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Trade Options for the Palestinian Economy

Overview

Recent events confirm that future Palestinian trade policy will be determined primarily by political dynamics, in particular, relations with Israel. It remains essential, precisely at this time, to inform discussions as to the possible long-term economic consequences of the different options under debate. Summarized below are the findings and methodology of a recent technical report by two World Bank economists on trade issues.[1]

The guiding principles for the current Palestinian trade regime are laid out in the 1994 Paris Protocol, which formalizes the *de facto* customs union with Israel in effect since 1967. A continuation of this system, which grants preferential access for Israeli goods to the Palestinian market and vice versa, would require a great degree of harmonization of trade and fiscal policies between the two economies. On the other hand, granting more autonomy to the Palestinian Authority (PA) to determine its future trade regime with regard to Israel and third parties, as well as its fiscal policy (VAT, purchase tax, etc.), would necessitate adopting another kind of trade relationship with Israel. Several options could be envisaged in this respect, from the implementation of a free trade agreement, which would maintain preferential trade between the two, to the adoption of a non-discriminatory regime, in which Israel would be considered by the PA as any other country.

The report obviously acknowledges the negative impact of movement restrictions on goods on the Palestinian economy. Nevertheless, it also argues that the current trade and fiscal regimes significantly contributed to the poor trade performance observed in West Bank and Gaza since 1994. Moving towards a more autonomous trade regime may, therefore, present some advantages, but the final outcome will depend on the design of the new trade policy, as well as the extent to which transaction costs will be affected by the new environment for trading. A more autonomous regime may be rewarding if it lowers the domestic price of imported goods, develops competitive markets and re-balances trade flows with Israel and the rest of the world. In this respect, given the low level of tariff duties in Israel, West Bank and Gaza might envisage to renounce its preferential access to the Israeli market by adopting a non-discriminatory regime with low external tariffs, as opposed to creating a Free Trade Area with Israel which could imply costly rules of origin.

In sum, the analysis suggests that liberal trade policies could be very beneficial for the Palestinian economy. The importance of trade policies are very much a result of the high Palestinian dependency on imports and the very limited size of the domestic market. The analysis further suggests that it is difficult to establish strict superiority of one of the two options evoked above over the other to liberalize further the trade regime. The main features, as well as the methodology used in the report are presented in the rest of this article.

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[1] *"Trade Options for the Palestinian Economy: Some Orders of Magnitude", by Claus Astrup and Sébastien Dessus, West Bank and Gaza World Bank Office, Al-Ram.*

Trade Patterns and Policies

The West Bank and Gaza is highly dependent on imported goods, both consumer goods and goods used as inputs in production. Total imports amounted to approximately 80 percent of GDP in 1998, the year retained to conduct the analysis. By far the largest share of imports, 75 percent, originated in Israel. Of the remainder, roughly half originated in countries with which Israel has signed a Free Trade Agreement (mainly the United States and the European Union). The Palestinian export performance has been rather poor as total exports amounted to less than 20 percent of GDP in 1998. The geographical distribution of Palestinian exports are even more one-sided than imports, with more than 95 percent of all Palestinian exports destined for the Israeli market. Data further reveal that Palestinian foreign trade with the Arab world is extremely limited. Of all imports, only approximately 1 percent originated in the Arab world in 1998, while for exports the share was around 3 percent.

With respect to trade policies, there are two important features of the Paris Protocol: (1) free access for Palestinian goods to the Israeli market and vice versa was secured and (2) control over trade policies, i.e., rates of import taxes, standard requirements, etc., broadly speaking, was kept in Israeli hands. In addition, Israel retains control of all external market access and has continually limited, and often cut off Palestinian movement of people, vehicles and goods between Gaza and the West Bank, to/from Jerusalem and within the West Bank through a highly complex system of check-points and permits. Analysis of data from the Palestinian Ministry of Finance shows that the average tax rate on Palestinian imports from countries other than Israel, where the import tax rate is zero, was 17 percent in 1998. In addition, movement restrictions has resulted in transaction costs for Palestinians which are about three times higher than those faced by producers in neighboring countries. The current trade regime in practice has thus created a wedge between the world market price and the prices faced by consumers and producers in the Palestinian market. The wedge has inflated prices for Palestinian consumers and caused a significant artificial preference for Israeli products sold to the Palestinian market.

Methodology

In order to evaluate the impact of alternatives to the current Palestinian trade regime, the report makes use of a so-called general equilibrium model of the Palestinian economy. This type of model has become a standard tool for integrated assessment of trade policies for small economies. Its main advantage lies in the possibility of combining detailed and consistent databases with a theoretically sound framework, able to capture feedback effects and market interdependencies, that may either mute or accentuate the immediate effects of policy changes. It is built using a large database, a supply and use table, which describes the Palestinian economy in 1998. This database offers a coherent picture of the different flows occurring among economic agents (producers, consumers, government, trade partners) by reconciling the supply and demand dimensions of the Palestinian economy in each market. It also permits some of the policy instruments to be identified and measured: VAT on domestic products and on imports, tariff barriers and purchase taxes. In brief, the model distinguishes between 31 economic sectors, and four different trading partners: (1) Israel, (2) the countries with which Israel has a Free Trade Agreement, (3) the Members of the Arab League, and (4) the rest of the world.

This model is used to conduct a comparative static analysis, that is to assess the likely impact of a departure from the situation observed in 1998. Positive gains associated with a shift in trade policy would then suggest that the custom union framework currently in place is sub-optimal, and could favorably be replaced by the one tested. The measure used to assess the desirability of alternative trade policy is the extent to which it generates welfare gains (the latter are defined by the amount of money required by households after the reform to consume the same quantity than before the reform). Such reform will modify prices, wages, taxes, etc. If, in the end, the purchasing power of households' income has increased (that is, if the amount required is negative), then positive welfare gains will be observed. The approach used here is static, meaning that the amount of productive resources (labor, capital, natural resources, etc.) is given once for all in the analysis. Therefore, the only means to increase production is to increase productivity through a better sectoral allocation of available resources. Dynamic impacts of trade policies are therefore not considered in the analysis.

In order to create welfare gains, a new trade policy must reduce the distortions created by the current trade regime. This may require not only the reduction of import taxes currently in place, but also the implementation of alternative fiscal instruments to compensate for the likely loss in revenue from import taxes. Positive effects will be observed if the new instruments put in place create less distortions than the one just removed. This problem of compensation is important in West Bank and Gaza, where import taxes (excluding VAT) represent more than one-sixth of total tax revenue.

Results of Simulations

The report explores extreme scenarios, such as the one of full trade liberalization. There is obviously an infinity of possible trade policy packages, and we chose to assess the impact of the one which is likely to produce the largest welfare gains. In order to do so, we simulate the complete abolition of taxes on imports from all origin. This implies a total removal of tariffs and purchase taxes on imports from all origins, including Israel. The implied loss in import tax revenue is compensated by an increase in the VAT rate, calculated so as to leave government revenue unchanged.

In principle, full trade liberalization could be achieved within the framework of a customs union between Israel and West Bank and Gaza, but this would require willingness on the part of the Israeli authorities to amend the current trade policy. Alternatively, Palestinian control of its own trade policy is required - as well as the willpower and ability to implement the necessary measures. Two policy alternatives in a situation in which the Palestinian Authority would have control of its own trade policy are considered in the analysis: (1) the establishment of a free trade area (FTA) between Israel and West Bank and Gaza and (2), the implementation of a non-discriminatory Palestinian trade regime, in which all trading partners are treated like the most favored (MFN). The important common feature of the two alternatives is that they both provide the Palestinian Authority the opportunity to unilaterally liberalize trade. The differences between the two options are (in the case of a FTA) that it is necessary to agree on rules of origin and to implement mechanisms to check these rules, which would not be necessary in the case of a MFN regime. However, implementing a MFN regime would imply that Palestinian producers could lose their preferential access to the Israeli market, which they would have retained in a FTA.

The analysis indicates that there are considerable potential welfare gains from liberalizing Palestinian trade policies. The isolated effect of eliminating all tariffs and purchase taxes could result in welfare gains of the order of magnitude of 6 percent of GDP. Taking into account the costs of either implementing rules of origin (in the case of a FTA) or the loss of preferential access to the Israeli market (in the case of a MFN regime) could, however, halve the gains to 3 percent of GDP.

There are numerous channels through which liberalizing trade policy would benefit the Palestinian economy. The removal of import taxes would lead to a reduction in the price of imports. The effect would be somewhat smaller, but significant, in the case of a FTA compared with a MFN due to the cost of checking whether imports from Israel satisfy the rules of origin. In both cases, however, the lower price of imports would benefit consumers directly through lower prices on imported consumption goods, but also producers as their inputs become cheaper. An elimination of taxes on imports would also lead to shift in the geographical structure of imports by making imports from Israel less competitive compared to imports from other origins as preferences given to Israeli products are eliminated. This would increase the variety of goods to which Palestinian consumers and producers would have access. Liberalizing trade would increase competitive pressures on the Palestinian economy, forcing a better resource utilization in an economy where the narrowness of the domestic market makes domestic economic liberalization inseparable from opening up to foreign competition. Economic activities which are profitable under the current trade regime may become less profitable after trade liberalization. At the same time, however, access to cheaper inputs could increase profitability of other activities. Consequently, some sectors would shrink, while others would expand. The overall result would be increased efficiency in the use of resources in the Palestinian economy. The analysis suggests that the overall gains in productivity could be sufficiently large to enable a significant increase in real wages and return on capital without jeopardizing the competitiveness of Palestinian exports.

Caveats

Many factors of potentially great importance for the evaluation of alternatives to the current trade regime are nevertheless left out of the analysis. A number of factors may imply that the benefits from changing the trade regime may be overestimated. Worth mentioning is that the analysis does not consider transitional cost of reallocating factors, notably labor, and abstracts from the effects of the changes in import taxes which have taken place since 1998. A new regime which departs from the regime put in place with the interim agreement could require Palestinian customs infrastructures. This physical capacity is presently non-existent. But, on the other hand, a number of issues which may enhance the beneficial effects of trade liberalization have not been accounted for, suggesting that the results obtained should probably be considered as lower bound estimates. Our results suggest that trade liberalization could have a strong deflating impact on the price of investment and a positive impact on the capital rate of return, which once combined should provide strong incentives for additional investment. Similarly, trade liberalization appears to have a positive impact on real wages in West Bank and Gaza, which could encourage a larger labor participation of the working-age population. Moreover, it is likely that an increased diversification in the origin of imports, and therefore a larger variety of accessible inputs, would allow producers to increase productivity through selection of intermediate inputs that match more closely their production requirements. Other advantages of trade autonomy not dealt with in this report would be the opportunities created to trade new products with new partners, as well as the opportunity to import goods with lower standards than those required to enter Israel, which should expand further the variety of available inputs. Unilateral liberalization from West Bank and Gaza could also encourage third parties to further open their markets to Palestinian products. Finally, trade liberalization could help re-balancing trade flows with Israel and the rest of the world, and therefore help reduce the dependency of the Palestinian economy on all kinds of economic shocks occurring in Israel, as well as on Israeli security concerns. If the new trade regime could reduce transaction costs associated with such security concerns, the positive effects of trade liberalization already observed would be significantly magnified.

Emergency Response Program (ERP)

The present crisis in West Bank and Gaza (WBG) has caused severe economic shocks to the Palestinian economy that calls for a rapid response by the donor community. At the end of November 2000, the areas of WBG under the jurisdiction of the Palestinian Authority (PA) were subject to tight closure due to security related concerns. As a result, approximately 125,000 Palestinians previously working in Israel (nearly 20 percent of the labor force) were unable to access work opportunities. At the same time, the domestic economy has been crippled by closures and work stoppages due to inadequate supplies of materials, movement restrictions and other related transaction costs. To address the growing crisis, the donor community is considering a variety of steps to accelerate the flow of assistance to the Palestinians. The World Bank has provided a grant contribution in the amount of US$ 12 million out of the accrued interest income of the Trust Fund for Gaza and the West Bank (TFGWB) through the Bank-administered Johan Jorgen Holst Peace Fund to the Palestinian Economic Council for Development and Reconstruction (PECDAR). It would provide funding for emergency employment generation programs in WBG through an Emergency Response Program (ERP).

The overall objective of ERP is to alleviate hardships to thousands of families through the provision of temporary employment for unskilled and semi-skilled laborers. Local suppliers and contractors would also benefit through the increased demand for materials and works.

The ERP is characterized by:

- Fast disbursement.
- High labor content.
- Simplified procurement procedures (shopping, direct hire and force account).
- High local labor and material content to void mobility and material availability constraints.
- Other poverty-alleviation interventions addressing communities most adversely hit by the crisis.

The ERP is the most expedient instrument currently in place. To achieve transparent and accountable results, the Bank relies on existing on-site accounting and auditing mechanisms now in place. These existing arrangements, in which a Bank-contracted auditor monitors program implementation on a day-to-day basis, provide greater assurance of the proper use of funds than alternative options, given the need to disburse relatively large sums of money in a very short time frame over a large number of small sub-projects. To achieve quick results, the ERP involves expedited procurement procedures (see below), including the use of direct hiring through municipalities and Non-Govermental Organizations (NGOs).

The implementing agencies include: 1) the Ministry of Local Government (MLG), 2) the Local Government Units (LGUs) and NGOs and 3) PECDAR. PECDAR has the overall monitoring responsibility. A responsibility matrix has been agreed upon between MLG, PECDAR and the Bank. The LGUs identify their short list of micro projects from a long list. MLG reviews and endorses the short list based on a pre-agreed selection criteria and budget. The budget is based on the population of each respective LGUs. The Bank reviews the selection criteria and endorses it as a basis for budget distribution and micro project selection. The process, starting with preparation of short lists, until the Bank gives its formal endorsement on the budget and shortlist micro projects would normally take about a week. LGUs would use the procurement procedure suitable to them to procure the micro project. The procurement process would take about two days. Once the contract or agreement is signed, work starts within a day or two and contractors would have to submit weekly invoices to enable them to get payment directly from PECDAR within six working days. An independent international auditor has been appointed by the Bank. Technical consulting local firms (one in Gaza and four in the West Bank) have been by PECDAR to monitor progress in the field and also advise on quality improvement directly to the municipalities and village councils.

The responsibility for the management of the NGO component of the project is handled by the Welfare Association Consortium (WAC), which manages and implements the Bank's PNGO Program. Project proposals funded under this Program have been solicited by the Welfare Association Consortium, using their network of NGOs. A Technical Appraisal Committee reviews project proposals according to specific criteria agreed with the Bank and the final approval is made by an Ad Hoc Committee established especially to oversee the implementation of this emergency project sub-component. The Ad Hoc Committee includes representatives of the NGO networks, the PA and the Welfare Association. The Bank's "no-objection" of approved projects provides the basis for the transfer of funds from PECDAR to the Welfare Association Consortium, which in turn transfers funds to NGOs, according to agreed plans of actions and time frames. NGOs have full responsibility for execution of projects, using procurement arrangements agreed for this project by the Bank and PECDAR. WAC staff in the field are responsible for monitoring the progress on the ground. All projects funded under the NGO component will be subject to the final audit of the ERP.

Due to the current emergency situation in the West Bank and Gaza, the Bank has agreed to specify for this project the most flexible terms available under the World Bank Procurement Guidelines. This procurement arrangement will speed up the procurement of works, goods and services. However, procedures will be transparent and reliable and prices will be monitored routinely. All procurement will be subject to post review by the Bank. As below, recipient will include municipalities, village councils or NGOs. Consulting firms in the West Bank and Gaza would be hired by PECDAR (subject to review by the Bank) to monitor progress, quality, to report on workers employment, social (including gender issues), technical and environmental assessment and on procurement.

For each sub project, the recipients will prepare a bill of quantities, simple technical specifications, and general conditions to ensure that the contractor will supply the required number of workers during the period of execution of the project (PECDAR and MLG has prepared one page in this regard).

Three different procurement methods could be used by the recipients and can be applicable to works, goods and consulting services. The emergency response in each case will determine the most appropriate method to be used. The three available methods are: 1) National Shopping by getting three price quotations in sealed envelops from at least three local contractors/suppliers/consultants and the winner is the one with the least cost, 2) by Direct Hire/Contracting, and 3) by Force Account (by using municipality or other Palestinian Authority employees/equipment to execute the project).

The project became effective on the day of the World Bank Board approval. The closing date is set as the same closing date of the Holst Fund March 31, 2001. The total available funding is US$ 12 million as a grant from the Bank. Total commitment now stands at US$ 3.33 million, or about 28 percent of the available funding. This commitment has been made to some 51 micro-projects including technical assistance sub projects in Gaza and the West Bank.

The NGO Channel

Background

Since the 1960s, and in the absence of a government providing services, the Palestinian community has primarily relied on Non-Governmental Organizations (NGOs) for the provision of basic services in a wide range of sectors, including health, agriculture, education, psychological and physical rehabilitation, community services, and economic development. With the establishment of the Palestinian Authority in 1994, NGOs have had to adjust their programs to meet the demands of the new situation. While some NGOs had to phase out their activities, others had to adjust their service provision to ensure a complementary role to that of the public sector.

Today, NGOs provide 60% of primary health care services, manage 42% of the hospitals, 90% of handicapped rehabilitation centers and 95% of preschool education. They serve more than one million people in agriculture, have rehabilitatted 25,000 dunums of land threatened with confiscation, and employ an estimated 25,000 citizens. NGOs continue to benefit from the experience accumulated over many years of active involvement in Palestinian development. They have networks reaching out to some of the poorest groups and most marginalized areas.They have broad constituencies and they have the flexibility to adapt swiftly to changing conditions and emergency situations. The NGOs' response to the latest crisis that erupted in the West Bank and Gaza in September 2000 is a good illustration.

NGO Response to the Current Crisis

Since the beginning of the "Al-Aqsa Intifada" in late September, NGOs have shouldered an enormous responsibility in responding to the basic emergency needs of the affected Palestinian population. In the health sector, the NGOs have been at the forefront providing first aid, absorbing large numbers of injured in their emergency centers, providing medical supplies, and sending out appeals for donor support in the humanitarian sphere. The role of NGOs has equally been vital in providing services that only they typically provide, including services in mental health and social and psychological counseling. The demand for the latter has become enormous as families, children and mothers have been in dire need of support to cope with the effects of the political and socio-economic dimensions of the crisis. In camps and rural areas, NGOs and community-based organizations have also been covering the running costs of community centers such as kindergartens and rehabilitation facilities, as the users of these services have not been able to pay for them due to economic hardships. Community organizations have played a substantial role in providing food supplies and basic support to families that have lost their source of livelihood and, in many cases, their shelter, as a result of the Israeli army shelling and the destruction of property by settlers.

The NGOs' response to economic hardships imposed by the internal and external closures of the West Bank and Gaza and the associated disruption of people and goods mobility, particularly in rural areas, has also been very significant. Examples of successful interventions include: assistance in the provision of water supply; agricultural inputs and extension services; marketing of agricultural produce; and employment of people to undertake land rehabilitation, terracing, and the digging of wells, all of which are labor-intensive activities.

It is important to highlight, in the context of an overview of the Palestinian NGOs' response to the emergency situation, the double impact that NGOs' activities have had in terms of: i) providing basic services; and ii) creating job opportunities. As many of these NGOs have scaled up their programes to meet rising needs, they also have had to hire additional staff, contributing, albeit modestly, to creating further opportunities for income generation. It remains unlikely, however, that these NGOs will be able to sustain their programs in the absence of a systematic source of financing. Many NGOs, particularly the larger ones including the Union of Palestinian Medical Relief Committee (UPMRC) and the Palestinian Agricultural Relief Committee (PARC), have drawn on their annual budgets to timely respond to the crisis. Therefore, even an improvement of the overall situation is likely to leave them with far less resources to pursue their regular developmental programs. As many of these NGOs work through a large network of field and community-based organizations, the impact of reduced funding is likely to be more wide-spread than anticipated, particularly on the well-being of a population that is slipping very rapidly into higher levels of poverty.

World Bank Program of Support to NGOs

Since 1997, the World Bank Palestinian NGO Program (PNGOP) has provided a total of US$ 7,138,000 in grants to NGOs. These grants, totaling 262, have been financed through funding from the World Bank, and the Governments of Saudi Arabia and Italy. They have covered eight sectors, including: non-formal education (43%), rehabilitation of people with special needs (22%), health and social services (9%), economic development (7%), agricultural services (7%), formal education (5%), housing (4%) and environmental education (3%). The grants covered all regions of the West Bank and Gaza, including (through Saudi and Italian funds), activities in the area of Jerusalem (16%).

Kalandia Camp Women's Cooperative

With a budget of US$ 160,000, the cooperative will implement a project which will create 210 workdays for women to work in producing blankets and clothes that can be distributed to the poor and needy.

The World Bank is now planning a second phase of the PNGOP, for which the World Bank will provide a total of US$ 7 million. The new phase will continue to extend grants to NGOs. The program, however, will focus on funding larger projects that target the most impoverished regions, marginalized social groups and sectors particularly in need of additional support. The new phase will also allocate larger amounts of funding to capacity building, networking and information sharing within the NGO sector to allow for increased strategic planning, vision and effectiveness in the continuation of its role in development.

World Bank's Emergency Response Through the NGO Channel

On December 6, 2000, the World Bank approved a grant to the Palestinian Authority in the amount of US$ 12 million for an Emergency Response Program designed to help offset the current economic crisis in the West Bank and Gaza through labor-intensive employment generation projects. Of this US$ 12 million, US$ 1 million was earmarked to fund NGO employment generation projects. A total of US$ 600,000 had been approved so far to fund 13 projects, 40% of which will benefit the population in Gaza. The projects approved are expected to generate an estimated 17,000 workdays. An average of 60% of approved budgets will directly pay for salaries of newly created jobs.

Why the NGO Channel? Employment generation projects implemented through NGOs are characterized by their focus on addressing communities' essential social and economic needs. In particular:

- While creating jobs, projects are responding to socio-economic needs, including the need for alternative water resources, land rehabilitation, and marketing of agricultural produce.
- Most projects do not rely heavily on inputs and so they are less affected by imposed restrictions on travel and movement of goods.
- Unlike typical infrastructure projects, projects help generate employment for women.
- Projects are developed and implemented by NGOs that are close to the communities and are thus able to identify their priority needs.
- Employment opportunities created are longer-term and employ people for one to six months, providing a more steady source of income to needy families.

Mechanisms for Quick Disbursement and Close Monitoring and Evaluation

The World Bank Palestinian NGO Program (PNGOP) is managed by the Welfare Association Consortium (WAC), a consortium of three NGOs comprised of the Welfare Association, the British Council and the Charities Aid Foundation (CAF). The WAC was established in 1997 to undertake the review, selection, disbursement and monitoring and evaluation of grant funded NGO projects. It employs highly professional staff who work through three offices, with headquarters in Al-Ram and regional offices in Nablus and Gaza. WAC has put in place professional systems and procedures that facilitate the tracking of projects by sectors, regions, disbursements, beneficiaries, providing the necessary mechanisms for catering to the special interests of donors who fund development projects through NGOs. Responding to the emergency need for quick disbursement of funds, the WAC established a system that guarantees that projects are reviewed, approved and funds are transferred for disbursements within a period of less than two weeks. The review and selection of projects is done by a Technical Assessment Committee, which puts forward recommendations for approval by an Ad Hoc Emergency Committee whose members include representatives of the NGO networks, the Welfare Association, and the Palestinian Authority.

Palestine Hydrology Group/Palestine Agricultural Relief Committee

With US$ 160,000 the organizations will plant 6,000 olive trees and rehabilitate irrigation networks creating 180 jobs for a total of 20 days for a total of 3,600 person workdays.

NGO Emergency Database

Through its network of NGOs, the WAC is preparing an Emergency Database that will compile all proposals put forth by NGOs in response to the emergency situation and to meet the needs of hard-hit communities. The database will be established as a service to donors and NGOs and it will be organized by categories, thereby facilitating selection and targeting by sector, region, target group and locality.

Recent Economic Developments

- *Economic Output.*

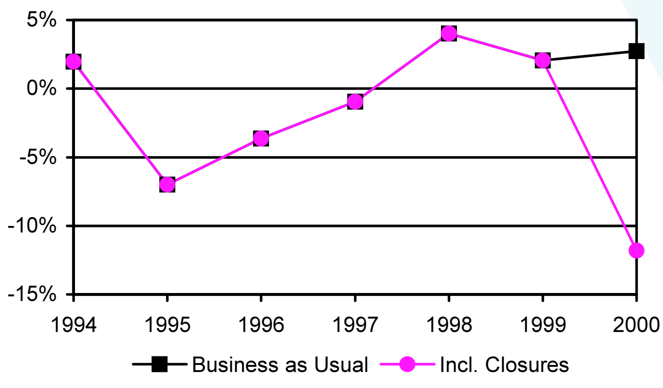
By the beginning of 2001 West Bank and Gaza (WBG) was entering its fourth month of almost continuous tight closures. Most of the approximately 135,000 Palestinian workers usually employed in Israel have not been able to go to work since the closures were implemented around October 1, 2000. Further, continued severe restrictions on the movements of people and goods, both between towns and villages within West Bank and Gaza and between Israel and West Bank and Gaza was in place.

The negative impact on economic activity, and in turn living standards and confidence in the future, has undoubtedly been considerable. However, hardly any economic statistics for the final quarter of 2000, corresponding to the period of closures, have been released. Therefore, it remains difficult to precisely assess the impact of the closures.

Consensus among observers and researchers suggest that the closures have reduced economic activity within West Bank and Gaza by approximately 50 percent during their period of implementation.

Data, in particular for employment, for the first three quarters of 2000 indicated solid growth. In the absence of tight closures ("Business as Usual"), growth in real Gross Domestic Product (GDP) per capita is estimated to be around 2-3 percent. The closures during Q4 of 2000 imply however, that growth in real GDP per capita for the year 2000 will be negative, see Figure 1, thereby reversing part of the gains in real GDP per capita experienced during 1998 and 1999.

Figure 1. Growth in Real GDP per Capita

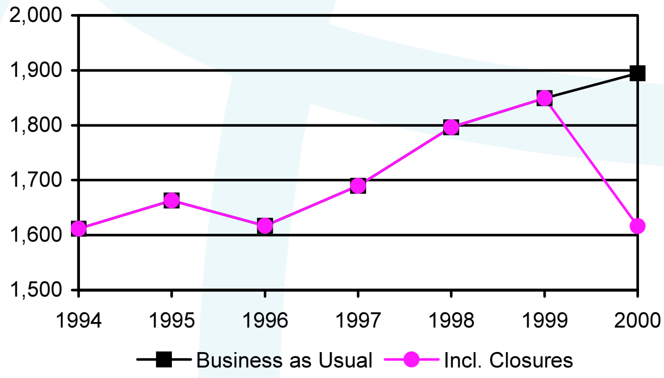


Note: Estimates exclude the annexed part of East Jerusalem.

Income earned by Palestinians working in Israel has almost dried up during the last quarter of 2000. Therefore, the impact on real Gross National Product (GNP), which includes income earned by Palestinians abroad, is larger than the impact on real GDP. Real GNP is expected to decline by almost 9 percent from the level in 1999.

In the absence of closures, GNP per capita was expected to have reached US$ 1,900 in 2000, but due to the closures the figure is reduced to around US$ 1,630, approximately equivalent to the level in 1994, see Figure 2.

Figure 2. GNP per Capita, US$



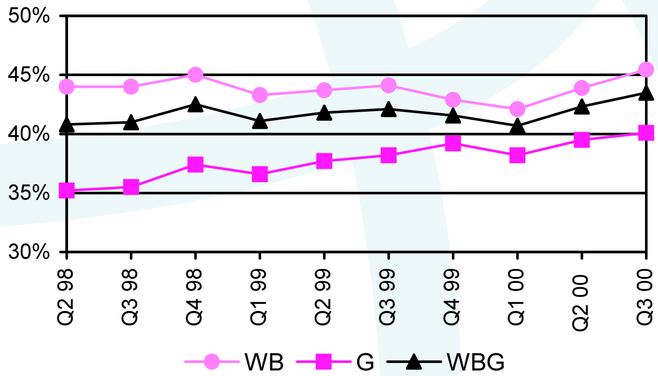
The outlook for 2001 remains bleak and highly uncertain. A continuation of the tight closures will have grim economic consequences. Many households' savings have been depleted in order to compensate for the drop in incomes. Lost market shares for Palestinian exporters will be more difficult to regain as their absence from export markets is prolonged. This may lead to inefficient inward orientation of Palestinian production. Further, there are no incentives to invest as long as the current situation prevails - already before the current situation, political instability and uncertainty was quoted by Palestinian businesses as the greatest obstacle to investment. Finally, even if the current restrictions are lifted in the near future, it must be emphasized that it will take a long time before the losses to the Palestinian economy already incurred are regained.

- *Labor Markets.*

The Palestinian Central Bureau of Statistics (PCBS) has recently released Labor Force Survey No. 18 covering Q3, 2000. The data collection ended October 6, 2000 which almost exactly coincides with the date of implementation of the closures. Therefore, the data does not provide any indication of the possible labor market consequences of the closures. It does, however, provide the basis for a fairly robust estimate of labor trends for the year 2000 as a whole in the absence of closures.

The average labor force participation rate in WBG was 43.5 percent in Q3, 2000. This is the highest labor force participation rate recorded in any of the labor force surveys carried out by PCBS since 1995, see Figure 3.

Figure 3. Labor Force Participation Rate

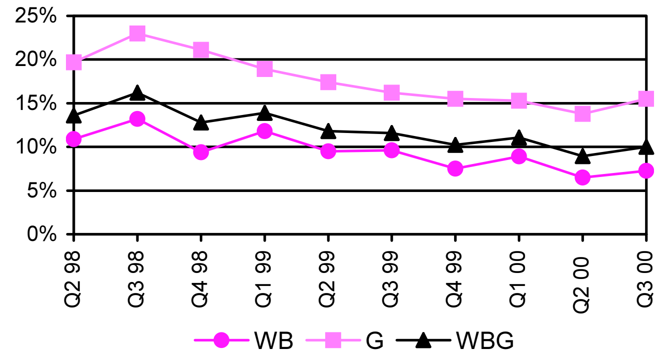


During Q1-Q3, 2000 the labor force participation rate has however only increased by 0.5 percentage point, when compared to the same period in 1999.

Approximately 35,000 persons have been added to the labor force, equivalent to an increase of 5.6 percent, during Q1-Q3, 2000 compared to 1999. The increase has been stronger in Gaza, where the growth in the labor force was almost 10 percent. The strong increase in Gaza reflects both a high growth rate in the population aged above 15 years, and an increase in the average participation rate of almost two percentage points.

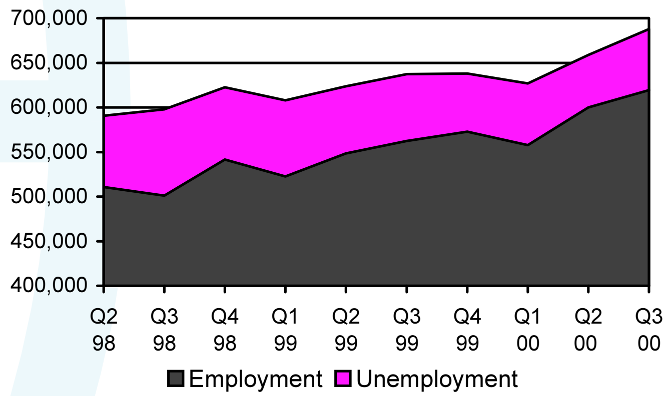
Unemployment was 10 percent in Q3, 2000, up from 9 percent the previous quarter. But the average rate of unemployment was still 2.4 percentage points lower during Q1-Q3, 2000 than during the same period in 1999, see Figure 4.

Figure 4. Unemployment Rate



The considerable increase in the labor force coupled with an observed decrease in unemployment implies that employment growth has been strong during the first three quarters of 2000, see Figure 5. Compared to the same period in 1999, the total number of employed persons increased by 8.8 percent.

Figure 5. Employment and Unemployment

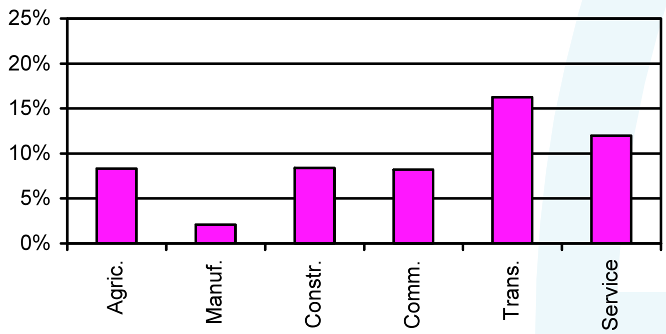


The increase in employment has been significantly stronger within WBG, where employment growth was 9.7 percent, than among Palestinians working in Israel, where the growth rate was only 4.6 percent.

The modest growth in the number of Palestinians working in Israel - down from a growth rate of 13.5 percent in 1999 - is an indication of the low growth prospect in the demand for Palestinian labor in Israel. During 1997-1999 Palestinian employment increased annually by 25 percent as the number of Palestinian workers gradually returned to the level prior to 1993. The rapid increase should, however, be seen at the backdrop of an equivalent rapid decrease in previous years as a result of extensive closures. Thus, the increase merely amounts to a re-capturing of most of the market share in the Israeli labor market the Palestinian workers lost during 1993-1996. As an illustration of the poor growth prospect in the demand for Palestinian labor in Israel, data shows that total employment in the Israeli private sector increased by less than 1.5 percent annually from 1997-1999 and that employment in the Israeli construction sector, which employs the bulk of Palestinians working in Israel, actually shrunk approximately 7 percent annually from 1997-1999.

The increase in employment within WBG during Q1-Q3, 2000 has been broad based, as improvements in all sectors are reported, see Figure 6.

Figure 6. Employment Growth,1999-2000



Note: Average number of employed within WBG during Q1-Q3, 2000 compared with average 1999.

Job creation in manufacturing, which includes mining and quarrying, has been lagging behind the other sectors. During the first three quarters of 2000 employment in manufacturing only increased by approximately 2 percent compared to 1999. Job creation in manufacturing was also sluggish in 1999.

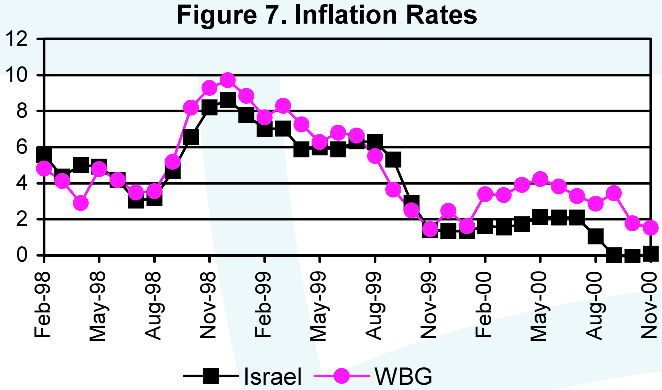
The largest increase in employment, more than 15 percent, was in the transport sector, possibly reflecting an improvement in the mobility of goods in the first part of 2000. Also employment in the service sector, driven in particular by continued public hiring, increased considerably. Finally, employment in agriculture, construction and commerce increased by approximately 8 percent. The growth in agricultural employment was a result of a very strong increase in Gaza, where approximately 40 percent more people were reported to be employed in agriculture in 2000 compared with a year earlier. The increase in agricultural employment may partly be attributable to better access to the Israeli market through more efficient security checks at the border crossings between Gaza and Israel. There are other noticeable differences between West Bank and Gaza with respect to sectoral employment trends, e.g., that employment in construction increased in the West Bank while it decreased in Gaza.

- *Prices.*

The tight closures imposed on WBG do not seem to have had a strong immediate impact on consumer prices in WBG. Inflation continued at a very moderate pace; the most recent figures, covering October and November 2000, show an increase of 1.8 and 1.5 percent when compared to the same months in 1999. Following a hike in Gazan inflation rates in April and May 2000, inflation in Gaza and in the West Bank has been running very much in parallel since June 2000.

The WBG inflation rate has moved almost in parallel with the Israeli inflation rate. But on average during 2000, the rate of inflation in WBG has been approximately 2 percentage points higher than in Israel, see Figure 7.

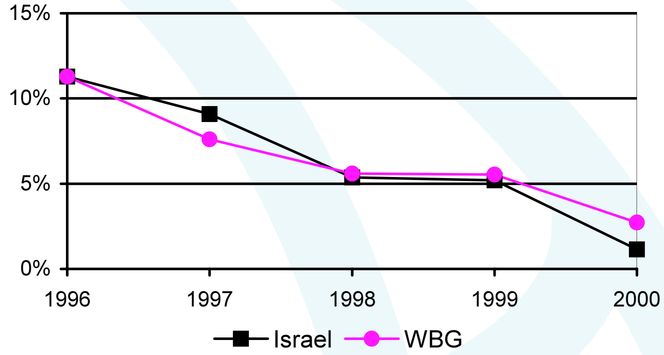
Figure 7. Inflation Rates



Note: Monthly Consumer Price Index compared to same month one year earlier.

The recent years have witnessed a considerable decrease in WBG inflation - from approximately 7.5 percent in 1997 to less than 3 percent in 2000, see Figure 8.

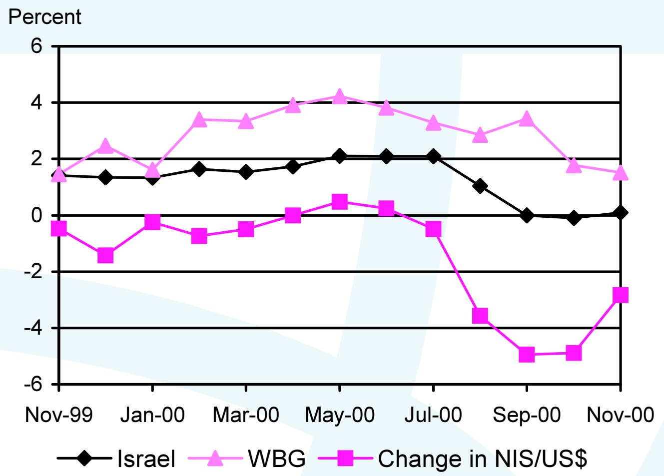
Figure 8. Annual Increase in Consumer Prices



Note: 1996 figure for both WBG and Israel is based on Israeli CPI data.

A contributing factor to the reduction in inflation has been a tight Israeli monetary policy, which has brought the Israeli inflation down to historically low levels. The tight monetary policy has shored up the otherwise permanently depreciating Shekel, which has been stable vis-à-vis the US dollar during the last year, see Figure 9. This has, in turn, helped curb imported inflation.

Figure 9. Inflation and Change in NIS/US$

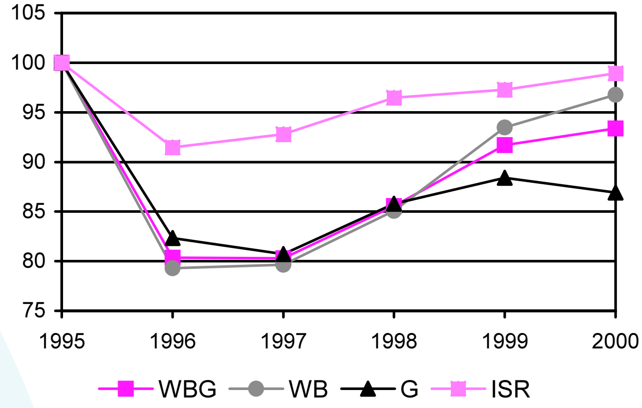


- *Wages.*

Real wages have still to recover fully from the sharp decrease experienced in 1996, especially in Gaza, see Figure 10.

After very large increases in real wages in 1998 and 1999, data for the first three quarters of 2000 show, however, a considerable deceleration in the growth in rate of real wages.

Figure 10. Real Average Daily Wage, q395=100



Workers in the West Bank have experienced the largest increase in real wages in 2000, on average approximately 3.5 percent. In particular, employees in the transport sector have enjoyed a large increase in real wages.

Among Palestinians working in Israel, real wage growth has amounted to approximately 2 percent on average. Real wages have, however, decreased among Palestinian workers in the Israel construction sector. As was the case in West Bank, employees in the transport sector have had the largest increase in real wages.

Real wage growth in Gaza is lagging behind that of West Bank, and has actually been negative in 2000 - the purchasing power of an average daily wage in Gaza was approximately 2 percent lower in 2000 compared to 1999. The poor real wage performance is an indication of the difficulties of creating high value added jobs in Gaza.

- *Private Consumption and Investment.*

The large drop in average incomes is expected to be reflected in average consumption. Households with sufficient savings may, at least in the short run, try to mitigate a reduction in income partly by reducing savings. But for many Palestinian households, the only option is to reduce consumption in line with income. In a "Business as Usual" scenario, i.e., in the absence of the tight closures imposed during the last quarter of 2000, it was expected that private consumption in real terms would grow 3-4 percent in 2000, but following the events since October 1999, it is now expected that real consumption will drop approximately 10 percent compared to 1999.

As mentioned earlier, private investments are expected to be especially negatively affected by the tight closures, Partly as a result of the reduction in aggregate savings, but also - and probably more important - because of the poor prospects of obtaining a reasonable return on investment in the current situation. The drop in total investments in 2000 is estimated to be in the range of 15-20 percent, compared to 1999.

- *External Trade.*

Export activities are among the first to be hit by the policy of closures. Competition in most export markets are fierce and interruptions in the supply of goods from Palestinian producers will quickly be replaced by goods from other origins.

In the absence of closures it was expected that export growth could have reached approximately 15 percent in 2000, but following the developments in the last quarter of 2000, export is now expected to fall by approximately 5 percent compared to 1999, making 2000 yet another year of disappointing export performance.

The impact on imports are somewhat smaller, but still noticeable, as total imports are expected to be approximately 10 percent lower than what would have been the case in the absence of closures.

- *Fiscal Accounts.*

The stream of fiscal revenues received by the Palestinian Authority (PA) has been highly irregular during the last three months of 2000. Payments through the clearance system, which transfers tax revenues accrued to the PA (in particular VAT and import taxes) from the Israeli Ministry of Finance to the PA, have been delayed and reduced compared to what was expected. Further, domestic tax collection has also suffered, due to the difficulties in moving around within WBG. Consequently, there has been a considerable shortfall of revenues.

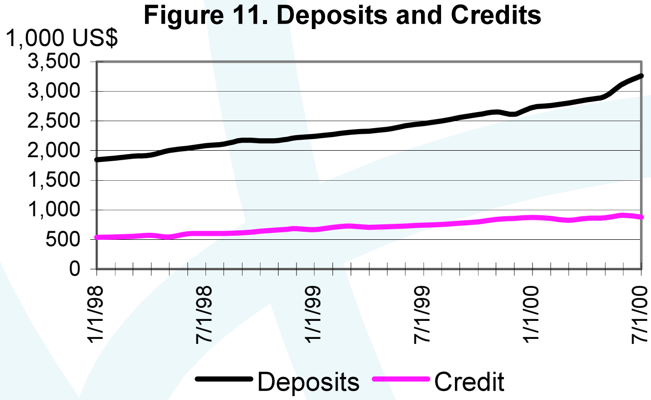
Public finances in WBG was already under pressure prior to the latest disruptions in revenues, primarily because of the failure of the PA to control public hiring. The events in recent months have intensified the pressure from the Palestinian population on the PA to increase transfers and public employment in order to moderate their income loss.

Several initiatives have been taken within the international donor community to address the severe situation among the Palestinian population, e.g., the approval of a US$ 12 million grant from the World Bank. The grant aims to alleviate hardships for thousands of families through the provision of temporary employment for unskilled and semi-skilled laborers. Local suppliers and contractors will also benefit through the increased demand for materials and works. It is hoped that the grant will serve as a catalyst for other donors to participate through parallel or joint contributions. Further, to directly compensate the PA for the shortfall in revenue, the EU has put in place a cash facility to ease budgetary problems whether these are due to irregularities in the transfer of payments from the clearance system or difficulties in revenue collection. A substantial part of the shortfall experienced since October 2000 has been covered through this facility.

- *Financial Sector.*

Resident consumers' bank deposits have grown rapidly during the first seven months of 2000. Compared to the same period in 1999, deposits are approximately 25 percent higher. In June 2000, for the first time ever, deposits exceeded US$ 3 billion, see Figure 11. The growth in deposits may reflect both an increased confidence in banks operating in WBG and the relatively favorable economic conditions during the first half of 2000. The Palestinian Monetary Authority has not yet published data covering the second part of 2000, so the effect on deposits of the current situation is still to be seen. As no dramatic changes in deposits have been reported, it appears, however, that confidence in the banking sector is intact.

Figure 11. Deposits and Credits



Credit expansion has been more sluggish than that of deposits during the first seven months of 2000. By July 2000 total credit extended to resident consumers stood at US$ 875 million. The loan-to- deposit ratio was 29.5 percent during the first seven months of 2000, down from 30.5 percent during the same period of 1999.

Bank Group Operations

A. Multi-Donor Fund Administration

■ *Holst Fund.* Due to the current crisis in West Bank and Gaza and the related negative impacts on the poor and marginalized, the World Bank has initiated a Emergency Response Program (ERP) which aims to provide much needed employment opportunities through small labor intensive civil works. The US$12 million grant from the World Bank is being channeled through the Holst Fund. Hence, as of January 2001, the Holst Fund has received US$281 million from 27 donor countries (including the World Bank), of which US$264 million has been disbursed by the Bank to the Palestinian Authority (PA). Of the total disbursed, US$213 million was for recurrent budget support and the remaining for employment generation projects. Since the initiation of the Employment Generation Program (EGP) in 1996, over 700 microprojects have been completed and over three million labor days of employment have been created. The Holst Fund is scheduled to be closed by March 31, 2001.

■ *Technical Assistance Trust Fund (TATF).* As of January 2001, the TATF has received donor contributions of US$24.07 million (including interest money earned), of which a total of US$21.2 million has been disbursed to the Palestinian Authority. The objectives of the TATF are: (a) to assist in building Palestinian institutions and to enhance the Palestinian capacity for self-government; (b) to facilitate the implementation of investments in the Palestinian authorities; (c) to assist the Palestinian authorities in the design of integrated policies and programs; (d) to assess the feasibility of proposed physical investments for the longer term; and (e) to encourage the growth of the private sector. The World Bank and PECDAR jointly administer the TATF.

The TATF has initiated a number of new activities. New activities under contract are as follows: (1) Financial Intermediation Training (FIT) - Contract Value: US$250,000; (2) Publication of Technical Studies Facility - Budget Allocation: US$160,000; (3) The Palestinian ITT Center - Budget Allocation: US$930,000; (4) PNA Institutional Building Facility-Budget Allocation: US$450,000. The value of currently running activities under the TATF is about US$4.3 million. The closing date of the TATF is June 30, 2001.

B. Investment Projects

As of January 2001, the World Bank Group has 20 projects under implementation, three completed projects, and seven projects under preparation through the World Bank, MIGA, and IFC Programs.

World Bank Ongoing Projects

■ *Education and Health Rehabilitation Project (EHRP).* [US$20 million credit from the International Development Association (IDA); US$20 million grant from Saudi Arabia; three grants totaling US$8.65 million from Italy; and US$0.40 million grant from Australia]. The Project is well advanced and is progressing satisfactorily. The IDA Fund is 100% committed and 98% disbursed; the Saudi Grant is 85% committed and 65% disbursed; the Italian Grants are 61% committed and 29% disbursed; and the Australian Grant is 100% committed and 100% disbursed. The Project is being implemented through PECDAR, the Ministry of Health, and the Ministry of Education.

Health Component: Under the IDA Fund in Gaza, all of the planned 10 clinics have been built, furnished, and the software programs installed. Under the Saudi Grant in the West Bank, one clinic has been built, fully furnished, and equipment installed. The construction of the extension for Rafidia Hospital and Yatta Hospital is in progress. In Gaza, three clinics and one community hospital have been built, fully furnished, and equipment installed. The construction of the Ministry of Health's department-building is not progressing because of the shortage of construction material due to Israeli closures. Under the Italian Grant in Gaza, the Ministry has approved the final version of the Pilot Master Plan for Al Nasser Hospital in Khan Younis. The rehabilitation works for the existing hospital, the existing sewage system, and the construction of a corridor link between the existing and the new hospital will soon commence.

Education Component: Under the IDA Fund in Gaza, 11 new schools and the extensions for 11 existing schools have been built and the schools have been fully furnished. Under the Saudi Grant in the West Bank, all of the planned eight schools have been constructed and fully furnished. Three new schools are ready for tendering. In Gaza, all of the planned three schools have been constructed and fully furnished. Construction of two new schools is complete. Under the first Italian Grant in the West Bank, all of the planned six schools have been constructed, fully furnished and one sanitary unit has been completed. Under the second Italian Grant in the West Bank, construction of two community centers has been completed and that of four schools and two community centers is progressing well. Furniture, books, and laboratory equipment have been supplied. 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.

■ *Health System Development Project (HSDP).* (US$7.9 million credit from the

World Bank.) 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 services for primary healthcare (PHC), especially in rural and underserved areas. The Project components are:

Component 1 will: (i) develop the functional standards for Level II PHC facilities (small clinics that can serve the basic needs for approximately 8,000 to 12,000 people); (ii) build MOH's capacity to plan and design PHC clinics; and (iii) replace approximately 40 substandard PHC facilities, including equipment and furniture, with clinics that meet the quality standards.

Component 2 will establish a Health Information Center (HIC) that would support the development and maintenance of the Management Information System (MIS) functions of MOH, and provide technical assistance for the development of a basic clinical information system and a unified health insurance information system. The clinical information system will also provide the monitoring tool for the activities of the Quality Improvement Program (QIP) supported in Component 3.

Component 3 will expand the scope of the QIP in order to establish quality standards and introduce quality improvement measures for selected priority health interventions. Technical assistance will also be provided to promote rational drug use and improve both quality and expenditure controls in terms of contracts with overseas providers. The QIP will also include the development of clinical and operational standards for PHC services. The Project is being implemented by MOH.

■ *Municipal Infrastructure Development Project (MIDP I).* (US$40 million credit from the World Bank; US$1.74 million from Greece; and EURO3.67 million from Italy.) This Project aims at rehabilitating high priority municipal infrastructure networks and systems in the West Bank and Gaza (WBG) through 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 implementing agencies are MLG, PECDAR, MoPW, and PWA. Focus is on initiating institutional reform and capacity building at the local government level. So far, 89% of available funding has been committed to some 252 physical sub-projects, including 170 micro-projects. A total of 235 physical sub-projects have been completed, including 165 micro-projects US$1 million was taken from the Project for the preparation work for Bethlehem 2000. So far, more than 220 km of roads and 100 km of water and sewage pipelines have been constructed. Also, upgrading of three neighborhood areas in Gaza City have been completed. All other components with the Ministry of Local Government and the five selected municipalities for capacity building are currently active. However, due to the current crisis in the West Bank and Gaza, the capacity building component is moving slowly. As a response from the World Bank to the current economic crisis in the West Bank and Gaza, the Bank has reallocated US$2 million from IDA share to labor intensive projects. Three-year investment plans have been completed for Hebron municipality and for Gaza municipality, are under implementation for Rafah municipality, and under RFP preparation for Jenin and Nablus municipalities. Diagnostic studies in Rafah municipality and in Jenin municipality have been completed. A revenue management information system for municipalities in the WBG was awarded and is in the implementation stage. A Geographic Information System (GIS) is under implementation for Gaza municipality and under RFP preparation for Hebron and under tendering for Nablus municipality. A state-of-the-art computer center and network have been completed for Gaza municipality, are in the implementation stage for Jenin municipality.

■ *Second Municipal Infrastructure Project (MIDP II).* [US$26 million total Project cost, US$7.5 million credit from the International Development Association (IDA) and US$5 million grant from Saudi Arabia]. This Project was approved by the World Bank Board on June 20th, 2000 and declared effective on December 19th, 2000. 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 Project will also provide support to the Ministry of Public Works to establish a road maintenance management system for the first time in the Palestinian Authority. In addition, it will continue to provide support to the Ministry of Local Government for an accounting system and institutional reform, and will extend the capacity building component of MIDP I to six additional municipalities in WBG including: Jabalia, Khan Younis in Gaza, Tulkarem, Jericho, Tarqumia, and Al Ram in the West Bank. This subcomponent will provide support to improve municipal investment and development programming. The Ministry of Public Works, Ministry of Local Government, and the Palestinian Water Authority will implement this Project.

In response to the current crisis in the West Bank and Gaza, US$1.0 million has been reallocated from the project budget to employment generation. This sum will be used primarily to rehabilitate small stretches of roads, open agricultural roads, and to do road maintenance utilizing intensive labor.

■ *Gaza Water and Sanitation Services Project (GWSSP).* (US$25 million credit from the World Bank; US$50 million in parallel financing from EIB/EU.) 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 attainment of performance targets; and (c) the provision of technical assistance to strengthen the newly created Palestinian Water Authority (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 four years of implementation of the Project as audited by an independent auditor are: over 1,200 km of pipe have been surveyed for leaks and over 16,000 illegal connections identified; over 22,000 service connections have been replaced, over 20,000 meters repaired, and a total of over 30,000 meters replaced; Unaccounted For Water (UFW) has been reduced from around 48% to 30%; reliable disinfectant (96% of water samples have positive chlorine residual). The existing management contract has been extended through March 31, 2001 to maintain progress until a new operator is procured under the proposed Gaza II Project. As of December 31, 2000, the Credit is fully committed and disbursements are approximately US$23.9 million. The closing date of the Project is June 30, 2001.

■ *Southern Area Water and Sanitation Improvement Project (SAWSIP).* (US$21 million from the World Bank and EURO30 million in parallel financing from EIB). The Project consists of: (a) the provision of an international Operator [General des Eaux, Khatib & Alami (GEKA)] 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 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; and (d) 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 PWA. The audit of the Operator's first year performance is expected to start in January 2001 -- this delay is attributed to the inability of the auditors to travel because of the closures. Preliminary unaudited data indicate that there is progress. As an example, around 400 unregistered connections were detected in Bethlehem. Surveys and procedures are being undertaken to identify and correct weakness in the existing water and wastewater systems. Commitments have slowed down since September 2000 because of the security situation. Disbursements, as of December 31, 2000, are approximately US$4.1 million representing about 20% of the Credit. The closing date of the Project is set for June 30, 2003.

■ *The Second Community Development Project (CDP II).* The success of the first CDP has resulted in the PA requesting a follow-up project.The CDP II is funded through the World Bank (US$8 million), OPEC Fund (US$8 million), and EIB (EURO10 million) and has been under implementation since June 1999. About 200 projects, focusing on infrastructure rehabilitation in small villages and municipalities, are under various stages of implementation. Of the 135 projects under contract, 55 have been completed. A total of US$6.9 million has been disbursed to the projects by PECDAR. The menu of projects includes rehabilitation of: roads, clinics, schools, water supplies, and sanitation networks. In addition, the new Project pays special attention to targeting the poor and marginalized communities, including funding projects in refugee camps within West Bank and Gaza. Most of the funds financed through the World Bank and OPEC Funds have been committed. A mid-term review of the Project is expected to be undertaken in February 2001.

■ *Legal Development Project (LDP).* (US$5.5 million from the World Bank, parallel financing of US$1 million for legislative drafting from the United Kingdom.) The Project is a start to a long-term process of assisting the PA to modernize and harmonize existing legislation, to give rise to a legal framework adequate to support a modern market economy, and to encourage the growth of the private sector. The Project also supports the training of judges and court personnel in order to increase the efficiency and transparency of the judicial process. The Project is well underway. As part of the overall program of legal development in WBG, construction of two courthouses is planned--one each in the West Bank and in Gaza, to be funded by the Kingdom of Saudi Arabia.

■ *Palestinian Expatriate Professional Program (PEPP).* (US$3 million credit from the World Bank and US$0.3 million from the Netherlands.) 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 ministries and agencies of the Palestinian

Authority, including the Ministries of: Agriculture, Education, Finance, Health, Higher Education, Housing; the Insurance Controller's Office; the Palestine Broadcasting Corporation; Palestine Monetary Authority; State Information Service; and the Bethlehem 2000 Committee. Qualified persons have been identified for other positions but recruitment has not been consummated. The current crisis is seriously affecting the ability of current participants in the program to continue their work effectively and have caused nine other participants to defer starting work until conditions become stable and the future outlook clearer.

PEPP Project Expatriate Profiles

Dr. Durgham Abu Ramadan is a Palestinian expatriate from Germany who has been working at the Ministry of Health since April 2000, under the auspices of the PEPP.

Dr. Abu Ramadan is presently the Cardiovascular Surgeon at the Ramallah Government Hospital. In this challenging position, he is responsible for conducting cardiovascular surgeries at the hospital and upgrading the structural and functional capacities of the existing Departments of Cardiovascular Surgery in government hospitals in both Gaza and the West Bank. This institution building mandate covers staffing, conducting needs assessments for training medical specialists and technicians in cardiovascular surgery, training nursing staff to patients for operations and recovery in dedicated intensive care units, as well as developing standard post-operative follow-up procedures for all patients discharged from hospital after cardiovascular surgery. Achievements to date include 150 successful cardiac surgeries for adults and children (congenital heart disease) as well as 30 -50 vascular surgeries at the Ramallah Government Hospital. Since the beginning of the Intifada, Dr. Abu Ramadan conducted several cardiovascular surgeries for injured Palestinians who were shot in the chest and brought out from all areas of the West Bank and Gaza to the nearest checkpoints. It is worthwhile mentioning also that Dr. Abu Ramadan saved the life of a French journalist who was shot in the chest by operating on him and stopping the bleeding. The Ministry of Health has appointed one new specialist in Cardiovascular Surgery who is a recent graduate from Turkey. He started training under Dr. Abu Ramadan in early September 2000.

- *Palestinian NGO Project.* (US$10 million credit from the World Bank and US$4.5 million in co-financing by Saudi Arabia and Italy.) Managed by the Project Management Organization (PMO); Welfare Association Consortium.

The Project consists of 105 sub-projects implemented under the Development Grant Scheme (Cycles 1, 2, and 3). 88.2% percent of the allocated funding for the first two cycles has been disbursed. 26 of the 39 sub-projects financed under Cycle 1 of the Development Grant Scheme has successfully been completed (96.4% of cycle allocation disbursed). In July 2000, 31 grants were awarded under Cycle 3 of the Development Grant Scheme for a total value of US$2.2 million; of which 21% has been disbursed to date. The first cycle of the Block Grants is progressing well with seven Block Grants Managers awarding US$3.5 million in the form of grants to small community-based organizations for a maximum value of US$25,000 (40% of cycle allocation disbursed). Two research studies were awarded: one to assess the effectiveness of the Block Grant Scheme in reaching the poor and marginalized, and the other to identify the scope and quality of NGO capacity building programs in the West Bank and Gaza, as well as existing needs. The latter two studies are commissioned in preparation of the Project's second phase.

In view of the success of the current Project, the continued need for NGO support to the disenfranchised, and the opportunities for enhancing the contribution of Palestinian NGOs through additional technical support and financing, the Bank decided to carry out a second phase of the NGO Project.

(See details under section "World Bank Projects Under Preparation".)

- *MIGA Investment Guarantee Fund.* (Total of US$20 million, which consists of US$10 million from the PA through a credit from the World Bank, approximately US$5 million from EIB and US$5 million from Japan.) This Fund, which is administered by MIGA, provides guarantees in the form of insurance against political risk for private investments 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 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, when requested by the project sponsor(s), MIGA will explore the possibility of 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 has been 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.

- *Bethlehem 2000 Project (B2000).* [US$25 million credit from the International Development Association (IDA), US$1 million grant from Norway and US$2 million grant from Italy]. The IDA Fund is 71% committed and 67% disbursed; the Norwegian Fund is 100% committed and 88% disbursed; and the Italian Fund is 100% committed and 85% disbursed. The Bethlehem 2000 Project Authority, the Ministry of Local Government, the Ministry of Tourism and Antiquities, and the Ministry of Culture are implementing this Project.

Celebrations Support: The B2000 Project Authority was effectively consolidated under the leadership of Dr. Nabil Kassis and has performed very well. However, the sponsorship, marketing, and private sector department were never effectively staffed and not much was achieved. Until the recent closures, efforts were underway to consolidate these achievements by: (1) institutionalizing key elements of the events program on an annual basis; (2) mobilizing the private sector to consolidate and build on the improvements that have been made; and (3) embarking on a realistic marketing program in coordination with the Ministry of Tourism.

Infrastructure Progress: (1) Roads- the planned IDA components are now 100% complete. The Artas Road co-financed with Italy is complete. The Shepherds Field Road co-financed by Norway is complete, with some landscaping work to be undertaken from a small remaining balance. The IDA balances remaining are mainly due to the substitution effect of other donors (as noted above). It is expected that these balances will be fully committed by January 2001 and that all works will be completed by April 2001; (2) Water- the components here (all IDA) are 100% complete; (3) Cultural Heritage- three of the four sub-projects are complete. The fourth has been delayed pending a clarification of the availability of Austrian co-financing.

New B2000 Business Plan: A revised Business Plan has been prepared which provides the basis for the B2000 Project Authority's work for the remainder of the Project.

Municipal Capacity Building: After some delay, progress is now being made. An implementation workshop was held in August 2000. Discussions are now ongoing with Bethlehem area municipalities to help them establish the necessary working groups in order to develop the three-year investment program.

Cultural Heritage Reform: Little progress has been made, mainly due to weaknesses at the Ministries of Tourism and Culture which have joint responsibility for implementation. An implementation workshop was held in August 2000. At this workshop, it was agreed that one ministry should take the lead and that managerial assistance would be sought from UNESCO.

■ *Electric Sector Investment and Management Project (ESIMP).* (US$15 million from the World Bank, US$38 million from EIB, US$35 million from Italy, and US$3 million financed by beneficiaries.) 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. The Executive Directors of the World Bank approved the Project on August 31, 1999 and the Trust Fund Credit Agreement (TFCA) signed at the time of the Bank/IMF Annual Meetings. Despite the present unrest, the implementation of the main activities (JDECo and PEA components) is progressing satisfactorily. Effectiveness conditions are yet to be completed for the HEPCo and SELCo components. A supervision mission will take place as soon as the situation permits. About US$2.9 million of the US$15 million has been disbursed to date.

■ *Solid Waste and Environmental Management Project (SWEMP).* (US$9.5 million from IDA; US$3.25 million grant from the EU; US$1.25 million is anticipated from the PA). This Project has been approved by the World Bank Board on October 10th, 2000 and has been declared effective on December 11th, 2000. The proposed US$14 million Project's objective is to finance interventions in solid waste collection, transfer, and disposal of waste for the district of Jenin. The Project will also assist in institutional-building within the Ministry of Environmental Affairs (MEnA). The Project feasibility studies and conceptual design for the solid waste component have been completed.

In addition to activities in the Jenin District, the European Investment Bank (EIB) is keen to finance solid waste management interventions, including construction of a landfill in the Hebron District. The World Bank is working in partnership with the European Investment Bank, the European Union, and the Italian Cooperation in assisting the Palestinian Authority prepare the Project. The proposed Bank-financed Project for Jenin District has been approved by the Board of the World Bank and signed on October 10, 2000. Capacity building activities as part of project preparation has been completed through a multi-donor TATF managed jointly by PECDAR and the World Bank. Additional training will be conducted during implementation of the capacity building component of the Project.

Rehabilitation and closure of uncontrolled open dump sites is a first priority and is currently being addressed by the Jenin Joint Service Council for Solid Waste Management (JSC) Project Implementation Unit (PIU). While over 54 open dumps will be rehabilitated and closed in the coming six to eight months, only six large dump sites are expected to be rehabilitated and maintained to receive wastes until the new landfill site in Zahrat Al-Fanjan is made operational mid to late 2002. Access roads to these temporary dump sites will be improved as part of this Project. Public awareness will be an important component of the SWEMP. The JSC is in the process of developing an environmental awareness strategy utilizing the expertise of specialized local Non-Governmental Organizations (NGOs).

World Bank Completed Projects

- *Emergency Rehabilitation Project (ERP I).* (US$30 million from the World Bank and US$63.5 million in co-financing by Saudi Arabia, Denmark, Switzerland, and Kuwait.) The Project (that was implemented by PECDAR) financed a total of 140 infrastructure projects, resulted in building 418 classrooms, paved 260 km of roads in cities and villages, constructed 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).* (US$20 million from the World Bank and US$3.5 million in co-financing by the Italian Government.) All available funding has been committed to 77 sub-projects in the road, water, wastewater, and school sectors (including 42 labor-intensive microprojects). All sub-projects have been completed. The Project, closed on June 30, 1999, was implemented through PECDAR in coordination with the municipalities in the West Bank and Gaza. 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).* This community infrastructure rehabilitation program was started in 1997, and as of June 2000, over 250 infrastructure microprojects have been completed. In addition to the US$10 million financed by the World Bank, the Project has been successful in attracting co-financing of nearly US$13 million. The Canadian and World Bank-financed components have been completed and the Project has been closed. The OPEC-funded projects are expected to be closed by the end of the calendar year.

World Bank Projects Under Preparation

- *Financial Institutional Development Project (FIDP).* This Project aims to assist with the development of the legal, institutional, and regulatory framework for more efficient financial intermediation. The Project seeks to expand the pool of assets that can be used as collateral, thereby improving access to credit for small- and medium-size businesses. It would also support measures to modernize and expand land survey and registration, particularly in central urban areas where property values are high. Banks operating in WBG and the PMA have pledged nearly US$1.5 million in equity in the Banking Sector Services Company to provide electronic banking services. Negotiations and presentation of the project to the World Bank's Board of Executive Directors is stalled waiting for a return to peaceful conditions in the WBG.

- *Institutional Development Project (IDP).* The proposed Project will be demand-driven and will provide a flexible instrument to respond to a variety of different PA ministry/agency capacity-building needs. Its underlying objective is to further the development of a transparent, efficient, and lean public sector by reducing transaction costs and creating a regulatory environment that is conducive to private sector development. The Project is on hold until such time as the discussion on the Public Management Review and Comprehensive Development Framework (CDF) has been completed with the PA, at which point the scope of the Project will be finalized in consultation with the PA.

- *Gaza Water and Sanitation Services Project (GWSSP II).* (US$25 million from the World Bank). It 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 (CMWU) under the ownership of the local governments representing those communities, as well as by enhancing and deepening the involvement of the private sector through a competitively bid operating contract, and strengthening the regulatory and institutional capacity of the Palestinian Water Authority (PWA); and (b) to continue improving the water and sanitation services by rehabilitation, upgrading and expansion of the existing systems and facilities. This Project is under early stages of preparation. The request for pre-qualification for prospective international operators has been launched. Like the GWSSP, this Project is part of a larger parallel capital program to improve water and sanitation services in Gaza. The program 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.

- *Education Action Project. (US$7 million from IDA.)* The Palestinian Ministry of Education has requested project support to reinforce the work already undertaken in the development of a Five Year Plan and the development of a long term education strategy. Over the next three years the Project will support planning for, and the implementation of, five year plan activities. The Project has two complementary components, plus support for the Project Management Unit. The first component provides support to strategies that assist policy making, planning, and budgeting across ministry departments; the second supports specific investments in education. The Project is designed to complement efforts being made by the Ministry and the Donor Community to make the best use of available funding for the education sector.

Activities in Component 1 include: (a) computerizing the financial management system; (b) further developing an EMIS system; (c) a vertical extension to the MOE building to rationalize space; and (c) technical assistance and training to support the above activities. Other investments include: (a) a program to provide school-based grants to be used for training and management development; (b) studies to develop standards for head-teachers, and design a prototype credential for head-teachers; (c) the development of pilot secondary vocational curriculum and the construction of additions to existing general secondary schools to increase opportunities for both boys and girls in a combined general/vocational education system.

The Project will be carried out by the Ministry of Education over three years (2001-2004). Following negotiations, it is anticipated that the Project will become effective in early 2001.

■ *The Proposed Integrated Community Development Project.* (US$10 million from the World Bank and co-financing by other donors).

The overall Project objective is to implement an integrated community development project in poor and marginalized areas of the West Bank and Gaza. This objective would be pursued through identification of target areas, and the development and implementation of a multi-sectoral program which would include technical assistance. The Project will include the following proposed components: (a) community infrastructure upgrading; (b) natural resources management including agricultural components; (c) technical assistance to local government units in integrated development planning; and (d) introduction of information technology in communities through provision of community centers with hardware and software facilities.

■ *Second Health Systems Development Project (HSDP II).* (US$18 million credit from the World Bank; total Project cost US$52 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 northern Gaza and northern West Bank regions. The Project components are:

Component 1: Replacement and Upgrading of Hospital Systems.

Sub-Component 1.1 (US$23 million): This component will finance the preparation of hospital masterplans for the four MOH hospitals in Gaza City which will provide a long-term strategy for upgrading and rationalizing the public hospital system in Gaza. In addition, it will support the preparation of the detailed medical brief and the design and construction of a medical building which will replace the existing substandard Lung and Oncology Building, Dialysis Unit and Medical Building at Shifa Hospital in Gaza City. The new medical building will be accommodated within the existing hospital site.

Sub-Component 1.2 (US$25 million): This component will finance the preparation of a hospital masterplan, medical brief and detailed design and construction of a new Watani Hospital (internal medicine, pediatrics, oncology, and dialysis) to replace the substandard Watani Hospital in Nablus. A new site will be selected and evaluated for the new hospital, since the current hospital is located on a site which has no room for further expansion.

Component 2: Capacity Building. This component will build upon the experience of the first Health System Development Project to extend the development of an integrated information and management systems to improve the productivity and quality of health care services in the targeted hospitals. This will include upgrading of the hospital management information systems; strengthening health insurance administration; and Project management support.

■ *Palestinian NGO II Project.* (US$7 million credit from the World Bank. Expected total budget US$12 million.) The World Bank is currently undertaking the preparatory work for the design of a Phase II of the Palestinian NGO Program (PNGOP). The upcoming project is expected to continue to support, through a grants scheme, Palestinian NGOs providing basic services to the poorest and most marginalized. Moving away from being a source of funding for a large number of NGO projects, the new Project will place increased emphasis on impact and longer-term sustainability of projects being supported. It is, therefore, likely to fund a fewer number of projects in a selected number of priority sectors/ regions. In an increased effort to build NGOs' professional and technical capacity, the Project will encourage partnerships between NGOs, particularly between central and field-based NGOs. This should also help address the ultimate objective of the Project; namely, to help NGOs expand their reach out to communities most in need and to ensure that the services provided are indeed responsive to those needs. Finally, the Project is expected to support a number of key initiatives that are intended to promote and facilitate information sharing and learning within the NGO sector, on the one hand, and between the NGO sector, the public sector and civil society at large, on the other.

In addition to US$7 million allocated by the Bank, the Project hopes to attract additional donor funding in the amount of US$5 million. The Project is expected to become operational by June 2001.

World Bank and IFC Joint Projects

■ *Housing Project.* (US$25 million credit from the World Bank, up to US$19 million in equity and loans from IFC.) The largest component of this Project supports the creation and initial operations of the Palestine Mortgage and Housing Corporation (PMHC) which is designed to facilitate the flow of private capital into the housing sector in WBG. The World Bank loan was declared effective in March 1998 after which, private investors, including IFC, decided to provide equity to PMHC.

PMHC commenced operations by issuing the first loan in September 2000, however, the current situation slowed down the Project's progress and marketing plans. PMHC currently operates through two affiliates, the Liquidity Facility (LF) providing long-term funds for lending by banks and other primary mortgage lenders in WBG, and the Mortgage Insurance Fund (MIF) providing partial risk coverage for primary lenders. Canada Mortgage and Housing Corporation (CMHC) is the technical partner for the PMHC and has prepared the business plan, as well as much of the operational documentation. CMHC continues to provide PMHC with technical assistance and capacity building support. The borrower has also requested that a portion of the Bank loan be applied to the Housing Assistance Fund which has been designed to provide targeted assistance to low- and moderate-income households for the purchase of a primary residence. Restructuring of the Project to accommodate this request is presently being processed. Another component of the Project, the Institutional and Policy Development Program, addresses issues related to the functions and structure of the Ministry of Housing, in addition to its technical, administrative, and managerial capabilities.

Commitments and Disbursements[1]

Disbursements Under World Bank Projects (In US $ Million) - As of January 16, 2001

Current Projects	Allocated Amounts TFGWB	Allocated Amounts Joint	Disbursed TFGWB	Disbursed Joint	Total Disbursed
EHRP	20.00	29.10	20.00	17.76	37.76
MIDP	40.00	5.41	35.00	3.31	38.31
Gaza Water/San.	25.00		23.86		23.86
Microent.	5.00		2.35		2.35
Housing	25.00		0.70		0.70
Legal	5.50	15.00	2.11		2.11
PEPP	3.00	0.32	1.01	0.32	1.33
NGO	10.00	4.60	8.18	3.32	11.50
GIE	10.00		3.06		3.06
Beth. 2000	25.00	2.91	20.10	2.71	22.81
CDP II	8.00		5.32		5.32
SAWSIP	21.00		4.06		4.06
ESIMP	15.00		2.97		2.97
Health	7.9		0.58		0.58
MIDP II	7.50	5.00	0.00		0.00
Solid Waste	9.50		0.00		
Completed Projects					
ERP I	30.00	71.24	30.00	71.24	93.48
MIGA Fund	10.00		10.00		10.00
ERP II	20.00	3.57	20.00	3.86	23.53
CDP I	10.00	2.81	10.00	2.73	12.73
Total	**307.40**	**139.95**	**199.30**	**105.25**	**296.46**

Multi-Donor Trust Fund

	Donor Allocation	Total Disbursed
The Holst Fund	274.67	266.71
TATF	22.77	21.04
Total	**297.44**	**287.75**

US$3 million of the Saudi funds for the Legal Development Project are to date unallocated.

[1] *These figures do not include parallel and IFC financing.*

■ *Gaza Industrial Estate (GIE).* [US$10 million from the World Bank for off-site infrastructure and public institutional development, US$9 million in equity (US$1 million) and loans (US$8 million), and up to US$7 million in syndicated loans from IFC to the developer/operator. EIB and USAID parallel financing, and the PA long-term lease on the land, amount to a further US$65.5 million.] The GIE, on a 50 hectare site at Al-Muntar in the northeast of Gaza (adjacent to the Israeli border), is the first largely export-oriented industrial estate established to generate sustainable employment and stimulate industrial development in Gaza. The Project is expected to attract foreign and local investment, and to facilitate joint ventures between Palestinians and others. The GIE is managed and operated by Palestine Industrial Estate Development and Management Company (PIEDCO), a private sector company. Regulatory oversight, as well as offsite infrastructure, is provided by the Palestinian Industrial Estate and Free Zone Authority (PIEFZA). The GIE is being developed in three phases; Phase II construction was well underway by September 2000, but completion has been delayed. It is now anticipated that Phase II, which should double the industrial sites available for lease at the GIE, will become available in the first half of 2001; potential investors have, however, become scarce in recent months due to the general situation, under which closure has also been applied to the GIE. Prior to September 2000, some 34 firms had leased space at the GIE, filling all space made available under Phase I; of these, about 30 firms were operating, and over 1,200 people were employed at the GIE. The number of firms operating, and the number of people working, at the GIE has fluctuated considerably based on evolution in the closure and security situations since October 2000. More information on firms operating at the GIE can be found at "www.piedco.com".

■ *Microenterprise Project.* (US$5 million from the World Bank; US$7.5 million each from the IFC and the participating banks; US$3 million from the Netherlands). The Project has initiated a program to finance microenterprises in 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 September 30, 2000, over 1,000 projects for approximately US$11.2 million were approved, of which 946 projects for approximately US$10.5 million were disbursed. The disbursed loans were estimated to have created over 1,400 new full- and part-time jobs. The resident advisors, financed under the Dutch Trust Fund for technical assistance to the three participating banks, left in October 2000, about three months early, due to the prevailing circumstances. Since late September 2000, the pipeline for new lending has declined sharply, and focus has shifted to managing the current portfolio.

IFC Projects

IFC Portfolio

Including the joint-projects above, under the **Mainstream Program**, eight projects worth US$75.78 million have been approved to date. Under the **Extended Reach Initiative**, which supported projects in the US$0.25-5 million range, seven projects were approved for US$7.42 million, out of which US$4.47 million has been disbursed. The **Extended Reach Initiative** has recently been discontinued.

All IFC financed projects have been affected by the ongoing political crisis. However, it remains difficult to quantify the magnitude of the impact on the projects and the private sector at large. Most business activity has been reduced noticeably, and most WBG companies are facing liquidity and severe operational difficulties.

Mainstream Projects

■ *Arab Palestine Investment Bank.* The Arab Palestine Investment Bank (APIB) was established in 1996 by Arab Bank, DEG, Enterprise Investment Company and IFC. As of December 31, 2000 APIB approved 26 loans worth US$11.5 million, and had an outstanding portfolio of US$9.3 million. Due to the ongoing crisis, the pipeline for new lending has disappeared, and focus has shifted to managing the existing portfolio.

■ *Peace Technology Fund.* 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 WBG. Prior to September 2000, PTF invested US$11.0 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 250 keys Bethlehem Intercontinental Hotel Project, with an estimated project cost of US$52 million, became fully operational in September 2000. It was the first international standard hotel in the West Bank. IFC invested US$1.35 million in equity and US$8 million in long-term loans. EIB provided about EURO12 million in a parallel loan. Both IFC and EIB loans have been fully disbursed. Because of the ongoing crisis in the WBG, tourism is one of the hardest hit sectors. The Project's operating level has been drastically reduced, and occupancy rates are insignificant.

Extended Reach Projects

■ *Arab Concrete Products Company.* This Project enabled Arab Concrete Products Company to utilize fully 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.* Developed on 31,000 m2 of land, the Jericho Resort Village consists of a 60-room hotel, 48 bungalows, a health center, and includes outdoor restaurants, coffee shops, a swimming pool, as well as 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 two international lending institutions. The complex opened for commercial operations in late 1998. However, due to the ongoing crisis, the Project was forced to cease operations in early October 2000. The complex remains closed.

■ *Al-Ayyam Printing Press.* This Project assisted Al-Ayyam, one of the largest private sector companies in the WBG, to upgrade its printing line, refinance its short-term debt, and perform construction improvements. IFC provided a loan of US$1.8 million, which was fully disbursed. Al Ayam's commercial printing and advertising activities have been significantly affected by the ongoing crisis.

- *Arab Palestinian Storage Company.* 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 includes both freezing, as well as chilling to preserve the products for long periods of time. The Project also involves trading in fruits and vegetables, mainly for resale 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 were aimed at supporting the Palestinian Authority's efforts to further broaden and deepen the Palestinian financial sector. Also, IFC has 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.

Private Sector Development Conference

Over the past year and a half, IFC, in collaboration with the private sector and the Palestinian Authority, had undertaken work to support a Palestinian Investment Conference. Donors generously contributed to the initiative by providing funding for a number of studies and for conference organization. 15 sector studies had been undertaken including studies on tourism, textile, technology, agribusiness, small and medium size enterprises, among others.

Due to the ongoing crisis however, the conference and all preparations for the conference have been postponed indefinitely. The sector studies are in various stages of completion, and a significant number of the studies will not be completed since foreign consultants are hesitant to travel to the WBG under the current circumstances.

Bank Group News

- **US$12 Million Grant from the World Bank for an Emergency Response Program.**

The World Bank Board of Directors approved the grant for the Emergency Response Program on December 6, 2000.

The program is designed to help offset the effects of the current economic crisis in the West Bank and Gaza. It aims to alleviate hardship for thousands of families through the provision of temporary employment for unskilled and semi-skilled laborers. Local suppliers and contractors will also benefit through the increased demand for materials and works. The grant is intended to serve as a catalyst for other donors to participate through parallel or joint contributions for further activities.

The grant will be channeled through the Holst Fund, a multidonor trust fund facility administered by the Bank, for which all the institutional arrangements and procedures are in place, thus enabling expedited transfer and disbursement of this urgently needed assistance.

- **US$9.5 Million Credit from the World Bank for the Solid Waste and Environmental Management Project.**

The overall Project cost is US$14 million. The credit is accompanied by counterpart financing from the Palestinian Authority of US$1.25 million and through parallel funding of US$3.25 million from the European Union on grant terms.

See details on the Project on p. 17 under "World Bank Ongoing Projects".

- **Report on the Italian Aid Administered by the World Bank.**

The report, published by the Organization for Economic Co-operation and Development (OECD), assesses the viability and the effectiveness of the management of Italian aid to the West Bank and Gaza administered by the World Bank. The report can be found at the World Bank PIC/Library.

New Projects

See more details on the new projects mentioned below on p. 19 under "World Bank Projects Under Preparation"

- **The Second Health Systems Development Project (HSDP II).**

The Project ' s objectives are to improve the quality, access and cost-effectiveness of essential secondary and tertiary care health services for the population residing in northern Gaza and northern West Bank regions.

- **Palestinian NGO II Project.**

In view of the success of the current NGO I Project, the continued need for NGO support to the disenfranchised, and the opportunity to enhance the contribution of Palestinian NGOs through additional technical support and financing, the Bank decided to carry out a second phase of the NGO Project. The Bank will continue to finance the Project up to US$7 million, while an additional US$10 million will be sought in the form of co-financing.

Staff News

■ **Mr. Saba's New Appointment as Country Director for Iran, Iraq, Jordan, Lebanon and Syria.**
Joseph Saba who has been Country Director in WBG since 1997 will depart in February 2001 for his new assignment as Director for Iran, Iraq, Jordan, Lebanon and Syria effective March 1, 2001. He will reside in Washington, D.C. His replacement is expected to be announced in late February 2001.

■ **Judith Press Returns To HQ.**
Ms. Press, Senior Private Sector Development Specialist, has been working in the WBG office since 1997. As a Task Team Leader, she worked closely with her Palestinian and other counterparts to prepare the Gaza Industrial Estate Project. She was also closely involved in the Electricity Sector Investment and Management Project and the Microenterprises Project. She also had overall responsibility for issues related to the development of the private sector in the WBG in general. Ms. Press recently returned to HQ in Washington, DC where she continues to work on private sector development issues for the WBG and other countries in the Middle East and North Africa region.

New Bank Publications

Read the World Bank's latest on promoting economic opportunities, facilitating empowerment, and enhancing security for poor people.

Recommended

"World Development Report 2000/ 2001: Attacking Poverty."
At the start of a new century, poverty remains a global problem of huge proportions. Of the world's 6 billion people, 2.8 billion live on less than US$2 a day and 1.2 billion on less than US$1 a day.

The ***World Development Report 2000/2001: Attacking Poverty*** argues nevertheless that major reductions in all these dimensions of poverty are indeed possible - that the interaction of markets, state institutions, and civil societies can harness the forces of economic integration and technological change to serve the interests of poor people and increase their share of society's prosperity.

Would you like to get information by EMail on recent World Bank publications, please send your EMail address to: **"mkoussa@worldbank.org".**

■ **European Union Accession: Opportunities and Risks in Central European Finances.** (FS 21436 2000)
This report presents the findings of two seminars organized by the European Commission and the World Bank for Central European countries and pertinent to European Union accession. The Paris Seminar (January 1999) focused on "Private Capital Flows and EU Accession: Implications for Sovereign Liability Management." The Prague Seminar (June 1999) focused on "Integrated Financial Sector Regulation and Supervision in the Context of EU Accession."

■ **Poverty Reduction in the 1990s: An Evaluation of Strategy and Performance.** (OES 20944 2000)
In 1990, when the Bank prepared its World Development Report (WDR) on poverty, the prospects for global poverty reduction looked bright. The context in which the Bank operates has altered significantly since then, as has the international economic environment. While there have been significant improvements in social indicators in most regions, the absolute number of poor has continued to rise. Many of the significant events of the following decade could not have been predicted. The onslaught of the AIDS epidemic, outbreak of civil war, rash of natural disasters, and the difficult transition to a market economy in Eastern Europe, Central Asia, and East Asia gave no warning signals. Against this backdrop, the Bank has reconfirmed its commitment to fighting poverty while changing its strategy significantly.

This Report examines the direction set for the Bank by the 1990 strategy and recommends better monitoring and evaluation techniques.

■ **Reforming Public Institutions and Strengthening Governance.** (BB21439 2000)
This strategy paper takes stock of the Banks' recent work on governance, public sector institutional reform, and capacity building (particularly in core public institutions) and addresses what the World Bank can do to enhance its ability to help client countries implement this agenda. This paper focuses primarily on reforms of core public sector institutions and their interface with sectoral institutions. It touches only lightly on institutional concerns within specific sectors (for example, in health, education, and rural infrastructure), and it does so primarily to point out generic issues that concern many sectors. The last section of Part I of this paper summarizes specific goals for the next three years and a set of specific actions to be taken to help achieve them. Part II includes strategies and short descriptions of innovative initiatives prepared by each of the Bank's regional Vice-Presidencies, by the Development Research Group, and by the World Bank Institute.

New Series :

"A World Free of Poverty"

■ Balancing Protection and Opportunity: A Strategy for Social Protection in Transition Economies.

■ Hidden Challenges to Education Systems in Transition Economies.

■ Anticorruption in Transition: A Contribution to the Policy Debate.

- From Commissars to Mayors: Cities in the Transition Economies.
- The Determinants of Enterprise Restructuring in Transition: An Assessment of the Evidence.
- Progress Toward the Unification of Europe.
- The Evolution of Pension Systems in Eastern Europe and Central Asia: Policies and Eastern Europe and the Former Soviet Union.
- Maintaining Utility Services for the Poor: Policies and Practices in Central and Eastern Europe and the Former Soviet Union.
- Cleaner Transport Fuels for Cleaner Air in Central Asia and the Caucas.
- Who is Paying for Health Care in Europe and Central Asia?
- Rural, Environment, and Social Development Strategies for the Europe and Central Asia Region.

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