement in the WB&G paper which proposed three strategic themes or pillars in the WB&G<sup>3</sup>:

- Theme 1: Enhancing private sector led growth through direct support for competitiveness and innovation
- Theme 2: Strengthening the capacity of financial intermediaries with a particular focus on increasing access to finance for MSMEs
- Theme 3: Fostering energy efficiency and energy sustainability

## 1.3 Evaluation Questions

The overarching question that this evaluation aims to address is **“to what extent have the Bank's activities in the West Bank and Gaza promoted private and entrepreneurial initiative and fostered the transition towards open market-oriented economy?”**

In order to provide considered input to the Board's view of future operations in the WB&G and Management's updated approach for the next phase, **the overarching question has been assessed through the following dimensions based on the OECD DAC evaluation criteria<sup>4</sup>:**

- (Relevance) To what extent have EBRD's activities in the WB&G been responsive to the needs of the private sector in the region and the WB&G authorities?
- (Internal and External Coherence) How coherent have the Bank's activities in the WB&G been internally and externally?
  - Internally: To what extent have the Bank's activities been aligned with and supportive of EBRD's strategic agenda, FI and SME sector strategies and donor priorities?
  - Externally: How well have the Bank's investments been consistent and aligned with the interventions of other actors in the region?
- (Effectiveness) What are the early results achieved by the Bank in the region; and to what extent Bank's projects have achieved, or are positioned to achieve, their intended objectives?
- (Efficiency) How well have the Bank's resources been used to achieve the intended results?

The evaluation team notes that it is still too early to fully assess the impact and sustainability of EBRD's investments in the WB&G, since the first investment project in the WB&G, a financing package for Cairo Amman Bank, was signed in 2018 and the bulk of the investments were approved in 2020.

The context did not make it possible for the team to conduct field visits, however, in addition to analysing the project documents, board documents, available monitoring reports, other internal and external materials,

<sup>2</sup> CSFO2111

<sup>3</sup> BDS15-201

<sup>4</sup> The OECD DAC Network on Development Evaluation has defined six evaluation criteria – relevance, coherence, effectiveness, efficiency, impact and sustainability

the evaluation team conducted remotely a total of 26 interviews with internal and external stakeholders. Among them, 4 interviews were held with intermediary banks.

## 1.4 Structure of the Report

The report is organised in three sections:

Section II introduces the context of the Bank's work in the WB&G

Section III summarises the main findings of this assessment. It provides facts and evidence on the Bank's activities in the WB&G and their relevance, effectiveness and efficiency. The section is grounded on the updated OECD-DAC Evaluation Criteria.<sup>5</sup>

Section IV includes conclusions, early lessons and recommendations for the consideration of the Board and Management.

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<sup>5</sup> The OECD-DAC Network on Development Evaluation (EvalNet) has defined six evaluation criteria – relevance, coherence, effectiveness, efficiency, impact and sustainability – and two principles for their use. These criteria provide a normative framework used to determine the merit or worth of an intervention (policy, strategy, programme, project or activity). They serve as the basis upon which evaluative judgements are made. This Rapid assessment focuses on the first three criteria.

## 2. EBRD in the West Bank & Gaza

### 2.1 Political context and impact of the Covid-19 crisis

The extremely volatile situation in the WB&G is unusual and challenging. Annex 2 contains a more elaborate introduction to the political economy of the WB&G, part of the 'Occupied Palestinian Territory'<sup>6</sup>, and demonstrates the complexity of the challenge to provide support to Palestinians and their economy. This section provides snapshots of the current context and its impact on overall delivery.

The Palestinian economy has been in a precarious position for a very long time. During 2017-20 period, the economy suffered several shocks mostly fiscal in nature. In 2017-19, growth averaged 1.3 per cent. Since 2020, the situation has deteriorated. In 2020, the combined effect of the COVID-19 outbreak, sustained period of falling development aid, a severe economic slowdown, and a political standoff with the Government of Israel (GoI) over clearance revenues, resulted in one of the sharpest contractions in economic activity in the Palestinian territories on record. The PA's initial response, from early March until about end-May, to combat the spread of the COVID-19 outbreak was successful, despite the limited fiscal and monetary policy instruments available.<sup>7</sup> But the second wave of infections, starting in July 2020, proved to be more severe; and a third wave of the outbreak was registered in November peaking by the end of 2020. Although lockdowns remained limited during the second half of 2020, Gross Domestic Product (GDP) for the entire year contracted by 11.5%. A modest recovery was expected in 2021 with growth returning to around 3.5%, reflecting in part the base year effect from a sharp contraction in 2020 and the uncertainty about the rollout of COVID-19 vaccinations. A slight recovery is underway according to the latest data published by the Palestine Central Bureau of Statistics (PCBS), real GDP of the Palestinian economy grew by 5.4% in H1 2021, year-on-year (y-o-y). However, the improved economic performance in H1 2021 was fully driven by the West Bank economy while Gaza's economy remained almost stagnant.<sup>8</sup>

The PA was under severe fiscal stress in 2020 due to the economic slowdown but also due to the decision to halt acceptance of clearance revenue from Israel for six months, and the precipitous drop in donor fund support.<sup>9</sup> Public spending increased mainly due to a rise in social assistance, help for affected businesses and increased medical spending. The financing need (deficit after grants) amounted to US\$1.1 billion in 2020 forcing the PA to increase domestic borrowing and accumulate more arrears to the private sector, in turn putting pressure on domestic banks.

During the peak lockdowns in the second quarter of 2020, some 121,000 people lost their jobs. Around 96,000 lost jobs in the Occupied Palestine Territory in sectors affected by social distancing measures, such as tourism, restaurants, and construction, while some 25,000 Palestinian workers who cross to Israel lost their jobs in the second quarter of 2020. Both the third and fourth quarters saw an improvement with some 50,000 people regaining their jobs. (The Israeli authorities have now vaccinated more than 100,000 Palestinian workers so they can continue to work in Israel.) In Q4 of 2020 unemployment in the West Bank was 15%; whilst in Gaza it was 43%.

The restrictions on activity required by the pandemic caused an immediate economic crisis and continues to limit economic recovery. To mitigate against the recession the Palestinian Authority developed a soft loan/loan guarantee programme for small to medium enterprises under the supervision of the PMA, which made available US\$210 million in 2020. In addition to the PMA funding, US\$39 million in external support was also provided: 64% of the funding was from the Islamic Development Bank (IsDB)<sup>10</sup>.

<sup>6</sup> The Occupied Palestine Territory is the term adopted by the United Nations and covers, the West Bank and Gaza and East Jerusalem

<sup>7</sup> World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee- February 2021. Washington, D.C.: WBG

<sup>8</sup> World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee- November 2021. Washington, D.C.: WBG

<sup>9</sup> Annex 2 contains further details.

<sup>10</sup> IsDB is a subsidiary of the National Bank. Palestine's second largest bank

The latest Ad Hoc Liaison Committee meeting (AHLC), the international donor group for Palestine took place in November 2021.<sup>11</sup> The meeting discussed the dire financial situation of the Palestinian Authority and the overall state of the economy. Among other elements, the World Bank noted:

- **That the economy is estimated to have grown by 5.4%, in real terms, in the first half of 2021.**<sup>12</sup> The improved economic performance was driven by the West Bank economy while Gaza's economy remained almost stagnant due in part to the 11-day conflict in May. The Bank expected growth to pick up further throughout the remainder of the year and reach 6% in 2021 as the West Bank economy regains more of what was lost during 2020.
- **That the Palestinian economy is projected to grow overall by 6% in 2021.** In the following years, growth is expected to hover around 3% as the low base effect weakens and as sources of growth remain limited given the ongoing restrictions on movement, access and trade.
- **That domestic bank borrowing by the PA had already exceeded the limit set by the Palestine Monetary Authority (PMA),** eliminating this financing option going forward. Hence, the PA may be forced to accumulate additional arrears to the private sector, pulling away more liquidity from the market with a drastic impact on the economy and, eventually further reduce revenue generation.

The political economy of the WB&G poses significant challenges for EBRD's existing and future delivery:

- ✓ **The original 2017 Board decision recognised the exceptional status of the West Bank and Gaza.** Members in the region encouraged the Bank to become active in the WB&G. In their view, shared by other members, a WB&G economy that is better integrated and capable of creating incomes and jobs can contribute to peace and stability in the SEMED region.
- ✓ **The last five years have shown that the WB&G is far from being a 'normal' working environment.** The already difficult state of the economy was further impacted by Covid-19 and there is every likelihood that the difficult situation will persist into 2022 and beyond. This has necessitated EBRD to take an adaptive and agile approach to engaging with the private sector.
- ✓ **The precarious state of public finances in the WB&G poses a real and ongoing threat to stability.** The overall economic climate is very poor and the political situation volatile. Morale in the PA is likely to deteriorate. The difficult fiscal situation means that the PA will struggle to meet all its financial obligations in 2021-22, putting further stress onto the banking sector. Donor aid to Palestine is at its lowest levels in many years.
- ✓ **The current situation has deterred EBRD entry into Gaza for new operations.**<sup>13</sup> However, this remains an option but will require careful manoeuvring in the political space.
- ✓ **There are, however, some signs of improvement in the legal and regulatory environment.** Two laws might have a positive impact in the investment climate of the region. It is hoped that the Telecommunications Law will help ease Israel's restrictions on the PA's access to the electromagnetic sphere. Historically deployment of new technologies, infrastructure construction in the West Bank (Areas B & C) and the Gaza Strip, and the limited selection of telecoms equipment to be imported has been challenging.

The PA's new Companies Law replaced the outdated 1966 law. The new law introduces best practices from regional models for debt resolution/insolvency and protecting minority investors and simplifies the registration process for starting a business. The World Bank and donors have welcomed the passing of the Laws.

<sup>11</sup> The Ad-Hoc Liaison Committee (AHLC) is a 15-member committee that coordinates development assistance to the Palestinian people at policy level and is chaired by Council member Norway and co-sponsored by the US and the EU.

<sup>12</sup> World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee, November 17th, 2021

<sup>13</sup> The 1995 Oslo II Accord established the administrative division of the West Bank into areas A, B, and C as a transitional arrangement, pending a final status agreement. The divisions persist, with Area A administered by the Palestinian Authority, Area C by Israel, and Area B under joint control.

## 2.2 Overview of the Bank's activities

The Bank had a strong delivery during the start of the pandemic with five projects including an SME loan, the first Women in Business (WiB) loan in the WB&G and a loan to a microfinance institution. In 2020 only one of the projects was developed under the resilience framework; developed by EBRD to provide finance to meet the short-term liquidity and working capital needs of existing clients during the pandemic.

At present, the Bank's active portfolio supports the first two themes or strategic directions with 16 stand-alone operations and sub-operations under frameworks, and 41 technical cooperation projects (TCs). There is no active operation under the third strategic theme.<sup>14</sup>

Table 1 depicts the number and amount of investments approved and disbursed under the NIA trust fund per year and per strategic theme; as of December 2021. Annex 1 illustrates the TC investments approved and contracted by year, strategic themes and source of funding.

**Table 1 NIA trust funds investments by year and theme**

| Op ID | Year <sup>15</sup> | Project Name  | Approved, € | Disbursed as at Dec 2021 | Theme |
|-------|--------------------|---|-------------|--------------------------|-------|
| 49942 | 2018               | Medlabs Consultancy Group                             | 2,069,108   | 2,069,108                | T1    |
| 50608 | 2019               | Youth Employment Impact Bond - Equity                 | 5,068       | 5,068                    | T1    |
| 50119 | 2019               | Youth Employment Impact Bond                          | 409,136     | 286,396                  | T1    |
| 49598 | 2018               | Cairo Amman Bank WBG MSME Loan                        | 4,138,216   | 4,138,216                | T2    |
| 49597 | 2018               | Regional TFP: CAB                                     | 1,642,305   | 0                        | T2    |
| 49595 | 2018               | Regional TFP: TNB                                     | 821,153     | 0                        | T2    |
| 49594 | 2018               | FIF - TNB MSME loan                                   | 4,138,216   | 4,138,216                | T2    |
| 50568 | 2019               | Regional TFP: Quds Bank                               | 2,144,023   | 2,144,023                | T2    |
| 51670 | 2020               | Palestine for Credit and Development (FATEN) SME Loan | 2,482,930   | 2,482,930                | T2    |
| 52155 | 2020               | RF - The National Bank (TNB) Credit Line              | 8,276,433   | 8,276,433                | T2    |
| 51622 | 2020               | Regional TFP: Bank of Palestine                       | 4,427,325   | 0                        | T2    |
| 50992 | 2020               | FIF - Bank of Palestine SME loan                      | 10,759,363  | 6,621,146                | T2    |
| 50992 | 2020               | FLRC - Bank of Palestine WiB                          | 354,186     | 0                        | T2    |
| 52224 | 2020               | FIF - Bank of Palestine WiB pilot                     | 1,655,287   | 1,655,287                | T2    |
| 52414 | 2021               | RF - Quds Bank Solidarity Loan - SME credit line      | 4,319,207   | 4,319,207                | T2    |
| 50568 | 2021               | RF - Quds Bank Solidarity Loan - TFP limit increase   | 4,319,207   | 0                        | T2    |
| 52733 | 2021               | FIF - Vitas Palestine - SME Loan                      | 2,581,867   | 1,321,877                | T2    |
| 53133 | 2021               | FIF - WB&G WiB - FATEN                                | 1,762,503   | 0                        | T2    |

Source DTM and Banking

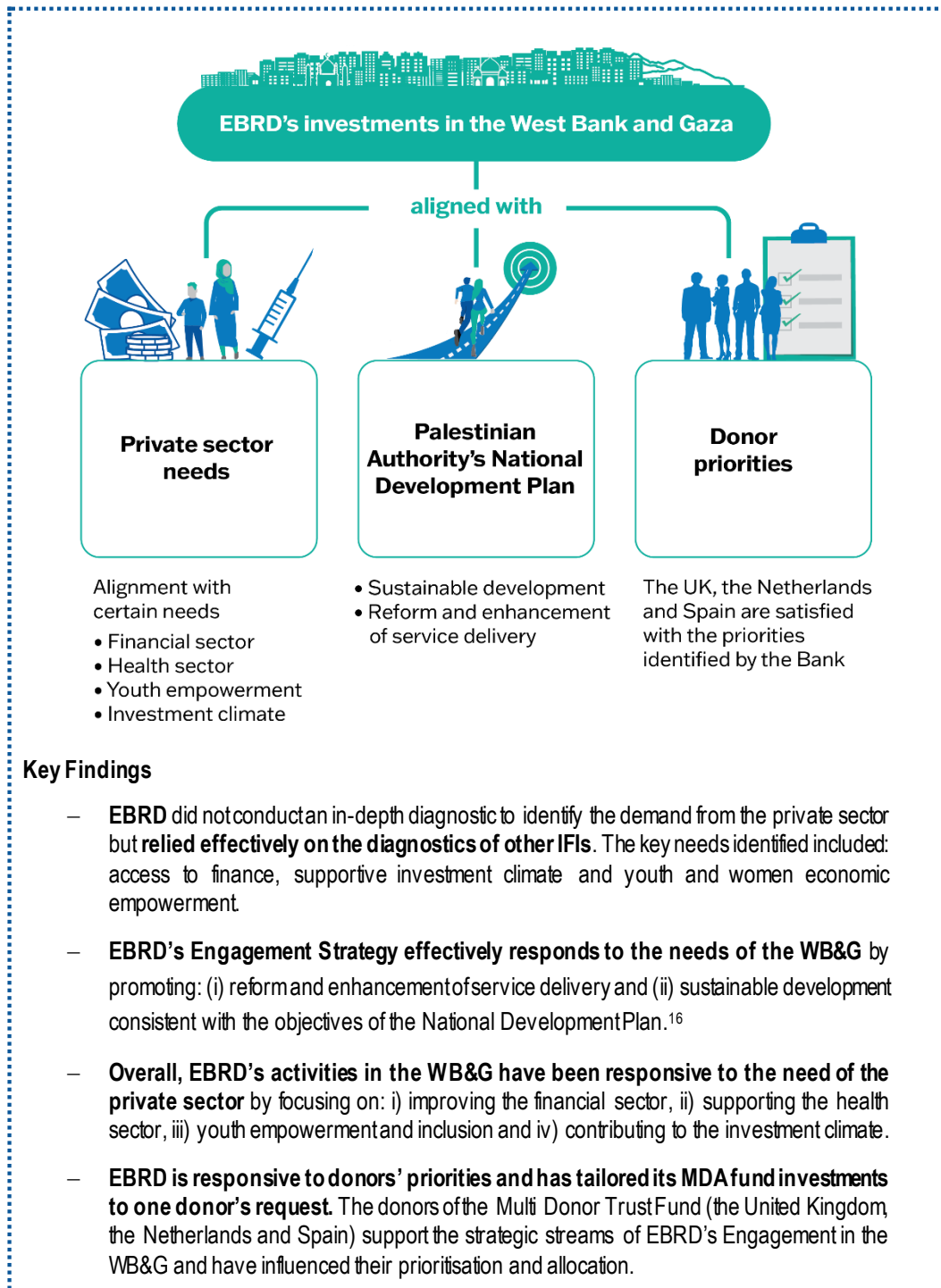
<sup>14</sup> The Youth Employment impact bond project is divided in two projects with different OPIs, and in table 1 there is also the FRLC component part of the WiB project.

<sup>15</sup> Year refers to the year when the projects were signed. All projects were approved and signed the same year except the Youth Employment Impact bond that was approved in 2018 and signed in 2019.

### 3. Evaluation findings

#### Relevance

3.1 To what extent have EBRD's activities in the WB&G been responsive to the needs of the private sector in the region, donors and the WB&G authorities?



<sup>16</sup> The National Development Plan is the guiding framework of development objectives of the Palestinian Authority.

### 3.1.1 Relevance of EBRD activities vis-à-vis the private sector needs in the WB&G

The assessment of EBRD's Operations in the WB&G (2017-2020) prepared by Steward Redqueen concluded that there was a clear challenge in the WB&G to transform the economy towards becoming more private sector driven and less reliant on external support.<sup>17</sup>

The evaluation team could not find evidence of the existence of stand-alone sector/segment analyses or WB&G diagnostics against which to assess the Bank's strategic directions presented in EBRD's 2017 Engagement in the WB&G. Interviews with the WBG Banking team indicate that other IFI's private sector assessments were utilised as diagnostics in preparation of the Engagement strategy.

The evaluation team looked at the current sources of information related to the WB&G challenges in the private sector namely information from the US international Trade Administration, the PA National Development Bank and the information provided in EBRD's engagement strategy for the WB&G.

#### Box 1 The WB&G market challenges

The U.S. International Trade Administration, identified the WB&G market challenges in October 2021 as<sup>18</sup>:

- (i) **High dependence on Israeli supplies and export opportunities.** Almost all Palestinian exports must go through Israel or Israeli-controlled checkpoints.
- (ii) **Significant damages to the economic and commercial environment** from the Second Intifada (2000). Movement of goods into and out of Palestinian markets has been heavily restricted ever since.
- (iii) Israeli security **restrictions on the movement and access of goods and people** between the West Bank, Gaza, and external markets continue to have a damaging effect on the private sector and limit economic growth.
- (iv) **The economy is small and heavily influenced by political events.**
- (v) **Exports are important for private sector growth.**
- (vi) Lengthy standards testing on products (as required by The Standards Institute of Israel (SII)) entering the West Bank and Gaza can **delay shipments into markets.**
- (vii) **Inadequate provision of public goods including road infrastructure, utility networks, and health provision** across municipalities affect the welfare of the economy.

Annex 4, identified actions to be taken by DFIs and PA to tackle WB&G needs, including strengthening systems for delivery of service, building infrastructure, promoting the private sector, and improving governance.

The evaluation team also looked at the alignment of EBRD's activities with the National Development Plan from the Palestinian Authority for the period 2021-2023.

#### The Palestinian Authority's National Development Plan (NDP) 2021-2023

EBRD's activities in the WB&G have been aligned with the PA's NDP. The economy and the human capital are central elements of the strategy in the NDP. The National Development Plan underlines the importance of institutions' resilience to respond to the COVID-19 pandemic. It identifies three pillars<sup>19</sup>:

- (i) **Ending occupation.**
- (ii) **Reform and enhancement of service delivery:** This involves developing strategies for strengthening institutions to provide better and more effective citizen-centred public services. Other reforms imply strengthening governance and public institutions efficiency, partnering with the private sector and NGOs for effective service delivery, introducing e-government, securing rights to access to information and advancing land reform.

<sup>17</sup> CSFO2111

<sup>18</sup> International Trade Administration. 2021. West Bank and Gaza - Country Commercial Guide. <https://www.trade.gov/country-commercial-guides/west-bank-and-gaza-market-challenges>

<sup>19</sup> The World Bank Group. 2021. Assistance Strategy for the West Bank and Gaza for the period FY22-25.

- (iii) **Sustainable development:** The priority is achieving economic growth through a cluster development approach and improvement of the business environment. This involves investing in human capital by providing quality education and health for all (tackling multi-dimensional poverty and creating jobs). Empowerment of women and youth and promote the effectiveness, coherence and inclusion of the social systems are equally among the national priorities leading to sustainable development.

EBRD Engagement in the West Bank and Gaza (BDS15-201 (Final), 4 May 2017).

The focus of the Bank's engagement was the private sector, where additionality was expected to be most evident.

EBRD's mandate and business model was expected to bring value-added complementary to the work of other IFI/DFIs through direct support for investors. The Sustainable Resource Initiative (SRI) and the Small Business Initiative (SBI) were to channel this support:

- (i) by engaging directly with local banks to upgrade their capabilities and
- (ii) participating in joint initiatives with other IFIs/ DFIs active in capital market development and business climate improvement.

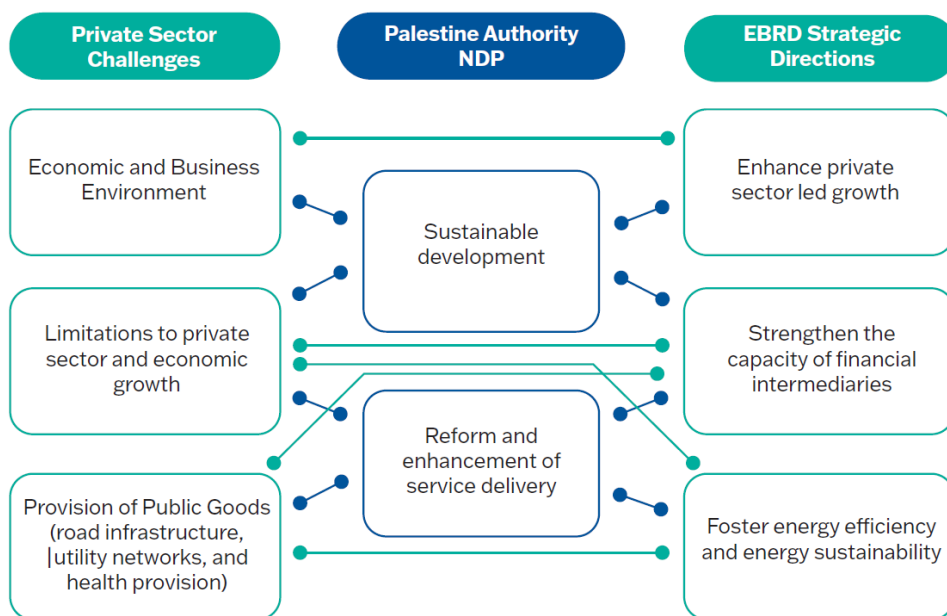
Based on the analysis of the sources mentioned above, the evaluation team provides the following conclusions related to the overall responsiveness:

**The design of EBRD's Engagement strategy responds to the NDP's vision in its second and third pillars.** The current portfolio is in harmony with the second pillar through strengthening institutions (such as the Palestine Exchange, Palestine Monetary Authority, Capital Markets Authority) and partnering with the private sector and NGOs (such as Palestine for Credit and Development (FATEN) and VITAS) for effective service delivery.

**EBRD's investments and TCs sustain the third pillar of the NDP (sustainable development).** Through enhancing private sector led growth (e.g. Medlabs), the Bank is supporting economic growth and improving the health sector. With the Youth Employment Impact Bond, it is helping job creation, youth empowerment and inclusion, which are priorities leading to sustainable development. Through strengthening the capacity of financial institutions (the National Bank, Cairo Amman Bank, Quds Bank, Bank of Palestine), the Bank is reinforcing the financial sector and improving the investment climate.

The diagram below illustrates the alignment between the needs of the private sector in the WB&G, the PA's NDP pillars and the EBRD strategic directions.

**Diagram 1: Alignment between Private sector needs, NDP pillars and EBRD strategic directions**





The diagram shows that EBRD's activities in the WB&G have been responsive to the challenges of the private sector in the area. There is a clear alignment between these activities and both the PA's NDP pillars and EBRD's Strategic Directions. However, the Bank has not implemented yet any operation under the energy efficiency and energy sustainability strategic priority. The evaluation team notes that there is an opportunity to support the enhancement of service delivery (NDP pillar two) through support to the provision of public services, including in infrastructure and utility networks, by fostering private sector participation and promoting energy efficiency.

### *3.1.2 Relevance vis-à-vis Donors' priorities*

The sources of funding of EBRD's activities in the WB&G are the EBRD Net Income allocation Trust Fund and the Multi-Donor Trust Fund (MDTF). The interim three-year assessment carried out by Steven Redqueen found the two funds to be complementary. The NIA Trust Fund is used for investment operations and TC projects (most frequently before the MDTF was operational) while the MDTF is used solely for TC projects.

The MDTF comprises the United Kingdom (UK), the Netherlands and Spain, in respect of which the evaluation team has reviewed the grant agreements.

#### The United Kingdom

The evaluation team found that the contribution agreement between the UK and EBRD noted on Annex that "EBRD acknowledges the Contributor's preference for the Contribution to be used to support projects in policy dialogue and technical assistance in the areas of trade and energy". Indeed, the donor supports the empowerment of the private sector through energy and trade related interventions, as stated in the Foreign, Commonwealth & Development Office (FCDO)'s Supporting Economic Empowerment and Development in the Occupied Palestinian Territories (SEED OPTs) project (which funds the MDTF). The donor looks forward to an eventual engagement in Gaza. The UK originally committed to €2.5 million in 2018. However, this amount has decreased to €670,000. During our interview with the donor, it was explained that the reduction to the SEED OPTs allocation to EBRD was due to the overall cut to FCDO's budget. The interviewee also noted that this amount may be adjusted back to the original commitment after the next spending review.

Through the interviews with DCF and the UK donor, the evaluation team found that the UK donor does not focus on SME support due to the perceived potential reputational risks, as the donor considers it would not have the capacity to scrutinise every loan. Since the UK did not want to fund SME related interventions, EBRD did not use UK's contribution for SME support stream. EBRD adapted to this request and has regularly informed the UK donor on the use of the UK funds.

#### The Netherlands

As evidenced by a review of the contract agreement, the donor funding is not tied to explicit priorities. Interviews confirm that the funds are not earmarked, but the donor's focus is on SME lending. The Netherlands support demand-driven and politically feasible projects. The Netherlands originally committed €800 000 to the fund, and later contributed an additional €400 000.

Looking forward, the donor would like to see support in Area C, especially for agribusiness and backing for the agriculture sector in Gaza.<sup>20</sup> It would be available to help with permits to travel to areas outside the West Bank. Discussions are on-going regarding the gas sector and waste to energy segment. The donor's preference is to link partners together.

The donor considers the strategic directions of EBRD's support align with its own focus. The Netherlands private sector development strategy focuses on information communications technology and agribusiness, and the donor sees a stable energy supply as important for promoting agriculture.

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<sup>20</sup> The 1995 Oslo II Accord established the administrative division of the West Bank into areas A, B, and C as a transitional arrangement, pending a final status agreement. The divisions persist, with Area A administered by the Palestinian Authority, Area C by Israel, and Area B under joint control.

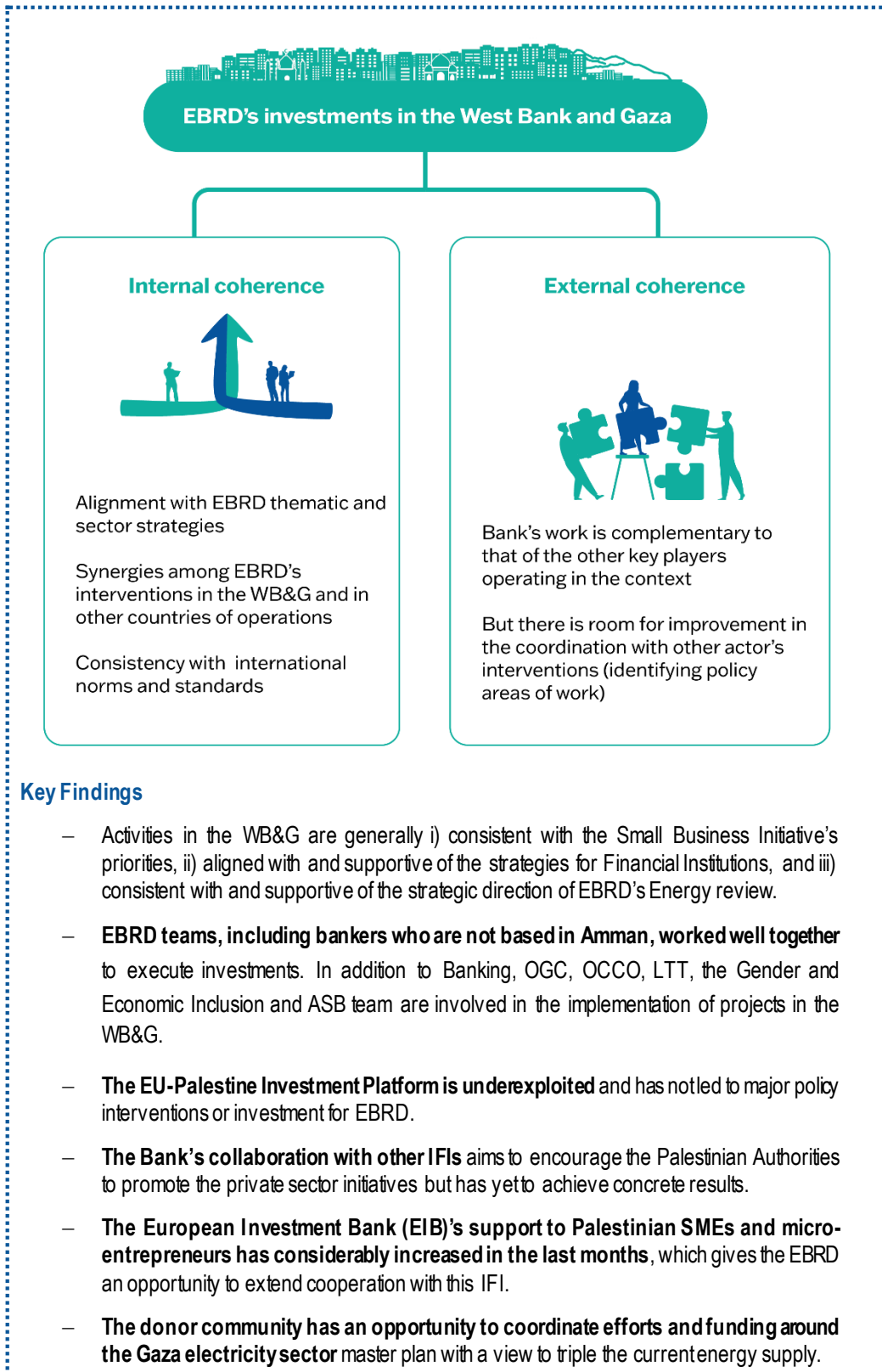
## Spain

Spain is the latest donor to support the EBRD's Engagement in the WB&G. The contribution agreement specifies that the resources from the Spain-EBRD Fund to the MDTF for financing activities are not earmarked. In 2021, Spain committed €500 000 to the fund. At the moment, this commitment is a one-time contribution. In the contribution agreement, EBRD acknowledges the Spanish Ministry of Economy and Digitalization's preference for the contribution to be used to support projects in policy dialogue and technical assistance in the area of environment, sustainable energy, sustainable agricultural policy, sustainable investment and such other sectors compatible with environment sustainability as may be agreed upon by the parties in the future.

In conclusion, donors support EBRD's Engagement strategic streams in the WB&G and have expressed their views regarding current priorities and where they would like to see further EBRD engagement. Donors are satisfied with the original priorities identified by the Bank.

## Coherence

### 3.2 Have the Bank's activities in WB&G been internally and externally coherent?



### 3.2.1 Internal Coherence

This section presents the focus and priorities of EBRD's Small Business Initiative, Financial Institutions, and Energy strategies and their alignment with EBRD's engagement activities in the region.<sup>21</sup> It also looks at the cooperation and coordination among EBRD teams to conduct EBRD's investments.

The evaluation team finds EBRD's internal coherence adequate given the synergies among its interventions in the WB&G and other interventions in other EBRD countries of operations directed to the development of the private sector. All EBRD interventions in the WB&G are also consistent with international norms and standards to which EBRD adheres.

The evaluation team found evidence that the design of EBRD activities in the WB&G is aligned with and influenced by the Bank's strategies based on the review of the Small Business Initiative Annual Review, two Financial Sector strategies and the 2019-2023 Energy Sector strategy.

Table 2 presents a cross analysis of themes in the Engagement of EBRD's in the WB&G Board Document against overall priorities set out in strategies and initiatives. Annex 5 provides further details of the priorities of these strategies and the Small Business Initiative.

**Table 2: Themes in EBRD Engagement in the WB&G Board document (BDS15-201) appearing in relevant EBRD strategies and initiatives in force in the 2020-2022 period.**

| Themes expressed in the <i>EBRD Engagement in the WB&amp;G</i> Board document (BDS15-201) | SBI annual Review 2020 and Strategic Priorities | 2010 Financial Sector Strategy | 2021-2025 Financial Sector Strategy | 2019-2023 Energy Sector Strategy |
|---|---|--------------------------------|-------------------------------------|----------------------------------|
| Support competitiveness and innovation  | ✓   | ✓                              | ✓                                   | ✓                                |
| Support inclusion   | ✓   | x                              | ✓                                   | ✓                                |
| Supporting SMEs through credit lines at partner financial institutions                    | ✓   | ✓                              | ✓                                   | ✓                                |
| Close coordination with IFIS  | ✓   | ✓                              | ✓                                   | ✓                                |
| Promoting new products for SMEs   | ✓   | ✓                              | ✓                                   | ✓                                |
| Increase access to finance for SMEs   | ✓   | ✓                              | ✓                                   | x                                |
| Capacity building through advisory services   | ✓   | ✓                              | ✓                                   | ✓                                |
| Risk sharing tools  | ✓   | ✓                              | ✓                                   | x                                |
| Access to finance for women in business   | ✓   | ✓                              | ✓                                   | x                                |
| Improve energy efficiency and renewable energy generation                                 | x   | ✓                              | ✓                                   | ✓                                |

Based on the review of the sources mentioned above, the evaluation team concludes the following regarding the overall alignment of EBRD's activities:

- **Activities in the WB&G have kept in line with the latest SBI's priorities**, including expansion of Women in Business programme (strategic direction I), support local businesses and PFIs (strategic direction II), and addressing relevant market needs in the context of travel and business restrictions linked to the pandemic.

<sup>21</sup> The following documents were reviewed: Small Business Initiative Annual Review 2020 and Strategic Priorities (BDS15-050 (Addendum 130), 1 July 2021; Financial Sector Strategy (BDS10-219 (Final), 15 November 2010); Financial Sector Strategy 2021 – 2025 (CS/FO/21-12, 17 June 2021), and Energy Sector Strategy 2019-2023 (BDS18-237 (Final), 12 December 2018)

- **Activities in the WB&G have been aligned with and supportive of the Financial Institutions (FI) strategies and have remained so over time.** At the initiation of the engagement, the 2010 FI strategy called for the development of capital markets, sustainable business models and support for privatisation. The themes presented in the Engagement strategy continue to respond to the new FI approach. The 2021 FI strategy prioritises inclusive economic development (strategic direction I), and strengthening the financial sector's resilience (strategic direction II), and it prioritises support to financial sector partnerships to drive the transition to a green, low carbon economy (strategic direction III).
- **Activities in the WB&G have been aligned with and supportive of the EBRD's Energy strategy:** decarbonisation and renewable energy (strategic direction III), competitive energy markets (strategic direction II), and inclusive and energy-efficient economies (strategic direction I).

In respect to the cooperation and coordination among EBRD teams in conducting the work for the investments, the evaluation team found evidence of teams working well together to conduct the investments. The most prominent example was the way FI bankers worked to obtain seven out of a total sixteen operations in the WB&G despite not being based in the WB&G or the resident office in Amman.<sup>22</sup> Some bankers worked from London HQ or other cities such as Cairo. Client relationships were strengthened by frequent visits to clients before COVID19. As stated in the three-year assessment, "the EBRD's staff based in Amman were able to travel to the West Bank for the day returning to Amman in the evening, allowing 5-6 hours for meetings in the West Bank [...] Pre-COVID, the Bank organised in this way on average 10 visits per month which provides sufficient access to the Palestinian market." During COVID19, these physical meetings were not feasible and were turned into virtual meetings and regular communication with clients via phone and emails. Clients showed satisfaction with this arrangement but expressed the importance of having someone on the ground as a positive sign to the market. This was also reiterated by donors and stakeholders in the region.

Collaboration with other teams was also evident. Various EBRD teams have provided TC projects including the Office of the Chief Compliance Officer (OCCO) on anti-money laundering/countering terrorism financing and international sanctions workshop and targeted trainings for financial institutions, and the Legal Transition Team (LTT) with TCs on regulation of factoring, corporate governance and judicial training. The Gender and Economic Inclusion team has supported the roll out of the women in business programme in the WB&G. The Donor Co-Financing (DCF) team is in charge of managing the trust funds and works closely with the Banking team for that purpose. The ASB team has been an essential part of EBRD's work in the WB&G. The box below provides further details.

#### **Box 2 Advice for Small Business (ASB) in the WB&G**

In 2018, EBRD's Advice for Small Businesses (ASB) programme extended its outreach to SMEs and local consultants in West Bank and Gaza with the support of EU funding, with a focus on crisis response activities in 2020 and trainings. The ASB team has completed 65 out of 81 projects (as of December 2021) providing capacity building and advice for SMEs. In 2021, ASB conducted its first advisory projects with five companies based in Gaza, all of which were funded separately by the EU. Two are completed, and three are ongoing. One visibility event in November 2020 specifically targeted stakeholders in Gaza.

### **3.2.2 External Coherence**

External coherence is confirmed as the Bank's work remains complementary to that of the other key players operating in the context, with some opportunities to strengthen collaboration with the EU Delegation. EBRD's private sector focus continues to be additional, as there is no evidence currently of major duplication of efforts. However, the evaluation team notes that there is room for improvement in the coordination with other actor's interventions. To improve collaboration, the identification of key policy areas where the Bank could work with other agencies is necessary.

Despite the best intentions of all the international and bilateral financial institutions, the WB&G has some intractable problems that are impervious to resolution other than a political settlement. EBRD's presence

<sup>22</sup> Quds Bank (3 ops), Bank of Palestine (2 ops), and Cairo Amman Bank (2 ops)

alone is a positive sign of commitment and a demonstration of what could be achieved if a peaceful political settlement can be found. EBRD's presence has itself raised expectations – the EU Delegation (EUD) is very keen to see the Bank expand its work in infrastructure, to work in Area C and Gaza in particular.

Strong financial incentives are available from the EU as they seek to move their development programme away from grant financing and shift to a loan focus and drive for economic development using all the European Fund for Sustainable Development Plus (EFSD+) tools. Bank finance is a key part of the strategy.

Potential cooperation with other DFI is a significant opportunity. Evidence has shown that currently this cooperation is limited. During external interviews, EIB and Proparco have expressed strong interest in collaboration with EBRD. In such a high-risk environment, risks can be shared. Moreover, the WB&G is an excellent starting point to implement the European DFIs joint ambitions on climate and energy related finance.

The EBRD in the WB&G has worked to develop strong relations with strategic partners in the region despite the difficulties of the last 24 months and its remote location. Examples of good working relations include World Bank/IFC, the EUD and key donors. Other European DFIs such as Proparco have expressed willingness to collaborate and pool resources especially regarding large projects. Cooperation with EIB may also be feasible; for instance, a prospective 'waste to energy' project in Jenin may offer an opportunity to collaborate.

At an institutional level EBRD and the EIB have agreed to deepen their cooperation, with the aim of improving the effectiveness of their delivery in countries outside the EU where they both operate. A Framework Project Cooperation Agreement was signed in October 2021 at the institutional level with the goal of maximising their joint impact. The agreement provides a framework for enhanced cooperation on joint financing projects and platforms outside the European Union, which can be implemented effectively and also scaled up over time. During the interviews, operational staff mentioned that they were not aware of the framework agreement and have not exploited this opportunity further.

#### A. Consistency of EBRD in the WB&G with other actors in the region

The assessment of EBRD's Operations in the WB&G (2017-2020) found that the EBRD's private sector-led approach was distinct and addressed unmet needs, as the majority of international support was centred on public sector spending, capacity building and infrastructure.<sup>23</sup>

IFC, EIB, Islamic Development Bank (IsDB) and Proparco are operating in the WB&G in the private sector arena. The World Bank, GIZ and bilateral government donors are involved in the provision of technical cooperation. A table of technical assistance by sector working group in the WB&G by donor country members is presented in Annex 6.

### **Box 3 European Union – Palestine Investment Platform**

The European Union (EU) and the Palestinian Authority (PA) launched on 1 December 2020 an Investment Platform in order to attract investment, contribute to sustainable economic development and job creation. This dedicated platform is aimed at fostering policy dialogue on how to improve the attractiveness of investment in Palestine with the PA, European Financial Institutions and other local and international stakeholders. The platform is intended to support the identification, prioritisation, coordination and promotion of investment opportunities that the EU External Investment Plan offers through its instruments. This coordination mechanism aims at enabling the discussion of policy priorities and investment pipelines to ensure alignment of publicly sponsored investments with political, policy and reform priorities of the WB&G.

The EU-Palestine Investment Platform has produced a comprehensive mapping of on-going investments in the WB&G. Derived from the cooperation and communication with stakeholders, the map presents each IFI and donor, the project, the total value of the intervention, instruments, description, sub-projects, timeline, and status of the operations. This information is shared with all the institutions operating in the region.

Evidence from interviews indicate that EBRD experienced difficulties in connecting with the other partners on this EU-Palestine investment platform. Participants presented their activities in the WB&G to the members but conducted it in their own separate ways. The format does not seem optimal, and no major policy interventions have yet derived from the platform. However, the evaluation team considers that the

<sup>23</sup> CSFO2111

EU-Palestine investment platform is an opportunity to strengthen coordination and EBRD could exploit this opportunity as it offers a lead into major policy interventions. The solution to efficiently use the platform is greater cooperation between the DFIs and for EBRD to further differentiate its products and services, and to work to identify interventions of mutual benefit.

EIB appears to be taking full advantage of the visibility provided by the platform. At the second meeting of the Platform, EIB signed seven agreements amounting to an unprecedented total sum of US\$425 million to support Palestinian SMEs and micro-entrepreneurs. The initiative represents a coordinated effort between the EU and the EIB and forms part of the overall Team Europe initiative, which aims to support sustainable social and economic recovery from the Covid-19 crisis in partner countries.<sup>24</sup> The injection of such a large amount of liquidity in the market suggests greater competition between lenders.

#### Other examples of collaboration

IFIs have collaborated to send messages to the Palestinian Authorities aimed at supporting private sector initiatives. Even though these messages have yet to have a concrete influence and impact, it is a starting point to support the case of private sector initiatives. Examples of these messages are the private sector development and structuring of projects in the renewable energy sector and use and need of sovereign guarantees. These messages were carried out through meetings with the Prime Minister, Minister of Finance, Acting Chairman of PENRA and Minister of National Economy.

#### **Box 4 Example of cooperation with FAO**

The West Bank and Gaza Multi-Donor Account 2020 Annual Report provides a concrete example of successful cooperation with more established actors present in the WB&G: The mapping of the olive oil value chain was executed jointly with the Food and Agricultural Organization (FAO) of the United Nations. The EBRD MDA for WB&G and FAO provided technical assistance. They collaborated on top-line analysis of olive farming and olive oil processing, consumption and trade, policy and sectoral organisation, and made recommendations for investment and development priorities.

Given the volume of EIB's signed seven agreements to support Palestinian SMEs and micro-entrepreneurs in 2021, EBRD cannot compete in volume terms. Therefore, efforts to cooperate become more imperative. EBRD is additional through supporting the private sector, yet the Bank could seek to further emphasise its niche offering and identify new areas for investment. Evidence from interviews indicate as a potential area, strengthening of the future nexus between women and digitalisation. EBRD could raise its profile in this area and underscore its added value, concentrated on the support of corporates. As information coming from interviews with the WBG Banking team stated that EBRD's pricing cannot compete with other IFIs such as EIB, the Bank could leverage more TC and advisory services. EBRD's Advice for Small Business (ASB) reports having a referral system, linked with other banks and IFIs. The referral system is a process of linking small businesses to local and international consultants for TC and advisory. This could be useful both in solidifying a niche and in advancing cooperation.

#### **Box 5 Advice for Small Business (ASB) and its referral system**

ASB has three people covering the WBG. It has 81 projects as of December 2021. ASB provides advisory services to clients, and when ASB considers a client ready for financing, it refers it to the Banking team. For instance, the Banking team is currently working with a pharmaceutical company that was introduced to them through the ASB team.

ASB conducts sector development activities (SDA) and market development activities (MDA). These are workshops organised locally and involving a particular sector. A workshop with pharmaceuticals companies in WBG was held in November 2021. Stakeholders from the sector were invited and attended the event, where an expert presented and engaged with participants. These events allow the ASB team to get to know stakeholders in a sector.

The current referral system works both ways. If the Banking team engages with a client but considers it is not yet fit for financing, and deems it could benefit from advisory services instead, it refers it to the ASB

<sup>24</sup> Team Europe consists of the EU institutions, including the European Investment Bank, Member States and their implementing organisations and development financing institutions and the European Bank for Reconstruction and Development.

team. The ASB lead in the WBG works closely with the Banking lead. Both coordinate and are in touch on an almost daily basis. The aim is to ensure that every client EBRD engages with has the opportunity to receive both types of support advisory and financing, where possible.

ASB has carried out sector and market development activities for the pharmaceuticals, agribusiness, and dairy sectors. Likewise, through the WB programme, women who benefit from credit lines can also benefit from advisory support through ASB. For example, along the financing to the Bank of Palestine, the ASB team was introduced immediately so that trainings could be provided to the women beneficiaries in parallel. ASB also consultancy advice and coaching opportunities.

This referral system design is quite unique to EBRD in the WBG. There does not appear to be competition for the work of ASB in the region. The advisory programme is very well developed and is an EBRD niche. The Bank covers up to 90% of the cost of these consultancies, which no other institution seems to do. The programme aims to reach an important number of clients on an annual basis. One client may benefit from more than one project.

*Source: Interviews with ASB and Banking teams*

Going forward, there also appears to be an opportunity for the donor community to coordinate around the Gaza electricity sector master plan and create a cohesive funding plan for tripling the current energy supply.<sup>25</sup> This would ensure adequate supply to the critical public services (water, wastewater, health), to help boost private sector-led economic growth, and to enable a resilient and inclusive quality of life. As EBRD is yet to ramp-up its work in its strategic direction of fostering energy efficiency and energy sustainability, this is an area to consider, with a focus on renewables alongside IFC.

#### B. Resourcing complementing other IFIs

According to the 2020 NIA Trust Fund report, EBRD has intensified coordination with the World Bank, IFC, the EIB and the Dutch FMO, sharing experience and learning for future opportunities. Examples of joint work include that the EBRD coordinated closely with the World Bank and FCDO on the 2018 Secured Transactions Law and Factoring and the EBRD and FMO are co-investors in the 2019 Youth Employment Impact Bond.

In 2020 there was evidence of this engagement ramping up. EBRD together with the EU, EIB, and bilateral DFIs, participated in the launch of the EU-Palestine Investment Platform, as mentioned in previous sections. A platform for enhanced coordination between these actors in the WB&G. All delegates were offering green, SME and WB finance products, leading to a risk of market saturation in a small economy like the WB&G. In the opinion of one banker interviewed by the evaluation team, EBRD may be better off focussing on more value-added lines such as inclusion (WB), where IFC is less present.

All five financial institutions receiving EBRD credit lines have benefited from other IFI/DFI support. EIB has extended financing or risk sharing agreements with each of these, following the availability of new COVID response financing made available in 2021. IFC has been a partner for three of banks, with the United States Agency for International Development (USAID) and SIDA providing SME loans to the National Bank (TNB). The following table sets out the involvement of other IFI/development agencies where EBRD has extended loans:

**Table 3 Other IFIs' involvement**

| FI                      | IFI/DFI  | EBRD loan purpose/ or TC   |
|-------------------------|--|--|
| <b>Cairo Amman Bank</b> | IFC provided trade finance<br>2000 EIB EUR 10m+ EUR 3m loans | MSMEs and TFP loans<br>Capacity Building on SME lending<br>TFP e-learning trainings to staff |

<sup>25</sup> The World Bank will continue to provide support towards implementation of the Gaza Electricity Master Plan through TA and exploring new opportunities (ASSISTANCE STRATEGY FOR THE WEST BANK AND GAZA FOR THE PERIOD FY22-25)

<https://projects.worldbank.org/en/projects-operations/project-detail/P148600>



|                                       |  |  |
|---------------------------------------|--|--|
| <b>National Bank(TNB)</b>             | 2021 EIB Risk Sharing-Agreement for SMEs, USAID and SIDA loans for SMEs  | MSMEs and TFP loans<br>Capacity Building on SME lending<br>TFP e-learning trainings to staff<br>Legal due diligence TC                               |
| <b>Bank of Palestine</b>              | 2021 EIB Risk Sharing-Agreement for SMEs, 2021 EIB loan USD 50m for SMEs, IFC equity, loan and SME advisory  | SMEs and WB loans<br>First-loss-risk-cover on the WB loans<br>Capacity Building to support women lending<br>TFP e-learning trainings to staff        |
| <b>Quds Bank</b>                      | 2021 EIB loan USD 32m for SMEs, IFC TFP & advisory services for SMEs   | SMEs and TFP loans<br>Capacity Building on SME lending<br>TFP e-learning trainings to staff<br>Legal due diligence TC                                |
| <b>FATEN</b>                          | IFC loans and technical assistance on risk<br>SANAD Fund loans and TA<br>Other DFI loans include the Arab Fund for Economic and Social Development, Triple Jump, Cyrano, ResponsAbility, SICAV, SPARK and Symbiotics. It has also partnered with Kiva and Grameen-Jameel Microfinance. | SME and WB loans<br>TC for risk(First-loss-risk-cover)<br>TC on Risk Management<br>TC on AML/CFT Assessment and Training<br>Legal due diligence TC   |
| <b>Vitas Palestine</b>                | 2021 EIB USD 3.3m loan for MSE<br>2017 EIB USD 5m  | TC on AML/CFT Assessment and Training (MTDF, Netherlands)<br>Risk Management and Digitalization Assessment policy dialogue<br>Legal due diligence TC |
| <b>Palestinian Monetary Authority</b> | EIB USD 200m for SMEs<br>IFC TC for Risk Management  | TC for PMA's regulatory monitoring function<br>TC for Asset and Liability Management<br>TC on infrastructure assessment for the PMA                  |

Source: Evaluation department

EIB has been supporting SMEs in the WB&G since 1995. There are several differences in the way the EBRD and EIB approach operations in the WB&G. EIB (which unlike the EBRD does not have the limitations of a TrustFund) tends to do larger loans than EBRD, with an average ticket size from €30m to €100m, and lower than market concessional pricing, compared with EBRD's market pricing and offering of smaller loans (between €1m and €15m). EBRD is new to the WB&G, but in other countries has favoured a stronger local presence and knowledge of local market and tends to be quicker in execution. During the interview phase, one client, FATEN, indicated that it was difficult to get funding from EIB, and that EBRD was a lot more efficient. Both EIB and EBRD were involved from the outset in the introduction of the EU's European Fund for Sustainable Development (EFSD), and EFSD guarantees, EIB can use external action guarantees in the WB&G, whereas EBRD is prevented from doing so due to the EFSD EBRD Risk Rating model. In June

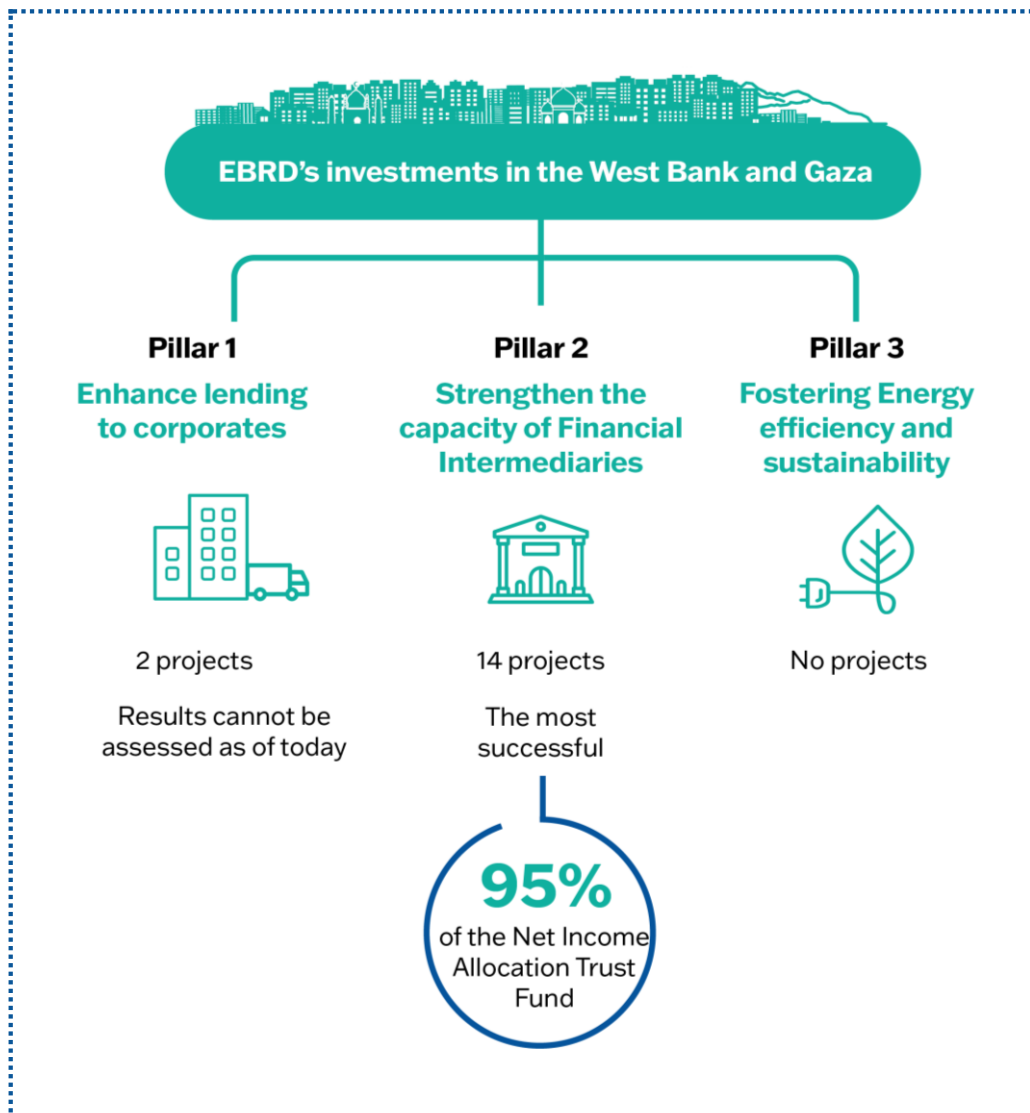
2021 EIB signed two risk-sharing agreements with The National Bank and Bank of Palestine, backed by the EFSD, which are expected to support a new portfolio of SME loans in a combined amount of at least US\$ 120m.

FI Bankers have regular contact with counterparts at IFC, PROPARCO and other DFIs, when working across countries. Despite this they sometimes compete on various issues, for example according to one FI Banker interviewed, IFC paid one client's legal costs, leading the client to ask the same of EBRD. They try not to duplicate, but each DFI is trying to implement a programme in the WB&G.

On the corporate side, an example of a good complementarity of an EBRD investment is the Youth Employment Impact Bond, which was commissioned by the World Bank with FMO and EBRD as investors.

## Effectiveness

### 3.3 What are the early results achieved by the Bank in the region; and to what extent have Bank's projects achieved their intended objectives?



This section assesses the performance of EBRD's investments in the West Bank & Gaza under the three strategic pillars aimed at: (i) enhancing private sector led growth through direct support for competitiveness and innovation, (ii) strengthening the capacity of financial intermediaries with a particular focus on increasing access to finance for MSMEs and (iii) fostering energy efficiency and energy sustainability.

Steward Redqueen in their earlier assessment of EBRD's operations commissioned by Management mentioned the difficult context that influence the effective delivery of projects.

#### Box 6 Findings from the Steward Redqueen (SR) Assessment regarding 'Effectiveness':

SR carried out an assessment of effectiveness of the first three years of operations in WB&G (2017-2020). Overall they found that the Bank has had overall successful first years of operation in WB&G. Despite inherent challenges of the market and the lack of a permanent presence on the ground, the Bank has made

many investments in a short period of time and supported companies and market players through TC and policy engagement.

SR noted a particularly strong performance on its second strategic theme of strengthening the capacity of financial intermediaries and increasing access to finance for SMEs. SR noted that in practice, the Bank faced challenges sourcing deals that meet EBRD's requirements. The Bank's engagement in renewables was also constrained by an immature legal and regulatory renewable framework in WB&G. SR concluded that EBRD's ability to source investment opportunities was structurally constrained by market dynamics that misprice risk. Given the highly liquid market and distortions due to abundant concessional lending from donors and IFIs, pricing is structurally lower than what might be expected in markets with similar risk ratings. Consequently, the Bank has severe challenges competing in the market if it prices in WB&G consistent with the 7.3 (CCC-) sovereign PD rating. Pricing concerns are affecting the Bank's effectiveness in operations and its potential to scale up.

SR also noted that the lack of a permanent presence in WB&G affects perceived non-financial value added to companies with some stakeholders indicating they would have expected more value adding support and consider a more permanent EBRD presence a symbolic sign to the market.

This situation stands as of the timing of this evaluation.

### 3.3.1 EBRD effectiveness in supporting Pillar 1: Enhance direct lending to corporates

#### Key findings

- **EBRD has not made substantive progress on making financing available to corporates:**
  - i) one direct corporate investment was made in Medlabs, a Jordanian company expanding into the WB; ii) another investment was made in a Social Impact Bond responding to the problem of high youth unemployment
- **EBRD current pricing and risk profile makes it difficult for the Bank to compete with other financing sources.**
- **The WB&G team is working on corporate projects to increase investments under this strategic theme.** It has currently obtained concept approval on two new corporate projects in 2022 to support the companies with installation of solar panels and with developing a wastewater treatment plant.

EBRD has not made substantive progress on making financing available to corporates. Barriers to effectiveness include fragmentation of the Palestinian territories and its economy; weak sectoral linkages and limited integration to value chains, low foreign direct investment and continued dependence on the Israeli economy.

It has also been suggested by several Bankers that EBRD pricing and risk profile may not be competing on equal terms with other DFIs and local Banks, the latter are currently experiencing no problems with liquidity due in part to recent injections of cash from EU-EIB funds. This is the same situation that was described in the SR assessment "the perceived risk of investing in the WB&G is high and EBRD's RAROC approach generates a premium to compensate for this risk. As a consequence, the Bank's pricing is often not competitive when targeting Palestinian corporate clients who have access to local banks finance." The Bank has severe challenges competing in the market and still maintains the 7.3 (CCC-) sovereign PD rating. Pricing concerns will therefore continue to impact the Bank's effectiveness in operations and its potential to scale. One banker mentioned that a potential solution to this situation is to present an 'envelope' of bankable projects under Theme 1. However, it is yet to be seen if the final impact on the pricing is meaningful.<sup>26</sup>

<sup>26</sup> This was also suggested in Steward Redqueen's Three-year assessment: "These envelopes/pricing approaches would be designed to provide the banking teams with flexibility to pursue debt projects returning a lower RAROC that are important to maintain the Bank's relevance in the market and support transition, while incentivising the Banking teams to seek higher overall RAROC returns."

The EBRD has therefore not made substantive progress with financing corporates. It remains the case that the only direct corporate investment has been made in Medlabs a Jordanian company expanding into the WB&G in the amount of €2,069,108. Proceeds were used for funding expansion into the West Bank. Progress on implementation of this investment is running below expectations.

The original expansion plans provided for the opening of 10 branches as of 2020 but as of the time of this evaluation only five branches have been opened. The client credit report states that the outbreak of the COVID-19 pandemic resulted in a delay in the Medlab's plans to expand into the West Bank. All committed funds have been disbursed because the company decided to buy the branches instead of renting them. This required a higher investment per branch and use of all funds to finance those five branches. The remaining 5 branches will be funded by the Company's own cash and short-term facilities from local banks. It remains to be seen whether the latter commitment will be realised.

### Box 7 Social Impact Bond

One investment has been made in a Social Impact Bond developed in response to the problem of high youth unemployment. This is the first of its kind in WB&G. This is an 'Outcomes Contract' where payments are made dependent on how many trainees go onto a full-time job. So far, this investment has demonstrated some initial positive results and is starting to deal effectively with the challenge of unemployment. Some figures provided by the Banking team include:

- The project is delivering a successful implementation so far, with 698 participants having started a training (58% of Project's target) of which 213 started a job (46% of Project's target), (excluding impact of time lag).
- Local service providers: A total of 7 local service providers in various sectors (healthcare, manufacturing, education) have been contracted to implement the project and are active, with 2 additional ones expected to start their services in the first half of 2022.
- The project is achieving a strong female participation (~48% at job start, and 52% at 6-month job sustainment). The vast majority of jobs (~90%) are in the private sector so far.

However, impact bonds generally are still in their early stage of development, are expensive to set up and the sector lacks a track record. The original target was for up to 1,500 young Palestinians with skills training and training-to-employment support, over a period of three years (end 2022). This date has now been extended to 2023.<sup>27</sup> The number of beneficiaries is 1200-1300.<sup>28</sup> As at the end of 2022 only 160 had been verified by Deloitte. It remains to be seen whether the target will be met. Close attention to performance by Management is needed to determine whether this project will be ultimately effective.

The evaluation team found that the reason for discontinuance of projects in the WB&G is usually pricing, and in some cases due diligence requirements. The projects were screened out before proceeding to Final Review Memorandum or EBRD Board. Examples of projects which did not proceed with include a Cable Car project where the client did not agree to EBRD pricing, and an equity Fund investment stopped after CRM because EBRD Equity Funds team decided that the project was not fit for an investment. Despite the fact that no changes have been made to risk assessment and pricing, the WB&G team are acutely aware of the difficulties in sourcing new deals in the constrained economic environment. However, they have now obtained concept approval on two new corporate projects in 2022 to support the companies with installation of solar panels and with developing a wastewater treatment plant. Total cost for both projects is US\$ 2.6m. Board approval and signing is expected next year.

<sup>27</sup> The Banking team notes that the timing extension was contemplated at project signing (i.e. even before needing to address the Covid19 impact on the project). EBRD had flagged in the FRM and in the Board document that the World Bank's funding had a deadline that could be extended during the life of the project, subject to its approval.

<sup>28</sup> The programme could accommodate up to 1,500 accepted participants. The Bank's base case was of 1,190 beneficiaries enrolled.

### 3.3.2 EBRD effectiveness in supporting Pillar 2: Strengthen the capacity of financial intermediaries

#### Key Findings

- **The Bank has been very effective in supporting FIs and SMEs** in the WB&G.
- The ASB and WB programmes in the WB&G support the beneficiaries and are well perceived by EBRD’s clients.
- Judicious use of Trust Funds for TC and advisory has driven performance.
- **The projects under the Trade Facilitation Programme face challenges**, including the lack of correspondent banks and significant trade barriers.
- The future EBRD’s effectiveness on supporting FIs is less certain considering recent major injections of liquidity into the finance sector.
- **The effectiveness of EBRD’s operation and activities in the WB&G would benefit from increasing participation in policy dialogue and TA** for improving the business environment for start-ups.

EBRD support of theme 2 is the one area where the Bank has had a particularly strong performance. This area of work has experienced the most progress in terms of funds approved and impact. 95% of the NIA funds have been disbursed in the financial institutions sector (see Figure 5 Section 3.4).

Cairo Amman Bank (CAB) signed their first loan facility in 2018 for US\$5 million, as of November 2021 the outstanding balance was US\$2.1 million. 91 businesses have benefited to date; 54 loans are outstanding. The maximum loan was US\$500,000, the minimum US\$5000. The Frankfurt School of Finance and Management (FSFM) helped CAB prepare an SME strategy to enable CAB to expand focus and lending to SMEs. CAB are very pleased with the performance and complementary of their relationship with EBRD.

“EBRD is very responsive to our needs”

FSFM visited Palestine frequently before COVID and consultants were able to do their research through face to face meetings. During the pandemic, FSFM adjusted its strategy to help CAB remotely with the implementation of the SME strategy. It is noteworthy that CAB’s recipients were 75% male proprietors, 21% companies, and only 4% female. The latter very low figure demonstrates in part the difficulty in accessing female-led businesses. The WB&G team has therefore supported programmes that focus not only on Advice for Small Businesses (ASB) but also Women in Business (WiB).

The ASB and WiB programmes in the WB&G are well received by clients and supportive of the beneficiaries. Both donors and beneficiaries attest to the success of the projects in increasing access to finance particularly during the height of the Covid-19 pandemic in 2020. In addition to finance, EBRD provides business advice to small and medium-sized businesses. A vibrant small and medium-sized enterprise sector is a vital ingredient for a healthy market economy. But finance alone often cannot meet the challenges facing SMEs. The ‘know-how’ component is therefore important to enhance effectiveness. The ASB programme covers all business generally and both women and men owned SMEs. The EU funding is for standard advisory service. Interviews with the EU Delegation (EUD) in Jerusalem revealed they too were pleased with progress on the project. The EUD noted

“We are very happy with the ASB programme. It is impactful and supportive of the beneficiaries. We like it and one really good example was the Zoom Bags factory that has switched to manufacturing protective gear for use in the war against the coronavirus pandemic at a time when most factories in the West Bank were closed...this was impressive work by EBRD”.

As further proof that the EUD believes the EBRD is an effective vehicle to support economic development, it is expected that a EUR 10-12 million grant package will be approved in Q2-Q3, 2022 for EBRD under the

Sustainable Growth4All proposal. This will support EBRD credit lines with financial institutions for the next 5 years 2022-26 (mainly Greenlines and WB loans).

The EU is also keen to work with the EBRD on equity by potentially matching investments. Moreover, the EU has enthusiastically embraced EBRD support for TC.

“If EBRD colleagues came to us with a TA proposal, then we would be delighted to finance that TA”.

One of the objectives of the ASB-WB programme is to increase access to finance. The total number of sub-loans disbursed to WB SMEs so far is 75 (projects). Developing a niche investment operation WB, especially in a business environment such as the WB&G where women’s participation in the labour force is relatively low, is a major challenge. Women in that region are subject to numerous social hurdles that impede their ability to advance in the formal employment sector.

As of 2021, only 23% of Palestinian women aged 25-49 were employed<sup>29</sup>. EBRD are clearly starting to develop a niche product that can have multiple development benefits beyond simply supporting economic development. FSFM has confirmed that the WB programme can foster financial inclusion and the economic empowerment of Palestinian businesswomen and “will contribute not only to enhancing the well-being of these customers and their families directly and will create vast positive externalities across West Bank and Gaza, fostering much needed economic development and growth among the Palestinian people”.<sup>30</sup>

The programme therefore has high promise, and would likely benefit from a specific assessment towards the end of 2022. The WB&G team have adapted the programme to the local situation, with the use of the first loss cover as part of their WB programme with Bank of Palestine. EBRD is extending a US\$2.0 million credit line to the Bank of Palestine for on-lending to women-led MSMEs. The loan will be accompanied by a first-loss risk cover mechanism to enable the testing of new financial products and offer more favourable lending conditions to women-led businesses.

Box 8 below describes some of the key findings from the EBRD’s Women in Business Programme in Turkey supported by the EU that are relevant for the WB&G case and the future planning and results of the WB programme.

**Box 8 EBRD Findings of EBRD Evaluation Department from the Women in Business Programme in Turkey (TurWB)**<sup>31</sup> - The Women in Business Programme in Turkey was the first EBRD approach to support women’s access to finance and entrepreneurship. The Programme combined dedicated financing, backed by technical advice to local financial institutions and a direct engagement with women entrepreneurs through access to training, advisory services, mentoring and networking. The first phase ran from 2014-17. Interviews with external stakeholders revealed that TurWB was seen as a reference point in the Turkish market and helped raise awareness of the benefits of lending to women led SMEs.

The Programme successfully improved the offer for on-lending to women-led SMEs through an increase of the PFIs’ WB loan portfolios, targeting start-ups and first-time loan customers. The availability of First Risk Loss Cover was essential to the success of the Programme which indicates that the programme may not be sustainable without a risk sharing mechanism and may indicate a market distortion. Technical assistance was provided by FSFM but most PFIs stated that they did not follow FSFM recommendations because the cost of implementing them was greater than the actual value that the implementation was supposed to create; tackled by the WB programme are issues of interest for other IFIs.

EvD suggested that improvements to the programme should embrace working with the other IFIs to support the marketplace, provide more capital to women-led businesses and to connect the lending and advisory components more closely. Future programmes should be supported by sufficient financial self-reliance to ensure appropriate monitoring and reporting are available regardless of donor funding.

Technical Assistance to PFIs was delivered through the FSFM to a high standard achieving their set objectives. The TA helped develop the Banks’ MSME lending business, implement MSMEs lending policies and procedures and introduce MSME techniques and products. In the case of CAB and TNB, other

<sup>29</sup> State of Palestine Central Bureau of Statistics. Labour Force Survey (January - March 2021) Round (Q1/2021). Published May 2021

<sup>30</sup> FSFM (2021) Women in Business, Bank of Palestine Baseline Assessment Report/

<sup>31</sup> EBRD (2020). EBRD Women in Business Programme in Turkey – EvD Review. Special Study

consultants delivered TFP training as well as AML/CFT training together with OCCO. Three contracts were signed for TNB €400,000; CABP €400,000; and Al Quds Bank €400,000. The feedback from the Banks, with the support provided by FFSM was very positive.

The positive feedback on the performance of FFSM from interviewees was particularly impressive given the need to switch to remote working. However, interviewees looked forward to the resumption of face-to-face training and technical assistance. Through the WB project, women will access key entrepreneurial know-how through advisory service projects with training, mentoring, network-building and longer-term coaching, providing the knowledge and confidence to take the next step in growing their businesses.

While FFSM are experts in their field, they also suggested that post-pandemic there were opportunities to share their expertise more widely and help build the capacity of local consultants. It would be helpful for the consultants to work with EBRD on a small study to assess the impact of COVID-19 on the training programmes, based partly on interviews with participants/trainees. Going forward, a blended learning approach may be beneficial along with concrete proposals for knowledge transfer.

All recipient intermediary banks pay testament to the positive engagement and very good communications with EBRD on the credit lines. Despite being located outside of the West Bank and Gaza, all the Banks praised EBRD efforts to stay connected and engaged through other means during the pandemic.

Evidence shows that the performance of the Trade Finance projects under the Trade Facilitation Programme (TFP) has been mixed. Previous EVD evaluations<sup>32</sup> concluded the EBRD's effort with TFPs were probably generating benefits, but they were trending down over time. The evaluations concluded that a TFP strategy was needed to link outputs to outcomes and impacts to enable an evidence-based assessment of performance. A variety of trade finance trainings, including e-learning, and face-to-face workshops, for example on guarantees, Trade based Money Laundering as well as on KYC (Know Your Customer) and CDD (Customer Due Diligence) were also delivered by other consultants expert in the field. Quds Bank use of Trade Finance has been a relative success, but CAB was not. Unlike the trade facilities for TNB and CAB, Quds Bank fully used their limit. In August 2021, the Bank of Palestine signed a US\$5 million Trade Finance limit with EBRD and the Banking team informed EvD that the Bank is already making use of the limit.

The financing was used to issue guarantees for confirming banks, who are limited in their risk-taking ability and therefore reluctant to conduct business in the region. There is a perennial problem facing some banks and this is the lack of any correspondent banks. Unless this latter problem is resolved, Trade Finance is unlikely to be an area of growth for EBRD in Palestine.

Furthermore, given the delays in implementation due to the Covid-19 pandemic and new loans only recently approved, transition impact is too early to estimate. The evaluation team looked particularly at the achievement of transition impact objectives under theme 2 since projects that have made more progress are under this theme. To strengthen the capacity of financial intermediaries' impact is achieved through increasing the availability of finance that will foster competitive and resilient transition qualities.

More specifically on the WB loan programme, transition impact focuses on Inclusiveness: bringing together financing and advisory services to help women manage and grow their own small and medium enterprises and to promote gender equality and inclusion. A secondary impact objective focuses on fostering SME competitiveness by increasing availability of financing and contributing to the competitiveness of the various financial institutions by enabling innovation in strategy, products, processes and marketing related to SME lending. The evaluation team notes that at the time of this evaluation, there is no available Transition Impact Monitoring report for WB to assess the achievement of the programmes transition impact objectives.

Finally, for the TFP projects EBRD tried to foster further trade integration through the extension of trade finance guarantees and credit lines. This is supported by a secondary transition impact of contributing to resilience of financial systems by focusing on geographies with trade finance gaps. It is not clear what is meant by the latter and how it would be measured. As noted previously in the report, TFP has not been a universal success and the overall impact of the programme cannot be quantified as of the date of this evaluation.

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<sup>32</sup> EBRD 2021 SPECIAL STUDY - EBRD Trade Facilitation Programme. EvD ID: SS20-154. May 2021 EBRD EVALUATION DEPARTMENT



## Policy Dialogue

The effectiveness of EBRD's operation and activities in WB&G can benefit greatly from increasing participation in policy dialogue as well as targeted technical assistance including market research and diagnostics.

Evidence shows that the EBRD WB&G Team are conscious of this and has performed around 13 non-transactional TCs related to improve the legal and regulatory framework as well as several market studies including the most recent on the Olive Oil industry.<sup>33</sup>

The study is a step further in EBRD's efforts to increase its investments in the agribusiness sector by better understanding the sector's challenges and opportunities. The study showed that opportunities in the agribusiness sector could emerge from looking at areas such as farm productivity, processing, working on policy environment and incentives, market organisation and governance of the sector. Efforts to date in the sector are starting to yield fruit. CRM approval has been gained for 4 agribusiness transactions. The WB&G team hope that two of these deals will be signed later this year.

Another domain where EBRD has played a role is through the offer of training related to the trade sector. The West Bank trade is covered by the Israeli customs union with adjustments defined in the Paris Agreement (1995), while the Gaza Strip also trades with Egypt and through it, regardless of the shared customs union. The importance of understanding law and policy around commercial and trade issues is therefore a high priority. Notably, anything that happens in Israel on commercial and trade matters, is relevant for the Palestinians.

The WBG team together with the Legal Transition Team have taken the first steps to provide Judicial Training in Commercial Law. The objective is to provide high-standard judicial trainings in Ramallah up to 60 commercial judges in 2022. As part of that, EBRD has already delivered a training of trainers to 11 selected judges. The client's online learning platform will be also improved to add specific modules on commercial law. Eventually a coaching workshop will be organised to gather information about the impact of the training and identify any lessons for future projects in 2022.

Continued participation in dialogue on commercial issues is encouraged by Palestinian Government counterparts. Opportunities also exist to further the dialogue on private sector investment through the newly established EU-Palestine Investment Platform, sponsored by the EU Delegation, as explained in Section 3.

- The PMA strongly welcomes the EBRD TC support, including the policy dialogue provided to the PMA and to the banking sector and is seeking further support from EBRD with its digitalisation plans and strategies. Support has also been provided for seminars on AML/CFT, Corporate Governance Improvements, and an International Sanctions (IS) Workshop for Financial Institutions. These workshops and targeted trainings are directed at strengthening the capacity of local financial institutions by helping them enhance their AML/CFT and International Sanctions policies and procedures to tackle de-risking and align closer with the EBRD's Transition Qualities and strategic goals for WB&G.
- The Palestinian Capital Markets Authority (PCMA) is also benefiting from assistance on the new Factoring law. Policy dialogue with the Palestinian Energy and Natural Resource Authority (PENRA) is also essential in moving forward on energy projects, even if this dialogue is protracted and challenging. Specific technical assistance with PADICO on energy projects can complement higher-level policy work.<sup>34</sup>
- As part of the Regional Programme for Improving Corporate Governance in selected EBRD Investee Companies and Banks, TNB benefited from a corporate governance diagnosis and development of a corporate governance action plan. During EvD's interview with TNB, TNB expressed its gratitude to EBRD for helping the bank enhancing its corporate governance. TNB has now to implement the action plan by April 2022.

<sup>33</sup> Annex 1

<sup>34</sup> Palestine Development and Investment, Ltd. (PADICO HOLDING) was founded in 1993. It aims at contributing to building the Palestinian economy through the implementation of a diversity of developmental projects in vital economic sectors.

Evidence shows that there is further work to do on improving the business environment in particular for start-ups. This could be a potential area that EBRD could explore. West Bank Economic Consultants Core Associates have recently produced a report on the legal and regulatory framework for SMEs and MSMEs in Palestine. They note the sector “lacks the necessary tools to motivate entrepreneurs and their ideas such as registering international patents, tax laws and investment incentives, among others.

Unfortunately, the Palestinian legal framework regarding start-ups can be described as outdated, complex, unfriendly, and dispersed, especially since all existing legislation in Palestine does not even acknowledge the existence of a legal form as start-ups. There is a lack of a clear definition of a start-up or of the surrounding ecosystem in Palestine. Thus, there is a need to focus on the introduction of a legal and regulatory framework that addresses start-ups and the legal entity they need to operate under.”<sup>35</sup>

Other opportunities of policy dialogue for EBRD related to the investment climate could emerge from the recent developed Telecommunications and Companies laws, further detailed in section 2.

### 3.3.3 EBRD effectiveness in supporting Pillar 3: Foster energy efficiency and energy sustainability

#### Key Findings

- **EBRD has achieved little progress to date in sourcing deals in the energy sector and have limited TC and advisory.**
- Opportunities exist to ramp-up work in projects that foster energy efficiency and energy sustainability, with a focus on renewables.
- Future opportunities under this strategic theme are most likely to emerge through close cooperation with other DFIs to tackle barriers to investment.

Evidence shows that the Bank achieved limited progress in sourcing deals in the energy sector and limited TC and advisory. TC was used to support PENRA on a Grid Enforcement Study in October 2020. PENRA is using the results of the study to guide its future plans on improving the grid.

The WB&G is almost entirely dependent on Israel for energy – changing this situation is a long-term challenge and will require significant investment and political capital. The World Bank has noted that “*The energy sector continues to struggle with financial sustainability [...] the resulting lack of creditworthiness of energy sector institutions reduces access to capital, which deters investment in energy sector infrastructure preventing the possibility of diversifying power supply options which is key to Palestinian energy security and independence*”.<sup>36</sup>

The SR assessment confirmed that EBRD had made very little progress in fostering energy efficiency and renewable energy, with just one market study and no investments. This situation has not altered since 2020. The Bank’s engagement in renewables continues to be constrained by an immature legal and regulatory renewable framework in the WB&G as well as the unstable politics. Interviews with Management, donors and EBRD clients suggest that the optimum role to play at present would be to facilitate energy sector dialogue, improving creditworthiness in the sector, and provide technical assistance on potential private sector participation in the generation, transmission, and distribution networks. Future opportunities here are most likely to emerge through close cooperation with other DFIs to tackle barriers to investment.

There is potential for collaboration with the IFC on the waste to energy project being developed in Zahret Al Finjan and on the 12MW solar energy projects being developed by IFC. The Foreign, Commonwealth & Development Office of the United Kingdom (FCDO) raised questions about how the EBRD’s work complements that of the Office of the Quartet and the World Bank, and how EBRD is developing a pipeline

<sup>35</sup> Core Associates (2021) Assessment of the Legal and Regulatory Framework for Start-ups in Palestine: Gaps and Recommendations. Report funded by the Royal Embassy of Denmark – Tel Aviv

<sup>36</sup> World Bank (2021) Assistance Strategy for the West Bank and Gaza for the period FY22-25. Report No. 156451-GZ. p.11

of interventions in the energy sector and how this is linked to EBRD's objective to foster energy efficiency and sustainability.

The EU is particularly keen to see EBRD engage further in this area, noting

“We hope the EBRD will reflect on the big gap in energy financing and the lack of focus on infrastructure where there is a clear need. We want EBRD to renew the focus on the energy sector and move on Gaza, leveraging your expertise and capacities.”

Being effective in the energy sector is fundamental to meet the challenge of climate change and ensure access to affordable, reliable and sustainable energy. To enable EBRD to contribute as fully as possible in the WB&G, it will be necessary to step up cooperation with its European counterparts (EDFIs). Solid partnerships can take on larger-scale projects and mobilise greater financial resources.

To conclude, at the time of evaluation it is too early to make conclusions about the effectiveness of EBRD operations, as majority of them are either at early stage or are in the pipeline. With the exception of FI sector, EBRD has very few operations where operational and transition objectives have been met.

### 3.3.4. Adequacy of reporting

#### Key findings

- **The results framework in the 2017 WBG Engagement strategy lacks specification** of outputs, outcomes and impacts.
- **Trust Funds reporting has improved** since 2020 thanks to the adoption of suggested changes with respect to reporting on challenges and learning in the Three-year Assessment
- **Donors expressed general satisfaction with the current level of reporting**, although one felt the results frameworks still lacked clarity.
- The Board showed general satisfaction with the reporting and approved a further NIA allocation of €15m in 2021.

The main vehicle for reporting to the Board and donors on the progress of the NIA Trust Fund and MDTF is via the annual trust fund reports, which are delivered at the same time to the Board. The NIA Trust Fund is approved by the Board, and the MDTF report is for information purposes. For the MDTF the Donor Co-Financing team holds a quarterly meeting and an annual assembly meeting. The evaluation team had access to the annual reports for both trust funds for 2019 and 2020.

Overall, evidence shows that while the results framework in the 2017 WBG Engagement strategy lacked specification of outputs, outcomes and impacts it was considerably improved in 2020. The UK donor encourages EBRD to have an adaptive TOC and results framework most appreciate for an environment like WB&G.

#### MDTF Reporting

The representative of the Netherlands Foreign Office, key donor for the MDTF, is satisfied with the reporting from the trust funds. It had no issues with the format but understood that not all donors had the same requirements. The Netherlands takes a pragmatic approach to reporting and look for results.

The Netherlands indicated interest in face-to-face, longer donor meetings with a full agenda. However overall, it found the communication with the EBRD team to be very good.

According to the Donor Co-Financing Unit, UK had some concerns about the lack of specific results frameworks to track results in the reports prior to 2019. This was discussed with DCF team who explained that designing targets for SMEs was complex due to the market driven nature of what the EBRD does. There were also complications aggregating data from project level to trust fund level, due to the large number of different projects with different variants and measures. DCF expressed concerns about including

the theory of change and results framework in the Board strategy as they would need to be amended annually, in accordance with market demand.

The UK FCDO representative explained that the reason the UK had reduced its funding via the MDTF was because it was reducing funding across all its activities. They also did not have the resources to review it and had concerns about potential reputational risks being too high in the UK, for example through the media, and any linkages with certain organisations which are barred from funding. FCDO is satisfied with the EBRD's financial processes but FCDO still assumes responsibility for oversight for funding they have provided.

The MDTF report for 2020 includes an overview of the EBRD's operations in the WB&G (including challenges and lessons and coordination with other IFIs), highlights of operations and projects delivered under the MDTF by theme, the financial status and donor visibility. It also contains a results framework with objectives and tracking indicators, providing some results against each.<sup>37</sup> The results framework does not set out tracking indicators as outputs and outcomes. It is unclear whether these results refer only to achievements in 2020 or whether they cover previous years as well, although the inclusion of Medlabs approved in 2018 suggest that it does. The results framework does not specify all the TC projects under the MDTF as inputs such as the amount and the areas they cover.

#### NIA Trust Fund Reporting

The 2020 NIA Trust Fund report follows the same structure as the 2020 MDTF report. Reporting is comprehensive and much more thorough than the reporting from 2019. The results framework section includes operations since 2018 and includes some of the TC projects funded by the MDTF or EU bilateral agreements, such as the TC for the Grid enforcement Study for Theme 3: Energy efficiency and sustainability.<sup>38</sup>

#### Strategy Reporting – EBRD Engagement in the WB&G

In the strategy on the EBRD's Engagement in the WB&G issued in May 2017, the EBRD agreed to report on progress towards the objectives set out in the Results Framework two years after the [NIA] Fund became operational and provide a full report against the Results Framework after four years.

The results framework for the 2017 strategy includes objectives and indicators for each objective, and lists activities for each indicator, but does not set out a logical link between inputs, outputs, outcomes and impacts.<sup>39</sup> The stated themes and challenges are so broad that they do not capture the outcomes and potential impacts of specified indicators (for example inclusion and women in business are not specifically targeted by Theme 1, but are included in the tracking indicator). There is also no explanation of what number of SME firms supported might be a critical mass that can meaningfully address the challenges of skill mismatches and limited access to finance. Further, access to finance is also covered under theme 2, so there is a risk of double counting.

Similar issues can be found with regards to Theme 3 for fostering energy efficiency. The theme covers a huge area and many challenges but there are no baselines to connect the indicators to or indication of to what extent the challenges may be addressed (even if only some and only in part).

In interviews, Management explained to EvD that the reason for the lack of specificity was that the EBRD is demand driven, that delivery is via specific projects with different targets, and it is impossible to aggregate these and predict and plan beyond some very broad statements of intent.

Overall, the reporting was discussed at the FOCP in April 2021 which agreed a further €15m net income allocation for the NIA Trust Fund.

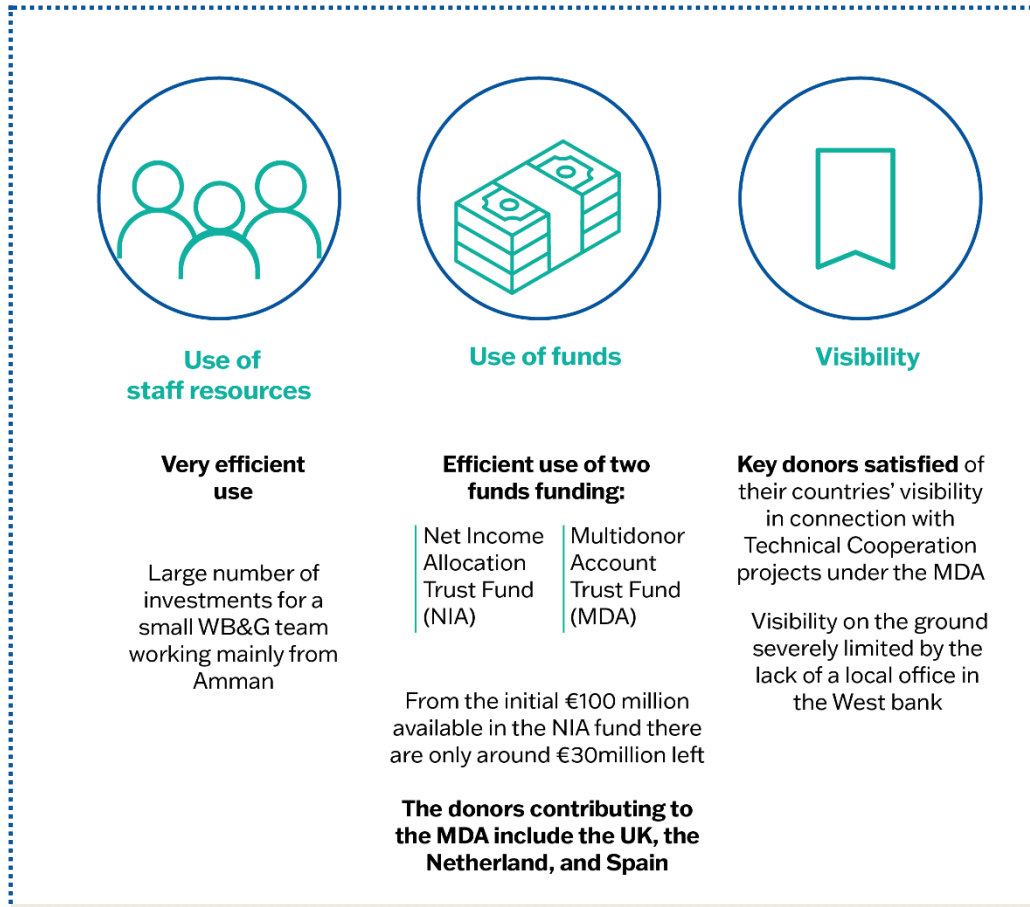
<sup>37</sup> CS/FO/21-09 Section 5 Results framework page 18

<sup>38</sup> CSFO2112 Annex 1 Page 21

<sup>39</sup> BDS15-201 (Final) Section 2.4 Results Framework for West Bank and Gaza Trust Fund, page 31

## Efficiency

### 3.4 How well have the Bank's resources been used to achieve the intended results?



#### 3.4.1 Adequacy of EBRD Staff resources

##### Key findings

- **EBRD dedicated team has been efficient.** Despite the limited dedicated human resources and the absence of staff on the ground, the Bank has delivered €60m of the €85m Net Income Allocation thanks to the strong delivery of FI projects in 2020 and 2021.
- **No investment operation has been approved or implemented in Gaza** due mainly to the current high risks resulting from the political and economic environment.

Evidence shows that despite the limited dedicated human resources and the absence of staff on the ground, the Bank ability to deliver under Theme 2 is strong. On the other hand, investments under Theme 1 and 3 are very limited.

EBRD has no ground presence in the WB&G, and currently conducts operations from the Resident Office in Amman. Both staff and clients that EBRD interviewed indicated that a local presence would be welcome and make it easier to operate.

The WBG team consists of three bankers: one Principal Banker, one Analyst and one vacancy. The hiring process is complicated by the fact that if the candidate has a Jordanian passport they will need a visa to go to the WB&G.

The inability to travel easily to the WB&G has caused some frustration for staff and the Regional Head of the Eastern Mediterranean was unable to visit until November 2021, despite being based in Amman since starting the position in July 2020, due to the restrictions on travel.<sup>40</sup>

As emphasised by banking staff in interviews, and confirmed by banking clients in the region, the need to travel to the WB&G to build the pipeline and secure new projects is particularly important for implementing the first theme: enhancing private sector growth, which involves investment operations with corporates. Many corporates are small and may be unable to do virtual calls or reluctant to do business when not face to face. Travelling to the client and explaining what the EBRD can offer is a critical piece to building volume in that area. This is particularly significant because EBRD is new to the region and is not well known.

Bankers in the Financial Institutions team, including those based in London and Cairo led seven investment operations in the WB&G, just under half the total. Half of the total investment operations (9) were led by a single Principal Banker working on the WB&G investments through the Amman RO, as part of the Eastern Mediterranean team. Internal interviewees expressed the intention to recruit at least one more banker in the WB&G team.

As mentioned in the previous section, other departments leading TC projects in the WB&G remotely include the Legal Transition Team, OCCO, Energy and Industry Commerce and Agribusiness teams.

Use of the EBRD's immunities and privileges is useful to ensure EBRD staff are offered protection and treated like other international development agencies. The relationship with Israel is critical since it facilitates access to the WB&G.

No investment operation has been approved or implemented in Gaza. Interviewees consider that the reason for that is the current high risks resulting from the political and economic environment. Internal interviews also imply that entering Gaza will involve a long series of negotiations with Israeli authorities and therefore EBRD decided to focus on the West Bank at first. All donors pointed out that not being in Gaza, while EBRD engagement documents specifically states both areas West Bank and Gaza, is misleading and need to be reconsidered.

### 3.4.2 Use of Trust Funds

#### Key findings

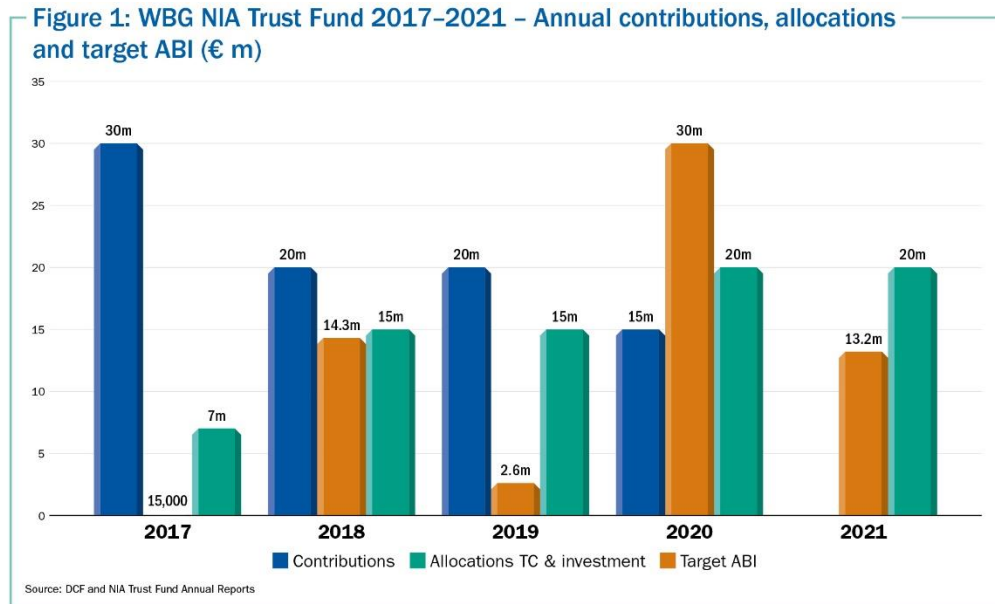
- **The NIA Trust Fund** is (i) the only source of funding for investment operations; (ii) critical to the continuation of EBRD's investment programme in WB&G; and (iii) an important source for TC funding, particularly for the women in business programme.
- **95% of investment approved under the NIA Trust Fund was directed at strengthening the capacity of financial intermediaries and access to finance for SMEs under theme 2.**
- **Investment operations and TC projects slowed down significantly in 2019 but regained momentum in 2020** thanks to the establishment of MDTF which increased the availability of donor funding.

#### Net Income Allocation (NIA) Fund Overview

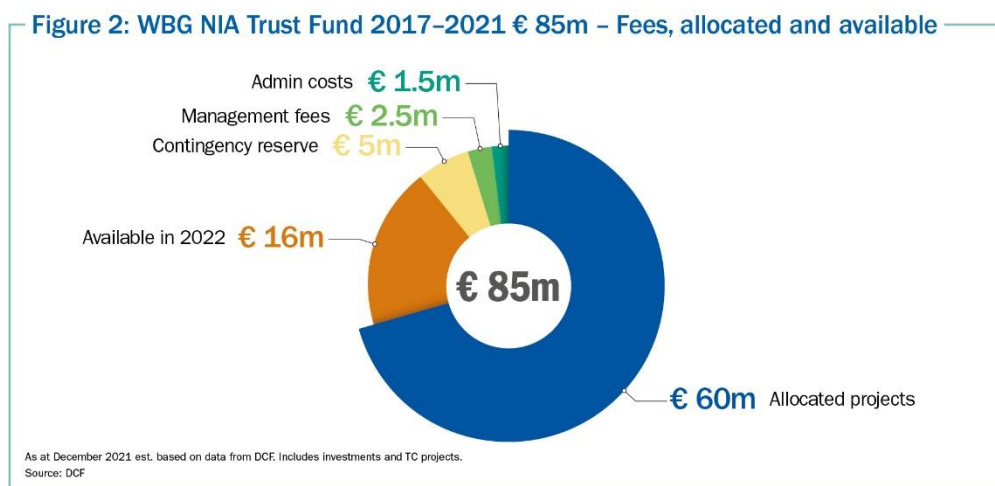
The EBRD builds its operations on the basis of net income allocation resources (NIA Trust Fund), since ordinary capital resources are not available for use. From 2017-2020 the EBRD Board of Governors approved net income allocation totalling €85 million.

<sup>40</sup> The first trip to the West Bank took eventually place in November 2021.

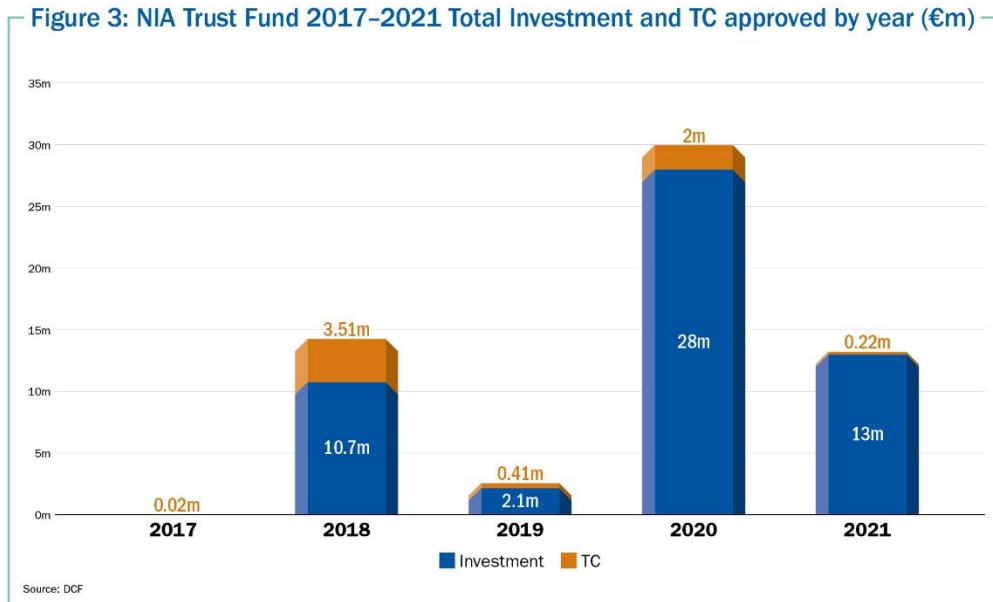
In the first year, €30m was approved, followed by €20m in 2018 and 2019. A further €15m was approved in 2020. Another €15m were received in 2021 and the EBRD managed to allocate €13.2m to new investment operations and TCs during this year. Allocations are used for investments operations and TC projects. Figure 1 below showing contributions, allocations and target ABI. It also shows that relative to projections, EBRD was slow to pick up the pace, with no investments in the first year of 2017 and a drop in 2019, due to difficulties in attracting clients, with high liquidity and low interest rates. This drop was reversed with an increase in 2020 due to increased availability of TC funding from the newly established MDTF.



As shown in Figure 2 below illustrating use of funds, accumulated Net Income Allocations from 2017-2021 amounted to €85m, of which after investments and TC, fees and contingency reserve, €60m has been allocated and €16m is available for allocation in 2022. Management fees account for a total of 3%, contingency fees are 6% and administration costs are 2%.

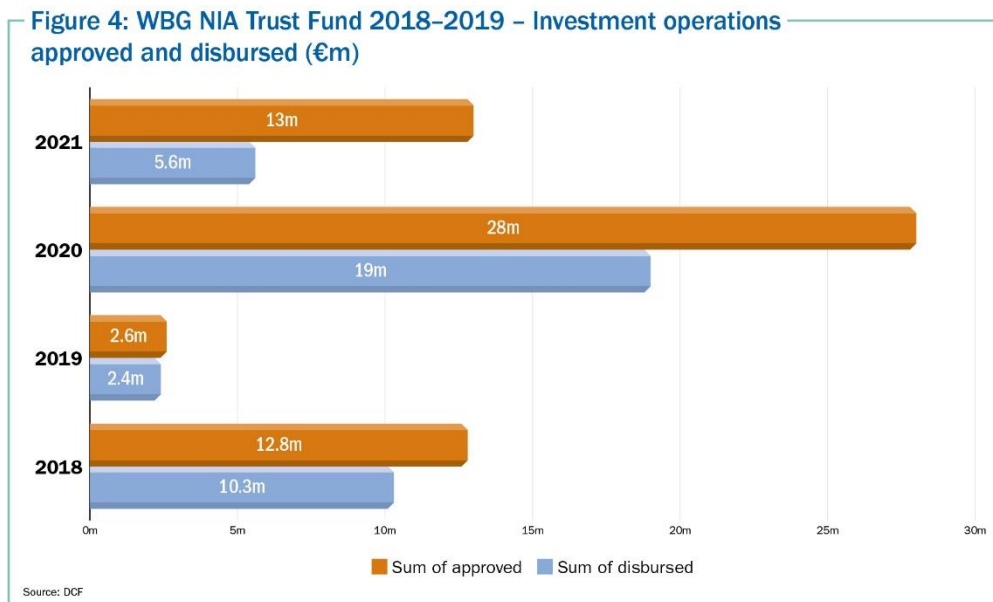


The NIA Trust Fund provides funding for both TC projects and investment operations. The amount of TC funding approved under the NIA Trust fund peaked in 2020 to support capacity building in local banks particularly for women in business.



### Investment Operations under the NIA Trust Fund

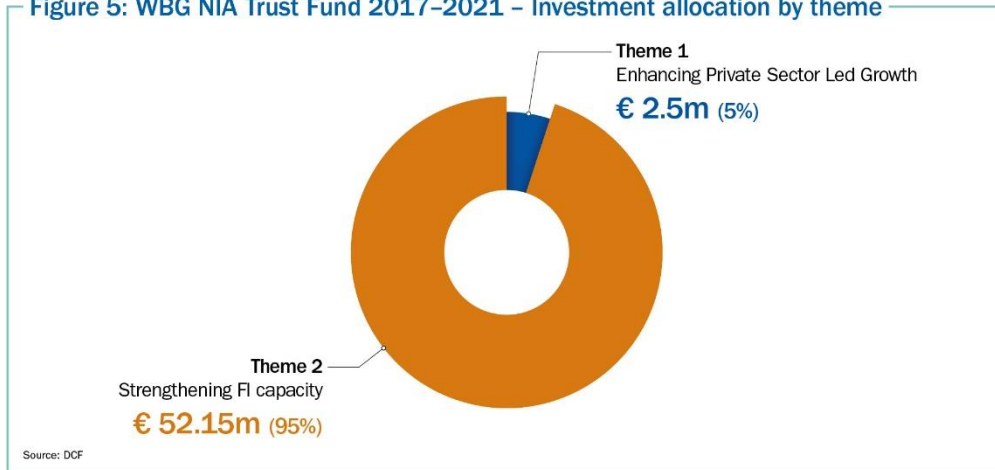
As shown in Figure 4, Investment operations under the NIA Trust Fund started in 2018, with €12.8m for SME loans to financial intermediaries, a TFP project and one corporate investment in the health sector. Use of the Financial Intermediaries Framework for loans to financial intermediaries increased in 2020 and 2021 due to much needed financing during the pandemic.



As illustrated in Figure 5; 95% of investment operations were towards Theme 2: Strengthening capacity of financial institutions and access to finance for SMEs. There were just 3 investment operations under Theme 1: Enhancing private sector led growth totally 2.5m (for Medilabs Consultancy Group, a Jordanian company operating in WBG and the Youth Unemployment Bond). This highlights the huge challenges faced by the EBRD Banking teams in sourcing investment opportunities amongst corporates due to stiff competition on pricing.



Figure 5: WBG NIA Trust Fund 2017–2021 – Investment allocation by theme

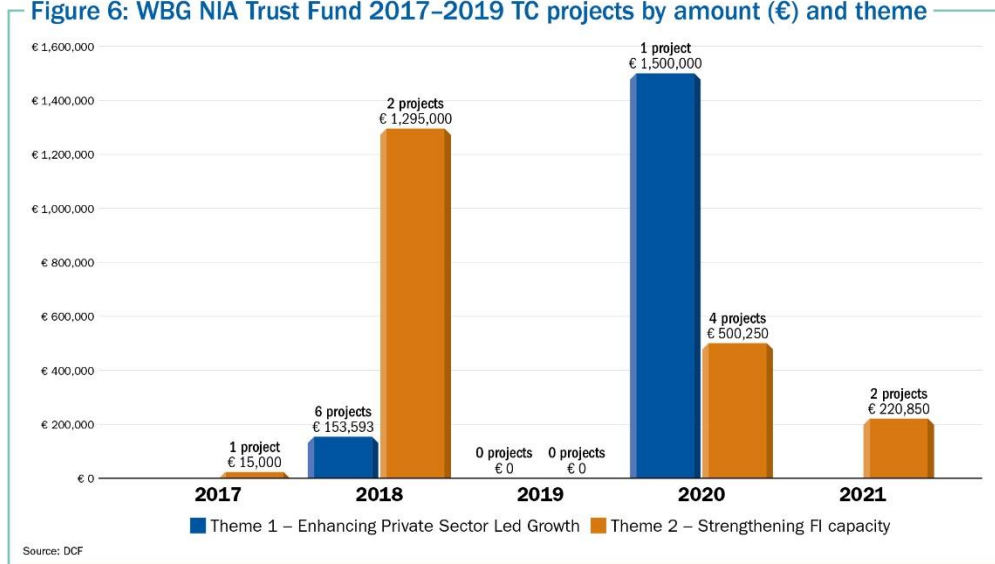


TC projects under the NIA Trust Fund

TC projects approved under the NIA Trust Fund between 2017 and 2021 amounted to € 3.7m.

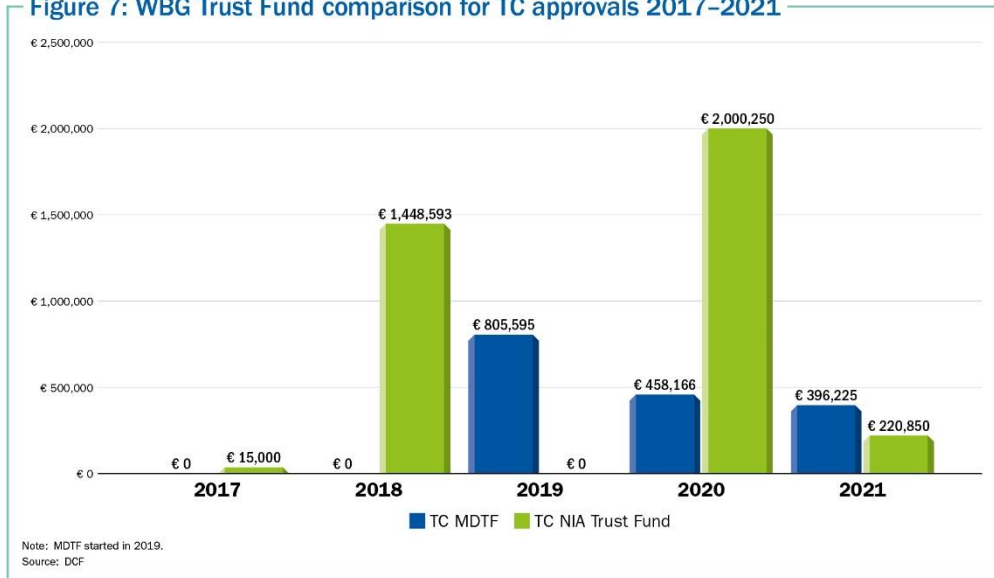
Figure 6 shows TC funding by year and theme. Overall, funding was fairly evenly distributed between Theme 1: Private sector development and Theme 2: Strengthening the capacity of financial intermediaries and access to finance for SMEs, although a sharp increase in Theme 1 was evident in 2020, following a year of no approvals in 2019, reflecting preparatory work done in the previous year.

Figure 6: WBG NIA Trust Fund 2017–2019 TC projects by amount (€) and theme



Both the NIA Trust Fund and MDTF allocated resources to TC projects. Figure 7 below compares levels of TC funding between the two funds, especially since the MDTF started in 2019. It shows the ongoing importance of the NIA Trust Fund to meeting TC funding requirements in the WB&G, despite the introduction of the MDTF in 2019. In 2020 the NIA Trust Fund approved two TCs for the Women in Business Programme worth a combined € 1.7m, a programme specifically supported by the EBRD.

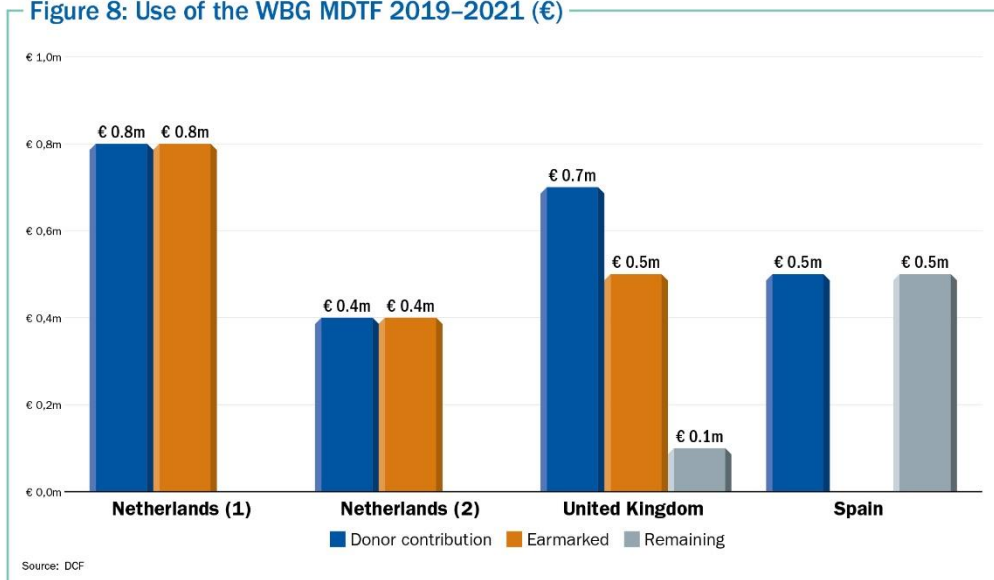
Figure 7: WBG Trust Fund comparison for TC approvals 2017–2021



Multi-donor Trust Fund Overview

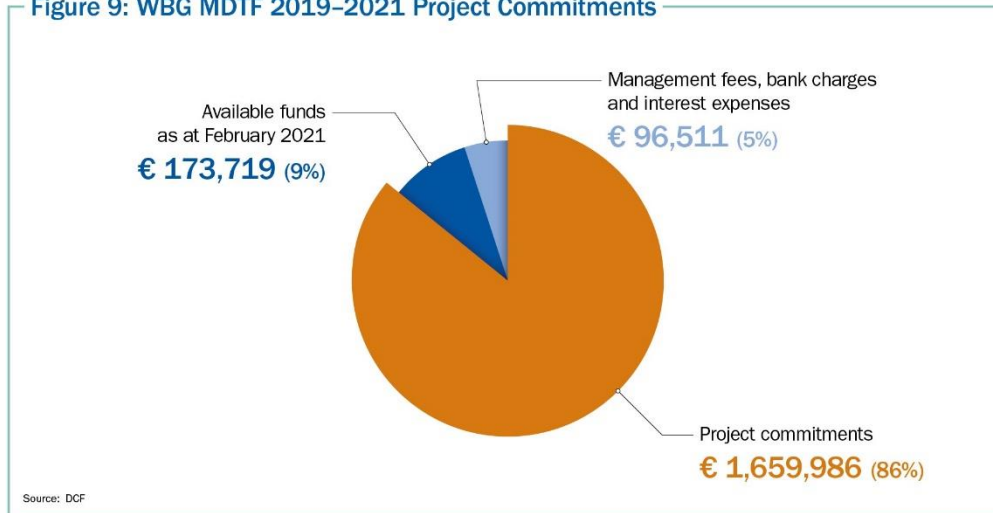
The Multi-Donor Trust Fund was established in March 2019 with pledges from the Netherlands and the UK. It operates in parallel with and complementary to the NIA Trust Fund. Total contributions by end December 2021 were €2.37m. The Netherlands contributed € 800,000 in the first year followed by a further €400,000. The UK contributed €670,000, scaling back from an original €2.5m. Spain made a contribution of €500,000 in 2021. The usage of these amounts as at December 2021 is shown in Figure 8 below. This shows that most funds have been allocated to projects, except for Spain’s contribution in 2021.

Figure 8: Use of the WBG MDTF 2019–2021 (€)



A total of 23 projects were approved under the MDTF to date including seven new projects in 2021 for a total of €1.73m (€1.4m of which has been contracted as at December 2021), supporting resilience financing for a partner bank and initiatives related to gender micro finance and corporate governance.

Figure 9: WBG MDTF 2019–2021 Project Commitments



TC projects were approved across the first two themes for the priorities in the WB&G with seven projects for Theme 1: Enhancing private sector growth and 14 for Theme 2: Strengthening the capacity of financial intermediaries and SMEs, however only two projects were approved for Theme 3: Energy efficiency and energy sustainability.

### 3.4.3 Visibility of EBRD's investments in the West Bank & Gaza

#### Key findings

- **Key donors were generally satisfied of their countries' visibility** in connection with TC projects under the MDA Trust Fund.
- **Visibility of the Bank in the WB&G is severely limited** by the lack of a local presence.

Evidence shows that key donors of the MDTF (UK and the Netherlands) are satisfied with the level of visibility of their countries in connection with the TC projects they supported. News of upcoming projects is published on ebrd.com, mentioning the donor country. News is also published on social media, including Facebook and Twitter. Articles include video clips with highlights of key activities.

Visibility of the EBRD on the ground is hindered by the fact that it does not have a local presence in Ramallah, making it difficult for the Bank to establish its presence among potential clients. Travel from Amman by EBRD staff is complicated by border restrictions on entry, outbreaks of conflict and the pandemic.

## 4. Conclusions and Recommendations

### 4.1 Conclusions

The impact of the EBRD activities in the West Bank and Gaza region will fully emerge in the coming years, since more than half of the commitments were signed approximately in 2020/2021.

Evidence shows that the Bank has had an eventful and partly successful five years of operation in the WB&G and EBRD has learned valuable lessons about the local market and its unique challenges. Progress in developing the WBG portfolio has been steady.

- **The Bank's activities in WB&G are relevant and additional.** They respond to the needs of private sector and the Palestinian Authority as well as support donor priorities.
- **EBRD operations are coherent**, both internally with Bank strategic agenda and externally with other actors in the region, albeit more coordination and collaboration would be beneficial with other players, including the EUD and EIB.
- **Early transition results are mixed**; the original areas of focus under the three strategic themes have succeeded to varying degrees, for instance the FI sector has received disproportionate attention relative to the other 2 strategic themes, with 95% of the EBRD's investment under the NIA Trust fund being disbursed to financial institutions.
- **Finally, the Bank has managed its limited resources efficiently** without having a permanent presence in the West Bank. Management plans to recruit one more experienced banker in the Amman office to strengthen the team and more than half of EBRD's clients as well as the EUD, the UK and the Netherlands expressed the importance of having a regular presence on the ground.

Therefore, this evaluation suggests the following lessons from EBRD's five years operation in the WB&G:

- **Context matters:** The operations in the WB&G confirm that contextualisation of approach is indispensable to development of effectiveness in a fragile and conflict affected area.
- **Good data collection and analysis is a key factor of success:** The need for better data and analytics to understand local context and to inform the design and deployment arrangements of supportive action, as well as the ability to analyse risk and foresee likely future developments, are key to success.
- **Collaboration is key:** An aligned and strengthened collaboration between IFIs is essential especially to have meaningful policy dialogue with the authorities.
- **Proximity makes the difference:** Presence on the ground is a catalyst to improve visibility for corporate clients, funds raising and reinforce links with other development actors.
- **Tailored approaches mixing investment and TC work well:** The use of a tailored toolkit which involves technical cooperation and blended finance proved to be effective in developing business in the WB&G.
- **Concessional financing is necessary in fragile contexts:** Without concessional financing future EBRD activities will be constrained, in particular in the corporate sector. Including concessional financing would be a way to increase the volume of operations to further support the private sector in the WB&G.

The evaluation team notes that donors, clients, and main stakeholders in the region questioned the limited engagement of Bank in Gaza after five years of operations in the West Bank. The evaluation team suggests that Management presents to the Board a diagnostic of the private sector opportunities in Gaza with a view to potentially develop a strategy and operational plan in discussion and complementarity with the different actors in the area.

Finally, due to the current levels of financial commitments made by the EBRD and the need to support the recovery from the COVID-19 pandemic, the banking team may face temporary cash flow issues which hinder the ability to extend new loans. An early decision on replenishment of the NIA is required to prevent delays in delivering the 2022-23 EBRD pipeline.

The evaluation team makes the recommendations listed below in order to improve the Bank's involvement in the WB&G.

## 4.2 Recommendations

**Recommendation 1: Strengthen EBRD's profile on the ground by leveraging the presence of the EU Delegation in the WB&G to better inform the Bank's strategy and outreach towards developing the private sector.** This, together with a strengthened presence on the ground, in line with other DFIs and major donors, would enhance the Bank's interaction with the private sector, participation in policy dialogue and key regulatory discussions, cooperation with other DFIs and fund-raising prospects.

**Recommendation 2: Diversify EBRD's investments toolkit in the WB&G with the view of expanding its activities across all three strategic themes,** including through i) the enhancement of the use of blended finance and first-loss guarantees with donor support; ii) the assessment of the performance of the Trade Facilitation Programme; and iii) an update of the diagnostic of the energy sector as a mean to clearly identify constraints and ways for EBRD to address them.

**Recommendation 3: Continue to engage in policy dialogue and develop technical assistance to support reforms that help overcome key barriers to economic recovery and key infrastructure development and enhance the synergy between policy reforms and investments.**

### Rationale for the three recommendations:

With respect to Recommendation 1: The international community remains focused on generating longer-term economic growth and sustainable livelihoods across the Occupied Palestinian Territories. This approach is in line with EBRD transition impact concept, including to support resilience of livelihoods and stability of institutions and put greater emphasis on transformational investment for a well-connected Palestinian economy and long-term economic returns. The evaluation team recommends greater cooperation with EIB to meet the important financing requirements of the WB&G. The EU-Palestine Investment Platform is an opportunity for the Bank to coordinate more closely with other IFIs where comparative advantages can work for the benefit of the WB&G's development. EBRD's engagement in upstream analytics and technical studies would be helpful for project identification and sourcing EU funds. The evaluation team suggests that EBRD targets investments that align with EUD priorities including assessing whether to extend operations in Area C, Gaza, and East Jerusalem. It may also be useful to explore ways in which EBRD can collaborate with EIB in the WB&G context under the framework cooperation agreement signed by the two institutions in 2021. The EU priorities for Palestine are set out in the document "*A new Agenda for the Mediterranean*".<sup>41</sup> EBRD could seek to align its activities with two specific 'flagship' projects under this agenda related to i) resource efficiency, including water and waste management, and ii) biodiversity and connected economies.<sup>42</sup>

<sup>41</sup> EC HIGH REPRESENTATIVE OF THE UNION FOR FOREIGN AFFAIRS AND SECURITY POLICY. Brussels, 9.2.2021 SWD (2021) 23 final. JOINT STAFF WORKING DOCUMENT. Renewed Partnership with the Southern Neighbourhood Economic and Investment Plan for the Southern Neighbours. A new Agenda for the Mediterranean.

<sup>42</sup> FLAGSHIP 11 – Resource efficiency, including water and waste management, and biodiversity. Israel/Palestine – The EU will invest funds, in the construction of the Gas for Gaza pipeline. It will also coordinate and invest in the Gaza Central Desalination Plant and Associated Works programme. Together, these investments can lead to a step change in access to clean and affordable water and electricity, contributing to development, humanitarian needs and stability. FLAGSHIP 5 – Connected economies. Palestine – In support of potential future progress on the Middle East Peace Process, the EU will look into funding to promote private sector-led growth and job creation, providing debt and equity finance and loan guarantees to local financial institutions to support SMEs, under-banked segments, for lending to women, young people and start-ups, including microfinance, and providing incentive grants to companies working in industrial parks in Jericho and Gaza.

Many interviewees, both EBRD's staff and clients, indicate that the lack of a local presence is a barrier to full effectiveness. Despite the sterling efforts made by staff to work remotely, the presence of EBRD would not only be a symbolic sign to the market but would improve the Bank's participation in policy dialogue and key legal/regulatory discussions, collaboration with other DFIs, and fund-raising prospects (especially for the MDA Trust Fund). In November 2021, a Bank's team visited the West Bank for the first time since March 2020 due to the COVID-19 pandemic. In this context, EBRD's local presence would likely enhance its market position and impact in the long term. Setting up a local presence in the West Bank, and with appropriately qualified local staff, would also send a strong signal to local partners.

With respect to Recommendation 2: There is increased pressure on EBRD to differentiate its products and services from other lenders and increase its competitiveness. EBRD's risk rating, pricing and stringent due diligence process risk placing a serious burden on small Palestinian borrowers. EBRD clients in particular Banks, the EUD and other donors supported the intention of EBRD to offer different products other than standard loans. The Strategy Update that Management is undertaking should set out plans to further develop niche products – using thematic approaches such as addressing women in business, digitalisation and green transition.<sup>43</sup> EBRD would also gain from an increased focus on establishing relations with smaller banks and microfinance institutions.

Due to the mixed performance of the Trade Finance projects, it may be time to rethink the EBRD support to this programme in the WB&G. If EBRD continues to provide trade finance, the new strategy should assess current and future demand, and link outputs to outcomes and impact in order to enable an evidence-based assessment of performance.

Regulatory and political issues continue to pose challenges in the energy sector, as supply of energy in the WB&G is not keeping pace with demand. Digital infrastructure too requires a modern, reliable, diversified and regionally connected energy sector. The interconnectedness of these sectors is something that merits closer examination. Under that context EBRD should prepare an updated diagnostic of the sector to improve its performance under Theme 3.

With respect to Recommendation 3: EBRD should undoubtedly continue its policy dialogue efforts in the energy sector supporting the energy authority PENRA as done in 2019 with a grid enforcement study for Tubas and Jericho areas. In addition, the recently-adopted Companies Law and Telecommunications Law are an optimistic sign of progress in the regulatory environment. Both laws are critical to advance a modern legal and regulatory framework, enable growth, and to help boost the digital economy. The Bank should encourage the authorities to ensure a rapid implementation of both laws and support this effort where appropriate with TA. The Bank's efforts can also be directed toward improving the business environment for start-ups.

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<sup>43</sup> Political risk insurance may also help to manage the ongoing problems in WB&G. This insurance is designed to mitigate against the loss of commercial assets, income, or property as a result of a political risk event. The policies can provide coverage for a wide range of risks, including political violence, expropriation, currency inconvertibility, non-payment, and contract frustration. Political risks are often very difficult – sometimes impossible – to predict, and the loss of assets and income that follows can be catastrophic.

## Annex 1 Technical cooperation amounts approved and contracted by year and strategic theme

As of December 2021

| Year | TC Project Title   | Donor   | Approved    | Contracted  | Fund |
|------|--|---------|-------------|-------------|------|
| 2017 | Trade Facilitation Programme (TFP) Technical Cooperation (TC) Framework – Guarantees Workshop  | NIA     | € 15,000    | € 13,768    | NIA  |
| 2018 | Capacity building on Asset and Liability Management (ALM) at the Palestine Monetary Authority  | NIA     | € 95,000    | € 95,000    | NIA  |
| 2018 | West Bank and Gaza MSME Access to Finance via FIs - TC for MSME Lending Capacity Building for FIs  | NIA     | € 1,200,000 | € 1,200,000 | NIA  |
| 2018 | Legal Due Diligence and Registration Fees of Mortgage Security for MedLabs Consultancy Group   | NIA     | € 25,000    | € 25,000    | NIA  |
| 2018 | Cultural Heritage Integration Programme in West Bank & Gaza  | NIA     | € 17,283    | € 17,757    | NIA  |
| 2018 | Provision of consultancy services to Develop Crowdfunding Platform at Palestine Exchange   | NIA     | € 30,000    | € 20,000    | NIA  |
| 2018 | Youth Unemployment Impact Bond –TC needed for the appointment of a board representative to represent EBRD on the board of the Youth Employment Impact Bond project | NIA     | € 34,065    | € 35,419    | NIA  |
| 2018 | Youth Unemployment Impact Bond –TC needed for the appointment of a board representative to represent EBRD on the board of the Youth Employment Impact Bond project | NIA     | € 31,434    | € 31,434    | NIA  |
| 2018 | Youth Unemployment Impact Bond Technical TC to appoint a consultant  | NIA     | € 10,000    | € 10,000    | NIA  |
| 2019 | Canaan Fair Trade Company  | Holland | € 9,732     | € 5,357     | MDTF |
| 2019 | Trade Facilitation Programme (TFP) Technical Cooperation (TC) Framework  | UK      | € 67,185    | € 63,385    | MDTF |
| 2019 | WB&G – MedLabs Consultancy Group - Transactional   | Holland | € 15,180    | € 15,180    | MDTF |
| 2019 | EBRD-FAO Framework - Olives and olive oil in Egypt, Jordan, Lebanon and the West Bank and Gaza   | Holland | € 159,276   | € 160,052   | MDTF |
| 2019 | Grid Enforcement Study for Tubas & Jericho areas with the Palestinian Energy and Natural Resource Authority (PENRA)  | UK      | € 70,000    | € 68,400    | MDTF |
| 2019 | AML Corporate Governance Improvement Project   | UK      | € 34,222    | € 22,591    | MDTF |
| 2019 | Support with the Regulation of Factoring in West Bank and Gaza   | UK      | € 170,000   | € 170,000   | MDTF |
| 2019 | Assignment 24: West Bank and Gaza – Judicial Training on Commercial Law  | Holland | € 280,000   | € 280,000   | MDTF |
| 2020 | Trade Facilitation Programme (TFP) Technical Cooperation (TC) Framework<br>- TFP in West Bank and Gaza   | Holland | € 13,210    | € 13,210    | MDTF |

|      |   |           |             |             |      |
|------|---|-----------|-------------|-------------|------|
| 2020 | WB&G – MedLabs Consultancy Group - Transactional<br>- Extension   | Holland   | € 9,453     | € 6,033     | MDTF |
| 2020 | Regional Programme for Improving Corporate Governance in Selected EBRD Investee Companies and Banks<br>- (WB&G) National Bank CG Review and CGAP                          | UK        | € 175,000   | € 142,176   | MDTF |
| 2020 | West Bank & Gaza Women in Business Programme: Access to Know-How TC   | NIA       | € 1,500,000 | € 1,146,330 | NIA  |
| 2020 | West Bank and Gaza Women in Business Technical Cooperation Programme – Bank of Palestine  | Holland   | € 200,000   | € 200,000   | MDTF |
| 2020 | Palestine for Credit and Development (“FATEN”)<br>- Targeted Training on AML/CFT  | Holland   | € 19,500    | € 16,919    | MDTF |
| 2020 | The National Bank (“TNB”): Legal Due Diligence and Assistance with Preparation of Loan Agreement  | Holland   | € 14,450    | € 12,397    | MDTF |
| 2020 | Palestine for Credit and Development (“FATEN”): Legal Due Diligence and Assistance with Preparation of Loan Agreement   | Holland   | € 14,695    | € 7,969     | MDTF |
| 2020 | Quds Bank Legal Due Diligence Costs<br>- RF - Quds Bank Solidarity Loan   | Holland   | € 11,858    | € 12,397    | MDTF |
| 2020 | Support for the Palestine Monetary Authority’s Regulatory Monitoring Function (Basel III)   | NIA       | € 178,250   | € 178,050   | NIA  |
| 2020 | West Bank and Gaza Women in Business Technical Cooperation Programme – Bank of Palestine  | NIA       | € 200,000   | € 187,910   | NIA  |
| 2020 | Palestine for Credit and Development (“FATEN”) - Risk Management Capacity Building  | NIA       | € 72,000    | € 71,750    | NIA  |
| 2020 | Regional: Treasury Risk Management and Capital Markets Seminar Framework  | NIA       | € 50,000    | € 49,000    | NIA  |
| 2021 | Financial Intermediaries – Legal Due Diligence  | Holland   | € 7,969     | € 7,969     | MDTF |
| 2021 | International Sanctions (IS) Workshop for Financial Institutions in the West Bank And Gaza  | Holland 2 | € 30,000    | € 19,140    | MDTF |
| 2021 | Vitas Palestine Targeted Training for anti-money laundering (“AML”) and countering the financing of terrorism (“CFT”) and Credit and IT Risk Management Capacity Building | Holland 2 | € 120,000   | € 0         | MDTF |
| 2021 | Supporting the Palestine Monetary Authority (PMA) with the assessment of digital infrastructure readiness for rollout of digital payment services                         | Holland 2 | € 136,000   | € 0         | MDTF |
| 2021 | West Bank and Gaza (“WB&G”) Women in Business Technical Cooperation Programme   | Holland 2 | € 96,500    | € 0         | MDTF |
| 2021 | West Bank and Gaza (“WB&G”): Financial Intermediaries – Legal Due Diligence Framework – Palestinian Company for Credit and Development (“FATEN”)                          | Holland   | € 5,756     | € 0         | MDTF |
| 2021 | West Bank and Gaza (“WB&G”) Women in Business Technical Cooperation Programme   | NIA       | € 203,500   | € 0         | NIA  |
| 2021 | Trade Facilitation Programme (TFP) Technical Cooperation (TC) Framework TFP in West Bank and Gaza   | NIA       | € 17,350    | € 15,350    | NIA  |



## Annex 2 The Context for EBRD Operations in West Bank and Gaza

by Gregory Wilson

**Analysis of the Political Economy of the West Bank and Gaza (WB&G) is key to understanding the effectiveness of the EBRD interventions.**

**In 2015 the EBRD received a request from the Palestinian Authority (PA) to extend its operational activities to the WB&G.** The PA believed that the EBRD's financing instruments and policy advice could provide valuable support for private entrepreneurship and market-oriented transition in the WB&G, while complementing the existing efforts of international and bilateral financial institutions in promoting prosperity, stability and peace in the WB&G, and the wider region. The timing was not accidental as the PA was again facing a major economic and political crisis after the Gaza War of 2014. The seven-week conflict was one of the deadliest conflicts between the Palestinians and Israel in decades. The combined Israeli airstrikes and ground bombardment and Palestinian rocket attacks resulted in thousands of deaths, the vast majority of which were Gazans. Re-building costs were estimated by the United Nations at \$1.2 billion for early recovery needs and \$2.4 billion for reconstruction efforts.<sup>44</sup>

**On May 27, 2015, the World Bank reported<sup>45</sup> that despite surprisingly strong economic growth of 5% in the West Bank in 2014, the war in Gaza had indeed had a devastating impact on the Palestinian economy, resulting in overall negative growth.** The closure of tunnels with Egypt and in particular the 2014 summer war shaved some US\$460 million off Gaza's economy, leading to a 15% contraction of its GDP. Overall, the Palestinian economy contracted 3% in 2014 on a per capita basis. Unemployment and poverty increased markedly. The WB highlighted the instability of clearance revenues, and high political uncertainty, concluding "the economic outlook remains bleak". This was the situation at the point the EBRD commenced operations in 2015.

**Six years later, the Palestinian economy remains in a precarious situation. Moreover, COVID-19 continues to take a toll both in human and economic terms in the West Bank and Gaza.** The COVID-19 pandemic struck a weakened economy that was barely keeping up with the population growth in three years prior to the onset of the pandemic, with persistent fiscal deficits, high unemployment, growing poverty levels, especially in Gaza, and continuously declining levels of international support<sup>46</sup>. The World Bank notes that the PA has a limited set of fiscal and monetary policy instruments to effectively respond to the worst global health and economic crisis in a century. These constraints limit the range of economic policy decisions available for the PA.

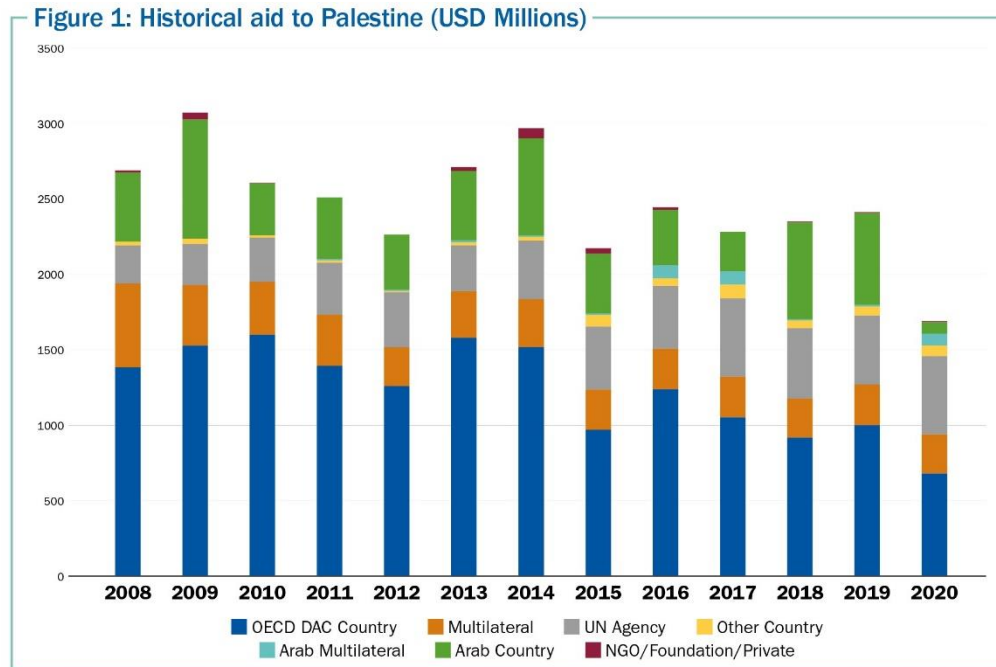
**The COVID-19 outbreak has added pressure to the Palestinian economy's structural fiscal dilemma.** The potential for additional domestic and external borrowing by the PA is becoming increasingly limited due to financial sustainability and stability concerns, and aid flows from donors are the lowest in decades. Without new and stable revenue arrangements agreed with the Gol, the economy is vulnerable. Figure 1 attached depicts the steady fall in ODA to Palestine since 2014.<sup>47</sup>

<sup>44</sup> UNSCO Secretary-General's remarks to Security Council briefing on the Situation in the Middle East, New York, 21 October 2014

<sup>45</sup> *Economic monitoring report to the ad hoc liaison committee (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/563181468182960504/Economic-monitoring-report-to-the-ad-hoc-liaison-committee>

<sup>46</sup> World Bank *Economic Monitoring Report to the Ad Hoc Liaison Committee- February 2021*. Washington, D.C.: World Bank Group

<sup>47</sup> Based upon OECD DAC CRS data (until 2019) for non-Humanitarian, supplemented with non-humanitarian IATI data for 2020, adds UN FTS humanitarian data, and MoF data on Arab counties. 2020 is an estimate (even more than the rest is) as we have no source for non-humanitarian, non-budget Arab data for 2020,



**The economic impact of COVID-19 has been complex.** A number of studies have been undertaken looking at various impacts on the economic. These papers have in part been utilised by the GoP to prepare an Economic Recovery Plan in May 2020. Examples of these studies are listed in the footnote.<sup>48</sup>

**The WB acknowledges that the PA has made significant fiscal progress with reductions of the total deficit over the years, despite falling aid flows.** However, looking forward, continued budget support from the international community remains critical for the PA and for a resilient economic recovery in the West Bank and Gaza. On a positive note, the US in April 2021 formally announced it was recommending aid to Palestine, but with much reduced contributions to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).<sup>49</sup>

**In the February 2021 Economic Monitoring Report, the WB also notes that the direct and indirect exposure of the banking system continues to pose a significant risk to financial sector stability, and potentially crowds out private sector borrowing.** This is due in part to the pre-existing level of stress, due to the PA's liquidity crisis caused by the clearance revenue standoff, and the financial sector's ability to play a significant shock-absorbing role. "Also, the rising exposure to domestic public debt, and its implications for the stability of the banking system, could potentially limit private sector access to much needed liquidity. In this regard, the efforts to reduce borrowing and avoid a concentration of risks need to remain an important policy goal. This also confirms the importance of an urgent resolution to ensure stable and automatic clearance revenues transfer, which would reduce the PA's need to access the domestic banking sector to partially finance its budget and, consequently, contribute to reducing financial risks".

**The unstable Israeli coalition government formed in June 2021 has held together so far.** Its contradictions keep it fragile but also prevent it taking extreme measures that affect Palestinian interests. Following the killing of Palestinian activist Nizar Banatby PA forces, the PA leadership is deeply unpopular and faces its most serious legitimacy challenge yet. In mid-November 2020, the PA agreed to resume

<sup>48</sup> *Economic Consequences of the Spread of COVID-19 in Palestine and Economic Interventions at Hand during the Pandemic*, The Palestinian Centre for Policy Research and Strategic Studies (Masarat), 10 May 2020, Ramallah, Palestine; *Operability of the Banking System under the COVID-19 Crisis: Effective Processes and Viability*, Social and Economic Policies Monitor (Al Marsad), 28 June 2020, Ramallah, Palestine (Abdul Karim and Murrar, 2020b); *Towards an Inclusive National Response to Mitigate the Shock of COVID-19 on Major Economic and Social Sectors*, Palestine Economic Policy Research Institute (MAS), 31 May 2020, Ramallah, Palestine (MAS, 2020); *PMA measures to deal with the state of emergency resulting from the COVID-19 crisis in 2020*. PMA Research and Monetary Policy Department, 26 March 2020, Ramallah, Palestine (PMA, 2020b); *Reports of the COVID-19 Response Data Hub*, 2020. PCBS, 31 July 2020, Ramallah, Palestine (PCBS, 2020a).

<sup>49</sup>The United Nations Relief and Works Agency for Palestine Refugees in the Near East is a UN agency that supports the relief and human development of Palestinian refugees.

security and civil coordination with the Israeli authorities, which had been suspended since May 2020 over Israel's plans to annex parts of the West Bank.

**Gaza Reconstruction** - The situation in Gaza remains quiet but Israel is making reconstruction contingent on a deal with Hamas. The 21 May ceasefire that Egypt brokered still holds though it is therefore somewhat fragile. The flashpoint around Jerusalem, which Hamas used as a pretext for its initial rocket fire, remains a real concern. The dispute over the pending evictions of Palestinian families in Sheikh Jarrah and Silwan and tensions at the Al-Aqsa Mosque have not been resolved and have the potential to reignite conflict. Renewed announcement on settlement construction continue to complicate the situation. Based on the findings of a World Bank led Rapid Damage and Needs Assessment, the immediate and short-term recovery and reconstruction needs in Gaza are estimated to be between US\$345 –US\$485 million.<sup>50</sup> Reconstruction work has not started though rubble has been cleared. To maintain its leverage, the Israeli authorities have therefore continued to extend most elements of the blockade that it imposed with the latest conflict, i.e., it is only reopening Gaza for humanitarian goods. Egypt, to put pressure on Hamas, is also blocking the entry into Gaza of non-humanitarian goods through Rafah. The PA has continued to play a minor role in discussions on reconstruction but has failed to raise funds on behalf of the territory. PM Shtayyeh is reputed to have received no funding pledges when he visited Gulf States in early June. There is no collaboration between the PA and Hamas on planned reconstruction.

There is a growing sense in the donor community that all possible resources must be brought to bear on the Gaza issue.<sup>51</sup>

**Many observers suggest that President Abbas appears to be trying to construct a unity government, hoping to stem popular frustration. However, Hamas shows no signs of wishing to join a coalition with a deeply unpopular Fatah-led PA.** Israel has made reconstruction in Gaza dependent on the release of Israeli prisoners/soldiers, whilst Hamas seeks the exchange to be for Palestinian prisoners. Egypt continues to broker these negotiations and is also making the entry of reconstruction inputs contingent on Hamas agreeing to a solution. As of mid-June, Egypt is seeking to facilitate some kind of reconciliation process: this could lead to some form of unity government in time, but it is too early to judge.

**In sum, the economic climate is poor and the political situation volatile. Morale in the PA is likely to deteriorate. The difficult fiscal situation means that the PA will struggle to meet all its financial obligations in 2021.** If donors choose to delay or cancel their financial support to the PA, it is possible that it will have to revert to paying partial salaries. If the PA cannot pay civil servants' salaries in the coming months, we could see discontent spill over into PA strikes. The mood in the West Bank is such that opposition to PA leadership could lead to strikes and further deterioration in PA stability.

**EU Support to Economic Development<sup>52</sup> has expanded in the last 12 months. The European Union has a comprehensive package of economic assistance to support the Palestinian economy in its recovery from the Covid-19 crisis.** The overall package amounts to around EUR 85 million of European Union funds, which is expected to mobilise over EUR 400 million in soft loans and investment for the Palestinian private sector. The bulk of this assistance is to be channelled to the Palestinian economy through European Financial Institutions and reach the private sector through local banks and micro-finance institutions.<sup>53</sup>

**On 1<sup>st</sup> December 2020, the European Union and the Palestinian Authority launched an Investment Platform with the aim to attract investment, contribute to sustainable economic development and to job creation.** To support the roll-out of the EU External Investment Plan in Palestine a dedicated platform

<sup>50</sup> [World Bank, 2021. Gaza Rapid Damage and Needs Assessment, June 2021](#)

<sup>51</sup> The latest EU statement is "The EU calls for all parties to take swift steps to produce a fundamental change to the political, security and economic situation in the Gaza Strip, including the end of the closure and a full opening of the crossing points, while addressing Israel's legitimate security concerns. The situation in the Gaza Strip has long been unsustainable: only a political solution will bring an end to the conflict." EU Statement – United Nations Security Council: Open Debate on the situation in the Middle East, including the Palestinian Question New York, 19/10/2021

<sup>52</sup> <https://www.eib.org/en/press/all/2020-322-teameurope-eu-eib-and-the-national-bank-join-forces-to-support-smes-in-palestine>

<sup>53</sup> <https://www.eib.org/en/press/all/2021-214-palestine-teameurope-eib-and-the-national-bank-join-forces-to-support-private-businesses-and-speed-up-their-recovery-from-covid-19-impact>

was launched, which will help foster policy dialogue with the PA, European Financial Institutions, and other local and international stakeholders on how to better attract investment into Palestine. The intent is for the platform to help identify, prioritise, coordinate, and promote investment opportunities that the EU External Investment Plan offers through its instruments. This coordination mechanism will serve to discuss policy priorities and investment pipelines in order ensure alignment of publicly sponsored investments with political, policy and reform priorities of Palestine. SMEs are the backbone of the Palestinian economy as they account for over 95% of local businesses, contribute more than 55% to the GDP, and employ 85% of the active working population. As a consequence of the Covid-19 outbreak, many companies have experienced a decrease in turnover and profitability, leading to payment delays and an increased demand for liquidity. It is now crucial to step up support to private sector businesses, thus helping to protect jobs and keep the economy going.

**The Palestinian Monetary Authority (PMA) to action to stabilise the Palestinian Economy in 2020** - in July the governor of the PMA announced the launch of the US\$300 million "Sustainability" Program to provide financing for SMEs and microprojects that had been economically affected by the COVID-19 pandemic. The PMA contribute US\$210 million and the programme was implemented through banks and specialized lending institutions. The intention of the programme was to support affected enterprises, including women-run projects, to obtain low-cost funding to overcome the current crisis, maintain the sustainability of their operations and increase their capacity to maintain local employment. PMA research had demonstrated that the extent of the damage expected to the national economy and the impact of the pandemic on GDP. The current situation posed an existential threat to many SMEs, and that the collapse of this sector would significantly damage GDP, and the failure of the SME sector may pose systemic risks to the national economy and to the economic and social conditions in Palestine. 98% of the businesses in Palestine are small and medium enterprises. The Palestinian economy depended entirely on the activity of these businesses and enterprises, and that the sustainability of the operations of these projects required the provision of immediate liquidity at nominal interest rates, not more than 3% decreasing and a repayment period of 36 months, in order to contribute to the continuation of the work of these businesses and increase their operational capacity and maintain their sustainability under the current circumstances.

**The latest Ad-Hoc Liaison Committee (AHLIC) Meeting took place on 17 November 2021<sup>54</sup>. The meeting discussed the dire financial situation of the Palestinian Authority.** The regular situation report of the World Bank<sup>55</sup> highlighted that the economy is estimated to have grown by 5.4%, in real terms, in the first half of 2021. The improved economic performance was driven by the West Bank economy while Gaza's economy remained almost stagnant due to the 11-day conflict in May. The Bank expected growth to pick up further throughout the remainder of the year and reach 6% in 2021 as the West Bank economy regains more of what was lost during 2020.

**The Bank noted that domestic bank borrowing by the PA had already exceeded the limit set by the Palestine Monetary Authority**, eliminating this financing option going forward. Hence, the PA may be forced to accumulate additional arrears to the private sector, pulling away more liquidity from the market with a drastic impact on the economy and, eventually further reduce revenue generation.

**Furthermore, the Bank noted that financial sector risks have increased due to the prolonged negative economic impact of the COVID-19 pandemic, the continued exposure to the PA's fragile fiscal situation, and limited portfolio diversification.** *"PA borrowing exceeded US\$2 billion during 2020, reaching US\$2.5 billion as of August 2021 (23% of total direct credit). Moreover, an indirect additional exposure to the PA are the public sector employees' accounts, which combined represent US\$4 billion, or 40% of total banking sector credits. Non-Performing Loans (NPLs) ratio increased to 4.2% as of June 30, 2021. Overall, the NPLs concentration, and expected further deterioration in the quality of small and medium Enterprises (SME), consumer, and Gaza loan portfolios could translate into an additional increase in NPLs."*

**While noting that progress will not be possible in the absence of a resolution of broader issues, the WB's AHLIC Report called on the Israeli government, the Palestinian Authority, and the international**

<sup>54</sup> The Ad-Hoc Liaison Committee (AHLIC) is a 15-member committee that coordinates development assistance to the Palestinian people at policy level and is chaired by Council member Norway and co-sponsored by the US and the EU.

<sup>55</sup> World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee, November 17th, 2021

**community to work in concert towards stabilisation, development, and reform** through a “three-track approach”:

1. Address the Palestinian Authority’s immediate economic and fiscal situation and strengthen its institutions and public service delivery;
2. Solidify the cessation of hostilities which followed the conflict in May and support economic development in Gaza; and
3. “Generate longer-term economic growth and sustainable livelihoods across the Occupied Palestinian Territories”.

**There are some positive signs of possible improvements.** US Secretary of State Anthony Blinken announced<sup>56</sup> the resumption of US economic, development and humanitarian aid to the Palestinian people in early April 2021. The \$235 million figure given includes \$75m in economic and development aid for the West Bank and Gaza Strip, \$10m for peace-building programmes through USAID, and \$150m in humanitarian aid for UNRWA<sup>57</sup>. Support for UNRWA is a lot lower than the former annual contribution of \$350m/year, leaving a hole in its budget. However, on 11 October 2021 the EU announced a vital €92 million contribution in support of UNRWA’s operations.<sup>58</sup>

**The US government continues to remain active.** On 14 December 2021, officials from the US and the Palestinian Authority held a virtual meeting of the US-Palestinian Economic Dialogue, in which they discussed such issues as enhancing access to US markets, cooperating on renewable energy projects, and connecting US and Palestinian businesses.

**However, the humanitarian situation is still of some concern.** On December 16, 2021, the Humanitarian Coordinator for the occupied Palestinian territory, Lynn Hastings, launched a US\$510 million Humanitarian Response Plan to support 1.6 million of the most vulnerable people in Gaza and in the West Bank, including East Jerusalem, during 2022<sup>59</sup>.

**On 11 December 2021, the first round of municipal elections took place in some areas of the West Bank.** Some in the international community are urging the Palestinian Authority to organise parliamentary and presidential elections. On 29 April 2021, Palestinian parliamentary and presidential elections were postponed indefinitely by the Palestinian Authority.

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<sup>56</sup> <https://www.state.gov/the-united-states-restores-assistance-for-the-palestinians/>

<sup>57</sup> In October 2021 the United States Agency for International Development (USAID) announced it would provide another \$5 million in urgent COVID-19 assistance for the West Bank and Gaza. It builds on the U.S. donation of 500,000 Moderna vaccines through COVAX to the Palestinian Authority to help in the fight against COVID-19 and the \$25 million in assistance USAID provided to the West Bank and Gaza earlier in 2021.

<https://www.usaid.gov/west-bank-and-gaza/press-releases/oct-21-2021-united-states-provides-additional-5-million-covid-19-assistance>

<sup>58</sup> [https://eeas.europa.eu/delegations/palestine-occupied-palestina-n-territory-west-bank-and-gaza-strip/105410/eu-announces-vital-%E2%82%AC92-million-contribution-support-unrwas-operations\\_en](https://eeas.europa.eu/delegations/palestine-occupied-palestina-n-territory-west-bank-and-gaza-strip/105410/eu-announces-vital-%E2%82%AC92-million-contribution-support-unrwas-operations_en)

<sup>59</sup> <https://www.ochaopt.org/content/plan-support-1.6-million-vulnerable-palestinians-2022-launched>

Annex 3: Evaluation matrix

| OECD/<br>DAC<br>criteria | Evaluation Questions  | Judgement Criteria  | Indicators  | Data sources  | Methods  |
|--------------------------|---|---|---|---|--|
| Relevance and Coherence  | 1. Have EBRD's investments in the WB&G been aligned with and supportive of EBRD's strategic agenda, FI, SME sector strategies and donor priorities? Are EBRD's investments consistent with other actors' interventions in the region? | 1.1 EBRD engagement in WB&G responds to WB&G/private sector needs         | <ul style="list-style-type: none"> <li>- Existence of sector/segment analysis</li> <li>- Alignment with context</li> <li>- Alignment with:                             <ul style="list-style-type: none"> <li>o local SME development strategy (if any)</li> <li>o women-led SMEs needs – segment diagnostics</li> <li>o PFIs strategies</li> </ul> </li> </ul> | EBRD Policies, Strategies and Initiatives<br>WB&G approval documents  | Document review<br>Key-informant interviews  |
|                          |   | 1.2 Alignment of EBRD's investments in WB&G with EBRD's sector strategies | <ul style="list-style-type: none"> <li>- Influence/alignment of EBRD's existing FI, SME sector strategies and gender and inclusion strategies on the design of EBRD's investments in WB&amp;G</li> <li>- Influence of learning from experience in the design of the WB&amp;G investments</li> </ul>   | EBRD's strategies<br>Local documents on SME development and gender<br>International databases on access to finance for SMEs and women-led SMEs<br>PFIs baseline assessments<br>Analysis of investments done by other IFIs in EBRD strategic documents and reports | Document review,<br>Key informant interviews<br>Literature scan                    |
|                          |   | 1.3 Influence of donors' priorities on EBRD's engagement in WB&G          | <ul style="list-style-type: none"> <li>- Alignment of donor priorities on the WB&amp;G investments' design</li> </ul>   | Donor Agreements<br>EBRD's engagement in the WB&G approval documents (Board, OpsCom)<br>Reports to donors   | Document review<br>Key informant interviews  |
|                          |   | 1.4 Consistency of EBRD in the WB&G with other                            | <ul style="list-style-type: none"> <li>- Existence of analysis of complementarity with investments in the WB&amp;G by other IFIs and donors</li> </ul>  | EBRD Reports on WBG engagement<br>Three- year assessment report<br>Other IFIs/ actors information   | Document review<br>IFIs/MDBs/Donors websites documents<br>Key informant interviews |

| OECD/<br>DAC<br>criteria | Evaluation Questions  | Judgement Criteria  | Indicators  | Data sources  | Methods  |
|--------------------------|---|---|---|---|--|
|                          |   | actors in the region  | - Investments' focus compared to other actors in the WB&G   |   |  |
| Effectiveness            | 2. Have EBRD's projects achieved their intended objectives? | 2.1 EBRD's investments in the WB&G strengthen private sector competitiveness through targeted investments as well as advice on business practices and standards | <ul style="list-style-type: none"> <li>- Number of firms reporting growth, increased productivity</li> <li>- Development of skills in partner financial institutions</li> <li>- Number of loans for WB</li> <li>- Number of professional trained</li> <li>- Accreditation mechanism in place</li> <li>- Increased in export revenues</li> <li>- Contribution to the introduction of a warehouse receipts programme</li> <li>- Increased quality and range of medical diagnostic services and their geographical coverage</li> <li>- Operational labs in WB&amp;G</li> </ul> | PFI Baseline Assessment<br>TA to PFIs reports<br>TIMS of projects in the WB&G | Portfolio review<br>Sub-loan clients feedback                  |
|                          |   | 2.2 EBRD's investments support access to finance in particular for MSMEs  | <ul style="list-style-type: none"> <li>- Increased lending and equity investments</li> <li>- Development of new products by PFIs</li> <li>- Number of sub-loans disbursed from PFIs to sub-borrowers.</li> <li>- Improvements in the legal and regulatory framework</li> <li>- Key achievement under policy reform</li> </ul>   | Data on SMEs access to finance  | Local statistics,<br>IFIs statistics<br>EBRD transition report |
|                          |   | 2.3 EBRD's investments  | <ul style="list-style-type: none"> <li>- Number of MSMEs receiving EE loans</li> <li>- Number of TCs carried out to support EE loans</li> </ul>   | Data on SMEs<br>Reports on investments' activities                            | Portfolio review, key-informant interviews,                    |

| OECD/<br>DAC<br>criteria | Evaluation Questions  | Judgement Criteria                                       | Indicators   | Data sources                                     | Methods  |
|--------------------------|---|--|--|--|--|
|                          |   | enhance energy efficiency and promote renewable energy   | <ul style="list-style-type: none"> <li>- Number of investments in and installed capacity for renewable energy generation</li> <li>- Share of renewable energy and share in energy intensity at the corporate and SME level before and after EBRD's investments.</li> </ul>   |  |  |
|                          |   | 2.4 Broader unintended results of the investments        | <ul style="list-style-type: none"> <li>- Unexpected changes in corporate policies of PFIs, etc.</li> </ul>   | Local policies                                   | Document review, key-informant interviews      |
| Efficiency               | 3 Has EBRD's resourcing and management in the WB&G supported efficiently the achievement of its intended results? | 3.1 Complementarities of the investments                 | <ul style="list-style-type: none"> <li>- Efficient cooperation/coordination among teams in conducting the work for the investments</li> <li>- Resourcing compliments that of other IFIs, MDBs and bilaterals</li> </ul>  | EBRD staff<br>Stakeholders                       | Key informant interviews<br>Other MDBs reports |
|                          |   | 3.2 Use of resources                                     | <ul style="list-style-type: none"> <li>- EBRD staff resources both in the local offices and HQ are adequate to develop and implement pipeline and active projects</li> <li>- Use of trust funds</li> <li>- Funds were fully utilised according to projections/pipeline.</li> </ul>   | EBRD internal reporting<br>Donor reports         | Portfolio review<br>Key-informant interviews   |
|                          |   | 3.4 Adequateness of reporting: to EBRD and to the donors | <ul style="list-style-type: none"> <li>- Reports quality                             <ul style="list-style-type: none"> <li>o Reports cover the key activities and outputs in adequate detail, summaries are available</li> <li>o Reporting meets donor requirements, donors are satisfied with the quality</li> </ul> </li> </ul> | TIMS reviews<br>Donor reports<br>Other documents | Portfolio review<br>Key-informant interviews   |



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| OECD/<br>DAC<br>criteria | Evaluation Questions | Judgement Criteria | Indicators  | Data sources | Methods                                     |
|--------------------------|----------------------|--------------------|---|--------------|---|
|                          |                      |                    | <ul style="list-style-type: none"> <li>○ Reports provide appropriate learning and actions to improve future implementation</li> <li>- Role of Semi annual EBRD NIA meeting or other formal meetings related to the WB&amp;G. Action taken derived from these meetings.</li> </ul>   |              |   |
|                          |                      | 3.5 Visibilities   | <ul style="list-style-type: none"> <li>- Donors' satisfaction with the level of visibility of their countries in connection with the projects they have supported.</li> <li>- News articles, websites and events held on the programmes and projects clearly communicate donors funding these.</li> <li>- To what extent presence on the ground is conducive for visibility.</li> </ul> | Reports      | Document review<br>Key-informant interviews |

## Annex 4 WB&G private sector needs

The 2021 Gaza Rapid Damage and Needs Assessment noted the following action points<sup>60</sup>:

- (i) Social: Deliver direct assistance and **strengthen systems that deliver public and social services** (social protection, health care, education, housing, culture, etc.)
- (ii) Infrastructure: **Build back better** in the areas of municipal services, transport, water, wastewater, **energy**, and ICT.
- (iii) Financial Sector: **Promote private sector growth**, reduce poverty, and improve livelihoods and **employment** in the Gaza Strip.
- (iv) Cross-cutting: Take steps to ensure that the reconstruction and recovery leads to **improved governance, strengthened institutions**, greater social **inclusion**, the protection of women, youth, and the environment

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<sup>60</sup> The World Bank Group. 2021. Gaza Rapid Damage and Needs Assessment June 2021.

<https://www.worldbank.org/en/country/westbankandgaza/publication/the-gaza-2021-rapid-damage-and-needs-assessment-june-2021>

## Annex 5 SBI annual review, FI strategies and Energy strategy

### Small Business Initiative Annual Review 2020 and Strategic Priorities (BDS15-050 (Addendum 130), 1 July 2021)

The Small Business Initiative (SBI) had been active for six years by mid-2021. It possessed an established toolkit of instruments to support the EBRD's work with SMEs. The initiative considered it had potential to further improve its overall impact the provision of finance and advisory services to SMEs by deploying the available instruments and developing new instruments to cater to the changing needs of SMEs. Taking into account the effects of the pandemic, the priorities to be pursued were:

- *Further strengthening and deepening of existing frameworks:*
  - Pillar 1 (programmes are heavily dependent on the provision of grants and technical cooperation funding, thus the support of donors and/or the SSF is critical):
    - Expansion of Women in Business programme and Youth in Business programme
    - Pilot Skills in Business lending facility
  - Pillar 2 (key channels to support local businesses and PFIs in the ETCs, rollout to Balkans):
    - Expansion of the outreach of the RSF and finance projects through risk sharing.
  - Pillar 3: selective approach, seeking to have a deeper engagement with fewer enterprises
- *Further integration within the SBI of its three critical components: finance, advisory and policy:*
  - Leverage FI and the SME F&D Group's strong local presence
  - Enhance the creation/scalability of regional initiatives with other partners and VP3 within EBRD.
- *Innovation*
  - Develop new products
  - Expand product offering
  - Address relevant market needs in particular in the context of travel and business restrictions linked to the pandemic

### Financial Sector Strategy (BDS10-219 (Final), 15 November 2010)

At the time of the EBRD Engagement in the West Bank and Gaza's approval, the Financial Sector Strategy focused on five strategic objectives:

- Complete the crisis response activities and stimulate lending to the real economy
- Help develop local currency and capital markets
- Assist with better governance, more sustainable business models and improved risk management of banks and non-bank institutions
- Support consolidation, privatisation and re-privatisation/government exits from the banking sector
- Support new regulatory frameworks in close coordination with IFIs, including in the area of cross-border regulation.

### Financial Sector Strategy 2021 – 2025 (CS/FO/21-12, 17 June 2021)

The recently approved Financial Sector Strategy presented three strategic objectives:

- *Strengthen and systematise financial sector partnerships to drive the transition to a green, low-carbon economy.* Scaling up green financing is central to FI sector strategy, aiming to support the sector's resilience, governance and inclusiveness.
  - At sub-borrower level: helping them increase their efficiency, broadening and expanding the product range to enhance green financing for underserved segments
  - At partner bank level: introducing and scaling up institution building model to drive system change
- *Boost inclusive economic development and drive equality of opportunity through the financial sector and drive equality of opportunity through intermediated finance channels.* By promoting a level playing field, investments will help support

the economic inclusion of SMEs, women and youth and regional integration, thereby also boosting competitiveness and resilience of the sector.

- *Strengthen the financial sector's resilience and ability to respond effectively to present and future challenges by 'future-proofing' the sector.* It is essential for the Bank will continue to provide capital support, privatisations and capital market transactions and add a strong digitalisation push, both with existing clients when relevant and with new fintech market participants.

Energy Sector Strategy 2019-2023 (BDS18-237 (Final), 12 December 2018)

The current Energy strategy identified interrelated strategic directions to promote:

- *Decarbonised economies* that are highly efficient, electrified by mainly renewable energy sources.
- *Competitive Energy markets*, regionally integrated and resilient.
- *Cleaner oil and gas value chains* limited to supporting the transition to low-carbon economies and consistent with the Paris Agreement.
- *Inclusive and energy-efficient economies* that promote gender equality and deliver sustainable energy for all.

To support climate goals and air quality concerns, the Bank intended to focus on *scaling-up renewable energy*.

## Annex 6 List of Donor Partners' Participation in Sector Working Groups of Local Aid Coordination Secretariat

| Sector Working Group | Deputy Chair | Technical Assistance | Donor Country Members  |
|----------------------|--------------|----------------------|--|
| Justice              | Canada       | EUPOL/COPPS          | EU, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, UK                  |
| Security             | UK           | USSC/EUPOL COPPS     | Canada, EU, France, Italy, Japan, Netherlands, Spain, Turkey                     |
| Environment          | Sweden       | UNDP                 | Belgium, France, Italy, Japan, Netherlands                                       |
| Local Governance     | Denmark      | World Bank           | Belgium, EU, France, Germany, Japan, EU  |
| Elections            | EU           | ---                  | Germany, France, Italy, Netherlands, Norway, Sweden                              |
| Agriculture          | Spain        | FAO                  | Australia, Canada, Denmark, EU, Japan, Netherlands, Switzerland                  |
| Social Protection    | EU           | UNICEF               | Canada, Denmark, Finland, Japan, Norway, Spain, Switzerland                      |
| Private Sector       | World Bank   | EU                   | Belgium, Denmark, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, UK |
| Tourism/Culture      | Norway       | UNESCO/UNDP          | Canada, EU, Germany, Italy, Poland, Spain, Sweden, Switzerland, Turkey           |
| Education            | Ireland      | UNESCO               | Belgium, Finland, Germany, Japan, Norway, Turkey, UK                             |
| Energy               | Norway       | World Bank           | Czech Republic, EU, France, Italy, Japan, Netherlands, Sweden                    |
| Labor                | Germany      | ILO                  | Belgium, Canada, France, Italy, EU   |
| Water                | Netherlands  | World Bank           | Austria, EU, France, Germany, Japan  |
| Health               | Italy        | WHO                  | France, Japan, Norway, Sweden, Turkey, UK  |

Source: World Bank Group. 2021. Assistance Strategy for the West Bank And Gaza for the Period FY22-25.