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The Preconditions for
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 Economic Recovery

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The Preconditions for Palestinian Economic Recovery



This edition of the West Bank and Gaza Update comes weeks after the convening of the Ad Hoc Liaison Committee (AHLC) meeting on the Palestinian Economy in New York on September 24th. At that meeting, the World Bank delivered its economic report concluding that, since the previous AHLC meeting in London in December 2005, little or no progress has been made in meeting the three preconditions for Palestinian economic growth.

The first of these preconditions involves Israel's security-oriented restrictions on movement and access in the Territories, which go beyond barriers and checkpoints to a matrix of policies and administrative procedures that combine to stunt Palestinian economic growth. The second precondition involves PA efforts towards law and order, and various public sector reforms to reduce its growing deficit. The PA has taken concrete steps to tackle these issues, but still needs to address the legacy of its past spending practices. The third precondition relates to the international community, whose role in economic growth and the peace process remains as critical as ever.

Moving forward, the Bank called for parallel actions by the three sides to create a reinforcing 'virtuous cycle' of growth and stability. The PA would implement badly-needed reforms, the impacts of which would be reduced by far-reaching steps by the Israeli Government to loosen the restrictions on the Palestinian Territories and allow the private sector to revive itself. Underwriting this would be a predictable flow of donor aid to match the PA's three-year budget horizon, which in turn should reflect the PA's reform and development plans embedded in the Palestinian Reform and Development Plan (PRDP). As such, aid must be centered around a collective view on broader economic and governance fundamentals.

Of course, any discussion on economic recovery and peace is incomplete without a few words about the Gaza Strip. Gaza represents about 40% of the population, and is a core part of the Palestinian territory, economy and identity. All serious options for a private-sector led and export-oriented Palestinian economy must include Gaza, whose vibrant private sector risks complete collapse if the current closure policy continues.

We believe today, as we did two years ago, that the three preconditions remain valid. On our part, we remain committed to the principles of sustainable growth in the West Bank and Gaza as a foundation for peace. Since 1993, we have operated continuously in the Territories, seeking to balance meeting emergency and basic service delivery needs, with a long-term focus on Palestinian institutions. In addition to our current portfolio of projects worth almost \$120 million, our pipeline for the next 6-8 months aims to address critical needs in the social sectors.

We will also continue to provide analytical and policy support to the PA in the design of a comprehensive Palestinian Reform and Development Program, and in addressing specific sectors on which this program will rely. We believe this can and should be a basis for concrete discussions on donor commitments in December. Yet, it is important to reiterate that, in the absence of parallel fulfillment of the preconditions, donor aid will yield few tangible results. All parties will need to expend more resources and assume more risks than in the recent past. This is what it takes to invest in peace.

Country Director
A. David Craig

West Bank and Gaza Energy Sector Review



The World Bank's Energy Sector Review, published in May 2007, examines the challenges facing the energy sector in West Bank and Gaza. It also addresses how the energy sector can make an effective contribution to the long-term economic recovery and growth. It provides recommendations to the Palestinian Authority (PA) for an effective strategy that addresses the needs of the energy market in West Bank and Gaza.

Total energy consumption in West Bank and Gaza is small by regional standards, let alone international standards, which limits the scope for achieving economies of scale. Most energy demand (75%) is accounted for by the service and household sectors, since there is currently relatively little activity in manufacturing. Yet West Bank and Gaza has experienced a high growth in energy demand (much faster than in Israel), reported to be about 6% in the West Bank and 10% in Gaza annually from 1999 to 2005. Energy supply struggles to keep up with domestic energy demand.

Nearly all energy is provided by electricity and petroleum products, most of which is purchased from Israel. The PA imports a small amount of electricity from Egypt to Gaza, and has negotiated an agreement to import some power from Jordan to Jericho in the West Bank. In general, energy is lightly subsidized in comparison with most countries in the region, and energy prices reflect costs reasonably well. The only substantial domestic energy resource is the Gaza Marine gas field located offshore Gaza, which awaits development. The electricity system in the West Bank consists of numerous isolated distribution systems owned and operated by municipalities and village councils, and it has no significant generation or transmission capacity. Electricity demand in Gaza is partly met from the Gaza Power Station (GPP) which has an installed capacity of 140MW, but output from the station is limited to around 70MW by constraints in the transmission network.

From the energy perspective, West Bank and Gaza is faced with four key challenges:

- How to improve its energy security by diversifying its sources of energy from Israel – given the possibility that Israel may face strains in meeting its own energy needs in the future.
- How to manage its geographic division between two diverse economies with distinct characteristics, each facing different options for sustainable energy development. The West Bank, where a majority of Palestinian economic activity and population are located, is landlocked and without its own primary energy resources – but it does border Jordan which is well situated to become a regional transit centre for energy. Gaza's economy and population are smaller yet still substantial, but it has more favorable energy supply potential – substantial gas resources lie offshore, it can receive supplies by sea, and it borders Egypt which can become a future major energy supplier.
- How to operate and develop its energy systems as well as attract outside investment for its energy sector, given the constraints of the current conflict with Israel.
- How to create an institutional set-up that provides incentives for the electricity retailers, especially the municipalities and councils, to collect bills from their customers and to use these funds to pay for their purchases of electricity from the Israel Electric Corporation (IEC) and other potential suppliers. Currently, the PA has to meet outstanding amounts owed to IEC which diverts large amounts of funds from other needs outside the energy sector.

Currently, the PA is consolidating the structure of power supply and distribution in the West Bank into four power distribution companies to join the Gaza Electricity Distribution Company Ltd (GEDCO) that was set up in 2003 to serve Gaza. Three utilities are being added to the existing utility which serves the central area around Jerusalem – the long-established Jerusalem District Electricity Company (JDECO). Two of the new utilities



- the Hebron Electric Power Company (HEPCO) and the Southern Electric Company (SELCO) – have recently been established to serve the southern area. The third new utility - the Northern Electricity Distribution Company (NEDCO) – is being set up to serve the northern area. These utilities are taking over responsibility for retail power supply and distribution from municipalities and councils, who have used some of the revenues obtained from electricity sales to fund their non-revenue earning services. The municipalities received shares in the ownership of the new utilities in exchange for transferring their electricity assets and business to them. The PA needs to put in place arrangements that ensure the utilities use their revenues to sustain and improve electricity supply to the population as well as pay the IEC and other suppliers for purchases of bulk power.

The benefits of this undertaking will be three-fold:

- The PA should experience a sharp and lasting increase in revenues available for its development and social expenditures when the utilities are better able to pay their bills to IEC, as a result of reducing their costs of supplying electricity to consumers and improving collections of bills from consumers.
- Electricity consumers should receive better service over time as the utilities use their revenues to fund urgent and substantial rehabilitation and development needs.
- Utilities will become more creditworthy and can therefore diversify their sources of financing and power supply.

A reliable supply of bulk power supply will be needed to obtain these benefits. Hence, the PA is planning to conclude a long-term commercial agreement for power supply from IEC to meet a portion of the power needs of the distribution companies. This agreement in turn will support investments needed in IEC's supply capacity to fully meet demand for its electricity.

Although West Bank and Gaza do not yet have access to

natural gas, this fuel will play an important role in the future in two respects. Firstly, discovery of the Gaza Marine deposit of natural gas offshore of Gaza should allow the PA to benefit from substantial fiscal revenues. However, the prospects for gas in West Bank and Gaza depend crucially upon regional developments in Israel and Egypt, since the local market alone cannot justify development of significant gas reserves. The decision on how to develop the Gaza Marine deposit is very important for the PA, because it represents a one-off chance to secure a significant amount of revenues and because it is the PA's only domestic energy resource. Secondly, natural gas supply agreements and networks are being developed regionally, which will create opportunities for West Bank and Gaza to import gas, especially for generation of electricity. Taking into account the complex factors facing the energy sector in West Bank and Gaza, the report identifies the following priority recommendations for the PA:

1 Develop the technical, financial and institutional capacity of the power utilities. GEDCO and the three new utilities in the West Bank are small by regional – let alone international – standards. As regional trade in electricity develops, this structure runs the risk of losing benefits from economies of scale that could be obtained by forming a single utility to serve the whole of the West Bank. This risk should be mitigated by the PA through a specific policy that focuses on standardization of plant, equipment and systems so as to benefit from joint procurement, maintenance, etc. The utilities have to develop the technical, financial and institutional capacity for the following responsibilities:

- **Manage the PA's proposed investments in power transmission, distribution and customer supply facilities.** These measures are needed to reduce the high level of technical losses in the power networks and to expand the capacity to distribute more power to consumers as demand grows. Total investment of about \$200 million will be needed in distribution lines,

substations, meters, etc. over the next four years to achieve these aims.

- **Improve the collection of bill payments from electricity users.** Improvement in payments has to be developed by strengthening the incentives for consumers to pay their electricity bills through the threat of penalties, and the installation of pre-paid meters.

2 The Northern Electric Distribution Company, once formed, needs support to develop its institutional and technical capacity. NEDCO also needs support for investments to rehabilitate and expand its distribution system to form an integrated network across the northern region of the West Bank.

3 Convert the Gaza Power Plant to burn natural gas. Conversion of the GPP to burn natural gas instead of gasoil would save around US\$45 million annually for the PA at the prevailing fuel prices and limited level of electricity production in 2005. These savings are achievable for an investment of less than US\$5 million to convert the plant, and around US\$10 million for construction of a gas pipeline to the plant site. Once the conversion of the plant to natural gas is assured, this investment in combination with associated investments in transmission capacity would create the economic conditions necessary for fully utilizing the existing generating capacity of the GPP.

4 Relieve the transmission constraint on output from the Gaza Power Plant. This investment would remove the transmission bottleneck that presently prevents the plant from running at more than about half of its capacity. It is linked to the conversion of GPP to natural gas, since the production of power from the plant based on oil would cost more than imported power. The estimated additional savings to the PA at current prices and the 2005 level of demand would amount to around US\$37 million annually, so that around US\$83 million can be saved if the plant is converted to natural gas.

5 Select the best option for developing the Gaza Marine gas field. Development of this field should meet two priorities for the PA. Firstly, gas should be available for use in GPP on advantageous terms for the reasons given above, and secondly revenues from gas production should be maximized. Hence the PA is assessing proposals for developing the gas field.

6 Develop a long term power supply plan for West Bank and Gaza. In principle, the PA has a good choice of options for increasing power supply to West Bank and Gaza. Currently the PA is in negotiations that could lead

to long term agreements to import power from Egypt to Gaza and to increase power imports from Israel to West Bank and Gaza. These negotiations involve the following options:

- Construction of a pipeline to import gas to Gaza from Egypt.
- Long term rights to transfer power between Gaza and the West Bank through Israel.
- Interconnection of the Gaza power network with the Egyptian power system, as well as interconnection of the West Bank power system with the Jordanian power system.

7 Develop the capacity to regulate and attract private investors and operators to the power and natural gas markets. The PA requires technical, commercial and legal support to formulate policies and to regulate electricity service providers – whether owned by public or private entities. The PA has already formed its plan for developing this capacity and started the process. But two outstanding components remain: the consolidation of transmission networks and functions into a new transmission company and the establishment of the Palestinian Electricity Regulatory Council (PERC).

As part of this capacity development, the report recommends that the PEA procure technical assistance to examine the following issues: institutional arrangements for central procurement of bulk power, including security of cost recovery arrangements that underpin investments by the suppliers; the contractual arrangements for eventually bringing private management and investment into the new power distribution utilities; drafting regulations and directives for the short term, and drafting a new electricity law to support implementation of the PA's policies for the power sector for the medium and long term; and support for developing the capacity to plan, supervise and regulate the development of its natural gas resources and a natural gas market.



Second Emergency Municipal Services Rehabilitation Project

Responding to Emergency Needs While Addressing Medium-Term Development Challenges

Background

Not unlike other Palestinian institutions and households, municipalities have been facing a prolonged period of financial distress over the past several years. A World Bank municipal finance survey conducted in 2006 showed that municipal revenues have experienced an overall decline over the past four years ranging between 20 percent in the West Bank and over 25 percent in Gaza. This is not surprising in a context of severe economic contraction, alarmingly high levels of unemployment, and increasing poverty incidence. However, while municipalities have adopted various measures to cope with the situation, including scaling back to the provision of only the most essential municipal services and cutting back on discretionary expenditures, such adjustment strategies cannot be sustained over prolonged periods of crisis, such as the circumstances that prevail today.

Under normal circumstances, municipal revenues and, correspondingly, expenditures are expected to keep pace with population growth, as the tax base is expected to expand while demand for municipal services continues to grow. The severity of the municipal financial crisis in the West Bank and Gaza (WBG) is underscored by the fact that in the face of substantial revenue and expenditure declines, the Palestinian population has been growing at one of the highest rates in the world. Casual observation of the circumstances in WBG today confirms that municipalities are now unable to meet existing demand for services, let alone that of the expanding population. As a consequence, Palestinian citizens today are facing increased exposure to health and sanitation risks, due to mounting solid waste and potential contamination of ground water, as well as safety risks due to damaged roads, traffic congestion and unsafe, unplanned alternative roads.

Traditionally, the more than 130 Palestinian municipalities throughout the West Bank and Gaza have fulfilled a myriad of functions and service responsibilities. According to the Local Authorities Law, they are assigned 22 specific functions, including solid waste management, local road development and maintenance, libraries, parks and recreation, slaughter houses, markets, land use planning and development, business and professional licensing, environmental health and pest control, and in many cases they build their own schools and health clinics. In addition, many provide electricity, water and wastewater services both to their own constituents and communities

as well as to surrounding areas. Some municipalities trace their establishment back to the 19th century, and despite many challenges and crisis situations over the years, have been able to sustain services and respond to the needs of their communities. A recent World Bank service delivery survey (2006) showed that among five regional comparator countries, Palestinian citizens gave their municipalities higher scores for service provision across a range of different service areas.

The World Bank Response

Within this context, the World Bank approved in December 2006 the *Second Emergency Municipal Services Rehabilitation Project (EMSRP2)* with the twin objectives of (i) assisting municipalities to sustain the provision of essential municipal services, and (ii) creating temporary job opportunities at the local level through the launching of labor-intensive employment generation schemes. EMSRP2 builds on the legacy of achievement of its predecessor project (EMSRP), which closed in 2006. In addition to addressing emergency needs, EMSRP helped to (i) establish an unprecedented level of donor coordination in the sector in response to the ongoing crisis, including mobilization of significant donor co-financing to arrest the decline in service provision, (ii) put in place a viable framework to respond quickly to emergency needs while building the institutional foundation for effective, transparent and rules-based municipal finance through the establishment of the Municipal Development and Lending Fund (MDLF); and (iii) introduce innovative approaches to dealing with the crisis and positioning municipalities to address their longer term development needs.

EMSRP2 design consists of three components. Component 1 (Emergency Municipal Services Assistance Grants), which constitutes the bulk of the financing at nearly \$30 million would be provided for the rehabilitation and reconstruction of damaged municipal infrastructure and facilities, as well as the supply of equipment to sustain municipal service delivery in addition to covering non-wage recurrent expenditures that are direct inputs to the provision of municipal services. This assistance would typically support maintenance and rehabilitation of existing municipal water and sewage networks, wells and reservoirs; provision of chemicals for water purification; repair and maintenance of pumps, generators, vehicles and spare parts for water services and solid waste collection; rehabilitation and maintenance of roads, sidewalks,

street lights and safety rails, supply and replacement of transformers, electrical panels, cables and poles and fuel to run generators. Allocations are based on a per capita distribution as population has been identified as a good proxy for local expenditure requirements.

The second component of EMSRP2 is focused on labor-intensive employment creation and is expected to cost over \$6 million with the aim of creating over 300,000 man-days of temporary employment. This component would support municipalities in developing small-scale temporary work opportunities for the unemployed that could at the same time address service or city/town infrastructure rehabilitation needs. Such activities are likely to include building retaining walls, painting, beach cleaning, street cleaning, street and public way tiling with locally produced interlinking blocks. Allocations are made to municipalities based on an unemployment index so as to direct support proportionately to the areas in greatest need of assistance.

Component 3 supports the MDLF Innovation Window with total financing of \$1.20 million to launch a pre-paid metering scheme to assist municipalities in improving cost recovery in the provision of electricity services in addition to piloting a local government-NGO partnership program providing social assistance and activities in support of local communities. This activities is being closely jointly programmed with the NGO Development Center (NDC), which is financed by another World Bank operation (NGO III Project).

Donor Partnerships

World Bank grant financing of EMSRP2 in the amount of \$10 million only covers one-quarter of the identified project cost of over \$40 million. As such, donor partnerships have been a key feature of EMSRP2 design in order to cover this financing gap and reach the more than 130 municipalities that serve over 75 percent of the Palestinian population. The Government of the Netherlands was the first donor to come on board with an additional €5 million (approximately \$6.85 million) and, most recently, the French Development Agency (AFD) committed a further € 12 million (\$16.40 equivalent). Taken together, these funds would cover over 80 percent of identified needs. Additional donor financing commitments are under discussion with KfW and the Government of Sweden and are hoped to materialize in late 2007.

The Municipal Development and Lending Fund (MDLF)

One of the important institutional contributions of EMSRP has been the support it provided for the establishment of MDLF. While by design, the MDLF is structured as a financial intermediary with the aim of channeling donor and central government financial assistance to municipalities through a rational and transparent framework, the MDLF has also demonstrated a capacity to respond to the emergency assistance needs of municipalities by designing a number of emergency programs with donors, including the EU, the Government of Italy, and the Government of Denmark. Over the long-term the MDLF and the funds it administers can be utilized as an important policy instrument in promoting institutional reforms at the local level. Under EMSRP budget reporting requirements were made a condition of receiving emergency assistance and reporting improved in the sector overall from 25 to over 85 percent.

Maintaining the Sector Institutional Development Agenda

In parallel with EMSRP2, the Bank continues to administer a project that is playing a critically important role in maintaining the longer term institutional agenda in the sector. The Danish-funded, World Bank-administered Local Government Capacity Building Project, which is implemented by the MDLF, has achieved a number of important milestones since its inception in 2005. With over \$10 million equivalent in funding over a four year period, this project focuses on strengthening municipal financial management and planning capacity. Achievements to date have included development of the first integrated, unified chart of accounts for local governments to improve the recording and tracking of municipal revenues and expenditures. Municipal budget preparation and review processes and reporting formats have been developed to strengthen Ministry of Local Government (MOLG) oversight capacity and improve municipal revenue collection and expenditure management. Tenders have just been issued for the design, installation and operation of the first set of standard municipal financial management information systems at a set of pilot municipalities to be rolled out once testing and refinements have been made to the system. The project also supports capacity building in the area of urban planning and infrastructure service provision.

Similar to its predecessor, EMSRP2 is consistent with the World Bank's assistance strategy in West Bank and Gaza, which aims to respond to emergency assistance needs as they emerge while maintaining the longer term institutional agenda that is part of the Bank's original rationale for engagement in West Bank and Gaza.

Case Study:

Land and Gender Equity

Hajjah "Um Sa'ed," age fifty, does not know the new faces that have begun to appear in the village of Qarawa Bani Zeid (members of the Land Settlement Committee of the Palestinian Land Authority, private land surveyors and some international consultants). However, she knew that there would be a meeting for women on the issue of land. She learned about the meeting from the Public Awareness Specialist of the Land Administration Project during a visit to Hajjah Um Sa'ed's home to complete a questionnaire on social issues. This social research was intended to assess different types of tenure for which security must be provided, understand how gender, geography and socioeconomic status influence land rights and describe how formal and informal institutions may enhance or constrain land rights.

Um Sa'ed attended the meeting, as did many other women from the village, and sat listening attentively; looking for a glimmer of hope that can deliver her of the situation she has suffered for many years.

"I was married twenty five years ago and ten years ago, my husband suffered an accident that caused permanent disability preventing him from work or movement. I am now suffering from my very difficult economic circumstances. I have three sons and I would like to see them pursue their education as they are very intelligent and have performed extremely well in school. My sole hope was to sell or invest a plot of the land in which I have a share. But my brothers are not at all interested in this. The land we own has not been divided amongst us so I am not qualified to make use of my part. I feel embarrassed to demand this division because women in my village don't ask for their land rights from their brothers. It is a taboo."

Um Sa'ed took out an old piece of paper from her pocket that included many stamps and said: *"This paper is the Certificate of Inheritance that proves that I am a real heiress to the land that was left to us by our father al-Hajj before his death"*. She continued: *"I heard that this project came to register for us the unregistered land and I am here so that you can help me to know what I should do to register my land."*

In brief, this story is typical of the challenges women in Palestine face in asserting their land rights. Although Shari'a law allows women to inherit land, this is rarely practiced due to the fear of women to claim their land rights. Often they forgo these rights in order to preserve

harmony within the family. Such discriminatory social practices will persist unless a standard legal system is established to protect the land rights of all people.

The World Bank is supporting the Palestinian Land Authority in ensuring equitable land rights in the villages of Qarawa Bani Zeid, Bir Nabala and Beitounia through the pilot Land Administration Project. This project is developing a standard registration system that provides equal opportunity for all land owners and will enable them to invest and thereby create real development. The project targets three sites, Qarawat Bani Zaid, Bir Nabala and Beitunia, representing rural, semi-rural and urban conditions. Project activities analyze the nature of land disputes, test the dispute resolution and title settlement mechanisms to be put in place. It also assesses the nature of contested rights to land, in order to explore possibilities of establishing a simple, fair and transparent system for addressing land related conflict.

The World Bank and the Government of Finland are financing the Land Administration Project, as a the first phase of a long-term Land Administration Program in WBG strengthening the capacity of the Land Authority and Ministry of Planning to lead this process. There has been a complete freeze in land registration in the last 50 years. The PA has committed itself to reforming the Land Administration and Management Sector, on both the institutional and policy levels. This includes formulating land administration and management policies, revising the draft land law, revising the land registration process and potential dispute settlement process through learning by doing and a public consultative process in the on-going pilots. The long-term Plan for this sector will aim at enhancing economic growth by improving land tenure security and facilitating the development of land and property markets.

Special thanks to Felecia Bargouti, Public Awareness Specialist for the Land Administration Project, for her contribution to the article.



North



The North Gaza Emergency Sewage Treatment (NGEST) project is the fourth in a series of Bank-funded water and sanitation projects since 1994. The Project consist of two parts: Part A is addressing the immediate and impending health, environmental and safety hazards to the communities near the poorly-treated and rapidly growing sewage lake in the Beit Lahia area of North Gaza. And Part B - a long-term solution for the adequate treatment and disposal of wastewater in North Gaza- entails the construction of a new wastewater treatment plant expected to be financed by various donors. Approximately 300,000 people living in North Gaza will benefit from this project. The project overall estimated cost is about US\$ 63 million.

Beit Lahia Case

On March 27th, 2007 - a section of the Beit Lahia Sewage Lake (Infiltration Basin) collapsed, flooding a nearby village in Gaza (Um Al Nasser) killing three, injuring 24 and displacing approximately 2,000. This marks the third such instance although less catastrophic in 1988 and 1992.

What actually happened?

The Sewage Lake is next to the Beit Lahia treatment plant constructed in the late 80s. At its construction, the plant capacity was limited to 5,000 m³/day. The levels have now reached 15,000 m³/day.

To cope with the emerging effluent lake, the municipality has been surrounding it with sand embankments and had erected a temporary basin close by. This temporary basin ruptured due to over-pumping which stressed the capacity of the walls to contain the flow of effluent..

Gaza

Emergency Treatment Project

Background information

The wastewater situation in Gaza is particularly dire. During the original design phase of the current Beit Lahia Wastewater Treatment Plant, the idea was to use the effluent of the treatment plant for irrigation of the neighboring agricultural areas. The ideas however were never realized. As a result, the treated effluent was simply let out into the sand dunes. In the first few years of operation, this practice did not cause problems. However, during the last few years the situation has deteriorated. Many communities were provided with sewage networks connecting to the Beit Lahia Plant. From a population of 50,000, it now serves a population of 180,000 including the municipalities of Jabalia, Beit Lahia, Beit Hanoun, and Um Al Nasir. The combination of increased volumes of generated wastewater and insufficient treatment capacity led to the deterioration of effluent quality. The steadily decreasing infiltration capacity of the flooded areas and the increasing wastewater volumes resulted in the formation of a series of ponds which transformed into a giant lake. Sand dams were erected in order to confine the lake and to prevent the surrounding settlements and agricultural areas from being flooded. The water level in the lake increased reaching the top level of the dam; leading to further work in raising the height of the dam walls with sand.

World Bank involvement

In 2004, the Bank approved the North Gaza Emergency Sewage Treatment (NGEST) Project to reduce pressure on Beit Lahia. The Bank and EIB financed Part A with about

US\$13.5 million. Part A moves treated effluent from the lake to a series of new infiltration basins. Part B involved a new Treatment Facility in the south, and involved Swedish SIDA, AFD, EU, Belgian and World Bank funds.

The project is currently experiencing substantial delays to the situation in Gaza, and the delays in bringing in essential project-related goods through the crossings into Gaza. The Bank is in regular contact with the Palestinian Water Authority and the Israeli Defense Forces to ensure quick and unhindered entry of critical goods.

Project Benefits

The North Gaza Emergency Sewage Treatment project is indispensable in eliminating the risk of flooding to the residents in North Gaza, and in improving the dwindling environmental and public health conditions related to the improper sewage treatment. The implementation of this project entails the complete removal of the Beit Lahia Wastewater Treatment Plant, along with the associated sewage lake. This will eliminate the risk of for such event to happen again and the most recent flooding is a case in point. The project is expected to benefit a population of about 300,000 people living in Beit Lahia, Beit Hanoun, Um Al Nasser, and the Jabalya refugee camp. A major benefit is the protection of groundwater from contamination by poorly treated sewage and the recharge of aquifer. Safety and public health risks are expected to be reduced dramatically. It will also generate substantial job opportunities during the construction period with significant impact on the depressed economy of Gaza.

Movement and Access Restrictions in the West Bank: Uncertainty and Inefficiency in the Palestinian Economy

Beginning in December 2004, when all parties (including the Government of Israel (GOI) and the Palestinian Authority (PA)) agreed that Palestinian economic revival was essential, that it required a major dismantling of today's closure regime and that closure needed to be addressed from several perspectives at once, the World Bank has played a leading role in providing balanced analysis and proposals which draw on the Bank's worldwide experience, but are realistic in the context of the Israeli-Palestinian situation. In May 2007, the Bank released a report which looked, in particular, at the situation within the West Bank which is experiencing severe and expanding restrictions on movement and access, high levels of unpredictability and a struggling economy. The following is a summary of this note. The full text can be found at:

<http://www.worldbank.org/ps>

Currently, freedom of movement and access for Palestinians within the West Bank is the exception rather than the norm, contrary to the commitments undertaken in a number of Agreements. In particular, both the Oslo Accords and the US-sponsored Road Map were based on the principle that normal Palestinian economic and social life would be unimpeded by restrictions. In economic terms, the restrictions arising from closure not only increase transaction costs, but create such a high level of uncertainty and inefficiency that the normal conduct of business becomes exceedingly difficult and stymies the growth and investment which is necessary to fuel economic revival.

The Oslo Accords provided that the movement of people and vehicles in the West Bank "will be free and normal, and shall not need to be effected through checkpoints or roadblocks."¹ The Roadmap specified that GOI would take measures to improve the humanitarian situation including easing restrictions on movements of persons and goods.² The fact that movement restrictions continued apace and resulted in greater economic hardship is evidenced by the need for a third agreement between the parties in November 2005 — *the Agreement on Movement and Access* (the AMA) — which had as its sole aim to "facilitate the movement of goods and people within Palestinian Territories". While recognizing that Israel has legitimate reasons to take steps to protect its citizens from violence, it was likewise recognized that this could not take place against the backdrop of Palestinian economic hardship and collapse. In particular, the AMA provided that, "consistent

with security needs Israel will facilitate the movement of people and goods within the West Bank and minimize disruption to Palestinian lives".³ The common basis for all these undertakings is the acknowledgement that without efficient and predictable movement of people and goods, there is very little prospect for a sustainable Palestinian economic recovery. Furthermore, it recognizes that the relationship between Palestinian economic growth and stability and Israeli security remain unarguable and of fundamental importance to both societies' well-being.

In the West Bank, closure is implemented through an agglomeration of policies, practices and physical impediments which have fragmented the territory into ever smaller and more disconnected cantons. While physical impediments are the visible manifestations of closure, the means of curtailing Palestinian movement and access are actually far more complex and are based on a set of administrative practices and permit policies which limit the freedom of Palestinians to move home, obtain work, invest in businesses or construction and move about outside of their municipal jurisdiction. These administrative restrictions, rooted in military orders associated with the occupation of West Bank and Gaza (WB&G), are used to bar Palestinians from accessing large segments of the West Bank including all areas within the municipal boundaries of settlements, the "seam zone", the Jordan Valley, East Jerusalem, restricted roads and other military 'closed' areas. Estimates of the total restricted area are difficult to come by, but it appears to be in excess of 50% of the land of the West Bank. While Israeli security concerns are undeniable and must be addressed, it is often difficult to reconcile the use of movement and access restrictions for security purposes from their use to expand and protect settlement activity and the relatively unhindered movement of settlers and other Israelis in and out of the West Bank.

While GOI has shown a willingness to consider a relaxation of specific restrictions, including the provision of several hundred permits to unique categories of Palestinians such as businessmen, or the removal of certain physical impediments, incremental steps are not

1 The Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip, Annex I, Article IX(2)(a).

2 A Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict, Phase 1: Ending Terror and Violence, Normalizing Palestinian Life and Building Palestinian Institutions, Present to May 2003.

3 Agreement on Movement and Access, 15 November 2005.

likely to lead to any sustainable improvement. This is because these incremental steps lack permanence and certainty and can be easily withdrawn or replaced by other restrictions. Moreover, sustainable economic recovery will remain elusive if large areas of the West Bank remain inaccessible for economic purposes and restricted movement remains the norm for the vast majority of Palestinians and expatriate Palestinian investors. Only through a fundamental reassessment of closure, and a restoration of the *presumption of movement*, as embodied in the many agreements between GOI and the PA, will the Palestinian private sector be able to recover and fuel sustainable growth.



Economic and Fiscal Developments

1. The past two years have witnessed a sequence of events that have at best retarded – and at worst, reversed – the precarious course of Palestinian institutional development and economic growth.

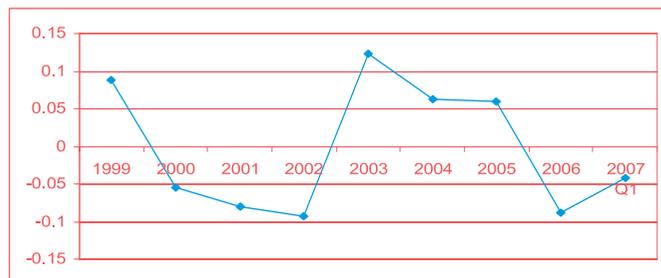
The international response to the victory of Hamas in Parliamentary elections in early 2006 heralded an almost instant drop in services and incomes, and a polarizing effect on the populations of Gaza and the West Bank as access to incomes, donor assistance and crossings diverged (See Annex 6 for a summary of events since January 2006). At the same time, Gaza saw the brunt of Israeli restrictions and military action after the abduction of an Israeli soldier in the summer of 2006. Since London, Palestinians killed in conflict-related incidents rose from 210 in 2005 to 673 in 2006, and another 146 by June 2007. This does not include a new figure – 400 Palestinians dead in 2007 from internecine fighting between Palestinian factions – more than double those killed by the conflict with Israel. Over the same period, Israel witnessed 25 deaths in 2006 and 6 deaths in 2007, from various attacks including Qassam Rockets which have exceeded 2,700 since 2004. Palestinians injured over the two years reached more than 4,200, and Israelis injured more than 500.¹

2. The decline of the Palestinian economy triggered by the Second Intifada in 2000 and compounded by recent events has left per capita GDP at \$1,129 by the end of 2006, about a third less than it is level of \$1,612 in 1999. The emerging recovery in 2003–2005 was again reversed in 2006 as a result of the fiscal crisis, and movement and access restrictions, following the Hamas victory in the PLC elections (Figure 1). GDP contracted by nearly 8.8% in 2006, and by a further 4.2% in the first quarter of 2007. This trend appears to be continuing in the second half of 2007.

3. More troubling than the negative growth rate is the changing composition of the economy, as GDP is being increasingly driven by government and private consumption from remittances and donor aid, while investment has fallen to exceedingly low levels, leaving little of the productive base needed for a self-sustaining economy.

4. From the outset, Gaza has been hit harder by closures and economic crisis. Since Israel's disengagement from Gaza in September 2005, its borders have been closed for extended periods, inhibiting trade and the movement of people. Unemployment in Gaza rose from 30.3% in 2005 to almost 35% in 2006 (Figure 2), while unemployment in the West Bank actually fell from 20.3 to 18.6%. In the first half of 2007, unemployment fell in both regions. But these figures are misleading. First, as a result of the fiscal crisis and its impacts on both public sector employees and private sector contractors, employment did not always translate into a regular salary payment. Furthermore, Gaza's unemployment rates were mitigated by temporary employment programs by UNRWA and others, which inject badly-needed funds but also conceal

Figure 1: Economic Growth 1999-2007



Source: PCBS and World Bank Staff Calculations

¹ Source: OCHA, oPt Protection of Civilians Summary, June 2007.

Figure 2: Official Unemployment WB and Gaza

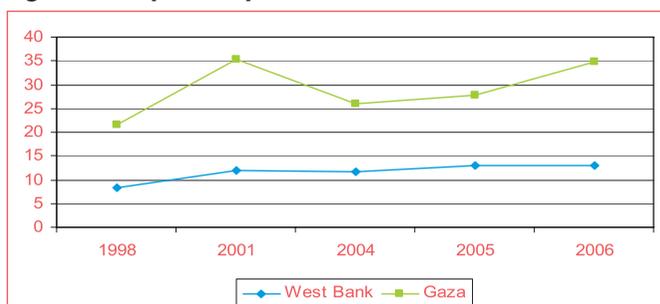


Source: PCBS Labor Force Survey

structural problems in the job market. Also, official unemployment data excludes workers who turn to unpaid family labor or seasonal agriculture to make up for lost jobs.² Thirdly, the figures do not include many discouraged workers who have left the labor market because they can not find employment. PCBS estimates that adding discouraged and underemployed workers would raise the 2006 unemployment rate in the West Bank to 28% and over 39% in Gaza.

5. A better measure of the extent of the crisis is the poverty rate, which has dramatically increased in the last two years. Despite large inflows of aid, the percentage of Gazans who live in deep poverty has been steadily increasing, rising from 21.6% in 1998 to nearly 35% in 2006.³ With the continued economic decline in 2007 and the implementation of even more strict closures on Gaza the current poverty rate is almost certainly higher. This rate reflects actual consumption, which implies that without remittances and food aid the poverty rate is closer to 67%. The increase in poverty in the West Bank has been lower but still significant (Figure 3).

Figure 3: Deep Poverty 1998 - 2006



Source: PCBS unpublished estimates based on 6th Palestinian Expenditure and Consumption Survey

6. Adding to the downturn in the Palestinian economy is the reduction in the number of workers allowed in Israel. Population growth in WB&G is around 3.3% per annum; making it one of the highest rates in the world and creating an ever larger labor force.

Israeli closure policies and political instability have discouraged investment in WB&G, making Palestinian private sector absorption of the labor force impossible. As such, the large surplus of Palestinian labor flocked to the Israeli economy where, throughout most of the last 40 years, they have received relatively higher wages than in WB&G. However, since the *Second Intifada*, Israel has been steadily reducing the number of permits for Palestinians to work in Israel, with the expressed goal of eliminating them in the near future⁴. The number of Palestinians working in Israel or its settlements has thus declined by nearly 55% since 1999.⁵ The share of the work force employed in Israel has fallen from 23% to less than 10%⁶. All of these are from the West Bank as Gaza is now completely closed and no workers from Gaza are allowed into Israel (Figure 4). The loss of these relatively high paying jobs has been a devastating blow to the Palestinian economy and is a major factor in the growing poverty.

Figure 4: Share of WB&G Labor Force in Israel or Settlements



Source: PCBS 2006 Labor Force Survey

7. The WB&G faces an expanding labor force and a shrinking private sector. Thus, the civil service and security forces have become the only alternative for jobs. With few options at its disposal, and despite an unsustainable wage bill, the PA has resorted to

- In 2006 PCBS estimates that 11.1% of employed workers were unpaid family members.
- PCBS constructed the deep poverty line to reflect a budget for food, clothing and housing. For a family of six the deep poverty line in 2006 was NIS 1,837.
- The Israeli Ministry of Justice asserts that "The report notes that Palestinian links to the Israeli economy have driven up labor costs, without referring to the need to examine alternatives to these links, such as Palestinian employment in other regional states. In some of its previous reports, the World Bank began to recommend that Palestinian economy and labor look outside the Israeli market, and suggested that these options be examined. However, these states have systematically refused to employ Palestinians or establish joint industrial areas. It is strongly suggested that this report to the donors follow up on this broader and more realistic economic view, and enhance these recommendations." This assertion, however, does not address the impacts of Israel's policies on the mobility of Palestinian labor and on its growing dependence on Israeli labor markets since 1967. As such, a phased approach is required for such fundamental structural changes, matched with removal of restrictions against labor mobility.
- These are PCBS figures taken from the 2006 Labor Force Survey. The number of workers includes both those that have permits to work in Israel and those that are working illegally.
- The Israeli Coordinator of Government Activities in the Palestinian Territories (COGAT) has disputed this figure, noting that 42,000 Palestinians were allowed to work in Israel or the settlements by August 2007, up from 24,000 in May 2005.

absorbing workers as a way to alleviate poverty. At the same time, many workers have historically been hired to bolster political support. As a result, the public sector has grown by 60% since 1999 and in May 2007 stood at 168,319. The Caretaker Government has sought to roll this back by not paying 31,000 workers hired illegally since the end of 2005. However, the PA may find it politically challenging to reduce the work force any further. Unless the economy improves and the private sector is energized by a removal of movement and access restrictions, there remains little alternative to public sector jobs.

8. The economy's productive capability is diminishing making it increasingly donor dependent. GDP did not decline as much as expected after donors suspended direct aid to the Hamas-led PA in 2006 (See Table 1). A combination of borrowing, remittances and increased aid that circumvented the PA allowed consumption to remain strong. PCBS estimates that despite the crisis, household consumption dropped by only 0.6% in 2005 and 2006. Nevertheless, output in the productive sectors declined in 2006⁷. The construction sector was the hardest hit, falling by nearly 13%. Industry fell by over 6% and services by nearly 4%. The IMF estimates that the public sector declined by 10 percent.

9. Investment has fallen to precariously low levels, endangering the prospects for long-term growth. Public investment to maintain or add infrastructure has nearly ceased and in the last two years almost all government funds have been used to pay salaries and cover operating costs. Already-low private investment is estimated by the IMF to have fallen by over 15% between 2005 and 2006. A recent World Bank Investment Climate Assessment found that less than a quarter of private sector firms made any investments in 2005/2006 and that manufacturing equipment were on average over 10 years old. Managers had access to finance, but were operating at less than 50% capacity, and saw few opportunities for investment under the current closure regime. Gross capital formation in the private sector fell by over 60% between 1999 and 2005 (See Table 1). The lack of investment in public infrastructure and private firms is eliminating any residue of the Palestinian productive base, making the economy more aid-dependent. When conditions improve, large investments will be needed just to rehabilitate assets let alone create new wealth.

Table 1: Composition of Real GDP in WB&G

	1999	2000	2001	2002	2003	2004	2005	2006
	(percentage change)							
Real GDP	8.9	-5.4	-15.4	-9.4	5.8	6.0	6.0	-8.0
Consumption	8.3	-1.9	-6.7	-7.7	4.5	8.6	5.6	-4.8
Private	8.3	-4.4	-5.4	-8.5	6.0	8.5	5.6	-3.8
Public	8.4	9.4	-11.6	-4.3	-1.6	9.5	5.7	-9.4
Investment	33.9	-27.0	-44.6	9.4	18.0	0.6	2.0	-24.8
Private	36.0	-26.5	-52.1	8.7	16.9	0.4	1.4	-15.0
Public	25.5	-29.4	-9.9	11.1	20.6	1.2	3.3	-47.1
Exports	3.7	-6.8	-34.7	-13.0	-4.0	13.5	8.2	-11.6
Imports	19.1	-13.9	-18.1	-2.0	4.8	9.9	4.4	-8.5
Change in inventories	62.3	-73.5	-8.9	-36.7	--	--	--	--
Real GDP/capita	4.4	-9.3	-18.7	-12.6	2.1	2.5	2.5	-10.9
Real GDI/capita	3.4	-7.4	-8.1	-7.2	-3.8	0.9	1.8	-3.2

Source: PCBS and IMF Staff Estimates.

10. The unpredictability of the border openings has prevented firms from importing inputs and exporting products in a planned and profitable way. In response, enterprises have closed and large amounts of financial and human capital have fled. The pace of capital flight reached an all-time high in the last two years. Investors have always been wary of investing in WB&G, with almost no foreign direct investment in the past few years and most local capital is kept abroad or invested

in real estate or short term trading activities. Now local entrepreneurs are closing existing operations and moving them to neighboring countries. This capital and the entrepreneurial and technical talent that go with it are irreplaceable and unlikely to return unless conditions dramatically improve.

⁷ The exception was agriculture where a large olive harvest allowed agriculture to post a 7% gain.

11. Despite the economic downturn, bank deposits continue to grow reflecting the continued inflows of aid and remittances. Private sector deposits increased by about 8% in 2006, and 6% in early 2007, compared to 2% in 2005. While a breakdown between businesses and households is not available, this expansion seems to reflect continued inflows from abroad, which are being used for consumption rather than investment. No comprehensive data are available on remittances, but interviews with commercial banks indicated that private inflows from abroad picked up in 2006 and continued to grow in 2007. Despite the crisis, banks continued to extend credit to the private sector, albeit at a much slower pace than in 2005.

12. Trade data indicate a significant decline in exports from WB&G but a smaller fall in imports. Most trade takes place with Israel and much of that is done informally and not reported. While trade data are not readily available, the Palestinian Monetary Authority (PMA) publishes estimates that indicate a significant economic slowdown. In 2006 imports declined by 10% but exports fell by close to 16%. The fall in trade in Gaza overshadowed the decline in West Bank. For most of 2006 and 2007 the borders there have rarely been open. Since the June 2007 events, these borders have been completely shut and there have been no commercial imports or exports.

13. The social impacts of the current crisis are no less significant, but are often overlooked. Health indicators in the WB&G have seen a steady drop over the last three years. Chronic diseases have surged 31% since 2005. Chronic malnutrition among children under five jumped 3% between 2004 and 2006. Ten out of every 100 children under 5 are stunted (13% in the Gaza strip and 8% in the West Bank).⁸ The number of households with safe drinking water has also dropped by more than 8% between 2000 and 2007.⁹ In the education sector, school enrolment is high but declining. The quality of education is also suffering because schools lack textbooks and other materials. The increasing insecurity, especially in the Gaza strip, is having a devastating effect on the performance of students: failure rates in mathematics are nearly 80% and 40% in Arabic.¹⁰ In the West Bank, closures and restrictions on movement and access, especially due to the Separation Barrier are preventing many students and teachers from reaching their schools.

14. Furthermore, the continuing conflict is perpetuating an internal cycle of violence, fragmenting social cohesion and affecting psychosocial well-being. A 2006 survey concluded that nearly three quarters of Palestinians suffer from severe depression as a result of the current situation.¹¹ Women, who historically play a key role as income providers, are increasingly relegated to the informal market as a result of movement and access restrictions. Their participation in the labor market, at 15.2%¹², is amongst the lowest in the world. Also, since September 2000, youth have been caught literally and figuratively in the crossfire of the conflict. Nearly 75% of the injured during the second *Intifada* were between 10 to 29 years old.¹³ Youth have also been active participants in the *Intifada* and have therefore suffered both violence and imprisonment with its consequent impact on mental health and physical disability. They also suffer from high rates of unemployment (60 percent¹⁴) and are excluded from formal mechanisms of decision making.

The Fiscal Spiral

15. The PA's longstanding fiscal crisis deepened further in 2006 as a result of Israel's withholding of Palestinian clearance revenues and the aid boycott, resulting in a deficit of over \$1 billion. Many donors cut off direct aid to the PA, but continued providing funds through the EU TIM, the Office of President Abbas, and other mechanisms. The IMF estimates that external aid towards recurrent operations reached \$740 million in 2006; over double the amount in 2005. Yet, total resources for recurrent expenditures fell by a third. About \$0.9 billion in expenditure arrears were accumulated, including \$385 million in arrears on net wages (excluding those related to pensions and other wage deductions), \$175 million in arrears on pension contributions (employees' and government's contributions), and \$200 million in arrears to the private sector (including Israeli suppliers and unpaid domestic tax refunds).

8 Palestinian Family Health Survey, 2006.

9 PCBS, "Special Report on the 59th Anniversary of the Nakba," May 14, 2007.

10 UN News Service, "With Education Standards in Gaza Plummeting, UN Launches New Action Plan," 5 September 5, 2007

11 Near East Consulting, "Depression in the Occupied Palestinian Territories," Sept 2006.

12 PCBS, Labor Force Survey, April – June 2007.

13 PCBS, "Palestinian Youth: Facts and Figures," 2001. <http://www.unfpa.org/adolescents/opportunities/palestina/docs/facts+figures%20Palestine.pdf>

14 PCBS, Labor Force Survey April – June 2007.

- 16.** *Of an estimated \$770 million in Palestinian clearance revenues collected by Israel in 2006, only about \$344 million was released to the PA due to deductions to for the payment of utilities.* In addition, domestic revenues fell from \$476 million in 2005 to around \$395 million in 2006. Tax revenues remained about the same despite the fall in economic activity and government strike.
- 17.** *The PIF's assets continued to be depleted with about \$190 million being used to pay dividends and to finance the PA in 2006.* This was largely used to pay for fuel imports and cover debt service obligations to banks. Banks, fearing foreign anti-terrorism laws, sharply reduced lending to the PA and liquidated PIF assets held as collateral.
- 18.** *Non-wage operating costs, transfers, and spending on utilities and energy continued to grow despite the decrease in funding.* The fiscal crisis meant that spending had to be prioritized, wages being the highest. However, as of the second quarter of 2006, wages could only be partially paid. Overall, including TIM payments, civil servants received about 60-65 percent of their wages. Yet these payments absorbed nearly half of the available resources. Social benefits and spending on utilities and energy took up the rest. Payments to cover production and consumption of energy and utilities, including subsidies of domestic petroleum products, reached almost \$400 million.
- 19.** *The PA's underlying financial position has continued to deteriorate at an increasing rate in 2007.* In the first half of 2007 the deficit was likely above \$100 million a month. The largest expense is the wage bill, which on a commitment basis grew by nearly 20 percent in 2006 (See Annex 3).¹⁵ Despite the Government's recent efforts to limit the growth in the public sector, the payroll remains at an unsustainable level. Even taking into account Israel's decision in June to release withheld clearance revenues¹⁶, and even with a recovery of domestic tax revenues, the wage bill due now exceeds total government revenues. This implies that all non-wage expenditures such as energy and infrastructure would have to be covered from other sources.
- 20.** *The PA has only a limited ability to increase domestic revenues.* PIF assets have been depleted and the PIF cannot be expected to maintain its previous level of funding. There is room for increased efficiency

in tax collection, but this will not offset the loss in VAT and customs duty from the suspension of Gazan trade¹⁷. Thus, with deteriorating domestic revenues, most of the clearance revenues will go towards funding recurrent costs, and the PA will continue to accumulate arrears.

- 21.** *Nearing the end of 2007, the PA finds itself with a large current deficit and a significant stock of arrears.* External assistance has been unusually high in 2007; about \$560 million in the first half of the year. In the absence of equal or greater amounts of assistance, the year 2008 may herald an extremely precarious fiscal situation for the PA, with a large deficit, a substantial stock of arrears and falling domestic revenues. Looking forward, the PA forecasts a need for at least \$1.62 billion in donor assistance per year to achieve fiscal sustainability¹⁸. Of this amount, 94% will need to go to meet recurrent expenditure needs, as opposed to development assistance. The PA will soon unveil a three-year Palestinian Reform and Development Plan (PRDP 2008-10) based on a Medium Term Expenditure Framework (MTEF) approach. The will begin to address longstanding disconnects in policy-making, planning and budgeting processes. Its success will depend partly on the credibility of the reform agenda and pragmatic plans to achieve fiscal sustainability. However, these steps must be matched with predictable donor assistance and a growing private sector that will provide a larger tax base and alternatives to public sector employment. The removal of movement and access restrictions, and the ability of the Palestinian private sector to exploit its trade potential, will both increase the PA's revenues and allow it to reduce its expenditures.

15 To some extent this reflects the full-year effect of wage increases granted in 2005 but it is also due to the increased number of government workers.

16 The GOI decided to release the withheld clearance revenue and resume monthly transfers with a first installment of NIS 500 million on July 2nd through the Single Treasury Account. The total stock of revenues collected as of July, net of deductions for payments of utilities (and net of the transfers made) was preliminarily estimated at NIS 2.7 billion. Of that amount, close to NIS 400 million has been attached by Israeli courts. The Israeli MoF agreed to release monthly installments of NIS 370 million until the stock of withheld revenues is fully repaid. Regular monthly transfers started in early August.

17 It is unclear how the drop in Gazan trade will affect tax revenues from West Bank enterprises. On the one hand, Gaza is an important market for a number of West Bank enterprises. On the other, many West Bank enterprises are reporting an increase in business as Israeli and other firms shift away from Gazan enterprises.

18 Ministry of Finance, Budget Directorate.

The World Bank's Operations in West Bank and Gaza

On-going Bank Group Operations	
Project Name & Details	Description
<p>Solid Waste and Environmental Management Project (SWEMP). World Bank: US\$9.5 million Approval Date: October 10, 2000. Closing Date: 30 June 2008 Task Team Leader: Andrew Mokakha</p>	<p>The overall objective of the project will be to implement an environmentally sound solid waste management system for Jenin District. This objective would be pursued through the construction of a controlled sanitary landfill in Jenin District (Zahrat Al- Finjan); rehabilitation/closure of uncontrolled dumps; improvement in solid waste management (SWN) services in the district through the supply of equipment and the strengthening of management and operation capacities' building institutional capacity in the newly created Joint Services Council (JSC) for regional SWM services ; and strengthening the institutional and monitoring capacity of Environmental Quality Authority (EQA). The Project is managed by the Joint Services Council for Solid Waste Management (JSU). The EC is financing the supply of collection vehicles and transfer stations relation set-ups.</p>
<p>Emergency Water Project (EWP). World Bank: US\$12.5 million Approval Date: February 2004 Closing Date: September 30, 2007 Task Team Leader: Sana Al Nimer</p>	<p>The main objective of the project is to support investments that would help alleviate the chronic shortages of safe water supplies; reduce water costs and health risks; and conserve scarce water resources by reducing system losses. The Project includes the following components: (a) Rehabilitation and improvement of Water Supply Transmission and Distribution System; and (b) Technical Assistance and Capacity Building provided to the Palestinian Water Authority.</p>
<p>Social Safety Net Reform Project (SSNRP). World Bank: US\$10.0 million Approval Date: July 19, 2004 Closing Date: December 31, 2008 Task Team Leader: Eileen Murray</p>	<p>The project was formally restructured in May 2007. The new project development objective is to to mitigate the impact of the continued socio-economic crisis on a subset of the poorest and most vulnerable households. An additional is to strengthen the institutional capacity of Ministry of Social Affairs to manage cash transfer programs. The primary objective would be achieved by implementing a pilot incentive-based cash transfer mechanism with improved targeting modalities that would contribute to improving the living conditions of the beneficiaries.</p> <p>The Project also aims to strengthen the institutional capacity of PA agencies involved in the implementation of the proposed project, in particular in Ministry of Social Affairs.</p>
<p>The Integrated Community Development Project (ICDP). World Bank: US\$10 million plus US\$5 million additional financing approved in December 2006. Approval Date: May 23, 2002. Closing Date: December 31, 2007. Task Team Leader: Meskerem Brhane</p>	<p>The Project seeks to improve the quality and availability of basic social and economic services in poor and marginalized communities of West Bank and Gaza. It succeeds previous community development operations financed through the Bank under Community Development Projects I & II. The project finances the rehabilitation of roads, water supply and sanitation systems, schools, clinics, thereby preserving and extending the capital stock of villages and small municipalities. Under the original financing, agricultural activities were also financed, including the rehabilitation of wells, roads, and terraces. The project is also piloting new Information and Communication Technology (ICT) initiatives by funding the creation of Multipurpose Tele-centers, thereby improving access to information and training for the poor and marginalized. The Additional financing of US\$5 million does not entail changes to the ICDP Development Objective, but gives higher focus on strengthening community participation in the identification and implementation of microprojects, through community-grants procurement.</p>
<p>North Gaza Emergency Sewage Treatment Project. World Bank: US\$7.8 million Approval Date: September 9, 2004 Closing Date: June 30, 2010 Task Team Leader: Sana Al Nimer.</p>	<p>The North Gaza Emergency Sewage Treatment project is the fourth in a series of Bank-funded water and sanitation projects since 1994. The Project consist of two parts Part A is addressing the immediate and impending health, environmental and safety hazards to the communities near the poorly-treated and rapidly growing sewage lake in the Beit Lahia area of North Gaza. And Part B - a long-term solution for the adequate treatment and disposal of wastewater in North Gaza, which entails the construction of a new wastewater treatment plant expected to be financed by various donors. Approximately 300,000 people living in North Gaza will benefit from this project. The project overall estimated cost is about US\$ 63 million.</p>

On-going Bank Group Operations

Project Name & Details	Description
<p>Gaza Water and Sanitation Services Project (GWSSP II). World Bank: US\$20 million Approval Date: June 7, 2005 Closing Date: December 31, 2008 Task Team Leader: Khairy Al-Jamal</p>	<p>This Project is a follow-up to the previous GWSSP. The development objectives of this Project are: (a) to develop a sustainable institutional structure of the water and wastewater sector in Gaza by supporting the functional establishment of a Coastal Municipalities Water Utility, as well as by enhancing and deepening the involvement of the private sector through a three-year management contract; (b) to continue improving the water and sanitation services by rehabilitation, upgrading and expansion of existing systems and facilities; and (c) to strengthen the regulatory and institutional capacity of the Palestinian Water Authority. The whole population of Gaza (around 1.5 million people) are benefiting from the project.</p>
<p>Tertiary Education Project World Bank: US\$10 million Approval Date: April 26, 2005 Closing Date: December 31, 2009 Task Team Leader: Adriana Jaramillo</p>	<p>The project development objectives are: 1) to improve the regulatory environment for tertiary education management, relevance and quality assurance; 2) increase internal and external efficiency of the tertiary education system, as a first step towards seeking sustainability; and 3) to create incentives and provide the basis for improvements in efficiency, quality and relevance of tertiary education institutions in order to meet the socioeconomic needs of the Palestinian population. The project provides technical assistance on defining policies consistent with increasing the financial sustainability of the sector and improving the capacity to respond to labor market needs. It also provides incentive mechanisms to improve quality and relevance of the programs offered. On a competitive basis, institutions will apply for quality and management grants, administered by a Fund mechanism. In addition the project will provide technical assistance to improve the management of the current student loans program managed by the MOEHE, and will set the basis for expansion of the financial resources available for funding the student aid programs. The EC is providing co-financing in the amount of € 6 million.</p>
<p>Land Administration Project World Bank: US\$3 million Government of Finland: US\$3.1 million equivalent Approval Date: January 26, 2005 Closing Date: December 31, 2007 Task Team Leader: Ibrahim Dajani</p>	<p>The objective of this project is to assess/learn the extent of commitment and readiness of the PA to reforming land administration by introducing policy, legal and institutional changes to achieve efficient procedures for the issuance of land titles and registration of property transactions, and transparent processes for the management and disposal of public land. The project is the first phase of a long-term Land Administration Program, which aims at enhancing economic growth by improving land tenure security and facilitating the development of efficient land and property markets in rural and urban areas through the development of an efficient system of land titling and registration based on clear, transparent and coherent policies and laws and supported by an appropriate institutional structure.</p>
<p>Third Palestinian NGO Project World Bank: US\$10 million AFD: €6 million Approval Date: December 19, 2006 Task Team Leader: Meskerem Brhane</p>	<p>The objective of the project is to provide social services to those who are poor, vulnerable or affected by the deteriorating socioeconomic conditions by establishing an effective mechanism to improve the quality and sustainability of NGO social service delivery. The first two PNGO projects successfully built up Palestinian NGO capacity to carry out social service delivery activities. Now, there is a need to consolidate and sustain this capacity by moving the driving force for further NGO development firmly into the hands of the Palestinian NGOs. To this end, PNGOIII will support the transformation of the Project Management Organization (PMO), the implementing unit within the Welfare Association of the previous projects, into the NGO Development Center (NDC), an institution dedicated to grant-making and sector development. At the sametime, the project will provide funding to develop and sustain specific NGO-sponsored social service delivery activities.</p>



On-going Bank Group Operations

Project Name & Details	Description
<p>Second Emergency Municipal Services and Rehabilitation Project World Bank: US\$10 million The Netherlands: € 5 million AFD: €12 million Approval Date: December 19, 2006 Task Team Leader: Steve Karam</p>	<p>A prolonged period of economic contraction has had serious consequences for municipal revenues and the ability of local governments to continue providing basic services. This has translated into sharply increased health, safety, and sanitation risks for the Palestinian population resulting from mounting solid waste, and deteriorating streets, water and wastewater networks, particularly in heavily populated urban areas. The objectives of EMSRP II are to (a) provide funding for infrastructure rehabilitation and maintenance to help mitigate further deterioration in the delivery of essential municipal services, and (b) create temporary job opportunities at the local level through the launching of labor-intensive employment generation schemes. In addition, through the Municipal Development Lending Fund (MDLF), the Project would pilot innovative initiatives to improve municipal service cost recovery (through the introduction of pre-paid electric metering systems) and leverage partnerships with local NGOs to deliver services more effectively. The total cost of the project is currently estimated at US\$40.2 million with financing of US\$10 million from the Trust Fund for Gaza and West Bank (TFGWB), and further commitments from Netherlands and Agence Française de Développement. On-going discussions with KFW and Sweden are likely to cover the balance with commitments expected by October 2007.</p>
<p>Avian Influenza Prevention and Control Project World Bank: US\$10 million Global Fund for Avian Influenza: US\$3 million Approval Date: September 7, 2006 Task Team Leader: Lucie Tran</p>	<p>West Bank and Gaza has been considered at high risk for AI due to the large number of migratory birds crossing the territories and the high risk of spreading the infection among domestic poultry. In April, FAO/WHO confirmed AI H5N1 presence in 8 locations in Gaza and preventive culling was concluded in the infected areas. The project aims to strengthen the public and veterinary health sectors to respond to possible future outbreaks. The overall responsibility for overseeing and coordinating institutional and implementation arrangements is vested with the National Emergency Committee for Avian Influenza Control (NCAIC) which is chaired by the Minister of Health, while funds from the Global Trust Fund (US\$3 million) are being implemented by UNDP, focusing on quick implementation of the most urgent activities.</p>
<p>Emergency Services Support Program - (Under Temporary International Mechanism – window 1)</p> <p>Multi Donor Trust Fund: US\$65 million Approval Date: August 2006 Closing Date: June 30, 2008 Task Team Leader: Eileen Murray Deputy Task Team leader: Samira Hillis</p>	<p>The development objective of the Emergency Services Support Program is to mitigate the deterioration of service delivery brought about by the inability of the Palestinian Authority to meet its non-salary recurrent costs. The ESSP finances the non-salary expenditures of the key social ministries and based on the PA's recurrent expenditure program for these ministries.</p> <p>The ESSP budget is based on the PA's annual recurrent expenditure program. Eligibility of expenditures is assessed by the Bank, taking into account the emergency nature of the project and the Bank's procurement and fiduciary requirements. Financing of expenditures in other sectors may become possible if donors are willing to provide the necessary financing.</p> <p>The Bank will be approaching donors for replenishing this multi donors trust fund as most funds are now committed under this phase.</p>



West Bank and Gaza Portfolio

September 30, 2007

	Trust Fund for Gaza and the West Bank				Co-financing			
	Committed	Disbursed	Undisbursed	Disbursed	Committed	Disbursed	Undisbursed	Disbursed
	US\$ Million			Percent	US\$ Million			Percent *
CURRENT PROJECTS								
01 Solid Waste and Environmental Management Project	9.5	8.1	1.4	85%				
02 Integrated Community Development Project	15.0	9.6	5.4	64%				
04 Emergency Water Project	12.5	10.2	2.3	81%				
04 Social Safety Net Project	10.0	2.2	7.8	22%				
05 North Gaza Emergency Sewage Treatment Project	7.8	6.8	1.0	87%	18.1	0.0	18.1	0%
05 Land Administration Project	3.0	1.7	1.4	55%	1.5	0.7	0.8	47%
05 Tertiary Education Project	10.0	2.7	7.3	27%	6.7	1.1	5.6	17%
05 Gaza II Emergency Water Project	20.0	10.2	9.8	51%				
07 Avian Influenza Project	10.0	1.2	8.8	12%				
07 Palestinian NGO Project III	10.0	1.5	10.0	15%				
07 Emergency Municipal Services Rehabilitation Project II	10.0	2.0	10.0	20%				
Total	117.8	56.1	61.7	48%	26.2	1.8	24.4	7%
DONOR FUNDED TRUST FUNDS								
Local Government Capacity Building					2.5	1.5	1.0	60%
Emergency Services Support Program					58.7	27.2	31.5	46%
Total					61.2	28.7	32.5	47%
COMPLETED PROJECTS								
00 Electricity Sector Management Project	15.0	14.8	0.2	99%				
03 Emergency Services Support Project II	40.0	40.0	0.0	100%	71.6	71.6	0.0	100%
97 Palestinian Expatriate Professional Program	2.3	2.3	0.0	100%	0.3	0.3	0.0	100%
02 Emergency Services Support Project	20.0	20.0	0.0	100%	29.2	29.2	0.0	100%
04 Public Financial Management Reform SAO	20.0	20.0	0.0	100%				
97 Legal Development Program	2.8	2.5	0.0	89%				
96 Municipal Infrastructure and Development Project	40.0	40.0	0.0	100%	5.4	5.4	0.0	100%
97 Microenterprise Project	2.2	2.2	0.0	100%				
95 Emergency Rehabilitation Project	30.0	30.0	0.0	100%	63.9	63.9	0.0	100%
97 MIGA Fund	10.0	10.0	0.0	100%				
96 Emergency Rehabilitation Project II	20.0	20.0	0.0	100%	3.5	3.5	-0.0	100%
97 Community Development Project	10.0	10.0	0.0	100%	2.8	2.8		
01 Emergency Response Program	12.0	12.0	0.0	100%				
95 Education and Health Rehabilitation Project	20.0	20.0	0.0	100%	29.1	29.1	0.0	100%
99 Community Development Project II	8.0	8.0	0.0	100%				
97 Gaza Water and Sanitation Project	31.0	31.0	0.0	100%				
98 Palestinian NGO Project	10.0	10.0	0.0	100%	4.6	4.6	0.0	100%
99 Bethlehem 2000	25.0	25.0	0.0	100%	3.6	3.6	0.0	100%
97 Palestinian Housing Project	17.4	17.4	0.0	100%				
98 Gaza Industrial Estate	7.2	6.9	0.0	96%				
99 Southern Area Water and Sanitation Project	21.0	21.0	0.0	100%				
00 Health System Development Project	7.9	7.9	0.0	100%				
01 Education Action Project	7.0	6.9	0.0	99%				
03 Emergency Municipal Services Rehabilitation Project	20.0	20.0	0.0	100%				
01 Palestinian NGO II Project	8.0	8.0	0.0	100%	11.6	10.2	1.4	88%
00 Municipal Infrastructure and Development Project II	7.5	7.3	0.0	97%				
Total Completed	414.2	413.2	0.2	100%	225.7	224.3	1.4	99%
TOTAL (Current & Completed)	532.0	469.3	62.7	88%	313.1	254.8	58.3	81%
CLOSED DONOR FUNDED TRUST FUNDS								
The Holst Fund					285.7	285.7	0.0	100%
Technical Assistance Trust Fund					23.6	23.6	0.0	100%
PEACE Facility					25.0	25.0	-0.0	100%
Public Financial Management Reform Trust Fund					273.4	273.4	0.0	100%
TOTAL DONOR FUNDED TRUST FUNDS					607.7	607.7	-0.0	100%
GRAND TOTAL	532.0	469.3	62.7	88%	920.8	862.5	58.3	94%

* For some cofinancing, investment income is added to the principal and disbursed, causing disbursements to go above 100%

** Closed

2/ Year approved by World Bank Board of Executive Directors

ANNOUNCEMENT



World Bank Global Network of Private Sector Liaison Officers

Reaching the Private Sector in West Bank and Gaza

The Federation of Palestinian Chambers of Commerce, Industry and Agriculture has joined the World Bank Private Sector Liaison Officer (PSLO) network program of communication with the private sector. The Federation represents the Private Sector Coordinating Council in West Bank and Gaza in its capacity as Secretariat.

The World Bank Group has developed a network of liaison officers based in business organizations based throughout the world, and works to foster trade and investment relations between countries with the support of the World Bank Group's products and services. The network facilitates companies' access to World Bank Group (World Bank, IFC, MIGA) business opportunities, services and knowledge; act as the voice of their national private sector in advising the World Bank Group on how to better engage companies on development issues; and promotes communication between global business organizations through its PSLO representatives with the support of the World Bank Group.

The Federation of Palestinian Chambers of Commerce, Industry and Agriculture is a national organization representing the West Bank and Gaza Strip's chambers. Its main task is to strengthen and enhance the capacity of chambers to cope with the requirements of the global business environment. Its strategy is to ensure that the private sector is operating freely; is an integral to policy formulation at the national level; and strives to create strong regional and international links to the world's larger, global markets.

The network has now 5 PSLOs appointed in MENA: Morocco, Jordan, Israel, Egypt and Palestine (Algeria in the pipeline) out of a total of 77 PSLOs in 61 countries worldwide.

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To learn more about:

PSLO Network: <http://www.worldbank.org/business-global>

Federation of Palestinian Chambers: <http://www.pal-chambers.org>

