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The World Bank Group

A Quarterly Publication of the West Bank and Gaza Office

WEST BANK AND GAZA UPDATE

April 2009

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Contact Numbers

West Bank Office Numbers:
Switchboard 02- 2366500
Fax: 02- 2366543

Country Director
A. David Craig
02- 2366506

Deputy to Country Director and Donor Coordination
Dina Abu-Ghaida
02- 2366506

Economics and Private Sector
John Nasir
02-2366553

Social Development
Mesky Brhane
02-2366500

Water and Energy
Zeyad Abu-Hassanein
08-2823422

Infrastructure Development
Ibrahim Dajani
idajani@worldbank.org

Governance and Public Financial Management
Mark Ahern
02- 2366512

Financial Management
Suhair Musa
02- 2366540

Human Development
Eileen Murray
02-2366500

Public Information
Mary Koussa
02-2366529

Gaza Office:
08- 2823422/2824746
Fax: 08– 2824296

International Finance Corporation:
Investment Officer
Youssef Habesch
02- 2366517
Fax: 02- 2366521

Free Subscription Newsletter at Internet
mkoussa@worldbank.org
http://www.worldbank.org/ps

Gaza Recovery

A Prerequisite for the Creation of a Viable Palestinian State

As the people of Gaza emerge from the ruins of their homes, the World Bank is accelerating its efforts to support their recovery and reconstruction. In addition to immediately restarting work on the Bank-supported development projects in the Strip, we are focused on assisting the donor community in overcoming the obstacles to speedy and efficient disbursement of aid. A major juncture in this endeavor was the *International Conference in Support of the Palestinian Economy for the Reconstruction of Gaza*, held in Sharm el-Sheikh on March 2.

On the eve of his participation in the conference, World Bank Managing Director Juan Jose Daboub conducted a fact-finding mission to the Gaza Strip. His was the most senior visit by a World Bank executive to the territory since 2005. After touring devastated urban and agricultural areas and meeting local residents, Dr. Daboub assessed the damage to the World Bank supported North Gaza Sewage Treatment Project. He concluded the visit with a series of meetings with civil servants, NGO officials and business leaders to discuss recovery and reconstruction needs and modalities, including access issues.

The visit coincided with the publication of the Bank's report to the Sharm el-Sheikh conference. Entitled *Fund Channeling Options for Early Recovery and Beyond: the World Bank Perspective*, it aims to assist donors in choosing the most effective instruments for providing financial support to Gaza's recovery and reconstruction. (See report on www.worldbank.org/ps.)

While encouraging donors to channel funds through the Palestinian Authority (PA) budget, the report points to other efficient mechanisms -- the EU-PEGASE, the World Bank administered PRDP-Trust Fund, the Municipal Development and Lending Fund (MDLF) and the NGO Development Center (NDC) -- available to those seeking alternatives.

The authors further note that a number of PA institutions functioning in Gaza such as the Palestinian Water Authority (PWA), the Palestinian Energy Authority (PEA), and the Coastal Municipalities Water Utility (CMWU) have the proven capacity to implement donor-financed recovery and reconstruction projects. They emphasize, however, that implementation will only be possible if the restrictions blocking the predictable entry of basic materials into Gaza -- including cement, steel, glass, equipment, and spare parts -- are lifted, along with those preventing the steady flow of cash into the territory's banking system.

A central recommendation of the report is that the recovery and reconstruction effort be closely linked to ongoing development efforts in the Gaza Strip. In practice, this would mean continued funding and scaling-up of a range of existing successful donor-financed projects in several key areas -- water and sanitation, electricity, social safety nets, municipal development and NGO support.

The World Bank emerged from the conference with a renewed commitment to helping the people of Gaza rebuild their lives. Recovery can begin quickly, provided that sufficient materials and cash are allowed into Gaza in an efficient and predictable manner. It also means that the reconstruction effort provides an opportunity to re-start and accelerate the long-term economic development required for Gaza to assume a central role, alongside the West Bank, in the establishment of a viable and prosperous Palestinian State. We look forward to working closely with the PA and the donor community to realize this potential.

Country Director
A. David Craig

Damage Assessment
Water Sector Infrastructure

Overview:

Water and wastewater services have suffered significantly during the most recent Israeli military operation in Gaza during December 27 to January 24. This has severely affected the lives of the people of Gaza and added to their suffering. Damages were incurred to a wide range of facilities and impacted almost all types of water and wastewater facilities. This includes damage to water and wastewater pipes and pump stations; water production wells and storage reservoirs; wastewater treatment plants; electrical control panels; electricity supplies; administrative and operation buildings and stores; and utility vehicle and trucks. In addition, the Coastal Municipalities Water Utility (CMWU) reported that three of its operators were killed while they were trying to maintain the continuity of water services.

Crisis Management:

The CMWU is responsible for the delivery of water and wastewater services for the entire population of Gaza. Despite the security situation, the CMWU did not spare any efforts to resume services to the people of Gaza during the crisis. The CMWU management was in direct contact with all active humanitarian organizations in Gaza. In a few instances, the CMWU managed to maintain proper coordination with the Israeli military needed to fix some damages as well as supply the needed fuel to operate the diesel generator sets which run the pumps as most areas in Gaza suffered from electricity outages for many hours and in some places several days. The ongoing Gaza Emergency Water Project (GEWP) financed by the World Bank has played a crucial role in enabling the CMWU to operate efficiently and effectively finance all emergency interventions to maintain services. More severe damages still require concerted efforts, resources, and time to bring the systems back to their original condition. The CMWU and the World Bank have worked closely to conduct the damage assessment.

Damage Assessment:

As the military operation ended and the cease-fire was put in place, the CMWU led the damage assessment survey in cooperation with the Palestinian Water Authority. The World Bank furnished technical support to the CMWU and sent a short mission to Gaza to assist the CMWU in developing a comprehensive Damage Assessment survey which was published a week after the cease-fire. Aiming for stronger partnerships, The CMWU and the Palestinian Water Authority (PWA) engaged all donors and humanitarian organizations in coordinating the efforts to finance the Recovery Plan. The plan was shared with donors through the Water and Sanitation Hygiene cluster (WASH) and the Water and Sanitation (WatSan) donors' network. While many organizations like UNICEF and ICRC allocated emergency budgets for immediate repairs, the CMWU relies heavily on the GEWP and its additional finance (World Bank finance) in order to repair damages in the incursion areas.

The Damage Assessment estimated the need for about US$6.0 million to carry out repairs and reconstruction of damaged water and wastewater works. This can be itemized as illustrated below.

Damages and Estimated Cost Per Category

Damage Type	Estimated Cost USD$ (million)
Water Wells	0.4
Water Network Distribution	1.8
Wastewater Network Distribution	0.83
Wastewater Facilities	0.13
Water Tanks	0.62
Unforeseen Damages	0.45
Services (Water and Wastewater) to be provided for relocated peoples	0.75
Civil Work, Equipment and Material	0.57
Contingency	0.25
North Gaza Infiltration Basins	0.2
Total USD $	**6**

Recovery Plan:

Following the damage assessment, the CMWU has developed a Recovery Plan which is composed of the (1) **fast track** for emergency repairs which has been conducted immediately following the cease fire, (2) **intermediate track** to rehabilitate partially damaged works and (3) **long- term track** to reconstruct works in the completely destroyed areas. While the intermediate track works are in planning stages, the long-term track will not start before the rubble removal and the reconstruction of the destroyed houses is completed. This will take several years. World Bank finance of all tracks is crucial. In fact, World Bank funds through the ongoing projects like the Gaza Emergency Water Project and the Northern Gaza Emergency Sewage Treatment project are being mobilized to respond to the recovery plan needs. Additional financing will be needed and the donor community funds are needed to supplement the Bank financing.

Towards a Palestinian Land Management Reform Program

Many developing countries around the world have cadastres and registration systems that have been established for a long time. Following years of poor governance these inefficient systems have become a huge constraint on property markets. Legal documents and records often go back over a hundred years, can be often contradictory or fraudulent, and tend to have a history of conflicting or unclear legal documentation or seriously dysfunctional government held records.

Resolution of such dysfunctions in cadastre and registration systems is a pre-requisite for sustainable economic growth in both the urban and rural space of countries. Secure cadastral and registration systems are essential to enhance land tenure security and property rights which are fundamental for a well functioning economy, for the accumulation of wealth and for giving confidence to investors. Cadastral systems need to (i) permit the real estate market to grow; (ii) allow the flow of credit using real estate as collateral and greatly reduce the transaction costs associated with the provision of credit; (iii) improve the efficiency linkages; and (iv) form the basis for broad based property taxation and local economic development.

While many other factors affect economic growth, by ensuring that effective land administration and management systems are in place, governments can ensure that economic growth is not hindered because of the lack of such systems that impede the development of real estate markets. Once a country has made the political

decision to allow capitalism to operate, it becomes a necessity to support the development of stable, transparent, and efficient real estate markets, essential for acquiring land for development, asset reallocation for business and private purposes, and as a source of credit.

Secure land tenure and property rights have taken on greater historical and cultural significance for Palestinians in recent years. The Palestinian Authority emphasized land management and surveying as its top priority in its Palestinian Reform and Development Plan (PRDP).

The importance of functioning land markets for wealth creation

It has been estimated that real estate markets may contribute as much as 15-25% of GDP in a developed country, while the share of global capital stock represented by real estate is estimated to be about 66%. In the United Kingdom, land and buildings were estimated to comprise a total of 57% of the national wealth in 1997. In the United States, real estate, including land, was estimated to represent almost 70% of all tangible capital in 1993. The taxable value of real property in the US was estimated at nearly US$6 trillion in 1991. Flow of Funds data in the US published by the Federal Reserve, states that household real estate assets were about US$20.6 trillion dollars at the end of 2006. With mortgage liabilities of about $9.8 trillion, household net real estate wealth was a little less than US$11 trillion by the end of 2006. While such evidence is hard to provide for developing countries, evidence from developed countries makes clear the potential benefits developing countries can achieve by establishing efficient land registration systems[1].

Implementation of this key PRDP priority is being done under a program called the "Land Administration Program", which aims to enhance economic growth by developing, within a framework of laws, an efficient and trusted system of land registration and cadastre that would establish private land rights for citizens and businesses. Long term donor support for this Program aims to increase the confidence of Palestinians in the security of titles, enable an increase in the number of formal transactions as well as collateralized lending, enhance local revenues from land and property related fees and taxes, and support the establishment of a strategy for Public Land Management, including its use and disposal.

First Land Administration Project

The objective of the first phase of donor support for this Program, provided through the Land Administration Project (LAP), was to assess the feasibility of introducing reforms in land administration. Assessing feasibility required first

1 "Land Administration and Management Projects (LAMP) in the Europe and Central Asia Region: Experiences, Lessons Learnt, and the Future Agenda". Adlington Gavin, Stabley Victoria, Palmissano Bina Maria, and Baldwin Richard.

and foremost, the accumulation of substantial detailed knowledge of the various steps that, if implemented, would ultimately lead to the issuing of titles. LAP 1 was implemented over 3 years and 9 months, and closed on December 31, 2008 with *significant accomplishments*.

While a complete evaluation of LAP 1 is underway, the preliminary findings so far make clear that there was significant learning that took place during implementation, and substantial knowledge was generated. Excellent studies were undertaken, informing on changes that would need to be made for a more efficient and affordable path to the issuing of titles in West Bank and Gaza (WB&G) – changes to existing policies, laws, and regulations and procedures for surveying and registration.

Under LAP 1, systematic land surveying and registration was resumed for the first time in 40 years. Using the private sector, LAP1 demonstrated lowered unit costs for surveying. For the first time, a manual of procedures for systematic surveying and registration was prepared, establishing a foundation for transparent dissemination of procedures that could contribute to building the public's trust in the Land Administration Program.

Computerization of land records was initiated and is ongoing. Close to 200 surveyors were licensed, and 1800 parcels of land were registered. Public awareness campaigns led to the empowerment of women. A dispute resolution mechanism established under LAP 1 has provided clarity on future actions. Finally and most importantly, "informed" discourse is taking place on an issue that was taboo before.

With the technical knowledge generated, the development of a strategy for surveying and registration of about 3.2 million dunums or about 1.2 million parcels of land is now possible. It is clear that a strategy that delivers on the task within a realistic, affordable and acceptable time frame, will need to (i) optimize inputs, (ii) develop partnerships for surveying and registration with many stakeholders, (iii) enhance public-private cooperation, and (iv) transfer knowledge. Depending on the level of innovation integrated into the surveying and registration process, the costs of the program could vary between US$300 million to US$600 million, even possibly as low as *US$110 million*.

Innovations for faster results

Systematic registration with simple survey methods has worked well in Georgia, Armenia, Kyrgyzstan, and Estonia, leading to a reduction in costs to less than $10/parcel, and spurring mortgage activity. In Armenia the banks developed new mortgage departments in response to a 47% increase in demand for mortgages between 2002 and 2004. In Kyrgyzstan the annual number of mortgages doubled between 2002 and 2006 (from 22,387 to 43,001), and the value of those mortgages increased from US$84.8 million in 2002 to US$723.7 million in 2006. In Romania the private sector grew and expanded during the course of the Land Administration Project, responding to the demand created for cadastre surveying, appraisal, data entry, digitization of cadastre plans, and document scanning. In Kazakhstan, after the cadastral and registration system was established, the number of transactions doubled for three consecutive years. In Macedonia, the numbers of transactions increased by 27% from 2005 to 2006; the number of mortgages increased by 40% over the same period [2].

Second Land Administration Project

The Second Land Administration Project (LAP 2), aims to support the Palestinian Land Authority (PLA) develop and implement a strategy for surveying and registration that embraces innovation, and delivers measurable results in record time. The proposed project is under preparation, and is expected to be supported by the Government of Finland and the World Bank.

What will make LAP 2 a success?

International experience highlights that without a *"champion"* on the client side that takes ownership and becomes the *"change agent"* constantly galvanizing a constituency of support for new and innovative ways of doing business, success is often elusive.

For LAP 2, PLA will need to be the champion and the change agent. While much has been accomplished under LAP 1, it is now time for the PLA to set the agenda, strategy, and pace of work that will deliver results for the Land Administration Program. It is a new institution, and well positioned to harness the high willingness of municipalities, educational institutions and the private sector to partner with it to deliver expeditiously on its mandate, and meet the expectations of the Palestinian people.

2 Ibid.

World Bank Rallies Support for a Municipal Development Program

Working closely with other donors, the World Bank has actively supported the development of the local government sector since its engagement in the West Bank and Gaza in 1994. Its focus has been, on the one hand, support for provision of local services under emergency contexts and, on the other hand, building institutional capacity. The early projects such as Emergency Rehabilitation Project I and II (November 1994 to 1996 and May 1996 to 1999, respectively) supported the construction and maintenance of road, water and wastewater networks through labor intensive public works, thereby generating employment. The Emergency Municipal Services Rehabilitation Project I and II (2000 to 2006 and 2007 to 2009, respectively) introduced measures for local government accountability and institutionalized mechanisms for central-local resource transfers. They also built enhanced mechanisms for donor coordination, including substantial co-financing by such donors as the European Union, Italy, Denmark, Sweden and parallel financing by France, Germany and the Netherlands. Close partnerships between the Palestinian Authority (PA) and donors led to the establishment of the Municipal Development and Lending Fund (MDLF) in 2005, now the PA's implementation arm for channeling resources and technical assistance to municipalities.

The formation of many of the municipalities in the West Bank and Gaza date back to the Ottoman period and therefore, traditions of local administration are well established. Municipalities provide a variety of services and facilities such as electricity and water supply, solid waste management, roads, parks and recreation, slaughter houses, markets, schools, and health clinics. In the past, municipalities provided many of these services using local revenue collection. However, during the past five years, due to the ongoing conflict and contraction in the economy, municipal budgets have declined by an average of 30 percent. In addition, municipalities have suffered from poor financial accounting, control and reporting practices, hampering their ability to provide services.

With World Bank support and financing from Denmark, the Municipal Development and Lending Fund in partnership with the Ministry of Local Government has developed and adopted a Unified Chart of Accounts, a fixed asset registry for municipalities and an improved financial accounting system. Municipalities are now in the process of using these tools, enhancing their financial management and service delivery capabilities.

Building on this experience, under the leadership of the MDLF and the Ministry of Local Government, donors are now applying a sector wide approach to support a new Municipal Development Program (MDP). The key objectives of the program are to enable municipalities to provide better services and accountability through enhanced management practices. To date, the key donors include the World Bank, Denmark, Germany, Sweden, France and the Netherlands for an approximate budget betweenUS$65 -$95 million. The program is designed flexibly so additional donors may join as funds become available. A joint donor pre-appraisal mission was held in October 2008, a joint donor technical discussions mission is planned for the end of April 2009. The MDP is expected to start in the second half 2009.

Stimulating Economy Through The Housing Sector
World Bank Technical Assistance

There is high demand for housing in the West Bank and Gaza (approximately 400,000 to 450,000 housing units in the next 10 years) and limited supply (about 16,000 units per year). This demand, coupled with the potential impact of construction for inducing economic activity, large scale housing development could be a success, despite the multiple constraints created by the overall environment. The Palestinian Investment Fund is engaged in a 5 year affordable housing program targeting the construction of 20 000 to 30 000 new units and Bayti, a private real estate development firm plans to build a new town, Rawabi, near Ramallah. Such developments cannot be successful if adequate financial means are not made available to their potential buyers. Initially, a significant part of the needed resources will come from external investors or donors – in particular, PIF initiated in parallel to its program the establishing of a new financial institution, AMAL, whose first task will be to channel funds mostly from the donor community (OPIC, IFC , DFID) to finance loans extended by Palestinian banks[1]. But beyond this initial support, it is critical for the sustainable development of the sector that the Palestinian financial system permanently provide families with the necessary means. The Palestinian Authority also has a major role to play in creating the policy and regulatory environment that will facilitate such developments. A framework for public-private partnerships needs to be established. The PRDP also clearly spells out the importance of housing sector development and the role of the private sector.

Strenghening the Legal Framework for Mortgage Finance

The World Bank Group, which has been involved for several years in supporting the overall regulatory[2] environment, in partnership with DfID will provide technical assistance for improving the legal environment of mortgage lending. The variety of laws in place (Jordanian, British and Egyptian law), do not provide sufficient guarantees to lenders, buyers and developers alike on the conditions of secure and efficient transactions. Based on a preliminary proposal, the relevant agencies of the Palestinian Authority, and in particular the Capital Market Authority, requested the World Bank to draft reforms in the following key areas of mortgage finance:

- Creation of a consolidated mortgage framework, including the strengthening of creditors' rights – a condition of expanding the access to finance to lower income groups, a basic provision that will lay the ground for an eventual securitization market- , and the clarification of some provisions that can currently restrict the extension of long term loans;
- Design of consumer protection systems, including provisions to guarantee fairness in mortgage lending, as well as security when buying off plan units to be built – for instance securing advance payments or providing builder warranties;
- Review of accessory but critical provisions governing condominiums or ethical rules and expertise standards for real estate appraisal .

In addition, a review of the prudential regime for mortgage credit will be undertaken, and proposals will be made to rationalize it , making it more extensive and facilitating the circulation of capital towards the financing requirements of mortgage lenders.

Public-Private Partnerships for Infrastructure Investments

The World Bank is also providing technical assistance (TA) to the Ministry of Public Works and Housing to (i) design public-private partnership schemes for housing development and (ii) establish criteria for setting priorities in housing development which require public funds.
The main features of the TA are the following:

- Define the relationship between the private sector and the PA, by outlining the rights and responsibilities of each actor. It will also provide tools for the PA to assess the eligibility/qualifications of a private entity that will partner with the PA. It will also spell out the procedures the private sector would need to follow to receive licensing and then establishing the partnership with the PA. It will also spell out the conditions that the PA can propose for approving projects;
- Define the criteria that qualifies a housing scheme for public funding. It will include such features as affordability and social benefits (meeting the needs of low income families);
- Defining the types of investments and funding limits of the PA's contribution (that is, funding for off-site infrastructure such as roads, links to water and electricity networks, public facilities etc). It will also spell out the general guidelines for defining of off-site and on-site infrastructure.

In order to provide these infrastructure services effectively, the Palestinian Authority will need to prioritize the different housing initiatives and define a process that will ensure that these are reflected in national and local plans; establish a mechanism for channeling and managing donors funds; and identify appropriate institutions for the delivery of infrastructure services. The Ministry of Public Works and Housing has already established a Housing Sector Thematic Group under the Infrastructure Strategy Group to serve as a coordination forum for donors, PA agencies, and the private sector.

1 See 2008 Newsletter
2 In particular through the support to the Palestinian Mortgage and Housing Corporation and to the pilot Land Administration Project (promoting policies and implementation systems for land registration and titling, necessary conditions for housing development).

Economic Monitoring Note for West Bank and Gaza

I. Overview

During 2008 per capita GDP continued to fall in West Bank and Gaza (WB&G). Overall real GDP is estimated to have increased by about 2%, with all of the growth coming from the West Bank while the Gaza economy continued to decline under that the weight of the ongoing Israeli blockade and the recent ground invasion. The Government of Israel (GOI) maintained its system of economic restrictions in the West Bank and only marginally loosened internal movement restrictions, while continuing to build settlements and establish restrictive commercial crossings between the West Bank and Israel. GDP in WB&G was only maintained by enormous inflows of foreign assistance. Budget support alone was nearly $1.8 billion, nearly 80% above the 2007 figure. Despite the fall in per capita GDP, the development assistance was so great that disposable income in the West Bank may have actually increased. But despite the Palestinian Authority's success in implementing its Palestinian Reform and Development Plan (PRDP), the productive base of the economy has not recovered and the Palestinian economy, especially the Gaza economy, is becoming ever more aid dependent.

II. Closures and Economic Restrictions

The level of violence has fallen to very low levels in the West Bank, however, the GOI has responded by only marginally loosening its closure regime while continuing its tight economic restrictions and expanding settlements. The PA has been able to extend its security control through large parts of Area A and violence in the West Bank has fallen to the lowest levels in years. However, for most of 2008 the GOI maintained its strict closure regime and in fact tightened it. UN OCHA reported that as of September 2008 there were 630 identified obstacles blocking internal Palestinian movement, up from 611 in April and 580 in February 2008. In the last part of the year, the GOI began to take measures to improve movement and access between areas inside the West Bank. A small number of barriers were removed and several checkpoints began to operate on a "normally open" basis. In addition, during the holiday periods, checkpoint hours were extended and many permits were issued for West Bank residents to enter into Israeli controlled areas. In addition, the GOI is allowing a small amount of Israeli citizens to enter Jenin and other towns by foot to shop. It is estimated that on some days 200-300 people enter Jenin compared to nearly 10,000 a day before the second *Intifada* and the resulting closures. Though these moves are welcome they have had little significant impact on private sector activity.

Israel has completed six commercial crossing points in the Separation Barrier. Once these are fully operational, all traffic between Israel and the West Bank will be forced to move through them. Shipments to or from Palestinian areas will be transferred on a back-to-back basis with all goods scanned. The GOI has stated that once the Separation Barrier is complete and all of the crossing points operational, then they will be able to reduce the internal barriers. However, the crossings are almost fully operational but as noted above, the internal movement restrictions have not been relaxed in a meaningful way. Thus, the crossings serve as yet another barrier to Palestinian trade.

The construction of the Separation Barrier continues unabated and the GOI persists in actively initiating and promoting the construction of settlements. Since most of the internal movement restrictions can be directly related to the security of settlers, the increase in settlement activity leads directly to additional restrictions on the Palestinian community and economy. According to figures published by the Israeli Central Bureau of statistics, settlement population grew by about 4.7% in 2008 compared to a 1.7% growth rate for the population inside the green line. Peace Now, an Israeli NGO that tracks settlement activity, estimates that in 2008 1,518 new structures were erected in settlements compared to only 860 in 2007.[1] Nearly 39% of the new buildings were east of the Separation Barrier,

1 GOI does not provide information on settlement activity so the World Bank is forced to use data from Israeli NGOs who exert tremendous efforts to estimate settlement activity.

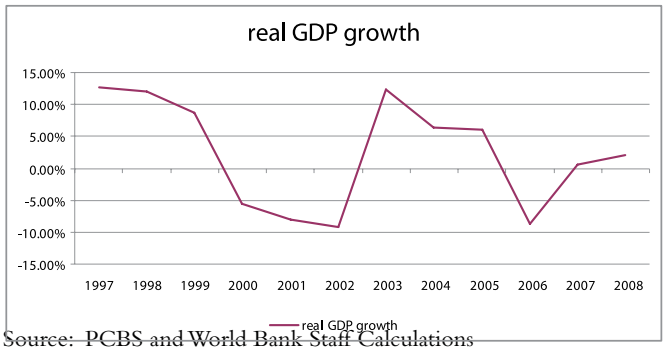
deep inside the West Bank. In addition to the increase in actual buildings, in 2008 there was an eight fold increase in the number of tenders issued for new construction in settlements. Most recently, in February 2009, the GOI announced the approval for building 1,400 new housing units in one settlement and the development of 130 hectares of land in another one. Also in February, a report on a secret database on settlement activity compiled by the Israeli Ministry of Defense was leaked to the Israeli press. The report details how much of the settlement construction was illegal even under Israeli law because it was done without permits or on privately held Palestinian land.

Israel maintains its tight economic restrictions on the Palestinian economy that discourage or prevent private investment. In addition to the movement and access restrictions, the GOI retains control over access to land, water, ability to travel and residency for the Palestinian population. In Gaza, fishermen are restricted to 3-6 nautical miles off the coast leading to over fishing and dwindling catches. The buffer zone along the border with Israel takes up more than 30% of Gaza's arable land and much of it is off limits or extremely dangerous for Palestinian farmers. In the past year, there have been no softening of these restrictions and in some cases they have gotten worse.

III. Economic Developments

By 2007, real per capita GDP had fallen nearly 28% from its peak in 1999. Both the Palestinian Central Bureau of Statistics (PCBS) and IMF estimates indicate that growth in WBG was flat in 2007 and about 2% in 2008. With an average annual population growth of around 2.7% this is not enough to affect a significant recovery of GDP growth. The Gaza Strip economy, already devastated from years of Israeli blockade, was further ravaged by the recent ground invasion. Consequently, what little growth has occurred, has taken place in the West Bank. In other post conflict societies, such as the Balkans, the recovery phase was marked by sustained double digit growth rates as the economy revived from the depths of conflict. Given the low base that the WB&G economy has sunk to, a similar response should be expected here. Thus, the low rates actually experienced indicate the continuing restrictions faced by the Palestinian economy.

Figure 1: Economic Growth 1999-2008*



Source: PCBS and World Bank Staff Calculations

In 2009 the optimistic scenario is for WB&G GDP to grow by 5% as called for in the PRDP; this would begin a recovery of per capita GDP. All of the growth is assumed to again come from the West Bank, while Gaza continues to stagnate. Given the low base that the West Bank is starting from, 7 or 8 % growth rate is not unimaginable and is actually rather conservative. However, reaching even the 5% growth rate requires that the current fighting in Gaza quickly subside before it spreads to the West Bank or destroys investor confidence there. In addition, the PA, donors and GOI must continue their actions that have produced the slight rebound in the West Bank's growth rate in 2008. If these conditions are not met, growth will be flat or once again turn negative.

The Palestinian economy has been sustained by enormous infusions of foreign aid and the recent growth in the West Bank is the direct result of a large increase in such flows combined with increased security. In 2008, budget support alone (including development expenditures) increased by nearly 80% from the 2007 level and at close to $1.8 billion, was equivalent to about 30% of GDP. The PA has used the donor largesse to pay salaries and clear arrears to public sector employees and the private sector that had accumulated during 2006 and 2007. The 2009 budget assumes that donors will maintain their high level of budget support and calls for over $1.6 billion in aid for 2009. Any failure to achieve this will force the PA to either cut back on development spending or once again accumulate arrears, which will have a direct negative impact on the Palestinian economy. The recent fighting in Gaza has added another challenge to the PA. Reconstruction costs have not yet been reliably estimated, but as this report was being written, the PA is preparing a budget supplement that will reportedly call for total of $1.624 billion, including $300 million in additional budget support.

Unexpectedly high inflation and fluctuations in the exchange rate have shocked the Palestinian economy. The Consumer Price Index increased by 7% from December 2007 through December 2008. The increase in Gaza was 10.29 % compared to only 4.45 % in the rest of the West Bank. The CPI spiked in the first half of the year due to rapidly rising food and fuel costs as well as the massive inflow of liquidity as the PA resumed paying salaries and arrears. In the last part of the year, steeply falling fuel prices and the end of PA arrears payments helped drive down prices, which resulted in an average increase in the CPI of 9.8% for the year. This was well above the expected rate of 3-4 % when the PRDP budget was drafted. In addition, there were large fluctuations in the Dollar-Shekel exchange. The Shekel gained nearly 30% against the US Dollar before falling in the last half of the year. On average the Shekel exchange rate appreciated nearly 15 % in 2008. Since most donor aid comes in dollars and many people and businesses plan and save in dollars, these fluctuations have had a significant impact on the Palestinian economy.

Investment has shown few signs of recovery during the past year. It is difficult to precisely know the size of public investment since almost all of it is project finance from external sources that are often not reported to the Ministry of Finance. The 2008 budget called for over US$500 million in development expenditures, but current estimates are that it only reached about US$250 million. The PCBS does not publish figures on private investment; however, monetary statistics suggest it is low. Claims on the private sector fell by over 6 % to approximately US$1.37 billion in the first half of the year. At the same time, private sector deposits rose from US$4.1 billion to US$5.1 billion leading to net claims on the private sector to decline by over US$1 billion. In addition, net repayment of bank debt by the PA was $38 million. This large withdrawal of liquidity from the economy offset much of the external aid and indicates that in the current environment, few investors are willing to take risks and borrow from the banking system.

Consistent with the lack of borrowing, industrial output continues to decline. 2008 figures are not yet available but according to PCBS estimates in 2007, manufacturing output was approximately 1.8 % lower than in 2006 and nearly 23 % off from 1999 (Table 1). Agricultural output has been slowly recovering since its low of 2002 but it remains about 28 % below its peak in 1999. The lack of investment is also evidenced by the fact that the construction sector has seen little growth in the last four years and is less than 20% of its size in 1999. Recently, a few large housing construction projects have been announced in the West Bank, including a new planned community north of Ramallah, which will require over US$500 million in private investment. If these projects actually come to fruition they would be a large boost to the construction sector and the Palestinian economy as a whole. Though the WB&G financial system is relatively disconnected from the international system, the recent international financial crisis may affect the housing finance projects.

Table 1: Real GDP in Remaining WBG by Economic Activity at Constant Prices (PCBS Estimates)

	1999	2002	2005*	2006*	2007**
Agriculture and fishing	**470.7**	**296.6**	**312.6**	**334**	**340.8**
Mining, manufacturing, electr. and water	**655.5**	**580**	**564.8**	**531.1**	**527.3**
Mining and quarrying	35.7	33	18.3	18	21.3
Manufacturing	566.4	476.3	476.5	444	436.0
Electricity and water supply	53.4	70.7	70.0	69.1	70.0
Construction	**616.9**	**67.5**	**119.4**	**104**	**103.8**
Wholesale and retail trade	**537.8**	**350**	**373.9**	**382.7**	**411.6**
Transport, Storage and Communications	**231.0**	**349.6**	**461.5**	**466**	**478.5**
Financial intermediation	**169.1**	**149.9**	**187.4**	**186.7**	**192.5**
Other services	**990.8**	**899.1**	**1,100.2**	**940.2**	**906.1**
Real estate, renting and business services	444.3	392.7	446.8	447.8	343.2
Community, social and personal services	28.3	33.2	43.2	43.6	43.9
Hotels and restaurants	128.0	60.7	68.1	67.0	67.8
Education	262.4	287.7	342.5	255.3	314.8
Health and social work	127.8	124.8	199.6	126.5	136.4
Public administration and defense	**497.7**	**578.1**	**796.1**	**552.7**	**570.0**
Households with employed persons	**8.7**	**8.2**	**8.5**	**8.7**	**8.6**
Less: FISIM	-129.5	-109.6	-139.6	-138.3	-139.8
Plus: Customs duties	208.6	75.8	274.2	284.9	284.0
Plus:VAT on imports, net	254.4	338.2	443.6	454.3	450.0
Gross Domestic Product	**4,511.7**	**3556.4**	**4502.7**	**4107.0**	**4,133.4**

Source: PCBS revised estimates
Base year 1997
*Second Revision
**First Revision

The recent ground invasion destroyed a significant amount of the remaining capital stock and has resulted in the closure of many enterprises that had been able to continue operating. Though much of the damage was sustained by already closed businesses, their destruction ensures that they will not be able to quickly recover once conditions improve. A preliminary assessment by the

Private Sector Coordinating Council estimates that the recent fighting resulted in $140 million in damage to Gaza businesses. Agriculture also suffered tremendous damage. PA estimates indicate that 17% of the total cultivated area was completely destroyed and that the overall damage to the sector was $180 million.

Table 2: Industrial Decline in Gaza

	June 2005 Pre-disengagement	Week 1, July 2007	Nov. 2007	Dec. 2007	March 2008	June 2008	Dec. 2008*
Industrial Working Establishments	3,900	780	250	195	130	90	200
Industrial Employees	35,000	4,200	2000	1,750	1300	860	1900
Exports from Gaza (truckloads)	748	0	0	0	0	0	0

Source: Palestine Trade Center (PalTrade) interviews with local business associations
* These figures were gathered before the ground invasion on December 27, 2008.

Unemployment in the West Bank rose from 17.7 % at the end of 2007 to 20.7 % in the third quarter of 2008, while PCBS reports that unemployment in Gaza increased from 29.7 % to nearly 41.9 %.[2] These figures do not give an accurate picture of the full impact of the economic crisis, because they do not take into account underemployed workers such as the large number who have turned to unpaid family labor or seasonal agriculture. The figures also do not include the many discouraged workers who have left the labor force.[3] Labor force participation rates are low and dropping. In the West Bank it fell from 44 % at the end of 2007 to 43.4 % in the third quarter of 2008 and in Gaza it held steady at about 38 %. Adding discouraged workers would increase the unemployment rate to 26.4 % in the West Bank and 46.1 % in Gaza.[4]

2 Fourth quarter figures are not yet available. The ground invasion has certainly put many more people out of work. However, this section gives a good picture of the structural damage done to Gaza by the months of closure.
3 Unemployment figures also do not include the large number of "workers absent from their usual work". In the PCBS calculations, these workers are assumed to be temporarily away from jobs due to illness, work stoppage, natural disaster or for other reasons but still receiving normal pay. UNRWA estimates that nearly 45,000 Gazans have become "absentee" workers since the first half of 2007.
4 PCBC Labor Force Survey Q1 2008

Macroeconomic and Fiscal Assessment for the West Bank and Gaza[1]

By the International Monetary Fund

I. Introduction

The economic and political situation in 2008 and early 2009 has been far bleaker than hoped for in the Palestinian Reform and Development Plan (PRDP). In the West Bank, Israeli restrictions on movement and access were tightened compared to 2007 based on security concerns, and settlements have expanded. Gaza's economic and humanitarian situation has deteriorated markedly due to the war and its increased isolation. The restrictions on cash entry into Gaza have reduced depositor confidence in Gaza banks, and further reduced people's ability to cover their basic needs. The surge in inflation, while subsiding later in 2008, further eroded household incomes and raised production costs. The adverse growth impact of these factors has to some extent been tempered by improved security conditions in West Bank cities, as well as higher-than-expected donor budgetary assistance.

Despite the difficult conditions on the ground, the Palestinian Authority (PA) has continued with institution-building and prudent fiscal policies and reforms. A strict government employment policy was followed, wage rates have been virtually frozen, and measures have been implemented to improve utility bills payment. Since the advent of Prime Minister Fayyad's government, the Palestinian Authority has made impressive strides in strengthening the Public Financial Management System, which is helping prioritize and raise the quality of public expenditure.

There is a pressing need to secure adequate external assistance to finance the budget deficit for 2009. A lower budget deficit, combined with the front-loading of arrears repayment in 2008, will result in a substantial reduction in external recurrent financing requirements, as reflected in the 2009 budget, to $1.2 billion compared to $1.8 billion in 2008. This will make it easier for donors to accommodate the increase in public investment, which is projected at $0.5 billion in 2009, as well as expenditures to address the damage caused by the Gaza war. The latter spending, expected to be presented in a supplementary budget in due course, is preliminarily projected at $300 million in emergency spending for Gaza in 2009, and $1.3 billion for both 2009 and 2010 to address Gaza's war-related reconstruction.

II. Fiscal Developments

The Palestinian Authority (PA) continued with fiscal consolidation in 2008. The recurrent fiscal deficit on a commitment basis is estimated to have declined to 19 percent of GDP in 2008 from 24 percent of GDP in 2007, reflecting largely expenditure restraint on the wage bill and reduced utility subsidies. The deficit has been lower than envisaged in the 2008 budget on a commitment basis, but somewhat higher on a cash basis due to the front-loading of arrears repayment.

The Public Finance Management System has been strengthened further. A General Accounting Department (GAD) was established at the Ministry of Finance (MoF), and a new Computerized Accounting System (CAS) has been developed to link the MoF to line ministries, with better integration of the recurrent and development budgets. The MoF's action plan for 2009 includes (i) ensuring that all line ministries are linked to the CAS, (ii) setting up a cash and debt management unit in the GAD with a view to further prioritizing spending and minimizing arrears accumulation, and (iii) presenting the 2010 budget with a revised economic classification in line with international standards.

The 2009 budget foresees continued reduction in the recurrent deficit and a shift in the composition of expenditure away from wages and subsidies, and toward nonwage and capital spending. As the budget was completed before the outbreak of the war in Gaza, a separate "supplementary budget" will take into account Gaza's war-related reconstruction and rehabilitation needs. The key features of the 2009 budget include wage restraint and phasing out of utility subsidies, and a significant increase in the share of development projects in total spending. As a result it is expected that there will be a substantial reduction in external financing requirements for the recurrent budget in 2009 by about $610 million (excluding Gaza-related supplementary budget spending).

1 For details of the analysis and assessment, see the IMF staff report entitled "Macroeconomic and Fiscal Framework for the West Bank and Gaza—Third Review of Progress", prepared by a team composed of Oussama Kanaan (Chief of Mission), Rina Bhattacharya and Roman Zytek. All IMF staff reports related to the West Bank and Gaza are published in English and Arabic on the IMF website (www.imf.org/wbg)

III. Banking Sector Developments

While domestic banks have not been significantly affected by the global financial crisis, the growth of deposits and private credit remains constrained by the subdued economic activity. Private deposits contracted by about 6 percent in real terms in the year to September 2008. Reflecting banks' conservative lending practices and limited investment demand, most deposits continue to be placed abroad, with private sector credit (as a share of private sector deposits) falling to 25 percent by September 2008 (compared with 39 percent at end-2006 and 30 percent at end-2007). Risks to the balance sheets of some banks persist, due in particular to Gaza's isolation and the deterioration of security conditions there.

The imposition over the past year by the Government of Israel of tight restrictions on the entry of cash into Gaza is having a serious adverse impact on Gaza's economy. As a result of these restrictions cash available to banks has been well below what is needed to accommodate local customer cash demand, including for Palestinian Authority (PA) employee salaries and humanitarian assistance. The resulting cash shortages have had serious repercussions in several respects: (i) the additional cash constraint on households' liquidity has further reduced their capacity to cover basic needs, in addition to the indirect repercussions on other households as a result of the shortage of cash for programs targeting Gaza's most vulnerable groups which are administered by the World Bank, European Union, and UNRWA; (ii) the steady fall in bank cash reserves has induced the hoarding of cash and negatively affected the public's confidence in its ability to draw cash from banks, thereby undermining the viability of the banks; and (iii) the cash restrictions have also resulted in the diversion of scarce resources from banks toward unregulated informal channels. This has reduced the relevance and effectiveness of the Palestinian Monetary Authority's prudential framework and its regulations against money-laundering and terrorist activities. Thus removal of cash restrictions will be essential to prevent a further deterioration of living standards, safeguard banks' viability, and prevent continued diversion of resources toward unregulated activities.

Gaza's prospects are also adversely affected by the severance by Israeli banks of correspondent and clearance relationships with Gaza banks. On January 1, 2009 two Israeli commercial banks (Bank Hapoalim and Discount Bank) cut off all correspondent and clearance services with banks operating in the West Bank and Gaza for NIS-denominated transactions, and there is now a risk of severance of relations with West Bank banks as well. These actions would severely disrupt the operation of the Palestinian banking system and would significantly reduce banks' profitability. They would also divert resources away from the banking system toward unregulated informal channels. The cost of bank transactions would rise markedly as these would need to be to be denominated in currencies other than the shekel and be cleared through offshore banks. This would expand the use of cash and informal international transfers (including through the "Hawala system"), which are much more difficult to monitor than bank transactions. Hence it is crucial that an arrangement be reached between the Palestinian and Israeli sides that would ensure unhindered access by Palestinian banks to Israeli banks' correspondent services.

The Palestine Monetary Authority (PMA) has continued institutional reforms. These reforms, which have been supported by IMF technical assistance, aim at transforming the PMA's organization and operations with the medium-term objective of becoming a full-fledged central bank. The PMA has made considerable progress during 2008 in internal reform and capacity building, including in strengthening the supervisory framework and governance. A macroprudential division was created, and progress was made in establishing an early warning system. A new credit registry is allowing banks to better evaluate risks, reduce collateral requirements, and improve credit flow. The financial legal framework has also been strengthened. An Anti Money Laundering Law has been in force since 2007, and a new Banking Law and a new Central Bank Law are expected to be enacted in 2009.

IV. Medium-Term Macroeconomic Outlook

A medium-term macroeconomic baseline scenario was developed that is predicated on all parties (PA, the Government of Israel, and donors) pro-actively pushing the peace process forward and supporting growth-enhancing reforms and institution-building. In particular, it assumes that: (i) there is an easing of the blockade on Gaza and of restrictions on movement and access in the West Bank, which would lead to a recovery of exports and private investment, enable an acceleration of the public investment program, and allow Gaza's reconstruction and rehabilitation; (ii) the PA would continue its prudent fiscal policy based on a tight expenditure stance; and (iii) donors would provide adequate and timely financial assistance to cover both the narrowing recurrent budget deficit and expanded public investment and reconstruction needs.

Under the baseline scenario with the above assumptions and policy expectations, real GDP growth would increase from about 2 percent in 2008 to 5 percent in 2009, 6½ percent in 2010, and 7½ percent in 2011 (see table below). Although trade with Israel could be

affected by the global slowdown (other things being equal), WB&G growth prospects would be much more strongly influenced by the easing of restrictions. The rise in donor-funded and private sector investments should offset the impact of fiscal consolidation as well as lay the foundations for sustainable growth in the long run. The share of public consumption in GDP would decline, making room for a high rate of public investment while at the same time reducing reliance on external financing. Reflecting the relaxation of border restrictions, expansion of exports from repressed levels, and strong demand for raw materials and capital, real export and import growth would average 9–10 percent per year during 2009–11.

While the projected recovery may appear impressive, it would still leave living standards below pre-closures levels in 2000. Real GDP is estimated to have declined by a cumulative 13 percent since the imposition of Israeli restrictions on movement and access in 2000 up to 2008 (or a cumulative 34 percent in real per capita terms), suggesting an income level for the Palestinian economy well below its potential. Even with the assumed relaxation of Israeli restrictions starting in 2009, real income per capita in 2011 would still be about 27 percent below its level in 2000. The rate of unemployment would remain high at 23 percent in 2011, compared to 11 percent in 2000.

The above projections are subject to the risk that the peace process will remain stalled, with persistence of Gaza's blockade and Israeli restrictions in the West Bank. Given that risk, a "pessimistic" scenario was developed on the premise that Gaza's blockade and Israeli restrictions would remain unchanged, inhibiting trade and private investment. Continued restrictions on imports of capital goods and raw materials and passage of project personnel would also reduce the pace of implementation of the donor-financed public investment program and Gaza's reconstruction. This would have an adverse impact on longer-term growth, in addition to its immediate impact on private sector activity (see table and figure below). Under this scenario real GDP per capita would likely remain on a declining trend, possibly contracting by an average of 1.2 percent per year during 2009–11. Unemployment would rise from 24 percent in 2008 to over 30 percent by 2011.

V. Concluding Remarks

Close cooperation among all three parties (the PA, GoI, and donors) is essential to contain significant risks to the macroeconomic and fiscal outlook for 2009 and beyond:

- Slow progress in the peace process combined with continued restrictions on movement and access would further delay private sector recovery and impede public investment and reconstruction. This would limit income growth and employment opportunities, and would make it more difficult for the PA to continue with fiscal retrenchment. In particular, it would become more difficult to restrain real wages, raise collection rates for utilities, and reduce social spending. Furthermore, continuation of Gaza's blockade, by worsening its humanitarian crisis, would raise emergency spending and divert resources from growth-enhancing areas.
- Additional donor assistance needs to be secured immediately to cover external recurrent financing needs for 2009. If adequate funds cannot be secured, the PA would need to cut its cash expenditures and likely accumulate arrears, including on wages. Close coordination among donors, and between donors and the PA, will be essential to ensure adequate and timely disbursements for the recurrent budget.
- The drive to raise donor support for Gaza's reconstruction should not divert attention from the pressing need to finance the recurrent budget. It has already been difficult for the PA, since December 2008, to raise enough donor funds to cover the wage bill and basic recurrent spending. About half of the PA's recurrent spending has in recent years been deployed in Gaza, including through the wage bill and social assistance. Payment of these obligations, most of which are paid directly into the bank accounts of the designated beneficiaries, constitutes the most effective social safety net now in place in Gaza.
- The shortage of cash has made it even more difficult for people in Gaza to cover their basic needs. Failure to fully finance the recurrent budget, and to ensure that this financing is translated into cash received by employees and beneficiaries, poses a risk that an even larger proportion of Gaza's population will fall below the poverty line.

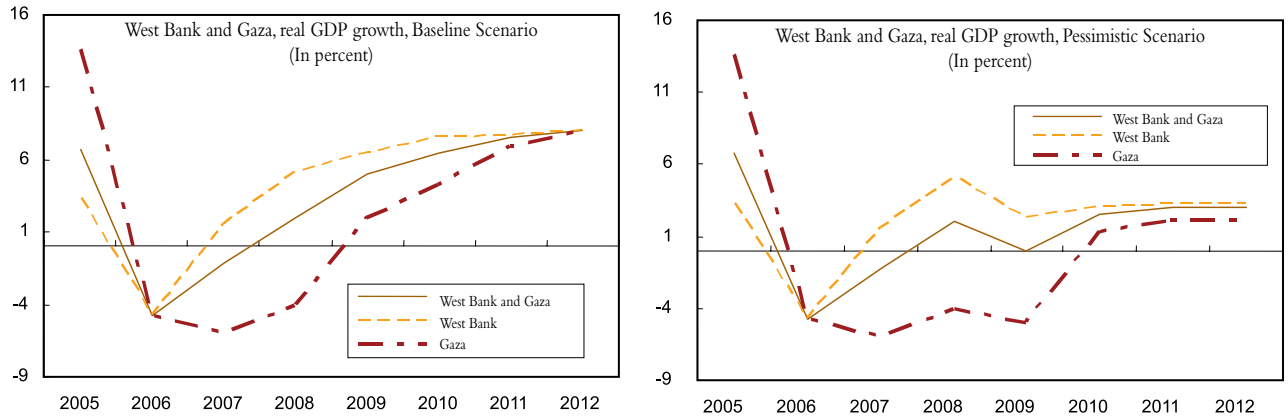
West Bank and Gaza - Comparison with Pessimistic Scenario

	2008	2009	2010	2011	2009	2010	2011
	Est.	Baseline Scenario			Pessimistic Scenario		
Output and Investment							
Real GDP (percentage change)	2.0	5.0	6.5	7.5	0.0	2.5	3.0
Real GDP per capita (percentage change)	-1.2	1.8	3.3	4.3	-3.1	-0.6	-0.1
Gross capital formation (in percent of GDP)	19.1	32.8	24.8	25.6	20.8	22.2	23.5
o/w: public investment (in percent of GDP)	4.2	17.8	9.8	10.3	6.1	7.6	9.0
			(In percent of GDP)				
Public finances 1/							
Revenues 2/	24.2	25.8	26.1	26.3	24.5	24.5	24.8
Recurrent expenditures and net lending	43.6	44.0	39.4	36.3	45.9	43.0	41.2
Recurrent balance (before external support) 2/	-19.4	-18.2	-13.3	-10.0	-21.4	-18.4	-16.4
Recurrent balance, cash basis (before external support) 2/	-25.1	-18.2	-13.3	-10.0	-18.7	-14.3	-11.2
Expenditure arrears accumulation	-6.0	0.0	0.0	0.0	2.7	4.1	5.2
Capital expenditures	3.9	17.5	9.5	10.0	5.7	7.2	8.7
(In millions of U.S. dollars)	251	1,103	663	763	350	470	590
External recurrent budgetary support (in billions of U.S. dollars)	1.8	1.2	0.9	0.8	1.2	0.9	0.8
Total external support, including for capital expenditures	29.6	35.7	22.8	20.0	24.5	21.6	20.0
(In billions of U.S. dollars)	1.9	2.3	1.6	1.5	1.5	1.4	1.4
			(In percent of GDP)				
External sector							
Exports of goods and nonfactor services	13.1	13.2	13.7	14.0	12.7	12.3	12.0
Import of goods and nonfactor services	71.6	86.3	76.0	75.8	77.9	77.5	75.5
Current account balance (excluding official transfers)	-27.2	-39.7	-29.3	-28.0	-28.3	-27.1	-26.4
Current account balance (including official transfers)	2.4	-4.0	-6.5	-8.0	-3.8	-5.5	-6.5
Memorandum items:							
Unemployment rate (average in percent of labor force)	23.9	23.6	23.3	22.7	25.3	27.6	30.6

Sources: Palestinian authorities and IMF staff estimates.1/
Commitment basis.2/ For 2008, revenues exclude the special dividend from the Palestinian Investment Fund (PIF) of $197 million.Pessimistic ScenarioWest Bank and Gaza - Comparison with Pessimistic ScenarioBaseline Scenario(In percent of GDP)(In percent of GDP)

West Bank and Gaza: Path of real GDP growth, 2005-2012

Persistence of the blockade and restrictions on movement and access will markedly slow economic growth, especially in Gaza.



Source: Palestinian Central Bureau of Statistics and IMF staff estimates and projections.

The World Bank's Operations in West Bank and Gaza

March 2009

On-going Bank Group Operations	
Project Name & Details	**Description**
Solid Waste and Environmental Management Project (SWEMP). World Bank: US$9.5 million Approval Date: October 10, 2000. Closing Date: June 30, 2009 Task Team Leader: Ibrahim Dajani	The overall objective of the project is to implement an environmentally sound solid waste management system for Jenin District. This objective has been pursued through the construction of a controlled sanitary landfill in Jenin District (Zahrat Al- Finjan); rehabilitation/closure of uncontrolled dumps; improvement in solid waste management (SWM) services in the district through the supply of equipment and the strengthening of management and operation capacities; building institutional capacity in the newly created Joint Services Council for regional SWM services; and strengthening the institutional and monitoring capacity of Environmental Quality Authority. The Project is managed by the Joint Services Council for Solid Waste Management. The European Commission is financing the supply of collection vehicles and transfer stations relation set-ups. To successfully complete the key project activities that have been delayed due to the prevailing socio-political circumstances, the project's closing date was extended from June 30, 2008 to June 30, 2009.
Social Safety Net Reform Project (SSNRP). World Bank: US$10.0 million plus US$10.0 million additional financing approved in April 2008. US$5.0m additional financing from the food crisis trust fund approved in November 2008. Approval Date: June 3, 2004 Closing Date: June 30, 2012 Task Team Leader: Eileen Murray	The project was formally restructured in May 2007. The new project development objective is to mitigate the impact of the continued socio-economic crisis on a subset of the poorest and most vulnerable households. An additional objective is to strengthen the institutional capacity of the Ministry of Social Affairs to manage cash transfer programs. The primary objective would be achieved by implementing a pilot incentive-based cash transfer mechanism with improved targeting modalities that would contribute to improving the living conditions of the beneficiaries. The Project also aims to strengthen the institutional capacity of PA agencies involved in the implementation of the proposed project, in particular the Ministry of Social Affairs. An Additional Financing of US$10.0 million was approved on April 22, 2008 to help finance costs associated with the scaling up of the project and its transformation into a cash benefit program administrated by the Palestinian Authority, capitalizing on the Ministry of Social Affairs poverty targeting database. In addition, the project has received additional financing in the amount of US$5m from the global food price crisis trust fund in November, 2008.
North Gaza Emergency Sewage Treatment Project. World Bank: US$7.8 million plus US$12.0 million additional financing approved in April 2008 Approval Date: September 9, 2004 Closing Date: June 30, 2012 Task Team Leader: Khairy Al-Jamal	The North Gaza Emergency Sewage Treatment project (NGEST) is the fourth in a series of Bank-funded water and sanitation projects since 1994. The Project consists of two parts: Part A - addressing the immediate and impending health, environmental and safety hazards to the communities near the poorly-treated and rapidly growing sewage lake in the Beit Lahia area of North Gaza. And Part B - a long-term solution for the adequate treatment and disposal of wastewater in North Gaza, which entails the construction of a new wastewater treatment plant expected to be financed by various donors. Approximately 300,000 people living in North Gaza will benefit from this project. The project overall estimated cost is about US$ 63 million. An Additional Financing of US$12.0 million was approved on April 22, 2008 to support the original objectives and the overall project design and components. Specifically, the additional financing will cover the overrun cost of Part A and risk management activities.

On-going Bank Group Operations	
Project Name & Details	**Description**
Tertiary Education Project World Bank: US$10 million Approval Date: April 26, 2005 Closing Date: December 31, 2009 Task Team Leader: Adriana Jaramillo	The project development objectives are: 1) to improve the regulatory environment for tertiary education management, relevance and quality assurance; 2) increase internal and external efficiency of the tertiary education system, as a first step towards seeking sustainability; and 3) to create incentives and provide the basis for improvements in efficiency, quality and relevance of tertiary education institutions in order to meet the socioeconomic needs of the Palestinian population. The project provides technical assistance on defining policies consistent with increasing the financial sustainability of the sector and improving the capacity to respond to labor market needs. It also provides incentive mechanisms to improve quality and relevance of the programs offered. On a competitive basis, institutions will apply for quality and management grants, administered by a Fund mechanism. In addition the project will provide technical assistance to improve the management of the current student loans program managed by the MOEHE, and will set the basis for expansion of the financial resources available for funding the student aid programs.
Gaza II Emergency Water World Bank: US$20 million plus US$5.0 million additional financing approved in April 2008 Approval Date: June 7, 2005 Closing Date: January 31, 2010 Task Team Leader: Khairy Al-Jamal	This Project is a follow-up to the previous GWSSP. The development objectives of this Project are: (a) to develop a sustainable institutional structure of the water and wastewater sector in Gaza by supporting the functional establishment of a Coastal Municipalities Water Utility, as well as by enhancing and deepening the involvement of the private sector through a three-year management contract; (b) to continue improving the water and sanitation services by rehabilitation, upgrading and expansion of existing systems and facilities; and (c) to strengthen the regulatory and institutional capacity of the Palestinian Water Authority. The whole population of Gaza (around 1.5 million people) are benefiting from the project. Additional financing of US$5.0 million was approved on April 22, 2008 to supplement the project overrun expenses. This additional financing will furthermore strengthen the ability of CMWU to consolidate the ongoing institutional reform process by covering the operational expenses for one more year
Second Emergency Municipal Services and Rehabilitation Project World Bank: US$10 million Approval Date: December 19, 2006 Closing date: June 30, 2009 Task Team Leader: Somin Mukherji	A prolonged period of economic contraction has had serious consequences for municipal revenues and the ability of local governments to continue providing basic services. This has translated into sharply increased health, safety, and sanitation risks for the Palestinian population resulting from mounting solid waste, and deteriorating streets, water and wastewater networks, particularly in heavily populated urban areas. The objectives of EM SRP II are to (a) provide funding for infrastructure rehabilitation and maintenance to help mitigate further deterioration in the delivery of essential municipal services, and (b) create temporary job opportunities at the local level through the launching of labor-intensive employment generation schemes. In addition, through the Municipal Development Lending Fund (MDLF), the Project would pilot innovative initiatives to improve municipal service cost recovery (through the introduction of pre-paid electric metering systems) and leverage partnerships with local NGOs to deliver services more effectively.
Third Palestinian NGO Project World Bank: US$10 million Approval Date: December 19, 2006 Closing date: December 31, 2009 Task Team Leader: Meskerem Brhane	The objective of the project is to provide social services to those who are poor, vulnerable or affected by the deteriorating socioeconomic conditions by establishing an effective mechanism to improve the quality and sustainability of NGO social service delivery. The first two PNGO projects successfully built up Palestinian NGO capacity to carry out social service delivery activities. Now, there is a need to consolidate and sustain this capacity by moving the driving force for further NGO development firmly into the hands of the Palestinian NGOs. To this end, PNGOIII will support the transformation of the Project Management Organization (PMO), the implementing unit within the Welfare Association of the previous projects, into the NGO Development Center (NDC), an institution dedicated to grant-making and sector development. At the same time, the project will provide funding to develop and sustain specific NGO-sponsored social service delivery activities.

On-going Bank Group Operations	
Project Name & Details	**Description**
Emergency Services Support Program III World Bank: US$10 million Approval Date: December 13, 2007 Closing Date: December 31, 2009 Task Team Leader: Eileen Murray	The development objective of the Emergency Services Support Program is to mitigate the deterioration of service delivery brought about by the inability of the Palestinian Authority to meet its non-salary recurrent costs. The ESSP finances the non-salary expenditures of the key social ministries and based on the PA's recurrent expenditure program for these ministries.
Village and Neighborhood Development Project World Bank: US$10 million Approval Date: April 22, 2008 Closing Date: October 30, 2012 Task Team Leader: Meskerem Brhane	The objective of this project is to promote a coordinated development approach which builds the capacity of communities to plan for and manage development sources. The project will support small communities in planning local initiatives, prioritizing needs through an inclusive and participatory process. It will also provide small grants to support joint activities among several village councils for subprojects that are part of the local plan. This will provide incentives for small communities to work together and eventually amalgamate and become a municipality.
Electricity Utility Management Project. World Bank: US$12million Approval Date: May 15, 2008 Closing Date: June 30, 2012 Task Team Leader: Meskerem Brhane	The development objective of the Electricity Utility Management Project is to reduce the fiscal burden of the sector on PA's budgetary resources through interalia lower deductions from clearance revenues for arrears owed to IEC. This will be possible through adoption of appropriate sectoral efficiency enhancement measures taken and the key performance indicators of the electricity distribution utilities that will include: (a) improved collection performance; (b) lower technical/non-technical losses; (c) reduction in payables to IEC on account of electricity purchase; and (d) consolidation and increase in number of consumers. The Project will also ensure that NEDCO is fully operational through financing necessary capacity building measures.

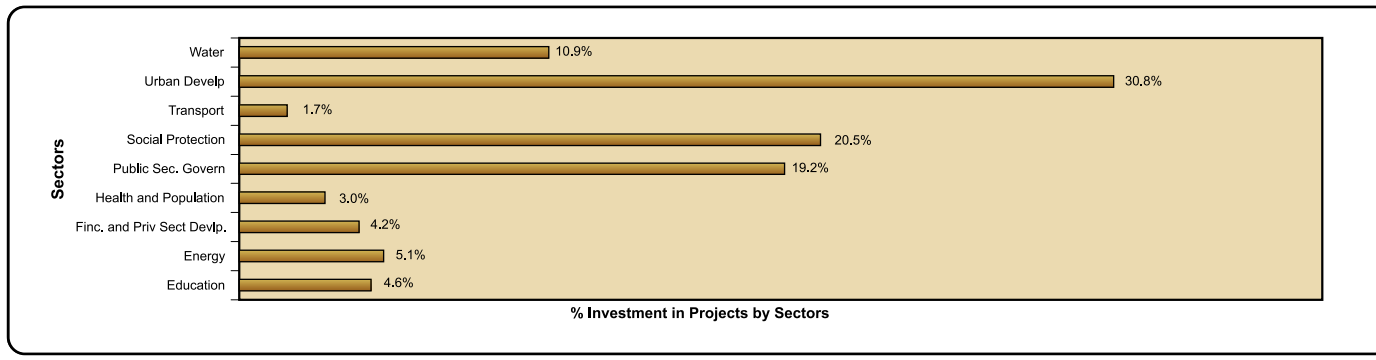
West Bank and Gaza Portfolio

March 2009

	Trust Fund for the West Bank and Gaza			
	Committed	Disbursed	Undisbursed	Disbursed
ON-GOING PROJECTS	US$ Million			Percent
Solid Waste and Environmental Management Project	9.5	9.5	0.0	100%
Social Safety Net Project	25.0	8.7	16.3	35%
North Gaza Emergency Sewage Treatment Project	19.8	8.2	11.6	41%
Tertiary Education Project	10.0	5.7	4.3	57%
Gaza II Emergency Water Project	25.0	19.6	5.4	78%
Palestinian NGO Project III	10.0	5.8	4.2	58%
Emergency Municipal Services Rehabilitation Project II	10.0	9.6	0.4	96%
Emergency Services Support Program III	10.0	5.9	4.1	59%
Village and Neighborhood Development Project	10.3	0.6	9.7	6%
Electricity Utility Management Project	12.0	0.5	11.5	4%
Total On-going Projects	141.6	74.1	67.5	52%
Total Completed Projects (1993-2009)	571.2	539.7	31.1	94%
TOTAL (On-going & Completed Projects)	712.8	613.8	98.6	86%

REPORTS AND STUDIES
Municipal Finance Policy Note
Water Restrictions Study
Higher Education Student Financing Scheme
Phase III: Palestinian Trade Facilitation
Economic Impacts of Access to Land
Housing Finance Sector
Health Policy Report
Social Inclusion and Gender
Transport Sector- Technical Assistance
Water Resource Management
Telecommunications Reform and Inst. Strengthen
Development of Housing Finance TA
Country Procurement Issues Paper
Governance

Completed Projects (38) by Sectors (1993-2009)



ON- GOING RECIPIENT EXECUTED (RE:Trust Funds/Grants) (USD m)	Committed	Disbursed	Undisbursed	Disbursed
Palestinian Reform Development Plan MDTF (PRDP-TF)	297.2	297.2	0.0	100%
Avian Influenza Prevention and Control	3.0	2.3	0.7	77%
Emergency Services Support Program	81.0	68.0	13.0	84%
Total RE	381.2	367.5	13.7	96%
Total (On-Going Projects and RE)	522.8	441.6	81.2	84%

ON-GOING TRUST FUNDS BY DONOR	Commitment
Spain-Consorci de Promocio Comercial de Cataluna	0.15
Danish International Devp. DANIDA -Min.Foreign Affairs	10.09
EU-Commission of the European Communities	16.73
Finland- Ministry for Foreign Affairs	1.47
Italy-Ministry of Foreign Affairs	1.67
Japan- Ministry of Finance	0.88
Norway-Ministry of Foreign Affairs	1.94
Germany - Ministry for Economic Coop. & Dev.	0.04
Swedish International Devp. Cooperation Agency - SIDA	10.52
UK- Department for International Development - DFID	2.81
Other Multidonor TFs	34.85
Total On-going Donor Funded TF	81.15
Total closed Trust Funds**	1010.18
Total On-going & Closed Trust Funds-TF	1091.33

**Total closed trust funds include all single and MDTF
All figures in million of USD

ON-GOING MULTI-DONOR TRUST FUNDS (MDTF)		
MDTFs	**Donors**	**Commitment**
Investment Guarantee Trust Fund	European Investment Bank- EIB; Japan; Palestine Liberation Org.;	20.51
Emeregency services Support Program	Australia; Austria; Belgium; ; EU/EC; France; Italy; Norway; Switzerland; Sweden; Spain; United Kingdom	81.00
First: WBG Pension	Canada; United Kingdom ; Netherlands	0.24
Rapid Capacity Building in West Bank and Gaza	Belgium; Brazil; Canada; Netherlands;Norway; Switzerland; UNDP	0.25
Palestinian Recovery and Development Plan Multi-Donor Trust Fund (PRDP-TF)	Australia; Canada; Finland; France; Kuwait; Norway; United Kingdom	297.28

The Impact of Mobility Restrictions on Economic Participation, Violence and Gender Relations

To date, little has been written on the gender-differentiated impacts of the restrictions on movement and access, be it on employment, security or gender relations. For instance, while the severe access and movement restrictions imposed by the closures and curfews have an effect on both men and women, they limit women's presence and role in the public sphere. At the same time, the deepening economic crisis is limiting men's ability to provide economically for their families, putting into question traditional roles of men as breadwinners, and creating tension in gender relations. These realities are redefining relations between men and women, requiring constant renegotiation of gender roles.

To this end, a study was launched by the World Bank in 2008 to analyze the impact of the restrictions on access and movement in the West Bank and Gaza from a gender perspective, specifically focusing on economic participation and personal security (both public and private). The study, entitled ***The Impact of Mobility Restrictions on Economic Participation and Gender Relations in Palestinian Society, 2000-2007***, aims to inform governments, civil society, and donors and to provide recommendations for promoting greater gender-sensitivity in operational programs. The World Bank commissioned Birzeit University's Women's Studies Institute to conduct a detailed background study which relied on quantitative secondary data analysis, qualitative primary data collection and analysis, in-depth interviews, and a literature review. The findings of the study were presented by Birzeit University at a one day workshop organized by the Ministry of Women's Affairs on March 26, 2009, intended to provide feedback to key stakeholders. Over 100 people representing civil society, academia, and the public sector took part in the discussion.

The study examined the impact of closures on

- men's and women's labor force participation in the formal and informal labor markets;
- opportunities for youth employment;
- rates of higher education;
- role of unemployment in domestic violence;
- role of violence associated with the occupation on participation in the economy (especially for women).

The Bank is carrying out this study in partnership with three key institutions: Birzeit University's Women's Studies Institute, Ministry of Women's Affairs and CARE International. Each institution brings its expertise on which the study will be drawing. Based on feedback from the workshop, additional background studies and case studies, the World Bank will finalize the report in June 2009 and will disseminate it to the public.

Promoting Good Governance

The World Bank is proposing to carry out a study on governance issues in West Bank and Gaza (WB&G) that will shed light on the nature and extent of the problem. A number of surveys conducted in recent years have shown that public concerns about governance persist despite reforms from the Palestinian Authority (PA) aimed at improving the quality of fiscal management. Some PA officials argue that in fact, public perceptions of corruption are exaggerated compared to the actual extent of such practices. The Bank study intends to provide further analysis by addressing the following questions:

- What issues of governance in the public sector are most problematic, and in which sectors are they most prevalent?
- To what extent do perceptions match the realities on the ground? How does WB&G compare to other countries in the actual manifestations of corrupt practices?
- What are the main weaknesses in the regulatory, policy, and legal environment, which create the scope for corrupt practices upstream?
- How effective are current anti-corruption mechanisms and institutions?
- What are the priorities for governance reform in this area?

The study aims to support PA efforts to improve governance. In particular, it will contribute to two programs in the Palestinian Reform and Development Plan (PRDP) – the Efficient and Effective Government program, and the Open and Accountable Government program. The study will have three major analytical components: 1- surveys of actual experiences with corruption in WB&G; 2- case studies of governance weaknesses and; 3- assessments of the institutional and legal environment for combating corruption. The study will be published in August 2009.