### Key Development Issues and Rationale for Bank Involvement

The fragile political and security context in the West Bank and Gaza (WBG), with a notable downturn from the beginning of 2006, continues to affect social and economic conditions, and to weaken institutional resilience at both the central and local level. This is exacerbated by a crippling fiscal crisis caused by a sharp reduction in financial resources, intensified restrictions on the movement of people and goods, the fragmentation of the Palestinian territorial landscape (particularly by the continuing construction of the Separation Barrier and expansion of settlement activity within the West Bank), the isolation of Gaza, bitter internal political divisions and factional infighting.

The caretaker government which took office in June 2007 issued a Palestinian Reform and Development Plan – PRDP (2008-2011) that is in effect a medium-term economic framework. The PA has invited the international community to express support at a pledging conference in Paris in December 2007. According to the PRDP, social and economic conditions continue to deteriorate, especially in Gaza, which virtually has been closed off from the outside world since June 2007. With the population growing at approximately 4% per year, and with unemployment and poverty rising, the Palestinian social sector is under increasing stress. Unemployment more than doubled between 1999 and 2006, reaching almost 35% in Gaza and almost 20% in the West Bank. Consequently, the dependence ratio is high (8.6 dependents per employed person in Gaza and 5.6 in the West Bank).

The official poverty rate in Gaza rose from 47.9 percent in 2006 to 51.8 percent in 2007. There are no figures available for 2008 and 2009, but given the continued closure of Gaza, poverty...
figures are likely to be on the rise. In the West Bank, poverty slightly declined, falling from 22 percent in 2006 to about 19.1 percent in 2007. The percentage of Gazans in deep poverty also continued to rise, increasing from 33.2 percent in 2006 to 35 percent in 2007. These rates reflect actual consumption. If remittances and food aid are excluded and poverty is based only on household income, the poverty rate in Gaza and the West Bank would soar to 79.4 percent and 45.7 percent respectively and the deep poverty rates would increase to 69.9 percent and 34.1 percent. This illustrates the high levels of aid dependency in the West Bank and Gaza, especially when taking into account the fact that the wage bill is financed with foreign aid.

High poverty rates coupled with the global economic and food prices crisis have taken a heavy toll on Palestinian living conditions. The consumer price index for food rose by 28 percent in Gaza and 21.4 percent in the West Bank between June 2007 and June 2008. However, the rate of growth fell in the second half of the year and the index for food prices rose by 13.5 percent between December 2007 and December 2008. The increase was nearly double in Gaza compared to the West Bank – 16.27 percent versus 8.89 percent – which reflects the higher costs imposed by the Israeli blockade. Despite the large inflows of aid, a 2008 World Food Program (WFP) survey found that food insecurity continues to rise in WBG, and is estimated to have increased from 34 percent in 2006 to 38 percent in 2007. Food insecurity is even more pronounced in Gaza reaching 56 percent of households. Almost 66 percent of income earned in Gaza is spent on food while in the West Bank the figure is 56 percent.

This WFP survey revealed that to cope with this increase, 59 percent of households use credit to purchase food. However, this coping mechanism is increasingly exhausted and is no longer available to those without a reliable income. The same WFP survey indicates that Palestinians are eating less – 75 percent of Palestinians have reduced the quantity of food they buy and 89 percent have reduced the quality. The consumption of fresh food and vegetables has decreased and many Palestinians do not consume fresh, red meat. The lack of protein and vitamins has increased the prevalence of anemia and other nutrient deficiencies and is likely to have long term health consequences on children.

The 2008-2011 Palestinian Reform and Development Plan confirms the PA’s commitment to poverty alleviation, including reforming its social safety net, namely its cash benefit programs to increase the efficiency and transparency of its programs. In February 2009, the PA approved a merger of the two main on-going cash assistance programs: the EU funded Special Hardship Case (SHC) and the World Bank funded Social Safety Net Reform Project (SSNRP) and their transformation into a PA administered cash assistance program. This would enable the PA to rationalize resources and fully capitalize on its poverty targeting instrument. MOSA/PA is finalizing a cash transfer strategy and action plan (with milestones) needed to rationalize cash assistance schemes that will be endorsed by the cabinet and shared with donors and other stakeholders, so that the merger becomes a reality on the ground in 2010. When the merger and reforms are carried through, Palestine will have one of the most, if not the most advanced cash assistance programs in the MENA region in terms of targeting, coverage, and expandability.

The Palestinian Authority (PA) needs the Bank’s technical and financial support to cope with the food crisis. Of the US$5 million additional financing approved by the Bank in October 2008,
US$3.3 million have already been paid to about 16,000 poor households and the remaining balance will be paid to about 9,000 poor households before the end of 2009. As poverty is on the rise, a second additional financing in response to the food crisis is urgently needed. This will send an important signal to the PA of Bank commitment of support to the poorest as well as an incentive for the PA to complete the process of reform of the various safety net programs. The Ministry of Social Affairs/PA needs to show the international community that it is capable of translating planning into actions and effectively managing a well targeted large scale cash assistance schemes, making timely bi-monthly payments to poor households.

2. Proposed objective(s)

To mitigate the impact of the continued socio-economic crisis on a subset of the poorest and most vulnerable households. An additional objective would be to strengthen the institutional capacity of the Ministry of Social Affairs (MOSA) to manage cash transfer programs.

3. Preliminary description

The proposed additional financing (FPCR-AF) grant would give the Palestinian Authority (PA) the opportunity to scale up its existing safety net instruments to demonstrate its commitment to the poorest and most vulnerable population groups in the West Bank and Gaza. The Grant would finance one payment of $135 to about 25,000 of the poorest households that have been adversely affected by the increase in food prices. These households will be selected using the SSNRP poverty targeting database using a “proxy means test” (PMT) to determine household eligibility.

The proceeds of the additional financing grant will finance only cash benefits to poor households under component 1 of the SSNRP.

4. Safeguard policies that might apply

(Guideline: Refer to section 5 of the PCN. Which safeguard policies might apply to the project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?)

None

5. Tentative financing

<table>
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<tr>
<td>Food Price Crisis Response Trust Fund (administered by the Bank)</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>3.4</strong></td>
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6. Contact point

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