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World Bank Report on Impact of Intifada

"Twenty-Seven Months - Intifada, Closures and Palestinian Economic Crisis: An Assessment" has been prepared as a follow-up to a report published in March 2002 ("Fifteen Months - Intifada, Closures and Palestinian Economic Crisis"). The main objectives of this second Assessment are once again to help donors and the Palestinian Authority (PA) cope with the deep economic crisis in the West Bank and Gaza, as well as to encourage and inform discussion on Palestinian economic issues among the donors, the PA and the Government of Israel. Despite an inevitable preoccupation with short-term emergency issues, the report seeks to preserve a focus on the types of medium-term economic and institutional policies that will return to prominence once the current conflict ceases to dominate the daily lives of Palestinians and Israelis. For copies, contact the World Bank Country Office.

Effect of Closures, Curfews on Palestinian Economy Reviewed

Dramatic Decline, Signs of Stabilization

The World Bank's Country Office for the West Bank and Gaza has recently completed its assessment of the economic impact of the ongoing Palestinian economic indicators. By the end of 2002, Real Gross National Income (GNI) had shrunk by 36 percent from its December 2000 level. If those not seeking work ("discouraged workers") are included, unemployment at the end of 2002 stood at 37 percent of the workforce, after peaking at 45 percent in the Third Quarter.[1] With a 9 percent growth in the population of the West Bank and Gaza over the past two years, real per capita incomes are now 41 percent lower than in December 2000, and poverty afflicts approximately 60 percent of the population.

[1] Under the more restrictive definition of unemployment (i.e., excluding these "discouraged workers"), the current rate is estimated at 27 percent, after peaking at 36 percent.

Between September 2000 and December 2002, Palestinian exports and imports both contracted by about a third. Total investment flows have fallen from about US$1.45 billion in 1999 to some US$130 million in 2002, a decline of about 90 percent.[2] Raw physical damage resulting from the conflict jumped from US$305

[2] In opportunity cost terms this represents US$3.2 billion in foregone investment (had investment grown at the same pace as GNI was projected to in the absence of the intifada).

million at the end of 2001 to some US$930 million by the end of 2002. If account is taken of the additional wear and tear on equipment and infrastructure, total damage climbs to about US$1.7 billion. As a result of both damage and the fall in investment, the productive capital stock declined by US$1 billion between 1999 and 2002 (or by 19 percent in real per capita terms).

Overall GNI losses reached US$5.2 billion after 27 months of the intifada. Given that GNI amounted to US$5.4 billion in 1999, the opportunity cost of the crisis was equal to almost one full year of Palestinian wealth creation.

The Palestinian Authority (PA)'s fiscal position remains precarious. As a result of rising unemployment, reduced demand, and the withholding by the Government of Israel (GOI) of taxes collected on the PA's behalf, monthly revenues fell from some US$91 million in late 2000 to just US$18 million by end-2002. A collapse of the PA has been averted by emergency budget support from donor countries, which averaged US$42 million per month through 2002 – about half of total PA budget outlays over the period.[3] In this context, the recent decision by GOI to resume the monthly transfer of the PA revenues is a very important step.

The private sector has absorbed much of the shock to the economy. Over a quarter of the pre-intifada private workforce has been laid off[4] and real private GDP (measured at factor costs) declined by some 35 percent between 1999 and the end of 2002. Private agricultural and commercial assets have suffered over a half of all physical damage. Commercial bank credit to the private sector is drying up, and by the end of 2002 the PA owed private suppliers slightly less than US$200 million in unpaid bills. Although direct donor assistance to private firms has been negligible, donor disbursements have played a major role in sustaining the private sector by stimulating the demand for Palestinian goods and services.

The proximate cause of the Palestinian economic crisis is closure, i.e. restrictions imposed by GOI on the movement of Palestinian goods and people across borders and within the West Bank and Gaza -- restrictions which GOI view as essential to protect their citizens from violence. Closures take two major forms: internal restrictions reinforced by curfews, and external closure of the border between Israel and the Palestinian territories, including limitations on access by Palestinian workers to work in Israel and the Israeli settlements. The further sharp contraction of the Palestinian economy in 2002 resulted from the destruction, curfews and tight internal closures associated with Operation Defensive Shield and its aftermath.

In March/April 2002, following an escalation of violence, Israeli Defense Force (IDF) operations transformed many West Bank cities, towns and villages into restricted military zones, with residents under sustained curfew for days at a time. The movement of goods inside the West Bank has been seriously interrupted by a new "back-to-back" system, which requires all non-humanitarian goods to be off-loaded from incoming trucks and re-loaded onto local trucks at eight checkpoints near major West Bank cities. In practice, these restrictions are applied more rigorously to manufacturers and traders attempting to move goods out of Palestinian cities than to those bringing goods in from Israel.

In September 2000, an estimated 128,000 Palestinians worked in Israel and the Israeli settlements. With the outbreak of the intifada, GOI at first cut back heavily on the issuance of reduced work permits, but in recent months has begun to provide considerable numbers once again. Some 32,000 were being issued by the end of 2002, though only about a half of these were being used, since internal closures make it hard for workers to move through the West Bank and Gaza to the designated workplace.

The Fourth Quarter of 2002 witnessed a strong recovery in employment. The numbers employed climbed to their highest level since the intifada began, giving rise to hope that the economy had adjusted to the shock of Operation Defensive Shield. An examination of the 19 percent increase in employment, however, suggests a need for caution. About a half of the new jobs were in agriculture, and reflect strong seasonal demand (particularly for the olive harvest). Another quarter were in construction and seem to be associated with a time-bound effort to repair physical damage. When assessed from the perspective of employment status, moreover, a quarter of the "new jobs" take the form of unpaid family labor.

[3] A total of approximately US$1.1 billion by the end of 2002, of which US$800 million came from Arab League countries and US$260 million from the EU.

[4] Includes those working in Israel. In Q3 of 2002, the private sector provided about 42 percent less jobs than in September 2000.

It would thus be premature to think that an economic recovery is underway. Until there are signs of a real political rapprochement, the economy, and with it Palestinian longer-term competitive prospects, will continue to languish.

Averting Economic Collapse

A year ago, many observers feared that the Palestinian economy was on the brink of collapse. Although battered, the economy still functions.

One key reason is that the PA still operates and is still able to deliver basic services. Thanks in large measure to donor budget support, 125,000 people receive a regular monthly salary and provide essential services to the population. Today the PA employs 26 percent of those still working inside the West Bank and Gaza, and pays 40 percent of all domestic wages. These wages were instrumental in supporting the livelihoods of many private employees, and made the difference between the halting survival of the domestic private sector and a far more dramatic eclipse.

Budget support accounted for 60 percent of an extraordinary, sustai ned donor effort which disbursed US$1,051 million in 2002, after doubling from pre-intifada levels to US$929 million in 2001. Donor support of all forms played an essential part in cushioning the impact of the economic shocks of 2002.

Another key is that Palestinian society has displayed great cohesion and resilience. Despite violence, economic hardship and the daily frustrations of living under curfew and closure, lending and sharing are widespread and families for the most part remain functional. Even with a dearth of formal safety nets, outright destitution is still limited -- those who have income generally share it with those who do not. The West Bank and Gaza has absorbed levels of unemployment that would have torn the social fabric in many other societies.

Impact on Ordinary Palestinians

The economic crisis has seriously compromised household welfare. Many families have endured long periods without work or incomes, and despite the various employment generation efforts of the PA, donors and NGOs, many now depend on food aid for their daily survival. Coping with the situation has meant selling assets, borrowing from families, neighbors and shopkeepers and cutting consumption, including food.

Using a poverty line of US$2.1 per day, the World Bank estimated that 21 percent of the Palestinian population were poor on the eve of the intifada, a number that increased to about 60 percent by December 2002. Accounting for population growth, the numbers of the poor have tripled, from 637,000 to just under 2 million. The poor are also getting poorer. In 1998, the average daily consumption of a poor person was equivalent to US$1.47 per day. This has now slipped to US$1.32. More than 75 percent of the population of the Gaza Strip are now poor. The high rate of Palestinian population growth (4.3 percent per annum) is fuelling the growth in poverty.

The crisis has affected different social groups differently. Adolescents are particularly vulnerable. Of an age to understand the economic hardships that their families face, but generally too young and inexperienced to be able to help much, they are particularly susceptible to trauma and to feelings of powerlessness and rage. Teachers are reporting an increase in violent behavior at school; many adolescents see no sense in continuing their education, and drop-out rates in this age group have risen markedly during the intifada – although teenagers have a very limited chance of finding employment in the formal labor market. Many of these adolescents may find themselves locked into a life-long poverty trap, with poor prospects of escaping it when the economy recovers. International research shows how devastating protracted unemployment can be in patriarchal societies, and how this can translate into domestic violence. A range of social and human rights organizations working at the household level in the West Bank and Gaza have noted an increase in violence against women and children as the crisis has lengthened.

What Can Be Done?

World Bank analysis shows the limited power of donor assistance under the conditions pertaining in 2002. Since the beginning of the intifada, donors have provided about US$315 per person per year, an unprecedented level of international financial commitment.[5] Despite the importance of these contributions in staving off fiscal disintegration and the disappearance of the PA as a viable service provider, the economy has contracted by almost a half. A doubling of donor disbursements to US$2 billion in 2003 and 2004 – something which there is no reason to believe can happen – would only reduce the poverty rate by seven percentage points by the end of 2004.[6] On the other hand, if internal closures were removed and exports facilitated, GNP could surge by about 20 percent in 2003 and poverty could fall by 19 percent by the end of 2004.[7] The point is clear: it is politics that determine the health of the Palestinian economy, and in an adverse political climate all donors have been able to do is slow the rate of economic decline. A return to a political process is indispensable for the resumption of economic and social development in both Israel and the Palestinian territories.

Recommendation to the Palestinian Authority

The main service providers – the Ministries of Health and Education and the municipalities – have struggled to maintain a basic network of public services in an environment beset by curfews, closures, periodic violence and severe fiscal compression. These institutions have continued to do their job thanks to the commitment of thousands of Palestinians who work in schools, clinics and municipal service departments, supported in the field by the UN system (in particular UNRWA) and by Palestinian and international NGOs.

At a strategic level, however, the PA has not managed to communicate to the public how it is coping with the crisis. Partly as a result of this, the PA's emergency efforts are undervalued by Palestinians. The PA needs to formulate a clear economic plan, and to use the process of plan preparation to energize a collective social effort to cope with the crisis.

A key difference from a year ago is the PA's adoption of a serious program of reform. The PA Reform program aims to weed out corruption by enforcing full fiscal accountability, to create a predictable and transparent legal environment, and to build a modern, merit-based civil service. The PA's Ministerial Committee on Reform has committed itself wholeheartedly to the cause. Considerable progress has been made in some areas, in particular the management of the PA's finances, despite strong resistance from entrenched interests. Much has been done to repair the credibility of the PA in the eyes of the international community. That said, there is now no way back -- having acknowledged the need to combat corruption and to transform itself into a democratic, modern and accountable instrument of statehood, the PA must deliver a successful reform program or lose both domestic and international legitimacy.

Recommendations to the Donors

The World Bank estimates that donors so far intend to commit US$1,175 million and disburse about US$820 million in 2003. These sums fall short of the US$1,527 million committed and US$1,051 million disbursed in 2002.

Significant shortfalls against needs can be identified in a number of areas. Particular mention should be made of

- Budget Support for the PA – in 2002 a total of US$508 million was disbursed against the PA budget. A realistic appraisal of donor intentions suggests that disbursements of about US$250 million are likely this year, evidencing donor fatigue in this area.[8] The PA has estimated its external budget support requirements for 2003 at US$535 million, even with regular monthly revenue transfers by GOI. Donors are urged to do what they can to support the PA budget in 2003, and thereby to ensure that adequate basic public services can be provided. Donors currently concerned about the fungibility of general budget support should be reassured by GOI's willingness to resume revenue transfers.

5 Disbursements to WBG in 2001 and 2002 can be compared to other high-profile "post-conflict" cases such as Bosnia (US$5.4 billion over 5 years for a population of c. 5 million, or roughly US$215 per person per year) and, more recently, East Timor (US$350 million over 2 years for a population of about 0.5 million, or roughly US$235 per person per year).

6 This is in part because closures dampen the ability of foreign assistance to raise real incomes, with most of the funding translating into imports and inflation rather than domestic production.

7 Holding donor disbursements constant at US$1 billion per annum.

8 The report details the difficulties associated with the burden-sharing formula adopted by the Arab League Summit in Beirut in March 2002, as well as the concerns expressed by European parliamentarians that EU budget contributions may have been diverted to fund attacks on Israelis. The report also points to the fact that GOI has resumed revenue clearances as an important sign to donors of growing Israeli confidence in the way that the PA's finances are now managed.

- Support for UNRWA's programs – UNRWA is responsible for basic service provision to 1.5 million registered refugees in WBG, or almost half of the population, and is entirely dependent on donor contributions. In 2002, UNRWA disbursed US$220 million. At the time of writing, donors have committed only US$48 million to UNRWA's 2003 regular budget of US$344 million[9], and US$34.5 million to its US$94 million Fifth Emergency Appeal. The need for additional support is urgent.

It is clear that donors have not abandoned their medium-term development programs, and aid indications for 2003 are higher than at any previous point in the intifada.[10] This suggests that donors perceive that there is a real possibility of a political break-though in 2003, and that they are gearing themselves up accordingly. If these plans can be realized, they will arrest the worrying decline in donor developmental expenditures.

Recommendations to the Government of Israel

The actions of the Government of Israel will have greater direct bearing on the Palestinian economy in 2003 than the economic policies of the PA or the activities of donors. The sine qua non of economic stability and recovery is the lifting of closure in its various forms, and in particular internal closure. As long as Palestinian internal economic space remains as fragmented as it is today, and as long as the economy remains subject to extreme unpredictability and burdensome transaction costs, the revival of domestic economic activity will remain a distant prospect, and Palestinian welfare will continue to decay.

Israel's legitimate right to defend its citizens from attack is not at issue, but nor should the specific applications of closure be seen as beyond discussion. There is room for a more open debate on those aspects of closure that do, or do not, protect Israeli security. The challenge is to find ways of maintaining Israeli security without stifling the Palestinian economy and impairing the livelihoods of ordinary Palestinians.

GOI's recent decision to resume the transfer of the PA's monthly clearance revenues is an important and commendable initiative. Five such transfers, averaging US$31 million per month, have taken place since December 2002.[11] If these flows continue on a regular basis and are segregated from day-to-day political pressures, they will play a vital part in stabilizing the Palestinian economy. GOI's continued repayment of the stock of withheld arrears[12] will in addition permit the PA to clear its debts to the domestic private sector and the Palestinian pension system, both of which steps are very important to its internal credibility.

The recent increase in the number of permits issued to Palestinians for work in Israel and the settlements is also very positive.

Donors need GOI to do more to facilitate the work of humanitarian agencies, be they donor, UN or NGO. The report describes the intensified relationship between donors and GOI in the context of the Task Force on Project Implementation (TFPI), and remarks on the collegial working relationships developed between TFPI donors and the Office of the Coordinator for the Occupied Territories (COGAT). But the report also points to significant disconnects between commitments provided to donors by COGAT and the actions of IDF soldiers on the ground. This not only undermines the efficiency of the humanitarian effort, but also exposes aid staff to appreciable physical danger. Donors have also pointed out in strong terms the need for the IDF to avoid further destruction of donor-financed infrastructure and project facilities.[13]

Donors have also asked GOI to permit freedom of movement for the Palestinian officials and parliamentarians critical to the implementation of Palestinian reform, consistent with Israel's own call for the reform of the PA. In addition, it is important that GOI facilitate regular meetings of the Palestinian Legislative Council to enable the passage of critical reform legislation and to permit oversight of the reform process.

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[9] Of which some 45% is budgeted for the West Bank and Gaza.

[10] Commitments to infrastructure and capacity-building work with a medium-term focus fell from US$482 million in 1999 to US$279 million in 2001 and to US$197 million in 2002. In 2000, the ratio between development and emergency assistance was approximately 7:1 in favor of development assistance. By 2002, the ratio had shifted to almost 5:1 in favor of emergency assistance. Although overall commitments increased by 57 percent in the period, development assistance declined by 70 percent, while emergency assistance increased by a factor of 10. For 2003, however, commitments are currently estimated at US$548 million, and potential disbursements at US$245 million.

[11] In December (US$29 million), January (US$30 million), February (US$39 million), March (US$31 million) and April (US$25 million).

[12] Thus far GOI has repaid US$114 million from the withheld stock, of which an estimated US$532 million remains owing to the PA (before any deductions).

[13] The World Bank estimates that some US$150 million in damage to donor-financed infrastructure and project facilities has taken place since September 2000.

Looking Ahead

While any short-term recovery will depend on the lifting of closures, this will not suffice to put the Palestinian economy onto a sustainable growth path. The de facto customs union with Israel formalized under the Paris Protocol makes the Palestinian economy particularly vulnerable to closure. In a structural sense, though, the long-term growth potential of the Palestinian economy has been stunted by the upward pressure on domestic Palestinian labor prices created by the wages paid to Palestinian workers in Israel. Domestic wage increases have exceeded any underlying growth in productivity, and have undermined Palestinians' ability to export competitively-priced goods to the rest of the world. Bank analysis shows that a proactive policy of export development, in which a more open and less discriminatory trade regime is adopted, should result in higher incomes by 2010 than a return to previous levels of employment in Israel.

Between 1968 and 2000, Palestinians in the West Bank and Gaza pursued a development strategy which featured the export of labor rather than goods. In June 2000, three months before the current Palestinian intifada began, 21 percent of all employed Palestinians worked in Israel, mainly in low-skilled construction and agricultural jobs. Net incomes from abroad provided more than 21 percent of Palestinian GNI, making it one of the most remittance-dependent economies in the world. This is why the loss of jobs in Israel in the past two years has had such a strong impact. Put another way, the intifada has demonstrated the vulnerability of a development strategy which relied so heavily on labor exports to Israel.

The shift to a goods-based export policy would take time, would be subject to many uncertainties and would require the active cooperation of Israel to succeed; it is thus part and parcel of a political rapprochement. It is also true that restoring access to the Israeli labor market would be the quickest way to boost incomes for a large number of ordinary Palestinians. Realistically, though, a return to pre-September 2000 employment levels for Palestinians in Israel seems unlikely – and would anyway risk perpetuating a high level of Palestinian economic dependence on Israel, hindering the emergence of a diversified development strategy with much greater long-term growth potential.

Summary of Macroeconomic Trends and Projections

	1998	1999	2000	2001	2002
Gross National Income (GNI), US$ million	5,058	5,056	5,455	4,526	3,768
Gross Domestic Product (GDP), US$ million	4,230	4,198	4,637	4,034	3,396
Net Factor income, US$ million	828	859	817	492	372
Imports, US$ million	3,052	3,250	2,800	1,947	1,581
Exports, US$ million	624	616	596	515	345
Private consumption, US$ million	976	1,185	1,736	1,810	1,757
Public consumption, US$ million	4,014	4,182	4,122	3,447	2,756
Gross domestic investment, US$ million	1,668	1,464	984	209	119
Real annual change:					
GNI per capita	7.7%	3.9%	-7.5%	-23.2%	-23.4%
GDP per capita	3.9%	3.1%	-5.3%	-19.5%	-22.5%
Private consumption	9.0%	7.5%	-5.6%	-15.5%	-14.8%
Public consumption	7.0%	20.3%	31.0%	-2.1%	-0.6%
Total Fixed investment	8.4%	-8.3%	-28.3%	-76.9%	-44.0%
Export	6.6%	2.3%	-8.8%	-13.4%	-24.3%
Import	7.4%	5.4%	-16.2%	-29.0%	-12.9%
Other items					
Poverty, share of population below poverty line	23.2%	20.1%	30.7%	45.7%	58.6%
NIS/US$, annual average	3.81	4.14	4.08	4.21	4.74
CPI, annual change	5.6%	5.5%	2.7%	2.1%	5.7%
Annual Closure days	26	16	75	210	Na
Population, mid-year (1,000)	2,731	2,842	2,966	3,096	3,231

Note: All data excludes East Jerusalem.
Sources: World Bank staff estimates; PCBS; UNSCO.

Fiscal and Budgetary Developments

by the IMF Resident Representative office in the WBG.

The fiscal situation in the West Bank and Gaza continues to be difficult, although significant positive developments have take place since late 2002. In December, the government of Israel (GOI) resumed the regular monthly transfer of tax revenues that it collects on behalf of the Palestinian Authority (PA). Before the intifada these "clearance" revenues accounted for nearly two thirds of total PA revenue. The freezing of these tax revenues from late 2000 contributed significantly to the severe budgetary crisis already aggravated by the dire economic situation. As a result, substantial payment arrears were accumulated. It also resumed repayments from the accumulated tax revenues withheld by GOI since October 2000 at a monthly rate of NIS 100 million, beginning in January 2003.

The resumption of the tax transfers followed the implementation of important steps in Finance Minister Salam Fayyad's ambitious reform program towards more transparency and accountability of the PA's finances. It also enabled the next step on the fiscal reform agenda: the passage ex-ante, by the Palestinian Legislative Council, of a fully-funded viable budget for 2003. The budget, published in detail on the Ministry of Finance (MOF) website, is based on a tight expenditure stance and precludes the accumulation of payment arrears and bank borrowing under the assumption that Israel continues the monthly transfers of tax revenues and that donor financing of the budget continues at a level of US$44.6 million per month. Transfers out of the accumulated stock of withheld tax revenues would then be used exclusively to pay off domestic payment arrears and reduce domestic bank debt.

Budgetary management over the first quarter of 2003 has been very good in so far as it ended the quarter with a small positive balance and repaid substantial arrears to the private sector without incurring any new arrears. However, there were large shortfalls in both external financing and transfers from the stock of tax revenues withheld by Israel. On the positive side, monthly flows of clearance revenues from Israel have been steady and have averaged US$34 million over the first three months of 2003 which exceeds the budget assumption for such flows of US$27 million per month. Domestic tax revenue of US$16 million per month has only been lower than the budget expectation of US$17 million because February had a long holiday. Overall, total revenue in the first quarter has been higher than expected, which is consistent with recent PCBS and IMF estimates for 2003 that economic activity has stabilized, instead of declining by 7 percent as assumed in the budget.

Much lower than expected, however, has been the donor budget support and the transfers by Israel from the accumulated stock of tax revenues. The disappointingly low level of donor support partly stems from shortfalls of Arab League countries' assistance that has been much lower than the budget assumption (US$15.4 million vs. US$30 million per month), and partly from shortfalls of EU budget support ($10 million) which has been discontinued since October 2002. Total external budget support has averaged US$22.7 million per month, only slightly more than half of the budgets amount of US$44.6 million. On an annual basis, there now appears to be a US$250 million gap in external budget support as opposed to budget projection. However, on the strength of the monthly tax transfer revenue from GOI, this budgetary assistance would be reduced by US$60 million, provided other revenue sources meet budgetary expectations.

Withheld tax revenue transferred by the GOI from the accumulated stock has been steady at a monthly rate of about US$21 million which is about half of the US$40 million expected in the budget. If this trend continues, the PA will be faced with a resource gap of US$228 million in 2003. The lower rate of withheld tax transfers is partly explained by large amounts frozen by Israeli courts pending the resolution of Israeli private claims against the PA. But deductions from the stock of withheld taxes have also been made at the request of the PA to settle bills from Israeli public utilities and companies for services provided to Palestinian municipalities. Nevertheless, if the monthly flows of donor budget support and Israeli withheld tax transfers do not increase, the PA will face a financing gap of about US$420 million, assuming that domestic tax revenues and expenditures are in line with the budget.

To face this situation and not accumulate further arrears, the MOF has cut non-wage expenditure by reducing its disbursements to line ministries well below the budgetary appropriations. Non-wage expenditure averaged only US$17.8 compared to US$34.6 million in the budget. As a result, budget execution generated a small surplus for the first quarter of US$0.7 million per month (including budget support). This enabled the MOF to use the transfers of frozen tax revenues by Israel to repay about US$80 million in private sector arrears, which will help the private sector recover somewhat from the liquidity squeeze it has experienced over the last two years. MOF achieved this arrears repayment at the cost of maintaining a high Treasury indebtedness with commercial banks. But since the banks were unwilling to extend credit to the private sector the deployment of bank resources by MOF shifted bank intermediation from MOF to the benefit of the private sector. Nevertheless, the strict expenditure cuts will

Table 1: West Bank and Gaza Fiscal Developments in January-March 2003

(in millions of US dollars)

	Budget 2002 per month	**2003**		
		January	**February**	**March**
Revenue	44.25	47.27	50.93	54.36
Domestic	17.25	16.91	12.26	19.18
Clearance	27.00	30.36	38.67	35.18
Total Expenditure	88.83	72.65	69.56	76.16
Wage expenditure	52.00	55.39	54.72	54.84
Non-wage expenditure	34.58	17.26	14.84	21.32
PA-finance capital expenditure	2.25	0.00	0.00	0.00
Balance	-44.58	-25.38	-18.63	-21.8
External budget support	44.58	17.95	27.36	22.65
Balance including budget support	0.00	-7.43	8.73	0.85
Total other financing	0.00	7.43	-8.72	-0.84
Transfers by Israel from accumulated stock of tax revenue	40.00	21.01	20.79	20.83
Repayment of arrears (-)	-34.58	1.56	-47.79	-36.72
Domestic bank financing	-5.42	-15.14	18.28	15.05
Exchange rate, NIS US$	5.00	4.76	4.81	4.80

Ministry of Finance and IMF estimates

Closure in the West Bank and Gaza

UNSCO Update #2

During the first three months of 2003, Israel continued to restrict all methods of travel and traffic internally in both the West Bank and Gaza, and externally, between the Palestinian Territories and Israel, Egypt and Jordan. Travel through the safe passage remained frozen.

Palestinian passenger travel continued to be subject to Israeli permit policies for all types of travel. From Gaza, travel was prohibited to the West Bank and Israel—with very few exceptions. During in Q1-2003, an average 7,000 Gazans worked in Israel, Israeli settlements and industrial zones, a mere 24 percent of the average daily workers in Q3-2000. Furthermore, workers who use Erez faced closure of the crossing twenty percent of the time during Q1-2003. At the Rafah border to Egypt, travelers reportedly experienced closures on numerous occasions where hundreds of civilians were stranded overnight with only the bare minimum of facilities available—the border crossing does not accommodate sleeping and sanitary needs for overnight stays. Gaza international airport remained completely closed since the second quarter 2001.

Palestinian commercial movement remained prohibited through Erez checkpoint since the October 2000. Israel continued to administer the 'back-to-back' system at Karni and Rafah crossings in Gaza, (and at Allenby bridge to Jordan). In Gaza, imported truckloads remained at only 83 percent of their 1997 level; exported truckloads remained at only 78 percent of their 1997 level.

Internal movement in Gaza was frequently restricted along the Strip's main north-south artery (Salah Ad-din street) at the Abou Holly checkpoint, which was closed daily for an average of 11 hours during Q1-2003. The citizens of Mawasy continued to be subject to highly unusual treatment, permitted to cross the area's checkpoints only during the designated 6 hours per day. Men and women between the ages of 15 and 35 were not permitted to cross Israeli checkpoints at Mawassy.

Israel continued to regulate the pulse and flow of all travel and traffic throughout the West Bank. Movement restrictions imposed on the mobility of Palestinian goods and individuals remained severe throughout Q1-2003. Passenger travel continued to be subject to the use of multiple vehicles and travel on foot in order to traverse the many physical barriers dispersed throughout the West Bank.

In December 2002, Israeli authorities allowed Palestinian bus companies to operate a limited number of buses between designated West Bank urban centers. UNSCO interviews with bus operators suggest that movement of busses, however, is erratic and subject to significant delays at checkpoints. Passengers that can afford to do so, therefore, travel in yellow plated taxis instead, which typically cost a minimum of three times the fare.

In order to travel across checkpoints, West Bank Palestinians generally require permits if they do not work for international organizations or cannot show that they are humanitarian or relief workers such as doctors and nurses.

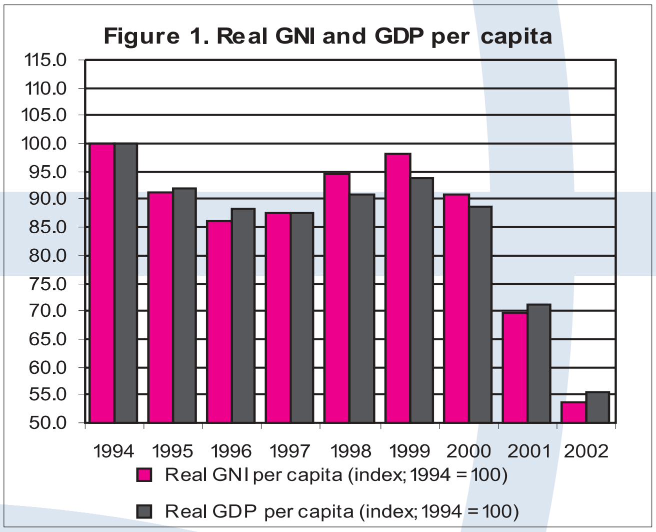
Permits to cross checkpoints are generally issued only under limited circumstances, usually for work or business. In Q3-2001, the number of permits issued for work in the West Bank remained a mere 25 percent of the number issued in Q3-2000. Permits were mainly issued to married male workers over 35 years of age and to married females over 25 years of age.

Recent Economic Developments

Economic Output

In its March 2002 report, "Fifteen Months – *Intifada*, Closures and Palestinian Economic Crisis" the World Bank described a Palestinian economy under tremendous external pressures, with closure the main force in its decline. The report pained a picture of a society increasingly deprived of work, and suffering rapid impoverishment. Already by December 2001, real Gross Domestic Product (GDP) per capita had declined by 19.5 percent compared with a year before, and real Gross National Income (GNI) per capita by over 23 percent.[1]

This decline continued in 2002, as documented by the Bank in its current companion volume, "Twenty-Seven Months". Real GDP per capita fell an estimated 19 percent in 2002, and real GNI per capita by 23 percent. Real GNI per capita in 2002 was some 46 percent lower than in 1999, *see Figure 1*.



Source: World Bank Estimates. Date excludes East Jerusalem

Overall GNI losses have reached some US$5.2 billion in 27 months – when one considers that GNI was estimated at US$5.4 billion in 1999, the opportunity cost of the crisis represents almost one entire year of Palestinian wealth creation. Cumulative raw physical damage has jumped in the last year to some US$930 million, and lost investment to US$3.2 billion.[2]

[1] Gross National Income (total income earned by a country's residents) is Gross Domestic Product (total income earned within the country) plus net factor income (positive or negative) coming from abroad. In WBG net factor income is positive and consists mostly of Palestinian workers' remittances from Israel.

[2] Lost investment is defined here as the gap between what investment might have been in the absence of conflict (assuming investments grew at the same pace as projected GNI), and actual investment.

As has been reported by the World Bank and others, the primary reason for this very inferior economic performance remains internal and external closure. Restrictions on the movement of goods and people continue to have a profound negative effect on economic activity across all sectors, as it has reduced overall productivity of the Palestinian economy through a number of channels.

External closures lower workers' remittances, and consequently entail a negative multiplier effect on the demand for domestic goods. The combination of internal and external closures has led to a sharp increase in transaction costs, reducing productivity and competitiveness of Palestinian firms, as well as the overall adjustment capacity of the Palestinian economy to the decline in demand. In spite of continued high unemployment, prices and wages have not sufficiently adjusted downwards, which bears a high cost for the economy and society as a whole, notably in terns of equity (poverty) and aggregate purchasing power. Despite the strictness of external closure, opportunities for substitution of imports by domestic inputs in the production process by Palestinian suppliers remains modest; indeed, the ratio of imports in GDP has risen from 70 percent in 1998 to 74 percent in 2002.

The estimated social cost of the fall in income and demand resulting from the crisis is huge. The World Bank estimates that the share of population in the West Bank and Gaza below the poverty line of US$2.1 a day has nearly tripled during the crisis, from 21 percent on the eve of the Intifada to 33 percent by end-2000 and 59 percent end-2002.

Prospects of rapid, sustained economic recovery remain grim. Productive capacities and markets have been lost, some of them permanently. Households, firms and the Palestinian Authority have adopted strategies which have proven to be efficient in coping with the crisis, but many of these are not sustainable in the medium run.

Should closure continue, foreign assistance, though useful and timely, can help maintain minimum welfare but it cannot pretend to foster real economic recovery. Only a resolution of the Israeli-Palestinian conflict accompanied by a profound change in the Palestinian economic environment can encourage that.

Foreign Trade

Trade traditionally played an important role in the small and open Palestinian economy. Throughout the past five years, imports of final goods, services, equipment and intermediate inputs represented approximately 70 percent of GDP, while exports of goods and services represented less than 20 percent of GDP.

Unfortunately trade is badly registered, as most of it takes place between the West Bank and Israel, where no custom stations exist (unlike trade between Gaza and Israel). The Israeli Central Bureau of statistics nevertheless estimates such flows, and we rely on their data to depict the evolution of trade since 1998. This only covers Palestinian trade with Israel, and not with the rest of the world. However, trade with Israel represents the bulk of total Palestinian trade.[3] Furthermore, a significant share of imported goods from Israel are actually originating from third countries – "indirect imports". In addition, it does not appear that these relationships are considerably impacted by exchange rate movements, neither the depreciation of the New Israeli Shekel in early 2002 or its subsequent appreciation are thought to have significantly altered the composition of Palestinian imports in terms of trading partners.

The impact of closures following the outbreak of the *Intifada* and their progressive tightening through summer 2002 is clearly reflected in the reduction of Palestinian imports from Israel. First quarter 2003 again witnessed reduction from the levels seen in the second half of 2002; the level in the January-March period (US$209 million) was 44 percent that of July-September 2000 (US$478 million), *see Figure 2.*

Palestinian exports for the first quarter 2003 (US$39 million) are 51 percent the pre-*Intifada* third quarter 2000 (US$77 million). (It is thought that the improvement in Palestinian exports registered in the fourth quarter 2002, when they reached US$62 million, is partly the result of olive and/or olive oil exports resulting from the bi-annual harvest.) At least three factors explain the reduction in exports witnessed during the past two years: increased costs in transportation resulting from closure making Palestinian products less competitive; foreign purchasers switching to more reliable alternative sources of supply in the face of production and shipping interruptions; and Palestinian producers switching to service domestic markets.

[3] In 1998, imports from and via Israel represented 75 percent of total imports, while exports to Israel represented 96 percent of total exports (Astrup and Dessus, 2001, Trade Options for the Palestinian Economy: Some Orders of Magnitude, MENA Discussion Paper Series, 21, The World Bank).

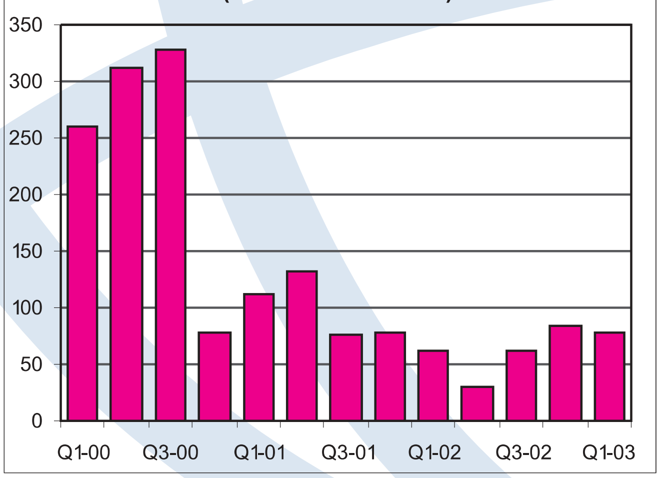
Figure 2. Trade with Israel (million US Dollars)

Source : Israeli Central Bureau of Statistics.

Labor Markets

As a result of external closures, nearly 100,000 Palestinian workers have lost their jobs in Israel since September 2000. The implied decline in workers remittances (according to the Israeli Central Bureau of Statistics, third quarter 2000 remittances totaled US$328 million; in first quarter 2003, only $79 million – a 76 percent decline, *see Figure 3*) is very significant with direct consequence on the income of Palestinian households, as workers' remittances from Israel represented some 18 percent of their total disposable incomes in 1999. In turn, lower incomes inevitably affected the demand for Palestinian goods and services, and hence labor demand for Palestinian workers producing such goods and services within the West Bank and Gaza.

Figure 3. Workers' Remittances (million US Dollars)



Source : Israeli Central Bureau of Statistics.

The negative impact on domestic employment of job losses in Israel is aggravated by the difficulties in conducting business within the West Bank and Gaza: internal closures and curfews are attended by significant transaction costs, disruption in production cycles, losses of perishable output, and lower economies of scale. By the fourth quarter 2002, 29,000 of the 249,000 eve-of-Intifada private sector jobs (excluding unpaid family members) had been lost in the West Bank (9 percent), while in Gaza the number of paid private sector jobs remained stable from third quarter 2000 to fourth quarter 2002 at 86,000, reflecting the greater deterioration in the economic environment in the West Bank compared to Gaza. Overall in the West Bank and Gaza the number of public sector jobs has remained stable, at 115,000 pre-*Intifada* and averaging 118,000 during the fourth quarter 2002.

The fourth quarter of 2002 witnessed an increase in the number of jobs in both the West Bank and Gaza. In the West Bank this increase was short-lived, however, concentrated in agriculture (related to the olive harvest and reversed in the first quarter of 2003) and some one-off infrastructure repair generating employment in construction. In Gaza, the job growth comes off of a particularly poor performance in the third quarter 2002 and is also concentrated in agriculture (a similar seasonal pick-up was noticed in the fourth quarter of 2001 and first quarter of 2002, related to citrus harvesting). Like the West Bank in fourth quarter 2002, much of this increase is in unpaid family members working.

With population growing at approximately 4.3 percent per year, dependency ratios – the total population divided by the number of employed persons – have increased dramatically. Whereas in the third quarter of 2000 each job holder in the West Bank was supporting 4.3 persons, by the first quarter of 2003 one employed person was supporting 6.6. In Gaza, the dependency ratio increased similarly, from 5.9 to 7.5.

With population and labor force growing, declines in Palestinian employment in Israel and Isreali settlements, and a lack of domestic job creation, unemployment and unemployment rates continue to grow dramatically. In the West Bank the unemployment rate in first quarter 2003 climbed to 31.4 percent, its highest level since the beginning of the *Intifada*, with 157,000 persons looking for work. (During the third quarter of 2000, the number of West Bank unemployed was 38,000 and the unemployment rate stood at 7.5 percent.) In Gaza, first quarter 2003 unemployment stood at 28.6 percent (70,000 individuals); prior to the Intifada the rate 15.4 percent (35,000 persons). (Under International Labor Organization (ILO) standard definitions, a person must be actively seeking work in order to be considered "unemployed".)

When the definition of the labor force is broadened to include "discouraged workers" – persons without jobs who, because of their pessimism regarding the prospect of actually finding work, have stopped looking – the "relaxed definition" of unemployment shows similar trends. In this case, the unemployment rate in the West Bank has increased from 16.9 percent (95,000 individuals) in third quarter 2000 to 40.3 percent (232,000) in first quarter 2003; in Gaza, from 26.9 percent (71,000 individuals) to 37.3 percent (104,000) over the same period (*see Figure 4*).

It should be noted that this is the first time that unemployment rates (either ILO standards or relaxed definition) in the West Bank have exceeded those in the Gaza Strip.

Average real wages in the West Bank and Gaza have evolved differently, reflecting the intensity of the crisis. Through the fourth quarter of 2002, real wages in Gaza have increased 5.4 percent since third quarter 2000, while in the West Bank they have declined 13.3 percent over the same period.

Table 1. Number of Palestinian Jobs (thousands)

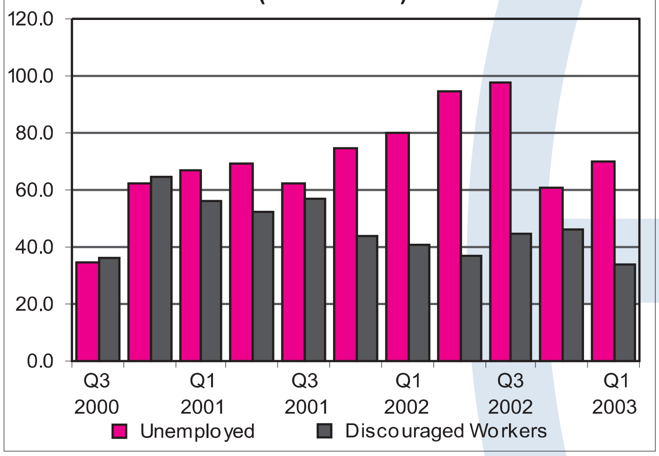
	Q-3 2000	**Q-4 2000**	**Q-1 2001**	**Q-2 2001**	**Q-3 2001**	**Q-4 2001**	**Q-1 2002**	**Q-2 2002**	**Q-3 2002**	**Q-4 2002**	**Q-1 2003**
Workers in West Bank	352	316	292	314	314	316	304	287	288	334	300
Workers in Gaza	163	120	126	127	129	134	138	131	111	150	169
Workers from West Bank in Israel	116	40	69	72	60	66	56	30	50	49	43
Workers from Gaza in Israel	30	3	3	2	3	2	2	2	2	7	6
Total	662	479	490	515	506	518	501	451	452	540	518

Source: PCBS. Note: Israel includes Israeli settlements. West Bank includes East Jerusalem.

Figure 4. West Bank Unemployment (thousands)

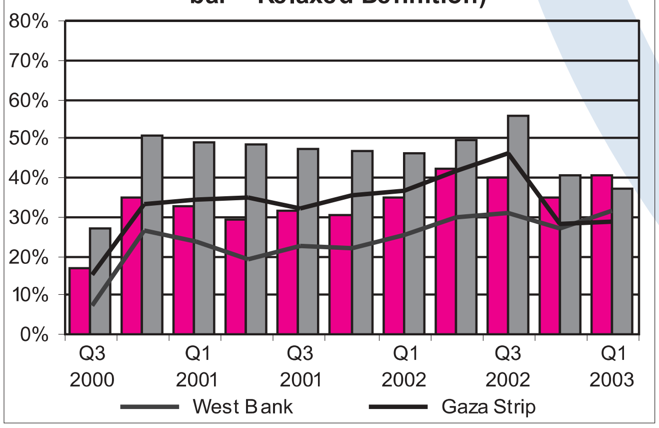
Source: PCBS. Data includes East Jerusalem.

Figure 5. Gaza Strip Unemployment (thousands)



Source: PCBS.

Figure 6. Unemployment Rates (solid line = ILO Standard; bar = Relaxed Definition)



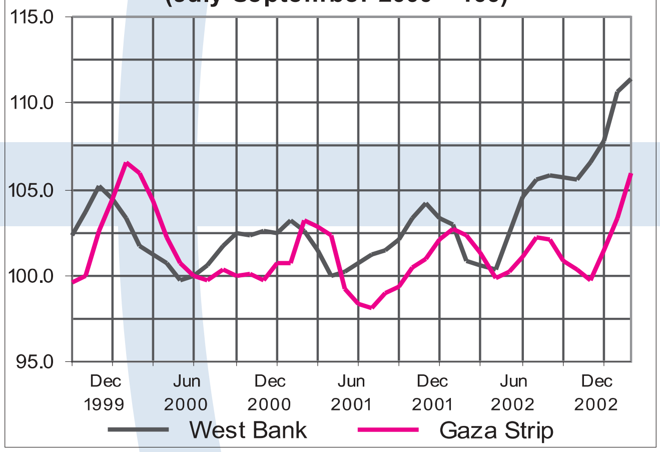
Source: PCBS. Data for West Bank includes East Jerusalem.

Prices

Consumer prices increased in both the West Bank and Gaza in the five month period January-May 2003, by 2.1 percent in the West Bank and 2.8 percent in Gaza. Although in annual terms these rates are equivalent to 5.1 percent in the West Bank and 6.9 percent in Gaza and are much above the annual inflation rates recorded in 2001 (2.6 percent in the West Bank and minus 1.1 percent in Gaza) and for Gaza, above 2002 as well (West Bank, 6.1 percent; Gaza, 2.2 percent), expected inflation for the remainder of the year is expected to be less for several reasons.

Much of this increase witnessed thus far in 2003 is in food prices, which exhibits strong seasonality and generally peaks in the second quarter (see Figure 7). Consequently food prices are expected to decline considerably in the third quarter, before picking up again in the fourth.

Figure 7. Food Price Indices (July-September 2000 = 100)



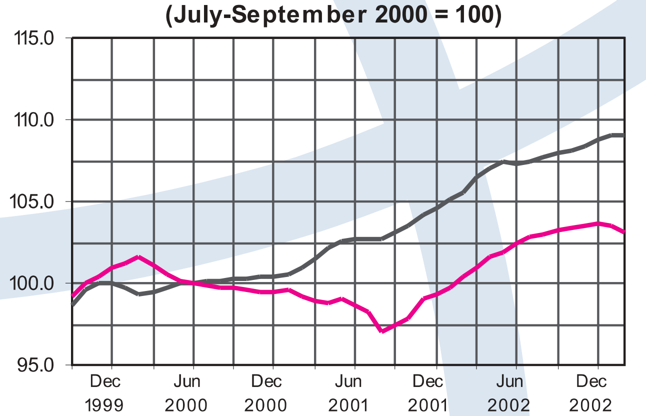
Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

Excluding food, the consumer price index in the West Bank has risen by 1.0 percent since December 2002 (2.5 percent annualized); in Gaza, the non-food CPI has fallen since December 2002, by 1.0 percent (minus 2.6 percent annualized) – rates below what were witnessed in previous years. In 2001, non-food prices rose 4.6 percent in the West Bank and fell 0.6 percent in Gaza; in 2002, non-food prices rose 8.7 percent in the West Bank and 3.0 percent in Gaza.

When transportation costs are also excluded – transportation prices being most affected by changes in the closure regime – the impact of exchange rate movements on prices is clearly seen. Non-food, non-transportation prices in the West Bank have increased

0.3 percent (0.7 percent annualized in the period January-May 2003, and have fallen 1.1 percent (2.6 percent annualized) in Gaza. During 2002, non-food, non-transportation prices rose 4.6 percent in the West Bank and 2.9 percent in Gaza. In 2001, these prices rose 2.0 percent in the West Bank and fell 1.8 percent in Gaza (*see Figure 8*).

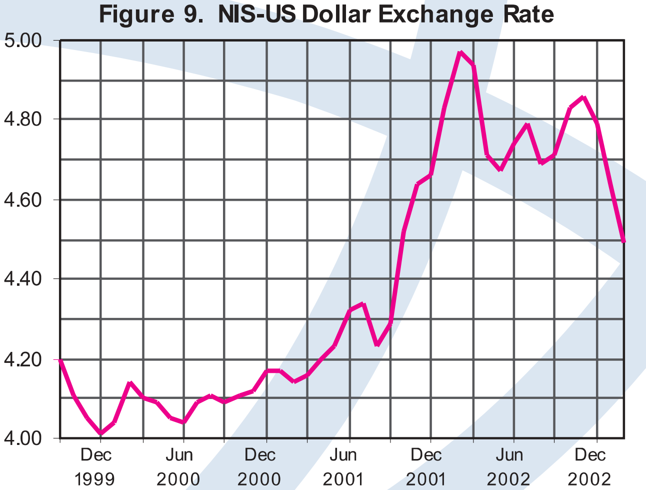
Figure 8. Non-Food Consumer Price Indices, excl. Transportation (July-September 2000 = 100)



Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

The strong depreciation of the Israeli shekel in the first half of 2002 (represented as an upward movement in Figure 9) and its subsequent appreciation (downward movement in the figure), particularly in the period since January 2003 explains to a large extent the acceleration of inflation: during the same period in 2002 and its subsequent slowing down.

Figure 9. NIS-US Dollar Exchange Rate



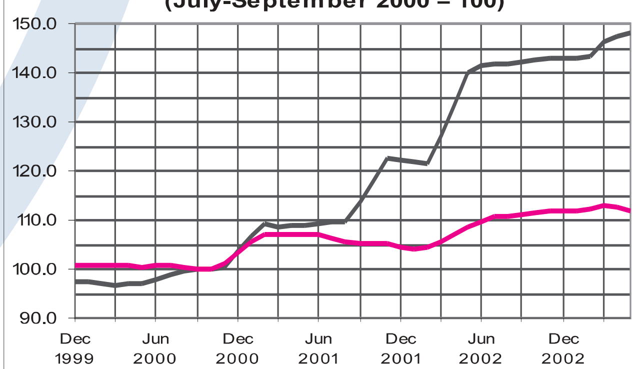
Source: Central Bank of Israel.

Between the period December 2001 and May 2002 the Shekel lost 15.8 percent of its value with respect to the US dollar. As a result, prices of goods imported into Israel from overseas – and by extension, into the West Bank and Gaza – mechanically increased and the overall consumer price index, measured in shekels, also increased to the extent that the CPI market basket consists of imported goods or services priced in dollars (such as rents). With an appreciating shekel – the shekel having risen 9.7 percent against the dollar since May 2002 – imports become cheaper, and inflation measured in shekels lessens (so long as importers pass on these reductions to consumers).

While exchange rate movements explain the basic trends in consumer prices (particularly in non-food prices where seasonality is also a considerable factor) tightened closure during the period also impacted consumer prices overall. This effect comes through both direct and indirect channels: changes in the transportation component of the consumer price index (which measures transportation prices that increased directly as a result of heightened closure, but also through reflect changes in world petroleum prices and, since petroleum is a dollar-priced import, changes in the exchange rate) and indirectly through increased costs of shipping for producers and distributors, which are in turn passed on as increases in the final price of all goods faced by consumers in the market place.

Thus the tightening of closure associated with the outbreak of the Intifada in fall 2000 affected both Gaza and the West Bank, while Israeli military interventions in the West Bank in autumn 2001 and spring 2002 explain the difference in movement in the transportation price index in the West Bank and Gaza. In effect, these are negative shocks that raise the level of the transportation price index.

Figure 10. Transportation Price Indices, (July-September 2000 = 100)

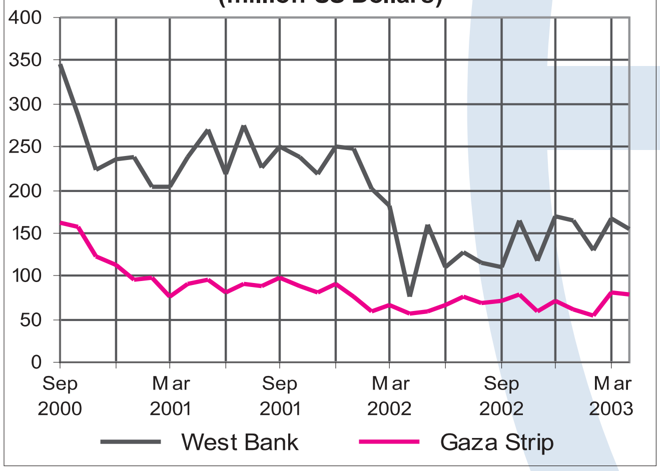


Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

Financial Sector

The decline in overall economic activity in the West Bank and Gaza since the beginning of the Intifada is clearly evident in the total value of checks cleared by banks operating in the West Bank and Gaza Strip, particularly in the periods of increased Israeli military operations. During the first nine months of 2000, i.e., prior to the Intifada, the value of checks presented for clearing averaged US$449 million (US$301 million in the West Bank, $148 million in Gaza) per month. During the twelve months of 2002, monthly values averaged less than half the pre-Intifada levels: US$148 million in the West Bank; $67 million in Gaza; total, US$216 million. April 2003 saw US$153 million cleared in the West Bank and US$78 million in Gaza. For the first four months of 2003, the total value of checks cleared has declined 7.5 percent (13.0 percent in the West Bank, while increasing 7.6 percent in Gaza) relative to the January-April 2002 period. Similarly, the number of checks has also fallen: 20.4 percent overall (23.9 percent, West Bank; 4.1 percent, Gaza).

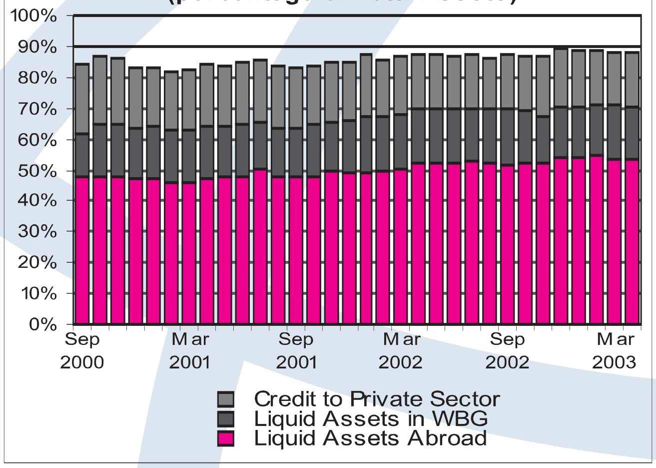
Figure 11. Total Value of Checks Cleared (million US Dollars)



Source: Palestinian Monetary Authority (PMA).

The Palestinian banking sector continues to try to weather the current economic crisis by maintaining the very conservative investment positions taken over the years. Banks remain very liquid, with placements in the West Bank and Gaza and, more significantly, overseas and have continued to increase their liquidity ratios since September 2000 – by end-April 2003, 17.1 percent of the combined assets of commercial banks operating in the West Bank and Gaza were held in cash or deposits with other Banks; a further 53.7 percent of assets were held as deposits in foreign banks. These represent significant increases in asset allocation compared to September 2000 when 14.3 percent of total assets were maintained in cash and local bank deposits and a 47.6 percent were in deposits with foreign banks.

Figure 12. Composition of Bank Assets (percentage of Total Assets)

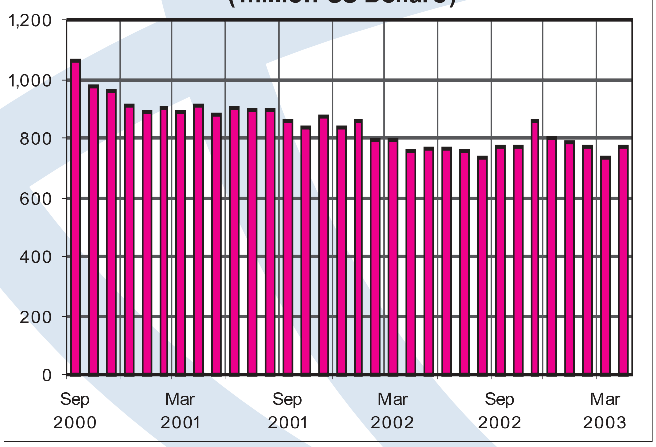


Source: Palestinian Monetary Authority (PMA).

Along with this increase in liquid assets is the decline in Bank's lending activity. Throughout the Intifada, the volume of credit extended to the private sector has continued to decline, reflecting both lower demand on the part of borrowers and greater risk aversion on the part of bankers during a period of economic downturn and political uncertainty. In such a climate, the granting of new credits is scaled back and existing lending and overdraft facilities are rolled-over less automatically.

Throughout the Intifada, credit to the resident private sector has fallen (in the first month – October 2000 – by US$91 million, 7.2 percent). By April 2003, private sector credit extended had reached US$768 million, a total decline of US$296 million (27.8 percent decline) from September 2000's level.

Figure 13. Credit to Private Sector (million US Dollars)

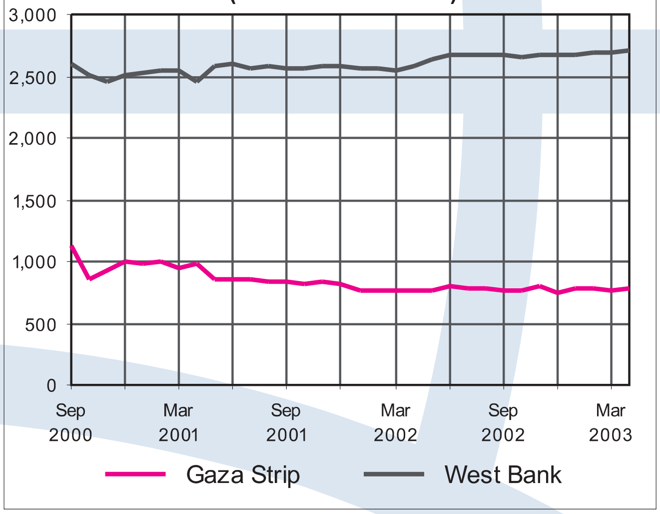


Source: Palestinian Monetary Authority (PMA).

Expressed as a share of total bank assets, private sector credit has declined from 22.1 percent in September 2000 percent to 17.6 percent end-April. Although it is thought that the quality of bank's loan portfolios has suffered (non-performing loans have increased and some collateral destroyed as the result of military operations) as well, the low percentage of loans to total assets mitigates solvency concerns thus far for most banks.

Just as lending has taken a dramatic downturn, the stock of resident private sector deposits witnessed a considerable decline in the first month of the Intifada followed by continued decreases through the first quarter of 2002. After an increase in the second quarter and general stability through November 2002, deposits fell again in the final month of the year. April 2003 saw a continuation of the modest recovery in residents' deposits that began in January of this year. Total deposits at end-April stood at US$3.5 billion (US$2.7 billion, West Bank; US$0.8 billion, Gaza). Since September 2000, residents' deposits have increased 4.5 percent; in Gaza, however, they have fallen 30.1 percent.

Figure 14. Total Deposits (million US Dollars)



Source: Palestinian Monetary Authority (PMA).

Bank Group Operations

A. Multi-Donor Fund Administration

■ ***Palestinian Economic Assistance and Cooperation Expansion (PEACE) Facility.***

The PEACE Facility, a multi-donor successor to the Holst Fund, was set up in response to the need expressed by a number of donors for a multilateral umbrella facility to support targeted activities in the West Bank and Gaza (WBG), ranging from technical assistance to projects.

Objective: The broad objective of the PEACE Facility is to help relieve the economic and social hardship caused by the current crisis in WBG and the resultant Israeli border closures. The current PEACE Facility donors have focused on projects designed to create short-term employment opportunities for those most affected by the ongoing political crisis.

Project Progress:

• ***Canadian International Development Agency (CIDA)***
Contribution: US$3.25 million Grant.
Effectiveness Date: November 14, 2001.
Closing Date: March 31, 2003.

The estimated total direct employment is 80,000 person-days (42,000 in the West Bank and 38,000 in Gaza). The fund has been totally committed to 47 sub-projects, and it is now fully disbursed by the Bank. 46 sub-projects have been completed, and to date, 70,314 person-days have been generated.

• ***Danish International Development Assistance (DANIDA).***

Contribution: US$3.53 million Grant.

Effectiveness Date: November 25, 2001.

Closing Date: December 31, 2002.

The DANIDA component was highly successful in achieving its objective of providing temporary employment for unskilled and semi-skilled laborers in the middle area of Gaza Strip. It relieved the severe unemployment pressure by generating 113,433 person-days of employment during the project period of 13 months, compared to a planed 50-60,000 person-days. Using a wage rate of US$ 10 per day, the labor content of the project was estimated at 32 percent and the cost per person-day US$31.2. This compares favorably with other projects funded by the Bank during the period 2000-2001 and other donors during the period 1989-1996 which had costs per person-day ranging between US$47.2 to US$102.6. The total number of beneficiaries was almost the total population (170,000 people) in the middle area of Gaza.

• ***Department of International Development (DFID)***
Contribution: US$2.16 million Grant.
Effectiveness Date: January 5, 2002.
Closing Date: October 31, 2003.

The projected total direct employment is 35,000 person-days. All funds have been committed to 33 sub-projects, and ninety percent has been disbursed. Twenty eight sub-projects have been completed. To date 40,000 person-days have been generated.

• ***Islamic Development Bank (IDB):***
Contribution: US$7.0 million Grant.
Effectiveness Date: July 3, 2002.
Closing Date: December 31, 2003.

The estimated total employment is 160-170,000 person-days. 51 percent of the funds have been disbursed. The funds have been fully committed to 112 sub-projects in WBG in the sectors of education, health and infrastructure such as roads and water and sanitation, and for local NGOs. 39 projects have been completed. To-date, 114,339 person-days have been generated under the various project components.

• ***Italian Cooperation***
Contribution: US$9.0 million Grant.
Effectiveness Date: December 19, 2002.
Closing Date: July 31, 2004.

The Italian Grant to the Emergency Employment Generation for Social Development Project (EGSD) finances the implementation of 90 sub-projects in a number of communities in West Bank and Gaza. Priorities are given to communities that are currently facing severe hardship due to the ongoing crisis.

The project is estimated to generate 200,000 person-days of direct employment over a period of 15 months. The project will also finance a small capacity building component for the Ministry of Health. The Grant Agreement was signed by the Palestinian Authority (PA) on December 19, 2002 and the project is now under implement

B. Investment Projects

As of February 2003, the World Bank Group has 22 projects under implementation, eight completed projects, and four projects under preparation.

Ongoing World Bank Projects

■ ***Education and Health Rehabilitation Project (EHRP).***
World Bank: US$20 million;
Saudi Arabia: US$20 million;
Italy: US$8.65 million;
Australia: US$0.4 million.
Approval Date: July 9, 1995.
World Bank Closing Date: June 30, 2001.
Saudi Arabia and Italy Closing Date: December 31, 2003.

Description: The Project consisted of the following components:

1. Upgrading of physical infrastructure. This component aimed to: (a) rehabilitate facilities, replace dangerous structures and substandard or undersized classrooms at 24 elementary schools, and replace or repair broken furniture; (b) construct and furnish new schools in underprivileged areas; and (c) upgrade, expand, replace, and furnish 10 primary health care facilities.

2. Improve quality of services. This component aimed to: (a) initiate a Quality Improvement Program in primary and secondary services through technical assistance and training; and (b) support a Health Education Program for schools.

3. Develop institutional capacity. This component aimed to: (a) provide technical assistance to develop a five-year plan for the health sector; (b) conduct a feasibility study on communication links among West Bank and Gaza health facilities to enable the exchange of medical expertise and enhance the referral system; and (c) provide technical assistance and training and operational support to the Project Coordination Units (PCUs).

Latest developments: The World Bank component has been completed and an Implementation Completion Report (ICR) issued. Under the Saudi Grant, 13 schools have been built and fully furnished; four clinics, two hospitals (in Dier Elbalah, Gaza, and in Yatta, West Bank) and the extension of Rafidia Hospital in Nablus have been built, fully furnished, and equipment installed. The Ministry of Health's office building is complete. Under the Italian Grant, 11 schools and five community centers for the handicapped have been built and fully furnished. Construction of one school, extension of another, and work on two community centers for the handicapped are progressing well. Equipment, and teaching and learning supplies have been provided to the schools, and community centers for the handicapped. Under the Australian Grant, strengthening of policy-making, planning, and research capacity within the Ministry of Education, establishment of a school mapping database, and a maintenance scheduling system for the Ministry have all been completed.

■ ***Education Action Project (EAP).***
World Bank: US$7 million.
Borrower (PA): US$0.63 million.
Approval Date: July 18, 2001.
Closing Date: September 30, 2004.

Description: The Education Action Project (EAP) supports the work already undertaken by the Ministry of Education in the development of its Five Year Plan (2001-2005) and long-term education strategy. Over its three-year duration, the project will support the implementation of five-year plan activities through working with specific directorates (planning, vocational secondary education, training, buildings and works) in the planning process.

The EAP primarily aims to strengthen the capacity of the Ministry of Education (MOE) to manage the education system more effectively through improving policy-making, planning and budgeting at central and district levels. It would also support the implementation of activities in targeted domains included in agreed annual departmental work plans derived from the Five-Year Education Plan. This should lead to improved utilization of funding from the budget and international donors.

The Project has two complementary substantive components. The first provides assistance to develop strategies that facilitate planning across the departments and support for the project management unit, whereas the second supports specific investments in education domains including a program for school improvement through staff review, a school development program, the development of professional standards for headteachers, and support to Vocational Education.

Latest Developments: Despite the current situation, the Project has made substantial progress on most of its components since credit effectiveness on November 21, 2001. Work is progressing on the following activities: construction of a two-floor extension to the existing MOE building in Ramallah, Finishing works at the Ministry's proposed Curricula Center, preparation of a Financial Management Manual; selected training for teachers and supervisors; and preparation of materials for training modules for teachers and supervisors.

Support to Vocational Education includes construction of four vocational units in Gaza, Jenin, Qalqilya and Salfit as well as the development of vocational education curriculum and procurement of equipment and furniture.

As a result of March/April 2002 Israeli incursions and reoccupation of the Palestinian towns in the West Bank, parts of the EAP's components has been restructured. A sum of US$ 350,000 reallocated under the emergency civil works category is used to repair school buildings in the West Bank.

In addition, as of August 2002 the Project Support Team holds now the responsibility of implementing the procurement and project monitoring functions for the Emergency Services Support Project I and II in cooperation with the Directorate General of Financial Affairs.

■ *Health System Development Project (HSDP).*

World Bank: US$7.9 million.
Approval Date: December 9, 1999.
Closing Date: March 31, 2004.

Description: The development objectives of the Project are to enhance the management capacity of the Ministry of Health (MOH) and improve access to high-quality and affordable Primary Health Care (PHC) services, especially in rural and underserved areas. The Project has four components. The first supports the upgrading of the primary health care network by replacing 40 substandard PHC facilities, including equipment and furniture, and developing their functional standards. The second component supports the establishment of a Health Management Information System. The third component supports improvement of the quality and efficiency of health care. The fourth component provides support to the Project Implementation Unit for Project Coordination and Management.

Latest Developments: Due to the current situation, some of the Project components have been facing delays, especially in the West Bank. While the five PHC's in Gaza are functioning, construction of the nine PHC's for the first phase in the West Bank and the Health Information Center in Nablus have been delayed. Despite the delays, the Project has managed to: develop a Management Information System for the Treatment Abroad and Referral Department and the Health Insurance Department; develop the first version of the Clinic Information System; prepare the first version of the Palestinian Data Dictionary; and print and distribute the first version of the Palestinian Essential Drug List and Formularies. In addition, work on developing Clinical Protocols and Guidelines is underway. A distant learning module for implementing the project's training activities on Health Facility Management and Maintenance, Use of Data Dictionary, Essential Drug List and Formularies, Medical Waste Management and Environmental Management.

■ *Municipal Infrastructure Development Project (MIDPI).*

World Bank: US$40 million.
Greece: US$1.74 million.
Italy: EURO3.67 million.
Approval Date: June 12, 1996.
Closing Date: June 30, 2003.

Description: This Project aims at rehabilitating high priority municipal infrastructure networks and systems in WBG by working directly with five selected municipalities (Gaza, Nablus, Hebron, Rafah and Jenin), the Ministry of Local Government (MLG), the Ministry of Public Works (MoPW), the Palestinian Water Authority (PWA), and PECDAR. The focus is on initiating institutional reform and capacity building at the local government level.

The Capacity Building component which involved MLG and five selected municipalities addressed issues related to developing the municipal planning and financial management structures, primarily three-year investment plans, a Financial Management Information System (FMIS), and a Reformed Management Information System (RMIS).

Latest Developments: The closing date has been extended for six months due to the escalations especially during the second half of 2002. As a result, sub-projects that were due for completion by end of December were significantly delayed. Today, all available funds from both IDA and the cofinanciers have been committed. Both IDA and the Greek funds have been fully disbursed. Italian funds are expected to b e fully disbursed in the coming few weeks. The Implementation Completion Report is currently being prepared by the Bank and the PA. A first draft was completed end of January 2003. The final report is expected by end June 2003.

Reallocation of remaining funds: In August 2002, in response to the need for immediate assistance to repair damage incurred during the incursions by the Israeli Defense Forces in March/April 2002, the Bank reallocated US$2.5 million of the remaining balance originally designated to capacity building towards labor-intensive damage repair. The funds have been distributed not only among the five participating municipalities in this Project, but also among more than 25 smaller communities in need of assistance. Nearly all of the sub-projects have been completed. So far, more than 220 km of roads and 100 km of water and sewage pipelines have been constructed, and the upgrading of three neighborhood areas in Gaza City have been completed. A similar reallocation of funds from the co-financing partners has also been completed with US$0.5 million from the Greek Fund and EURO0.2 million from the Italian Fund. Reallocated funds financed the rehabilitation of much needed infrastructure in the West Bank communities and most of the sub-projects have been completed.

The capacity building component continues to progress despite the political instability and resultant difficulties. To date, only Hebron, Gaza, and Rafah municipalities have successfully completed their three-year investment plans. Nablus and Jenin municipalities have completed the diagnostic studies, but have been unable to continue the tendering process for the three-year investment plans. A Revenue Management Information System for 10 Participating Municipalities (PM) has been implemented. Troubleshooting and finalization of the software is in the final stages. A Geographic Information System (GIS) has been implemented in Gaza municipality, but Hebron and Nablus municipalities' bids were delayed by the incursions. A state-of-the-art computer and network center was completed in Gaza, Jenin, Nablus, Hebron and Rafah. An electricity study was completed for the Hebron municipality, but was stopped in Nablus due to the inability to complete the study.

■ ***Second Municipal Infrastructure Project (MIDP II).***
World Bank: US$7.5 million.
Saudi Arabia: US$5.0 million.
(Italy is currently considering contributing a sum of US$5.7million, of which US$2.5million will be for roads and US$3.2 million for water).
Approval date: June 20, 2000.
Closing Date: December 31, 2004.

Description: The main objective of MIDP II is to improve infrastructure services (roads, water, and drainage), including high priority sections of the regional road network and rehabilitation of village and municipal water networks in WBG. The Ministry of Public Works (MPW), Ministry of Local Government (MLG), and the Palestinian Water Authority (PWA) are the implementing agencies for this Project.

The Project will also provide support to the MPW to establish its first Road Maintenance Management System. In addition, the Project will continue to provide support to the MLG for an accounting system and institutional reform. The scope of capacity building in the six municipalities in WBG will be reduced and funds reallocated to damage repairs.

Latest Developments: Commitment of the reallocated funds continue by MPW. Today, 50 percent of the reallocated US$3.1 million has been committed. utilizing these funds, MPW continues to fix damaged infrastructure, schools, clinics, and PA institutions, including the Ministries of Local Government, Public Works and Housing, Health, and Education.

The MPW is also progressing in implementing the physical infrastructure component of the MIDP II. Thus far, US$1.6 million has been committed and implemented for rehabilitation of regional roads situated within the PA's jurisdiction. The PWA's component of US$0.50 million for water rehabilitation has been fully committed and work is in progress. The MLG's capacity building component has been reduced due to current conditions. Concentration will be on rolling out the Revenue Management Information System (initiated under MIDP I) to cover 15 additional municipalities. This component will be mobilized in the coming few weeks.

■ ***Solid Waste and Environmental Management Project (SWEMP).***
World Bank: US$9.5 million.
(US$1.25 million is anticipated from the PA.)
Approval Date: October 10, 2000.
Closing Date: December 31, 2005.

Description: The Project is financing interventions in solid waste collection, transfer, and disposal of waste for the District of Jenin. The Project is managed by the Joint Services Council for Solid Waste Management (JSU) and is being executed through a Project Implementation Unit (JSC-PIU). The Project is assisting in strengthening capacity building of the Environmental Quality Authority.

Latest Developments: Hydroplan (Germany) has completed its first draft of the detailed design for the sanitary landfill at Zahrat Al-Finjan and is currently being reviewed by the PA. The proposed design envisions a three-phased landfill construction to accommodate municipal solid wastes for around 20 years. While current constraints impact project implementation, JSC-PIU continues to focus on areas where progress can be made. Closing of uncontrolled dumpsites continues to take place and rehabilitation to extend the operational life of the regional sites are on-going. To date, 20 dumpsites have been rehabilitated and closed, and four dumpsites (Jenin, Srouj, Al Mahata and Arabeh) are being rehabilitated to act as regional controlled dumpsites during the interim period. Access roads to these sites are also being rehabilitated.

■ ***Southern Area Water and Sanitation Improvement Project (SAWSIP).***
World Bank: US$21 million.
EIB: EURO30 million.
Approval Date: June 5, 1999.
Closing Date: December 31, 2004.

Description: The Project consists of: (a) the provision of an international operator under a four-year performance based management contract to implement a Service Improvement Program for the Governorates of Bethlehem and Hebron in the West Bank; (b) the provision of operating investment funds for the operator built into the management contract, to finance essential operations and maintenance expenditures not covered by the revenues collected and which are required to achieve the yearly performance targets in the management contract; (c) the provision of technical assistance to support strengthening the institutional capacity of PWA and WSSA, to support implementation and monitoring of the Project and provide independent auditors to monitor the Operator's technical and financial performance. The implementing agency is the PWA; and (d) the provision of funds (by EIB) to finance design, implementation, and supervision of capital improvements, such as, system rehabilitation and improvement of water supply services; bulk transmission mains; distribution systems restructuring and rehabilitation, as well as an investment in rural water supply.

Latest Developments: The Project was recently restructured to reflect the termination of the management contract due to the operator's inability to fulfill contractual obligations because of the continued deterioration in the security situation. The Project objectives remain the same. An Action Plan was put in place to restructure the management of water and sanitation services in the Governorates of Bethlehem and Hebron. The responsibility for implementing the Action Plan will be undertaken by the Project Management Unit (PMU) of the PWA and supported by a team of experts. The Action Plan focuses on the establishment of an organization to carry out the key functions of a Water and Wastewater Utility. This approach is designed to adapt itself to changing circumstances and to operate in the present period of political uncertainty. Disbursements, as of May 7, 2003 are approximately US$13.1 million, representing about 62 percent of the Credit.

■ *Legal Development Project (LDP).*

World Bank: US$5.5 million.

Saudi Arabia: US$12 million.

Approval Date: June 24 1997.

Closing Date: December 31, 2003.

Description: The Project aims to initiate a long-term process of assisting the PA in modernizing and harmonizing existing legislation, to create a legal framework adequate to support a modern market economy, and to encourage the growth of the private sector. It also supports the training of judges and court personnel in order to increase the efficiency and transparency of the judicial process.

Latest Developments: In December 2001, US$2.7 million of the Credit amount was cancelled due to slow implementation of certain Project components. Implementation of the remaining components -- harmonization and development of legislation, and dissemination of legal information -- continue to progress satisfactorily. The Project is scheduled to close on December 31, 2003.

■ *Palestinian Expatriate Professional Program (PEPP).*

World Bank: US$3 million.
Netherlands: US$0.3 million.
Approval Date: May 22, 1998.
Closing Date: December 31, 2004.

Description: The PEPP supports the recruitment of expatriate Palestinians to key management and senior technical positions in PA institutions as an institution-building measure. Since the Program started in late 1997, 17 persons have been successfully recruited for positions at 11 PA Ministries and Agencies, including: the Ministries of Finance, Health, Higher Education, Housing, the Palestine Broadcasting Corporation, the Palestine Monetary Authority, and the Bethlehem 2000 Committee.

Latest Developments: The crisis is affecting the program participants' ability to continue their work effectively, but they have shown extraordinary fortitude and courage to keep working despite the difficulties. The Program is currently supporting several medical specialists who are performing operations that would not be otherwise available in Gaza or the West Bank due to the lack of qualified doctors, and provide training to their medical staff in their fields of specialization.

■ *Palestinian NGO Project (PNGO II).*

World Bank: US$8 million.
UK/DFID: US$7.8 million.
Italy: US$2.4 million.
Approval Date: June 21, 2001.
Closing Date: February 15, 2004.

Description: The Project is aimed at strengthening the capacity of NGOs to deliver sustainable services to the poor and marginalized, while supporting the overall professional and strategic development of the Palestinian NGO sector. The Project is being implemented by the Welfare Association Consortium, consisting of the Welfare Association, the British Council, and the Charities Aid Foundation (CAF).

The Project has four main components:

1. The Partnership Grants Program (US$9.5 million) which awards grants to small NGOs through Partnership Grant Managers who provide a component of capacity building to receipient NGOs as part of a wider sector program they are managing; 2. the Development Grants Program (US$2.5 million) which awards grants directly to NGOs or projects that have demonstrated success during PNGO I and which have a potential of longer-term self-sustainability; 3. the Sector Support Program (US$1.5 million) which works with NGO networks to (a) promote strategic thinking on the role of the sector; (b) sector learning and information exchange; (c) enhanced PA/NGO dialogue and joint programming; and, (d) improved services by the Networks to their constituencies; and 4. an Emergency Grants Program (US$2.5 million), which disburses grants to emergency projects with shorter durations and a direct focus on alleviating hardship and

generating employment. PNGO II has a fifth component which is fully financed by the Italian Government and which aims at establishing a Center for Women with Difficult Circumstances in Bethlehem. The Centre will initially be managed by NGOs but its ownership will be transferred to the Ministry of Social Affairs at the end of the project.

Latest Developments:

1. Partnership Grants: Seven Partnership Grants have been approved under this Project Component for a total of US$ 6.3 million, benefiting a total of about 70 small NGOs. The Direct recipients of these Grants - the Partnerhsip Grant Managers, include The Arab Studies Society/ Youth Development Department/ ANERA; MA'AN/ Bisan Centre for Research and Development; PARC; Palestinian Medical Relief Societies; the Palestinian Centre for Microprojects Development (PCMD); The Union of Charitable Socities/ Centre for Initiative for Europe; and the Palestinian Hydrology Group/Women's Affairs Technical Committee. The sectoral distribution of grants approved is as follows: 35% in the area of agriculture/water; 30% in education and early childhood; 18% in health and the remaining 17% for youth sub-projects.

2. Development Grants: 19 Development Grants, for a total of US$3.2 million were approved by the Supervisory Board in December, 2002. Grant Agreements have been concluded with the recipient NGOs and disbursements are expected to start shortly. Of the US$3.2 million approved, the highest percentage finances projects in the area of rehabilitation for people with special needs, followed by income generating projects, early childhood development, education and rehabilitation of housing for the poor.

3. Sector Support: The total budget for this component is estimated at US$1.3 million and it will finance, amongst other activities, the establishment of a Palestinian NGO website and an electronic information system; the development of a code of ethics for the NGO sector; the holding of an international conference for NGOs in the West Bank and Gaza; promotion for the implementation of the Tax-Exemption Law; training in fund-raising; promoting private investment in NGO activities; and the implementation of capacity building programs for the NGO networks and the Commission for NGO Affairs.

4. Emergency Grants: During 2002/ 2003, the PMO has managed a total of US$4.0 million for emergency grants. Of this total amount, US$2.3 was allocated from the DFID contribution to the PNGO II project; US$600,000 from CIDA's contribution to the PEACE facility; and US$1.1 million from the IDB's contribution to the PEACE facility. The CIDA-financed grants are almost fully disbursed; DFID's and IDB's are ongoing. The mentioned funds have been used to finance an estimated 60 projects.

■ Bethlehem 2000 Project (B2000).

World Bank: US$25 million.
Norway: US$1 million.
Italy: US$2.26 million.
Austria: US$0.73 million.
Approval Date: November 2, 1998.
Closing Date: June 30, 2003.

Description: The Project is composed of the following components:

1. Celebration Support: This component provided broad support to the Bethlehem 2000 Project Authority to prepare for and manage the Millennium celebrations.

2. Infrastructure and Cultural Rehabilitation Works: This component supports physical rehabilitation works and includes two sub-components: (a) infrastructure rehabilitation works. This sub-component provided support to the Bethlehem 2000 Project Authority and Area Municipalities for the rehabilitation of high-priority infrastructure and services, namely roads, water and sanitation; and (b) support for cultural heritage rehabilitation works. This sub-component provides support to the Bethlehem 2000 Project Authority, Area Municipalities and Department of Antiquities for the rehabilitation of the historic cores of Beit Sahour and Beit Jala.

3. Capacity Building Support: This component provides capacity building support to Area Municipalities and Cultural Heritage Authorities. It includes two sub-components: (a) support to Bethlehem Area Municipalities--this sub-component provides support to the five Bethlehem Area Municipalities for strengthening their capacity to plan, finance, manage, and maintain municipal infrastructure and services; and (b) support cultural heritage preservation--this sub-component provides support to the Department of Antiquities in the Ministry of Tourism and to the Ministry of Culture for policy and institution reform and development.

4. Overall Project Monitoring and Reporting Support: This component provides support to MLG program monitoring, accounting and reporting, and to environmental programming and monitoring activities.

Latest Development:

1. Infrastructure Progress: (a) Roads--package 4, rehabilitation of inner roads in Bethlehem District is 95% complete; (b) Cultural Heritage--works on Rehabilitation of Anatra neighborhood, in Bethlehem old city, is progressing well; and (c) Damage Repair--works on damage repair is 95% complete.

2. Building Capacity Support: (a) Support to Bethlehem Area Municipalities. Progress is being achieved on the following sub-components: (i) Three-years Investment Plan: the final drafts of the diagnostic studies for the Bethlehem Area Municipalities are complete, work on developing the three years investment plans for the Municipalities is progressing well; (ii) Accounting System Reform: procurement document for the purchase of necessary hardware for the accounting system has been cleared by the Bank. (b) Support to cultural heritage preservation. Progress is being achieved on the following sub-components: (i) Legal and Institutional Reform: A draft policy framework for the Legislation for the Protection of Palestinian Cultural and Natural Heritage was developed by the consultant and is under discussion with the B2000 Project Authority.

■ *Electric Sector Investment and Management Project (ESIMP).*

World Bank: US$15 million.
EIB: US$38 million.
Italy: US$35 million.
PA: US$3 million.
Approval Date: August 31, 1999.
Closing Date: June 30, 2004.

Description: The objectives of this US$91 million Project are to rehabilitate the power distribution systems in the central and southern West Bank, and to address the institutional structure for longer-term sector management.

Latest Development: Despite the present unrest, the implementation of the main activities (JDECo and PEA components) is progressing satisfactorily. The studies for the legal and regulatory framework and the establishment of the Transmission Company have been completed. Implementation of the HEPCo and SELCo components is progressing slowly due to the present situation. TA consulting services for SELCo is already in place. The RFP for TA consultants services for HEPCo will be issued in February 2003 and it is expected that this TA will be in place in June 2003.

In October 2002, a supervision mission took place to follow-up on the start-up of the SELCo and HEPCo companies. Another mission for a mid-term review is planned for May 2003. About US$9.9 million of the US$15 million has been disbursed to date.

■ *Emergency Services Support Project (ESSP).*

Total Financing: US$ 57.2 million.
World Bank: US$20 million.
UK/DFID: US$7.8 million.
Netherlands: US$5.9 million.
EU: US$9.6 million.
Sweden: US$ 4.7 million;
Finland: US$ 1.2 million;
Denmark: US$2.7 million;
Italy: US$ 5.3 million.
Approval Date: February 28, 2002.
Closing Date: June 30, 2004.

Description: The Project aims at enabling Social Service Delivery Ministries and Municipalities at sustaining the provision of basic social services, thereby ameliorating further deterioration in the standard of living of the Palestinian population. The Project focuses on supporting health, education, social welfare, and basic municipal services (solid waste, water, and electricity supply). With its focus on providing operating cost finance, this Project compliments the financing of the national budget that is provided to the PA by the Gulf countries and the European Commission (EU). The Ministry of Finance manages the ESSP, with direct implementation handled by the Ministries of Health, Education, Social Affairs, and Local Government.

Latest Developments: Between September 2002 and May 2003, monthly disbursements against the ESSP budget have averaged US$5.5 million. As of March 2003, delivery against IDA funds stood at 98 percent; Dutch Funds at 40 percent; EC Funds at 95 percent; and DFID Funds at 40 percent.

■ *Second Emergency Services Support Project - Phase II (ESSP II)*

World Bank: US$25 million.
Approval Date: December 17, 2002.
Closing Date: December 31, 2004.

Description: Like ESSP I, ESSP II will support the financing of the operating budgets of the social ministries thereby helping sustain public services delivery to the Palestinian population. Unlike ESSP I, ESSP II will not provide budgetary support to Municipalities since that will be done through the Bank's Emergency Municipal Services Rehabilitation Project. The total budget for the ESSP II program has been estimated at US$84 million, covering a budgetary period of one year. New pledges were made for additional financing of ESSP II from DFID and the EC for a total of US$3 million and US$22 million, respectively. As of April 2003, disbursements stood at 18 percent.

■ *The Integrated Community Development Project (ICDP).*

World Bank: US$10 million.
Approval Date: May 23, 2002.
Closing Date: June 30, 2006.

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. This new Project is a continuation of community development interventions financed through the World Bank under Community Development Projects I and II. Investments will finance rehabilitation of roads, water supply and sanitation systems, schools, clinics, and thereby preserve and extend the capital stock of villages and small municipalities. The Project will also fund interventions in the agricultural sector, including rehabilitation of wells, roads, and terraces. Lastly, the Project would pilot new initiatives in Information and Communication Technology (ICT) by financing the establishment of Multi-purpose Telecenters and thereby improve access to information and training for the poor and marginalized. The project was made effective in August 2002 and the first batch of eight microprojects are under implementation. Two sites for the proposed Multi-purpose Telecenters - one in Salfit and another in Gaza city - have been selected and a consultant contract for the their design and operation is under preparation.

■ ***Emergency Municipal Services Rehabilitation Project (EMSRP).***

Total estimated cost: US$70 million.
World Bank: US$20 million.
EU: US$30.5 million.
Belgium: US$7.2 million.
PA: US$3 million.
Effectiveness Date: January 22, 2003.
Expected Closing Date: June 30, 2005.

The Project objectives are to: (a) mitigate further deterioration in the quality and coverage of municipal services, particularly solid waste collection, electricity, water, and sanitation services; (b) generate temporary employment opportunities for unemployed workers who have lost jobs inside Israel, or due to the economic contraction in WBG; and (c) introduce a mechanism – a Municipal Fund – to link central and local government budgetary planning processes to strengthen Palestinian emergency response capacity, enhance mobilization of donor assistance, and improve the efficiency and equity of resource transfers to local governments

A two-year Emergency Recovery Grant will include the following components: (a) Emergency Program Assistance (US$67.0 million, of which US$17.5 million from the World Bank); (b) Municipal Fund Design and Management (US$1.5 million, of which US$1.5 million from the World Bank; and (c) Technical Assistance and Capacity Building (US$1.50 million, of which US$1.0 million from the World Bank). In light of the complementary roles performed by the different governmental bodies involved in the sector, and recognizing the need for coordination at the central government level, a Project Steering Committee (PSC) was formed by the Minister of Local Government in October, comprised of MLG, MOF, and MOPIC to ensure a coordinated programmatic response to emergency assistance needs at the local government level.

The project is now under implementation. Ten percent of the funds has been disbursed.

World Bank Projects Under Preparation

■ ***Proposed Gaza Water and Sanitation***

Services Project (GWSSP II).
World Bank: US$25 million.

This Project is a follow-up to the ongoing 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 an eight-year operating contract and strengthening the regulatory and institutional capacity of the Palestinian Water Authority; and (b) to continue improving the water and sanitation services by rehabilitation, upgrading and expansion of existing systems and facilities. Project preparation has been delayed because of the deteriorating political situation. The request for pre-qualification for prospective international operators has been completed and four operators/joint ventures were pre-qualified. The Request for Proposals was issued on January 31, 2003, and the deadline for proposals submission is May 20, 2003. This date is likely to be extended given the current investment climate in the region. Like the GWSSP, this Project is part of a larger parallel capital program to improve water and sanitation services in Gaza. The Project includes substantial investments in the establishment of a bulk water supply network connecting the various municipalities in Gaza, in the sewerage network, and in wastewater treatment plants. These investments, totaling about US$340 million for 2000-2005, will be financed by soft loans and grants from EIB, USAID, and KfW.

■ ***Second Health System Development Project (HSDP II).***

World Bank: US$10 million.

The Project objectives are to improve the quality, access, and cost-effectiveness of essential secondary and tertiary care health services for the population residing in the northern Gaza and West Bank regions. In the original plan, the Project intended to replace and upgrade two hospital systems: Al Shifa Hospital in Gaza and Al Watani Hospital in Nablus, and to also build upon the experience of the First Health System Development Project to extend the development of integrated information and management systems to improve the productivity and quality of health care services in the targeted hospitals.

Due to the current political situation, the preparation work for the Second

Health System Development Project (HSDP II) has been considerably delayed. In addition, the amount of financing available, both from the Bank and from co-financing sources, has been significantly reduced as a result of the crisis. Consequently, the scope of the Project has been reduced. The following components from the original plan will be retained in the revised plan for the HSDP II: (a) a regional Hospital Rationalization Plan for the Northern West Bank; (b) hospital master plans for Shifa Hospital in Gaza City and New Watani Hospital in Nablus; (c) a waste management pilot program; (d) a management information system; and (e) quality improvement.

■ ***Proposed Emergency Water Project (EWP).***
World Bank: US$12.5 million

The main objective of the Project is to help reduce the heavy social and economic burden on the Palestinian population in the southern West Bank. This would be accomplished by supporting 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 would include the following components: (a) emergency water supply repair and rehabilitation in remote rural areas of the southern West Bank; (b) undertake repair and rehabilitation in order to maintain water and sanitation service levels in the Gaza Strip at the high levels achieved under the Gaza Water and Sanitation Project despite the deteriorating economic and security conditions; and (c) Technical Assistance and Capacity Building provided to the Palestinian Water Authority and the recently established Coastal Municipal Water Utility in the Gaza Strip and to form pilot joint services councils for smaller towns in the southern West Bank. The project is scheduled to be appraised and negotiated in May 2003 and presented to the Board in June 2003.

■ ***Proposed Conditional Cash Transfer Project (CCTP).***
World Bank: US$10.0 million

The immediate objective is to mitigate the impact of the social and economic crisis on the most vulnerable by protecting and promoting the human capital of poor children in the West Bank and Gaza. The long-term objective is to slow the further loss of human capital, irreversible once it has occurred. These two objectives are to be achieved by adding a conditional cash transfer scheme to an existing program in the Ministry of Social Affairs. In the face of sharply reduced household incomes, this would be accomplished by supporting the investment of poor families in the education of their children age 3-18 and in the health and nutrition of their children age 0-6.

World Bank and IFC Joint Projects

■ ***Housing Project.***
World Bank: US$25 million.
IFC: Up to US$4 million in equity investment.
Approval Date: April 14, 1998.
Closing Date: March 2004.

Description: The Project's major component is the Palestine Mortgage and Housing Corporation (PMHC) that facilitates the flow of private capital into housing. PMHC commenced operations in September 2000. Although the present situation has significantly slowed PMHC's operations, both affiliates, the Liquidity Facility, providing long-term funds for lending by banks and other primary mortgage lenders in WBG; and the Mortgage Insurance Fund, providing partial risk coverage for primary lenders, continue to increase their respective portfolios. Canada Mortgage and Housing Corporation is the technical partner for the PMHC providing technical assistance and capacity building support. The Project also includes a component for policy and institutional development in the sector that is implemented by the Ministry of Public Works and Housing.

Latest Developments: The Project was restructured, and the Closing Date extended two years to March 31, 2004. As part of this process, an Action Plan for business growth for PMHC was agreed, and monitoring targets set. A review of PMHC's progress is currently taking place. The Policy and Institutional component was also extended, with the objective of revisiting housing policy and public sector capacity in the context of the newly merged Ministry.

■ ***Gaza Industrial Estate (GIE).***
World Bank: US$10 million.
IFC: US$9 million; US$7 million syndicated loans.
EIB, USAID, the PA: US$65.5 million.
Approval Date: March 24, 1998.
Closing Date: June 30, 2004.

Description: The GIE is located on a 50 hectare site at Al-Muntar in the northeast of Gaza (adjacent to the Israeli border) and is the first largely export-oriented industrial estate established to generate sustainable employment and stimulate industrial development in Gaza. The Project has attracted foreign and local investment, and has facilitated joint ventures between Palestinians and other investors. The GIE is managed and operated by PIEDCO, a private sector company; regulatory oversight and some offsite infrastructure services are provided by the PIEFZA. The World Bank and USAID are providing financing for off-site infrastructure and institutional development, while IFC and EIB are financing the developer/operator of the Project.

Latest Developments: Despite the depressed business environment in WBG generally, 18 firms continue to operate at the GIE, with two new tenant entering the site in September 2002. As of December 2002, about 750 workers were employed at the GIE. Employment at the GIE has declined to about half of its pre-crisis employment level, although many GIE tenants remain in operation and provide vital employment opportunities at a time of economic contraction. Further expansion in the development of the site, however, has been postponed. PIEFZA, the regulatory agency, is considering ways of improving the competitiveness of GIE tenant firms by providing support to upgrade management and production operations through targeted incubation services, particularly focusing on the garment manufacturing cluster. In addition, offsite infrastructure facilities are being repaired and connections established with main utility networks to continue providing services to GIE tenants. Environmental permitting and monitoring capacity is being built through a technical assistance assignment.

Completed World Bank Projects

■ ***Palestinian NGO Project (PNGO I).***
World Bank: US$10 million.
Saudi Arabia: US$2.5 million.
Italy: US$2.5 million.
Approval Date: December 1996.
Closing Date: June 2003.

The Project aimed at delivering services to the poor and the marginalized in Palestinian society through NGOs; improving the institutional capacity of the NGOs which receive grants under this Project; and enhance the working relationship between the PA and the Palestinian NGO sector. The Project was implemented by the Welfare Association Consortium, consisting of the Welfare Association, the British Council, and the Charities Aid Foundation (CAF). With all sub-projects financed under the Grant having been fully implemented, the Project is expected to be closed by end of June, 2003.

■ ***Gaza Water and Sanitation Services Project (GWSSP I).***
World Bank: US$31 m.
Approval date: July 5, 1996
Closing date: December 31, 2002

The Project consists of: (a) the provision of an international Operator [Lyonnaise des Eaux, Khatib & Alami (LEKA)] under a four-year management contract to implement a Service Improvement Program; (b) the provision of operating investment funds for the Operator built into the Management Contract, essential to fund goods, equipment, works and services required for improving services and the attainment of performance targets; and (c) the provision of technical assistance to strengthen the PWA, to support implementation and monitoring of the Project, and to provide independent auditors to monitor the Operator's technical and financial performance. The implementing agency is the PWA.

Some of the main achievements after six years of implementation of the Project, as audited by an independent auditor are: over 1,900 km of pipes have been surveyed for leaks and over 16,000 illegal connections identified; over 22,000 service connections have been replaced, over 20,000 meters of pipe has been repaired, and a total of over 30,000 meters replaced. Recent measures of Unaccounted-For-Water (UFW) are around 30%, while reliable disinfection is maintained at 98%. The Credit closed on December 31, 2002 and is fully disbursed. An intensive learning implementation completion report is currently under preparation and will be completed by June 30, 2003.

■ ***The Second Community Development Project (CDP II).***
World Bank: US$8 million.
OPEC Fund: US$8 million.
Approval Date: March 30, 1999.
Closing Date: October 31 2002.

The CDP II Project closed on October 31, 2002. However, the program of community development projects in West Bank and Gaza continues through the recently activated ICDP Project.

Under CDP II over 180 infrastructure projects, such as rehabilitation of roads, schools, health centers, and water supply systems have been committed, of which 160 have been completed. The World Bank funds have been fully disbursed. Projects have targeted poor and marginalized communities, including refugee camps. The current crisis has impacted the implementation of CDP II through delays and difficulties within communities to contribute to Project costs. Nevertheless, the Project has continued to make progress and has provided much needed work in villages and small municipalities. On the co-financing side, while OPEC-funded activities are continuing, the EIB contribution has been suspended after disbursement of about EURO3 million.

Implementing Agency: PECDAR.

■ ***Microenterprise Project (MEP).***
Microenterprise Project (MEP).
World Bank: US$5 million.
IFC: US$7.5 million.
Netherlands: US$3 million.
Participating Banks: US$7.5 million.
Approval date: April 8, 1997.
Closing Date: July 31, 2002.

Description: The Project initiated a program to finance microenterprises in the WBG through the banking system in order to: (a) promote employment through private sector development; (b) achieve commercial viability and sustainability for microenterprise lending; and (c) build capacity in both the participating banks and the microenterprises by providing technical assistance.

As of August 29, 2002, this Project was officially closed. A total of just under US$2.2 million was disbursed under the Trust Fund Credit in financing a portion of over 1,100 loans valued at over US$12.7 million. The disbursed loans were estimated to have created over 1,400 new full- and part-time jobs. A decision was made not to extend the Project's closing date due to the difficult business environment prevailing in WBG today. IFC has cancelled its part of the undisbursed portion of the MEP. A Project Implementation Completion Report has been completed and noted that, while the Project made a substantial contribution toward establishing a sustainable, market-based financing program for small and medium enterprises, the past two years of economic crisis and uncertainty prevented full achievement of the Project's development objectives. In view of the present circumstances, the balance of the remaining financing has been returned to the Trust Fund for Gaza and the West Bank for future emergency operations.

■ ***Emergency Response Program (ESRP).***
World Bank: US$11.61 million.
Approval and Effective Date: December 6, 2000.
Closing Date: August 31, 2001.

The overall objective of the ERP was to alleviate economic hardship through the provision of temporary employment for unskilled and semi-skilled laborers. The implementing agencies included PECDAR, the Ministry of Local Government (MLG), Local Government Units (LGUs) and NGOs.

The Project was successful in achieving its objectives. More than 246,000 person-days of employment were generated over a period of eight months. The average labor content of the Project was about 28 percent.

A total of 209 sub-projects were implemented. Local NGOs implemented a total of 33 sub-projects. An Implementation Completion Report has been completed.

■ ***Emergency Rehabilitation Project (ERP I).***
World Bank: US$30 million.
Saudi Arabia, Denmark, Switzerland, Kuwait:
US$63.5 million.
Approval Date: November 29, 1994.
Closing Date: December 31, 1998.

The Project (implemented by PECDAR) financed a total of 140 infrastructure projects, including construction of 418 classrooms, paving of 260 km of roads, and construction of approximately 410 km of water supply pipelines, 80 km of sewer lines and storm water lines and five water reservoirs.

■ ***Second Emergency Rehabilitation Project (ERP II).***
World Bank: US$20 million.
Italy: US$3.7 million.
Approval Date: May 10 1997.
Closing Date: June 30, 1999.

All available funding has been committed to 77 sub-projects. All 77 sub-projects in the road, water, wastewater, and school sectors (including 42 labor-intensive micro projects) have been completed. The Project was implemented through PECDAR in coordination with the WBG municipalities. Approximately 123 km of roads and about 110 km of water and sewage pipelines have been constructed. An Implementation Completion Report for the Project has been completed.

■ ***Community Development Project (CDP I).***
World Bank: US$10 million.
OPEC Fund: US$10 million.
Approval Date: May 15, 1997.
Closing Date: December 31,1999.

About 260 infrastructure microprojects (roads, schools, community centers, sewer lines, and water reservoirs) were implemented. There was strong community participation and ownership, including beneficiary contributions in cash averaging 10 percent of the Project costs. The Project was implemented by PECDAR.

Closed Multi-Donor Fund Administration

■ ***Holst Fund.***
US$291 million from 27 donors.
Approval Date: July 29, 1994.
Closing Date: August 31, 2001.

The multi-donor Holst Fund closed after seven years of operation. US$222.5 million was used to finance the creation and operation of Palestinian institutions - namely, the Ministries of Health and Education. About US$63.2 million was allocated towards funding Employment Generation Programs, targeting areas that were severely affected by border closures and the current sociopolitical crisis. The Holst Fund financed over 1,000 labor-intensive microprojects, and it is estimated that over three million labor-days of employment were generated. The Project Completion Report is expected to be sent to all 27 donors shortly.

■ ***Technical Assistance Trust Fund (TATF).***
US$22.97 million Grant from 12 donors.
Approval Date: March 31, 1994.
Closing Date: December 31, 2001.

The objectives of the TATF were to: (a) assist in building Palestinian institutions and to enhance the Palestinian capacity for self-government; (b) facilitate the implementation of investments in the Palestinian Authority; (c) assist the Palestinian Authority in the design of integrated policies and programs; (d) assess the feasibility of proposed physical investments for the longer term; and (e) encourage the growth of the private sector.

About 15 Design or Supervision Assignments and 64 Technical Assistance Assignments or Studies, including a large number of training activities were completed. A total of US$23.6 million was disbursed to the PA institutions. The Project Completion Report is expected to be sent to all 12 donors shortly.

MIGA Operation

■ ***Investment Guarantee Fund (MIGA).***
World Bank: US$10 million.

The Fund, which is administered by MIGA, provides Guarantees in the form of insurance against political risk for private investment in WBG. Under the terms of the Fund, investors who are nationals of, or companies incorporated in a MIGA member country, or who are Palestinian residents of WBG, are eligible to obtain Guarantees, provided that the investment is brought in from outside WBG. The Fund currently has the capacity to issue Guarantees for up to US$5 million per project. If a project requires more insurance capacity, requested by the project sponsor(s), MIGA will explore the possibility of

Commitments and Disbursements[1]

Disbursements Under World Bank Projects (In US$ Million) -
As of May 2003.

CURRENT PROJECTS	Allocated Amounts TFGWB	Allocated Amounts JOINT	Disbursed TFGWB	Disbursed JOINT	Total Disbursed
MIDP	40.00	5.41	40.00	5.12	45.12
Housing	17.40		4.55		4.55
Legal	2.79	15.00	2.43		2.43
PEPP	3.00	0.32	1.73	0.32	2.05
GIE	10.00		4.65		4.65
Beth. 2000	25.00	3.61	23.37	3.41	26.78
SAWSIP	21.00		12.47		12.47
ESIMP	15.00		9.92		9.92
Health	7.90		5.39		5.39
MIDP II	7.50	5.00	2.46		2.46
Solid Waste	9.50		2.00		2.00
EAP	7.00		1.15		1.15
NGO II	8.00	11.62	2.15	2.31	4.46
ESSP	20.00	46.36	19.74	17.83	37.58
ICDP	10.00		0.50		0.50
ESSPII	25.00	3.12	4.63		4.63
EMSRP	20.00		2.00		2.00
COMPLETED PROJECTS					
ERP I	30.00	63.50	30.00	63.48	93.48
MIGA Fund	10.00		10.00		10.00
ERP II	20.00	3.50	20.00	3.70	23.70
CDP I	10.00	2.81	10.00	2.73	12.73
Microent.	2.19		2.19		2.19
ERSP*	12.00				
CDP II	8.00		8.00		8.00
EHRP	20.00	29.10	20.00	18.16	38.16
Gaza Water/ San.	31.00		31.00		31.00
NGO	10.00	4.60	10.00	4.90	14.90
TOTAL	**402.28**	**193.95**	**280.30**	**121.98**	**402.28**

[1] These figures do not include parallel and IFC financing.
*The Bank's US$12 million Grant was channeled through the Holst Fund.

Multi-Donor Trust Funds

	Donor Allocation	Total Disbursed
The Holst Fund	285.72	285.72
TATF	22.77	23.60
PEACE Facility	25.07	12.61
TOTAL	**333.55**	**321.92**

obtaining coinsurance with public and private underwriters, including coinsurance under MIGA's Cooperative Underwriting Program. During FY99, MIGA issued its first Contract of Guarantee on behalf of the Trust Fund for a project in the tourism industry. However, this contract was cancelled in FY01. The Trust Fund remains open for applications. Since inception of the Fund, over 20 applications have been received for almost US$400 million in investments in WBG's infrastructure, manufacturing, real estate, services, and tourism sectors. The interest of seeking investment guarantees from the Trust Fund continues to be strong.

IFC Projects

IFC Portfolio

Including the three joint-projects above, IFC has committed US$25.89 million to three projects under the Mainstream Program. Under the Extended Reach Initiative, which supported projects in the US$0.25-5 million range, seven projects were committed for US$7.42 million, out of which US$4.92 million was disbursed. The Extended Reach Initiative was discontinued in mid-2000.

All IFC-financed projects have been affected by the ongoing political crisis. Most private sector activity has been noticeably reduced, and most WBG companies are facing liquidity and severe operational difficulties due to the internal border closure.

■ *Mainstream Projects*

• *Arab Palestine Investment Bank (APIB).*

IFC approved the US$3.74 million equity investment in May 1994.

Arab Palestinian Investment Bank was IFC's first investment in the West Bank and Gaza, and was established in Ramallah in 1996 by the Arab Bank, DEG, Enterprise Investment Company and IFC. APIB was also the first comprehensive commercial and investment banking institution to be established in the West Bank and Gaza. Its primary focus was intended to be in trade finance (e.g., letters of credits and discounting of bills), term financing (for industrial and commercial projects for expansion, modernization and working capital needs), foreign exchange and money transfers, financial advisory services (to the local corporate sector and overseas investors) and agency arrangements. APIB was expected to mobilize wholesale funding from the domestic and overseas markets. Further expansion of APIB's operations was to include money and capital markets activities, treasury management services, portfolio management, and private banking.

As of December 31, 2002, APIB approved 30 loans worth US$12.7 million, and had an outstanding portfolio of US$7.4 million. Due to the ongoing crisis, the pipeline for new lending has significantly decreased, and focus has shifted to managing the existing portfolio.

• *Peace Technology Fund (PTF).*

The Project was approved in August 1998, with IFC investing up to US$12.6 million.

The Peace Technology Fund was set up with a committed capital of US$63.2 million to provide equity capital for productive investments in the West Bank and Gaza. PTF was to encourage economic cooperation between Palestinian and Israeli companies and, if appropriate, invest in joint ventures between Palestinian companies and Israeli or international companies, thereby encouraging transfer of technology and employment generation in the West Bank and Gaza. PTF was expected to invest primarily in small- and medium-sized companies across a broad spectrum of high value added and/or employment generating industries.

Prior to September 2000, PTF invested US$11 million in three projects, but because of the ongoing crisis, all pipeline investments have been put on hold.

• *Palestine Tourism Investment Company Ltd. (PTIC).*

The Project was approved in April 1999, and IFC invested US$1.35 million in equity and US$8 million in long-term loans.

The Project was the first international hotel in the West Bank. The 250 key hotel was built in Bethlehem at an estimated Project cost of US$52 million that included the renovation of the famous Jacir Palace landmark. EIB provided the Project with about EURO12 million in a long-term loan.

The Project became fully operational under Intercontinental Hotel Company management in September 2000. But due to the ongoing crisis in the West Bank and Gaza, tourism was one of the hardest hit sectors, and the complex was forced to cease all operations in March 2001. The complex sustained some physical damage during the past year and remains closed.

■ *Extended Reach Projects*

• *Arab Concrete Products Company (ACPC).*

IFC approved the US$0.8 million loan in June 1997.

This Project enabled Arab Concrete Products Company to fully utilize its production capacity of ready-mix concrete, and expand its distribution capacity. IFC provided a long-term loan of US$0.8 million out of a total

Project cost of US$2.6 million. Due to the crisis and mobility problems of labor and raw materials, the Project has witnessed a significant drop in operational levels, and at certain times, it has come to a complete standstill.

- ***Jericho Motels Company (JMC).***

IFC approved the US$1.17 million loan in August 1998.

Developed on 31,000 m2 of land, the Jericho Resort Village consists of a 60-room hotel, 48 bungalows, and recreational facilities. At a total cost of US$8.1 million, IFC provided a 10.5-year, US$1.17 million loan, and the financing plan included long-term loans from two local banks and one other international lending institution. The complex, which opened for commercial operations in late 1998, was forced to cease operations in early October 2000 due to the ongoing crisis and closures. However, with the relaxation of the closure on Jericho over the past few months, the hotel reopened most of its premises.

- ***Arab Palestinian Storage Company (APSC).***

IFC approved the US$0.2 million loan in July 1998.

The Project consisted of establishing a cold storage facility in Gaza with a capacity to store about 5,000 tons of perishable food products. The storage method included both freezing, as well as chilling, to preserve the products for long periods of time. The Project also involved trading in fruits and vegetables, mainly for sale in the off-season. IFC provided a loan of US$0.2 million out of a total project cost of US$5.9 million. The Project started operations in September 1999. However, the border closures in Gaza, and the ongoing crisis, have significantly reduced the Project's volume of operations, and in some instances, operations were brought to a complete stop.

■ *IFC Technical Assistance*

IFC's technical assistance efforts have been aimed at supporting the Palestinian Authority's efforts to further broaden and deepen the Palestinian financial sector. IFC has also worked closely with the Palestinian Authority and the private sector to encourage the emergence of new instruments and players in the financial sector and capital markets through the development of framework laws and institutions. IFC was involved with the preparation of draft laws for Insurance, Securities, Capital Markets Authority, Mutual Funds, Mortgage, Tax, and Competition.

BANK GROUP NEWS

• Report on Aid Coordination During the Intifada Period.

A report on Aid Management and Coordination during the Intifada was commissioned in March/April by the LACC co-chairs (World Bank, Norway and UNSCO). The objective of this study was to assess the effectiveness of co-ordinated PA-donor and inter-donor responses to the Intifada, with a view to review the responsiveness, relevance and quality of leadership provided by the PA, the LACC co-chairs and other key donors.

The first draft of the report was finalized on April, 27, 2003 and the full version will be soon available.

• International Donors Releasing a New Report:

" The Wall Report". International donors to the Palestinians released a report detailing the socio-economic impact of Israel's construction of a separation barrier in the West Bank.

The separation barrier is a complex series of walls, barriers, trenches, and fences commonly referred to as "the Wall." Israel began construction on it in summer 2002 in the context of continuing violence and terror attacks on its civilians. The donor community commissioned the report because of concern that this construction could harm Palestinian livelihoods and the viability of local economies, and that the Wall might negatively impact the delivery of humanitarian aid and damage assistance projects.

The report was researched and written by a team of experts under direction of the Local Aid Coordination Committee's (LACC) Humanitarian and Emergency Policy Group, which includes: the European Union, Norway, the United States, UNSCO, and the World Bank. The report is posted on the website of the UN's Office for the Co-ordination of Humanitarian Affairs (www.reliefweb.int/hic-opt/docs/HEPG/Wallreport.pdf).

• New Appointment for the World Bank Vice President of Middle East and North Africa Region.

Mr. Jean-Louis Sarbib, who has been MENA Vice President since May 2000, was appointed as a Senior Vice President and Head of the Human Development Network at the World Bank. A transition period will take place until the new appointed Vice-President, Mr. Christiaan Poortman, will assume his responsibilities.

• Civil Serivice and Pensions Reform Mission

A World Bank mission comprising Gary Hendricks, Aniruddha Bonnerjee, Jana Orac and Josephine Bassinette (TTL) visited West Bank and Gaza between May 03-May 17, 2003 to engage in civil service and pension reform dialogue with the PA. The pensions team, consisting of Gary Hendricks and Aniruddha Bonnerjee were visiting to disseminate the Pensionsreport to stakeholders, establish a working committee on pension reform and engage the Palestinian Authority in pension reform dialogue. Furthermore, there has been interest and demand among the PA to update the report to include an analysis of the security forces. To the extent that data are made available to the team, the mission agreed to conduct such an analysis. The mission plans to return mid-summer to engage stakeholders in training and capacity building so as to enable them to take decisions regarding pension reform.

• Mission for the Community Development Project and the Solid Waste and Environmental Management Project

The objective of the mission was to discuss the draft ICR for the Community Development Project II, supervise the implementation of the on-going SWEMP and ICDP projects. A stakeholder meeting was organized by the Yamoun Municipality to provide the opportunity for beneficiaries to discuss the outcomes of the the CDP II. Over 30 participants from the villages and small municipalities in Jenin district attended the meetings and the overall reaction from the stakeholders was very positive on the achievements of the CDP II. Site visits were conducted to the Zahrat Al-Fanjan landfill site. The draft detailed design for the landfill is being completed. The other components of the SWEMP project are progressing satisfactorily. Site visits were also undertaken in Gaza and West Bank to projects being funded through the ICDP project. The Implementing Agencies (PECDAR, MOLG, DORA and MOA) are already in the process of preparing the second batch of ICDP project.

World Bank Publications:

• The World Bank Legal Review: Law and Justice for Development

Sustainable poverty reduction and equitable economic development depend on the solid foundation of the rule of law. These reforms are underpinned by legal reform, whether it be to increase efficiency in business transactions, benefit from globalization policies, improve the way governments deliver essential services, or facilitate access to a more efficient and effective justice system. Internationally, rules and frameworks of cooperation are required in order to confront new global threats, such as communicable diseases, attacks on the environmental commons, destabilizing capital movements, and money laundering.

The World Bank Legal Review, the first in a new annual series, offers a combination of legal scholarship, lessons from experience, legal developments, and recent reports on the many ways in which the application of law and the improvement of justice systems promote poverty reduction, economic development, and the rule of law. This book, produced by the Legal Vice Presidency of the World Bank, is a publication for policymakers and their legal advisers, attorneys and other professionals involved in the area of international development.

- **A Sourcebook for Poverty Reduction Strategies (2-volume set)**

A Sourcebook for Poverty Reduction Strategies is a guide intended to help low-income countries with the development and strengthening of their poverty reduction strategies. This book has been designed as a resource for analysis and discourse on poverty reduction policies and programs at the country level. Each chapter adopts a layered approach, with a short summary providing overall assistance on issues, a detailed guide providing approaches to analysis and policy development along with supporting materials including country case studies, technical notes, and recommendations for further reading.

A Sourcebook for Poverty Reduction Strategies is organized into two volumes. Volume One focuses on Core Techniques including poverty measurement and analysis, and monitoring and evaluation. Cross-Cutting Issues, such as participation, governance, and gender, are also discussed in Volume One. Volume Two concentrates on Macroeconomic and Sectoral Approaches.

- **World Development Indicators 2003**

This is the World Bank's premier annual compilation of data about development. The 400-page print edition allows users to consult 600 indicators for 152 economies and 14 country groups in more than 87 tables. A current overview of the most recent data available as well as important regional data and income group analysis are presented in six thematic chapters: World View, People, Environment, Economy, States and Markets, and Global Links. (Indicator topics : Population & demographics; Poverty & income distribution ; Exports & Imports; Balance of Payments; External Debt ; Transportation; Development Assistance & Aid; Information Technology; GDP, GNI, etc.

Reliable quantitative data is essential for understanding economic and social development because it provides evidence—evidence to set policies, monitor progress, and evaluate results. World Development Indicators allows users to monitor progress toward the Millennium Development Goals. These goals, agreed to by all member states of the United Nations, establish specific, measurable targets for development in the early 21st century.

- **Global Development Finance 2003 (Complete Print Edition):** Striving for Stability in Development Finance

Global Development Finance 2003 is unique in its depth of coverage of the issues related to international development finance. By putting all development-related flows in a consistent framework, the publication will allow government officials, economists, investors, financial consultants, academics, bankers, and the entire development community to better understand, manage, and promote the key challenges of financing development.

Global Development Finance 2003, I: Analysis and Statistical Appendix is the World Bank's annual review of recent trends in and prospects for financial flows to developing countries. It also contains the World Bank's projections of the global outlook in view of the current global geopolitical uncertainties.

Global Development Finance 2003, II: Summary and Country Tables includes a comprehensive set of tables with statistical data for 138 countries that report debt under the World Bank Debtor Reporting System, as well as summary data for regions and income groups. It contains data on total external debt stocks and flows, aggregates, and key debt ratios, and provides a detailed, country-by-country picture of debt.

- **Constructing Knowledge Societies: New Challenges for Tertiary Education**

This report describes how tertiary education contributes to building up a country's capacity for participation in an increasingly knowledge-based world economy and investigates policy options for tertiary education that have the potential to enhance economic growth and reduce poverty. It examines the following questions: What is the importance of tertiary education for economic and social development? How should developing and transition countries position themselves to take full advantage of the potential contribution of tertiary education? How can the World Bank and other development agencies assist in this process?

The report draws on ongoing Bank research and analysis on the dynamics of knowledge economies and on science and technology development. Using this background, it explores how countries can adapt and shape their tertiary education systems to confront successfully the combination of new and old challenges in the context of the rising significance for tertiary education of internal and international market forces. It examines the justification for continuing public support of tertiary education and the appropriate role of the state in support of knowledge-driven economic growth. Finally, it reviews the lessons from recent World Bank experience with support of tertiary education, including ways of minimizing the negative political impact of reforms, and makes recommendations for future Bank involvement.

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