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West Bank and Gaza
Economic Update and Potential Outlook

This note previews the findings of the Bank's *Economic Monitoring Report #2*, requested by the Ad Hoc Liaison Committee in December 2005 and due next month. It reports on developments in 2005 on the basis of recent data, and reviews the potential economic impact of various policy measures currently under consideration.

Developments in 2005

In 2005, real Gross Domestic Product (GDP) grew by an estimated 6.3 percent. As explained in the Bank's December 2005 *Economic Monitoring Report #1*[1], a confluence of factors explains this level of growth, including an expansionary (but unsustainable) fiscal policy by the Palestinian Authority (PA), increased banking credit to the private sector, a relaxation of closures (permitting a higher number of Palestinian workers to find jobs in Israel), and increased Israeli demand for Palestinian exports[2]. Despite positive growth rates during 2003-5, Palestinian incomes remain considerably lower than their pre-*intifada* levels, with real GDP per capita in 2005 about 31 percent lower than in 1999.

Suspending revenue transfers, constraining Palestinian movement and access and reducing aid flows would cause severe economic damage. Real GDP per capita declines by 27 percent in 2006, and personal incomes by 30 percent; a one year contraction of economic activity equivalent to a deep depression. By 2008, unemployment hits 47 percent and poverty 74 percent.

Current Context

In recent weeks, both the Government of Israel (GOI) and donors have been considering a variety of economic responses to the outcome of the Palestinian Legislative Council (PLC) election of January 25, 2006, some of which are already under implementation. GOI has suspended the regular transfer of revenues which it collects on behalf of the PA; other forms of economic interaction at issue are Palestinian labor access to Israel, and the flow of imports and exports across Palestinian borders with Israel. Donors are planning to reduce various categories of foreign assistance.

By way of introduction, two points are worth noting. First, the Palestinian economy is highly sensitive to external stimuli, due to its degree of dependence on Israel and on foreign assistance; consistent with this, the Ad Hoc Liaison Committee (AHLC) in December 2005 agreed that achieving desirable rates of Palestinian GDP growth would depend on Israel continuing to transfer revenues, rolling back the system of movement restrictions in force and maintaining or increasing labor access to Israel—and on sustained high rates of donor and private investment as well as Palestinian governance reform. It follows that suspending revenue transfers, constraining Palestinian movement and access and reducing aid flows would cause severe economic damage if the available tools were employed with sufficient vigor. Second, the impact of the suspension of clearance revenue transfers

[1] *The Palestinian Economy and the Prospects for its Recovery—Economic Monitoring Report to the Ad Hoc Liaison Committee Number 1*, December 2005.

[2] In *Economic Monitoring Report #1* (op. cit.), we estimated that real GDP growth might reach 8.7 percent in 2005. The economic data released since then, notably labor market data for the third and fourth quarters of 2005, show that economic developments in the second half of 2005 were less positive than anticipated.

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and restrictions on movement and access would be much greater than the impact of reduced aid flows.

The relative impact of GOI and donor actions is borne out by the economics of the second *intifada*—a period in which the various restrictions placed on the movement of people, labor and goods, and on the transfer of revenues collected by GOI on the PA's behalf, led to a contraction in real personal incomes of almost 40 percent between the third quarter of 2000 (Q3/2000) and Q3/2002—despite a doubling of annual donor disbursements in the same period.

Potential Measures and their Impact

Possible economic measures. Those with the greatest immediate impact are of three main types.

- *Suspending the transfer of tax revenues collected on the PA's behalf.* As agreed under the Paris Protocol of 1994, and consistent with the operation of the quasi-customs Union between Israel and the PA, GOI remits to the PA through a regular 'clearance' mechanism taxes and VAT levied in Israel on merchandise destined for Gaza and the West Bank. These revenues have in the past represented up to two-thirds of total Palestinian revenue—a sum amounting to some US$740 million in 2005, or approximately 13 percent of Gross Disposable Income (GDI)[3]. Last month GOI announced it would suspend these transfers and deposit the proceeds due to the PA in an escrow account.
- *Restricting trade across borders.* Border trade has been significantly constrained since the beginning of the *intifada* (at present, all merchandise trade flows either to or through Israel). In 2005, imports and exports totaled nearly US$3.4 billion—an amount equivalent to 83 percent of Palestinian GDP, illustrating the openness of the Palestinian economy (and its consequent vulnerability to trade restrictions)[4]. A recognition of the importance of normalizing Palestinian trade flows led to a trilateral dialogue in 2004-5, culminating in the Agreement on Movement and Access (AMA) concluded between the parties on November 15, 2005. GOI and the PA have not yet fulfilled various obligations under the AMA[5]. Furthermore, GOI has recently announced that it will tighten security checks on its borders with West Bank and Gaza.
- *Restricting or terminating Palestinian labor flows to Israel.* In 2005, a daily average of approximately 44,800 Palestinians worked in Israel[6]. These workers were paid approximately US$405 million in the course of the year (amounting to 7 percent of GDI). Even before the PLC election, GOI policy was to reduce to zero the number of permit-holding workers by the end of 2007. Since the election, labor flows have averaged 25-30,000 per day.

Reducing aid flows. Foreign assistance to the Palestinians is conventionally classified under three broad headings—*budget support, emergency/humanitarian, and development aid.* In 2005, donors contributed a total of approximately US$1.3 billion[7] to the Palestinian economy, or some 22 percent of GDI. Of the US$1.3 billion, it is estimated that some US$350 million (27 percent) was provided in the form of budget support, US$500 million (38 percent) as humanitarian/emergency assistance, and US$450 million (35 percent) as developmental aid (either in the form of capital assistance or for technical assistance/capacity building).

Donors have by and large stressed that emergency/humanitarian assistance is not at issue in the current debate, and might even be increased to mitigate any hardships for the neediest in Palestinian society accruing from a reduction in other forms of foreign assistance. In addition, in contrast to the other forms of aid, almost all of this assistance is routed through the UN or through NGOs rather than through the PA. Potential aid reductions, therefore, would come from the c. US$800 million provided in 2005 for budget support and developmental aid.

Regarding the provision of aid exclusively through UN and NGO channels, the following points should be

[3] Gross Disposable Income measures all resources available to the economy, including aid transfers and remittances.

[4] In 2005, imports amounted to nearly US$2.8 billion (68 percent of GDP) while Palestinian exports contributed US$600 million in value added (15 percent of GDP).

[5] See www.worldbank.org/ps: *An Interim Assessment of Passages and Trade Facilitation*, February 2006.

[6] The labor flows used in this note exclude East Jerusalem ID holders. Of the 44,800, some 18,800 held valid permits, about 18,600 were clandestine/illegal entrants from the West Bank and another 7,400 were Israeli ID or foreign passport holders.

[7] In the Bank's *Economic Monitoring Report #1* (op. cit.), a total of US$1.1 billion was used. This excluded approximately US$200 million contributed to UNRWA's 'regular' budget (a convention generally observed since the beginning of the Oslo process in order to distinguish additional assistance accruing as a result of the Peace Process).

borne in mind. First, the PA delivers the vast bulk of public services[8]. Second, it would be difficult to ramp up emergency/humanitarian assistance levels quickly if humanitarian flows required new verification procedures; humanitarian delivery potential would also be impeded by the movement restrictions in place today at the borders and inside the West Bank (including those being experienced by donor Palestinian staff)[9]. Third, welfare levels cannot be divorced from PA salary payments; the case for sustaining these during the *intifada* was in part premised on the welfare benefits associated with such transfers[10].

Assumptions Made

Bank staff have modeled four scenarios for the period 2006-8. They do not cover all eventualities, and are thus illustrative in nature.

- For baseline comparative purposes, we have developed Scenario 1: No Abrupt Change. This assumes the resumption of the transfer of revenues, the continuation of the border trade management practices of 2005, and a daily average of 32,800 Palestinian workers in 2006, 20,100 in 2007 and 7,400 in 2008[11]. Aid disbursements are assumed to remain at 2005 levels in 2006, after which they decline gradually.
- Scenario 2: Suspension of Clearance Revenue Transfers, Trade and Labor Restrictions. This assumes that revenue transfers to the PA continue to be withheld, that border trade is further restricted[12], and that permits for Palestinian laborers are reduced considerably faster than under Scenario 1[13]. Aid flows, however, continue as under Scenario 1.
- Scenario 3: Reduced Aid Flows. This assumes that economic policies consistent with Scenario 1, but that donor assistance is reduced. *Budget support* in 2006 is assumed to decrease from US$350 million to US$300 million (OECD contributions decline to US$120 million[14], while overall Gulf/Middle Eastern flows remain almost unchanged). In 2007 and 2008 budget support is assumed to total only US$200 million as OECD support is withheld. *Emergency/humanitarian assistance* is assumed to increase by 20 percent in 2006, to US$600 million, and to peak at US$650 million in 2007. Disbursements of *developmental aid* are assumed to decline from US$450 million in 2005 to US$200 million in 2006 in the face of cut-backs, and to taper off to US$100 million in 2008 as ongoing programs gradually close.
- Scenario 4: Suspension of Clearance Revenue Transfers, Trade and Labor Restrictions, and Reduced Aid Flows. This assumes that all measures described in Scenarios 2 and 3 are applied.

Potential Outcomes

The projections show the following (see the Attachment):

- Even under Scenario 1: No Abrupt Change Palestinian economic prospects are not good. Readers of the Bank's *Economic Monitoring Report #1* may recall that donors targeted a real GDP growth rate of 10 percent per annum in order

[8] In primary and secondary education, the PA employs almost 30,000 staff (64 percent of all education personnel), runs 76 percent of all schools (1,660 of 2,190) and educates 67 percent of all schoolchildren. In health, 11,000 staff are employed to run 62 percent of all health facilities (800 of 1,290). These proportions are significantly more pronounced if refugee camps (in which UNRWA delivers such services) are excluded.

[9] For these reasons, we assume that 2006 emergency/humanitarian aid flow increases are limited to 20 percent as compared with 2005.

[10] See, for example, *Twenty-Seven Months: Intifada, Closures and Palestinian Economic Crisis*, Annex 1, World Bank, May 2003. In 2005, an average of c. 135,000 staff were employed by the PA; using a dependency ratio of 6.0 (the ratio of population to persons employed), this suggests that about 810,000 people, or 23 percent of the population, were directly supported by PA salary payments.

[11] This presumes the termination of all Palestinian labor permits at the end of 2007, but with continued access by West Bank foreign passport holders. The labor figures in this scenario are composed of three elements: a) permit holders (a daily average of c. 18,800 in 2005, which we assume declines gradually in 2006 and 2007 in accordance with stated intentions, to c. 16,100 in 2006 and 12,700 in 2007); b) clandestine/illegal West Bank laborers (a daily average of c. 18,600 in 2005, reduced by half to c. 9,300 in 2006 as the separation barrier is completed, and disappearing thereafter); and c) West Bank foreign passport holders (c. 7,400 throughout).

[12] In Gaza we assume that the management of Karni and Erez will remain significantly more constrained than in 2005 insofar as exports are concerned, though less so in relation to imports. In the West Bank, we assume both a tightening of border terminal management and (complementing this) that the separation barrier is completed in 2006.

[13] We assume that a daily average of c. 6,000 permits is issued in 2006 and 2007, and that clandestine West Bank labor flows average 9,300 per day in 2006 and cease thereafter. West Bank foreign passport holders continue to have access to work in Israel.

[14] Of this, c. US$60 million has been disbursed to date by Norway and the EC (in the latter's case to help the PA pay utility bills owed to Israeli companies), and US$42 million has been disbursed from the Bank-administered Reform Fund.

to rapidly reduce unemployment to acceptable levels[15]. Under this Scenario, however, real GDP per capita growth declines from 6.3 percent in 2005 to 4.9 percent in 2006, and turns negative thereafter. By 2008, real incomes as measured by GDI per capita are 19 percent lower than in 2005, unemployment has grown to 34 percent of the workforce and poverty increases to 51 percent of the population.

- Scenario 2: Suspension of Clearance Revenue Transfers, Trade and Labor Restrictions results in a dramatic contraction in 2006 of real GDP per capita (minus 21 percent), which is comparable to the rate of decline associated with the early *intifada* period (minus 18 percent in 2001 and minus 13 percent in 2002—albeit from much higher base). Under this scenario, unemployment jumps to 35 percent in 2006 and to 45 percent by 2008, with poverty levels reaching 70 percent by the end of the period.
- The impact of a 15 percent contraction in aid flows in 2006 and the decline modeled thereafter under Scenario 3: Reduced Aid Flows is less alarming. Although real GDP growth turns negative in 2006 and real GDI per capita declines by 7 percent more than under Scenario 1, most other aggregates are only marginally worse than under No Abrupt Change.
- Scenario 4: Suspension of Clearance Revenue Transfers, Trade and Labor Restrictions, and Reduced Aid Flows is the most deleterious. Real GDP per capita declines by 27 percent in 2006, and personal incomes (real GDI per capita) by 30 percent—a one-year contraction of economic activity equivalent to a deep depression. Under this scenario, unemployment hits 47 percent and poverty 74 percent by 2008. By 2008, the cumulative loss in real GDP per capita since 1999 has reached 55 percent.

It is also worth noting that continued withholding by GOI of Palestinian revenues under the assumptions in this model would reduce available total budget resources to between US$700-750 million in 2006. This should be compared with the PA's 2006 draft Budget of US$1.9 billion (incorporating a salary bill of US$1.2 billion)[16]. A fiscal outlook of this nature is incompatible with continuity in essential government operations.

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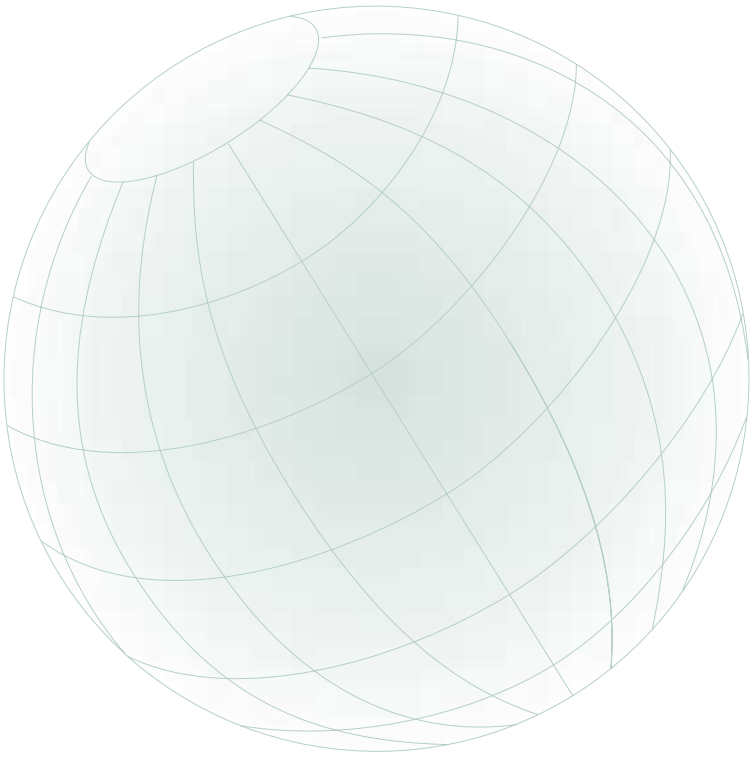
[15] In the Bank's December 2005 projections, strong rates of economic growth were premised on a number of requirements that now appear unrealistic: a major reduction in Israeli closure measures (restrictions on border trade, movement inside the West Bank, movement and trade between Gaza and the West Bank), a maintenance of the relatively high labor flows of 2005 (averaging 45,000 per day), and a significant increase in aid levels (a further US$500 million per annum on average in 2006-8).

[16] Macroeconomic Developments and Outlook in the West Bank and Gaza, prepared by the IMF for the AHLC Meeting, London, December 14, 2005.



Attachment
Illustrative Projections
March 2006 (US$ million)

Assumptions	2005 (est.)	Scenario 1			Scenario 2			Scenario 3			Scenario 4		
		2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
Revenues transferred	740	790	783	778	100	0	0	704	696	689	100	0	0
Revenues withheld	0	0	0	0	489	568	573	0	0	0	422	503	507
Palestinian workers in ISI	44,800	32,800	20,100	7,400	22,700	13,400	7,400	32,800	20,100	7,400	22,700	13,400	7,400
Foreign assistance	1,300	1,300	1,200	1,100	1,300	1,200	1,100	1,100	1,000	900	1,100	1,000	900
Public consumption	1,514	1,551	1,567	1,583	1,243	1,243	1,243	1,514	1,514	1,514	1,071	1,071	1,071
Exports	590	647	681	723	500	540	576	655	690	732	506	547	585
Population (million)	3.51	3.63	3.76	3.88	3.63	3.76	3.88	3.63	3.76	3.88	3.63	3.76	3.88
Inflation (cpi, %)	3.5	2	2	2	2	2	2	2	2	2	2	2	2
Outcomes													
GDP	4,044	4,296	4,272	4,264	3,192	3,110	3,132	4,038	4,006	3,983	2,910	2,835	2,851
GDI	5,815	5,983	5,766	5,560	4,799	4,549	4,429	5,550	5,316	5,085	4,353	4,096	3,959
Private consumption	3,652	3,829	3,837	3,856	3,044	2,947	2,950	3,708	3,721	3,754	2,953	2,792	2,777
Investment	1,022	1,161	1,044	927	588	480	467	861	742	604	405	369	362
Imports	2,734	2,892	2,857	2,824	2,183	2,100	2,104	2,700	2,660	2,622	2,026	1,945	1,944
GDP per capita	1,152	1,183	1,136	1,099	879	827	807	1112	1066	1026	802	754	735
GDI per capita	1,657	1,648	1,533	1,433	1,322	1,210	1,141	1,529	1,414	1,310	1,199	1,089	1,020
Real GDP growth	6.3	4.9	-2.3	-1.7	-18.5	-4.3	-0.8	-0.2	-2.6	-2.1	-24.5	-4.3	-1.0
Real GDP p.c. growth (%)	2.7	1.3	-5.5	-4.9	-21.3	-7.4	-4.0	-3.6	-5.8	-5.3	-27.1	-7.4	-4.2
Real GDI p.c. growth (%)	4.3	-2.6	-8.6	-8.5	-21.9	-10.1	-7.7	-10.2	-9.2	-9.3	-30.0	-10.8	-8.3
Cumulative real GDP p.c. change since 1999	-30.6	-29.7	-33.6	-36.8	-45.4	-49.5	-51.5	-33.1	-37.0	-40.3	-49.4	-53.2	-55.1
Unemployment (%)	23.4	22.4	28.7	34.1	35.5	41.4	44.9	24.2	29.7	34.8	39.6	44.3	47.0
Poverty (%)	44	43	48	51	62	67	70	47	51	55	67	72	74

Scenario 1: No Abrupt Change

Scenario 2: Suspension of Clearance Revenue Transfers, Trade and Labor Restrictions

Scenario 3: Reduced Aid Flows

Scenario 4: Suspension of Clearance Revenue Transfers, Trade and Labor Restrictions, and Reduced Aid Flows.

Land Administration in the West Bank and Gaza

Background

As throughout many areas of the developing world, land and property in West Bank and Gaza (WBG) is a common means of storing wealth. This fact may be especially applicable in WBG since the current situation vis a vis Israel continues to stifle the Palestinian economy and threaten land ownership. Thus, secure land tenure and property rights have a strong historical and cultural significance for Palestinians. For these reasons land titling, registration and efficient administration of public lands are of paramount importance.

However, the atmosphere surrounding land administration in the West Bank and Gaza is problematic for a number of reasons, both internal to the Palestinian Authority (PA) and related to the ongoing conflict. On the PA side, the current system related to land administration remains inefficient and non-transparent, especially in regards to management of public land. The Government of Israel (GOI) maintains responsibility for land administration issues in roughly fifty-percent of the West Bank, including responsibility for zoning and planning. In addition, the issue of land is continually hampered by construction of the Barrier and expansion of settlements.

An Israeli military order issued in 1967 halted all land registration in the West Bank and Gaza. Later, the PA was granted limited jurisdiction in certain areas of the West Bank pursuant to the Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip (Oslo Accords) signed in 1995.[1] The Olso Accords separated the West Bank into Areas A, B and C. Areas A and B correspond primarily to Palestinian urban areas, and the PA has full responsibility for civil matters in both. In Area A the PA also has security responsibility, while in Area B the GOI retains the security mandate.

Civil authority related to land includes registration of land transactions in the land registry, first-time registrations of land and administration of land registry offices.[2] The GOI also retains civil and security responsibilities in Area C, which accounts for roughly fifty-five percent of the West Bank. Though the Oslo Accords provided for the gradual transfer of lands in Area C to Area A or B, such transfers have not taken place. Since the GOI disengagement from Gaza in September 2005, the PA has had full authority over land administration activities in the whole of Gaza.

Registration was carried out systematically on the West Bank by the British and then the Jordanians from 1925, working north to south, but stopped at the time of the 1967 war. Settlement and titling was carried out covering most of the Gaza, but ended in 1948. In Gaza close to ninety percent of land has been surveyed, though the level of surveyed land in the West Bank is considerably lower. Registration rates remain even lower – less than fifty percent in Gaza and thirty percent in the West Bank. Because different registration provisions were enacted in the Ottoman, British, Jordanian and Egyptian periods, each land registry office maintains three sets of registers: Ottoman, British, and Jordanian (West Bank) or Egyptian (Gaza), with transactions registered according to the system in which the land was originally registered.

[1] The Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip, Washington, D.C. (September 28, 1995), Article XI.

[2] Ibid., Annex III (Protocol Concerning Civil Affairs), Article 22.

Land Administration in Areas A and B

Overall, there is a general lack of formally adopted land policy at the national level that establishes a framework for explicit and implicit government intervention in the land sector. This includes addressing matters of law, tenure, public management of land, the environment, gender, and socio-economic and market development. The result of this lack of policy is a *de facto* land policy by the government, the components of which may be either at odds with each other and/or may not necessarily address the current and future needs of the Palestinians.

A national land policy to be developed and adopted with the participation of key stakeholders (citizens, civil society and government) will give these activities the needed coherence and consistency. The national policy will also put in place a set of guidelines to steer the implementation of policy in a consistent and timely manner that addresses the national priorities of the Palestinian people.

The level of land disputes is also problematic, particularly those regarding ownership and land boundaries. It is estimated that such disputes account for roughly twenty-five percent of court cases in the West Bank. These disputes relate primarily to unclear ownership, complex inheritance rules and numerous absentee claimants. To address this situation there is a need for policy, legislative and institutional changes to achieve: efficient procedures for the issuance of land titles; increased registration of property transactions; and development of a transparent mechanism for the management and disposal of public land. There remain a number of obstacles to improved land administration in the West Bank and Gaza. These include: weak institutional capacity to administer land; a non-comprehensive legal framework; and an inefficient and non-transparent mechanism for managing public land.

The primary obstacles to improved land administration in Area A and B include:

- The precise mandate of the Palestinian Land Authority (PLA) remains unclear, though this should be addressed pursuant to the draft *Land Law* currently under consideration by the Palestinian Legislative Council (PLC). The PLA also remains under-resourced.
- The institutional and physical capacity of PA bodies to perform systematic land registration and land management in the West Bank and Gaza remains weak.
- Currently, it is estimated that only about ten percent of all transactions are registered with the PLA. Instead most transactions are carried through irrevocable powers of attorney (IPA) with the assistance of a notary public, a system that has resulted in competing land claims.
- The current legal framework governing land administration includes Ottoman, British Mandate, Jordanian, Egyptian and PA laws and regulations, in addition to GOI military orders. The separate legal frameworks applicable in the West Bank and Gaza have not been harmonized. Though considerable work has been done on a new draft Land Law, several areas in the law remain of concern, in particular those related to eminent domain and confiscation of land.
- The current mechanism for managing and disposing of public land remains inefficient and non-transparent.

Land Administration in Area C

Because the GOI retains civil authority in Area C, GOI-imposed restrictions in regards to land administration remain in effect throughout the area. Area C accounts for roughly fifty-five percent of the area of the West Bank outside of East Jerusalem. The areas in the northern West Bank from which the GOI evacuated settlements remain Area C. These restrictions prevent the registration of Palestinian private land, and have allowed for the requisitioning of various amounts of land for construction of settlements and their related infrastructure. Confiscation of land is made easier by the fact that registration of ownership was limited in the West Bank prior to 1967, and subsequent Israeli measures restricted future registrations. About one-third of land remains unregistered in Area C in the Governorates of Ramallah, Hebron, Qalqilya, Nablus and Tulkarem.

GOI measures and activities in Area C continue to impact Palestinian residents. These include:

- The PA has no legal mandate to undertake land administration activities, including registration of land, in Area C.
- GOI land administration practices in Area C have

made land registration by Palestinians difficult, as noted in a report by the GOI State Comptroller's Office. Unregistered land is at risk of being classified as public land by the GOI and effectively confiscated.

- Considerable amounts of Palestinian agricultural land have been *de jure or de facto* confiscated for establishment of settlements and their related infrastructure. There are few effective remedies available to affected land owners or users. Roughly forty percent of the West Bank outside of east Jerusalem is incorporated into the jurisdictional boundaries of settlements.
- Several aspects of GOI land administration activities in the West Bank have been criticized in reports by the GOI State Comptroller's Office, and a report commissioned by former Prime Minister Ariel Sharon. However, a formal recommendation that no lands be allocated for settlements until a thorough re-examination of the status of the land is conducted has not been implemented.
- GOI officials have never officially released information on the amount of public and private land in Area C.

Land Administration and Disengagement

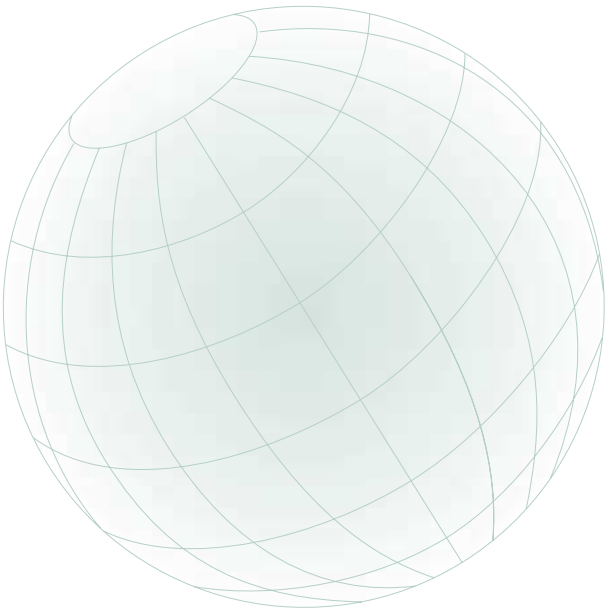
In September 2005, the GOI disengaged from Gaza and four settlements in the northern West Bank. According to the Palestinian Land Authority (PLA), only a fraction of land within the evacuated settlements in Gaza is privately-owned. Of the 24,400 dunums evacuated, over ninety percent is public land. The rest is private or was in the process of privatization under the Egyptian Administration. An additional 20,000 or more dunums were used for security areas around the settlements, most of which is privately-owned.

The percentage of private ownership may be higher for the lands occupied by the settlements in the northern West Bank, though to date the PLA has not produced detailed statistics regarding land ownership in those areas. The land comprising the evacuated settlements in the northern West Bank has not been reclassified from Area C to Area A or B, and thus remain under the civil control of the GOI. Therefore the PA has no ability to register land, nor to undertake zoning and planning activities.

Per a PA presidential decree, private land within the settlements was expropriated by the PA, so that the evacuated areas could be maintained as a whole for planning purposes. Once expropriated the land became public lands. Individuals in the process of privatizing land could be identified from privatization contracts. Once outstanding privatization fees are paid, ownership would be recognized. The land would then be expropriated under the same conditions as for private land. The land in security areas around the settlements, which may consist of an equal amount of land as the settlements themselves, is primarily privately-owned. Such land will remain under private ownership.

Post-disengagement issues affecting land administration include:

- A claims process was to be established to address claims of private property located within the evacuated settlement areas. The PA has not released any information on the functioning of the claims process.
- It remains unclear as to whether land usage rights would be acknowledged and respected.
- No special measures were introduced to provide for the transparent management of public land. Since the draft Land Law has not yet been adopted, an inter-ministerial committee remains responsible for managing and allocating public land. The process by which this is done remains unclear.
- There has been no public accounting of how the public land has been administered since disengagement.



The Role and Performance of Palestinian NGOs In Health, Education and Agriculture

The World Bank and the Bisan Center for Research and Development have recently completed a study on the ***Role and Performance of Palestinian NGOs*** in health, education and agriculture.[1] The study analyzes various aspects of the social service delivery function of NGOs looking at: (i) patterns of utilization; (ii) accountability and management practices; (iii) targeting and participation; and, (iv) quality standards and monitoring. It also reviews the constraints faced by NGOs in accessing donor funding and the level of their cooperation with the Palestinian Authority (PA) and other local partners. The Study draws its analysis on data gathered through two research tools: (a) an NGO survey of 78 independently registered NGOs[2]; and (b) a household survey of 3000 households.[3]

Following are some highlights of the Study's main findings and recommendations:

1) What is the role of NGOs relative to other service providers? The study shows that the relative role of NGOs vis-a-vis other providers varies considerably both across and within sectors, and is to a large extent influenced by the affordability and accessibility of alternative channels of service delivery.

According to the results of the household survey, NGOs account for 11.7% of ***health services*** used by Palestinian households. The rate of utilization of NGO health services is much lower in Gaza (8.1%) than it is in the West Bank (13.3%). These results are consistent with data recently published by PCBS which show that NGOs account for 12.8% of total visits to health care centers[4] and also with the Ministry of Health's data according to which NGOs account for 30% and 31% of primary health care clinics and hospital beds, respectively. In Gaza, NGOs account for only 22% of hospital beds.[5]

NGOs seem to have a particular niche in the provision of specialized health services whereby they account for 25%, 21%, and 19% of services utilized in the areas of mental/psychological counseling, health awareness and training, and physical therapy and rehabilitation, respectively.

The results of the household survey also show that only 29% of Palestinian households send their children to ***pre-school***. Of those, 21% use NGO services. For ***vocational training*** and ***informal education***, NGOs account for 25% and 38% of total services utilized, respectively.

In ***agriculture***, the number of households reporting utilization of NGO services was bigger than the total reported for Government and private sector combined, making NGOs accountable for up to 50% of services utilized in the sector. NGOs appear to be particularly relied upon for provision of in-kind subsidized materials and land reclamation services.

[1] The Study is scheduled to be published in April 2006.

[2] The sampling included all registered Palestinian NGOs with a mandate in health, education and agriculture (definition of NGOs used excluded cooperatives, unions and youth clubs). According to PCBS, the total number of such NGOs was 353. The final sample of 77 NGOs consisted of 43 NGOs specializing in health; 19 in education; and 15 in agriculture. The sample was biased towards large and medium-sized NGOs.

[3] The field work for the two surveys was carried out by *Alpha International for Polling, Research, and Informatics* between March and August 2005. [4] PCBS, Health Care Providers and Beneficiaries Survey – 2005 Preliminary Results, February 2006.

[5] MOH/Health Management Information Systems Annual Report, 2003.

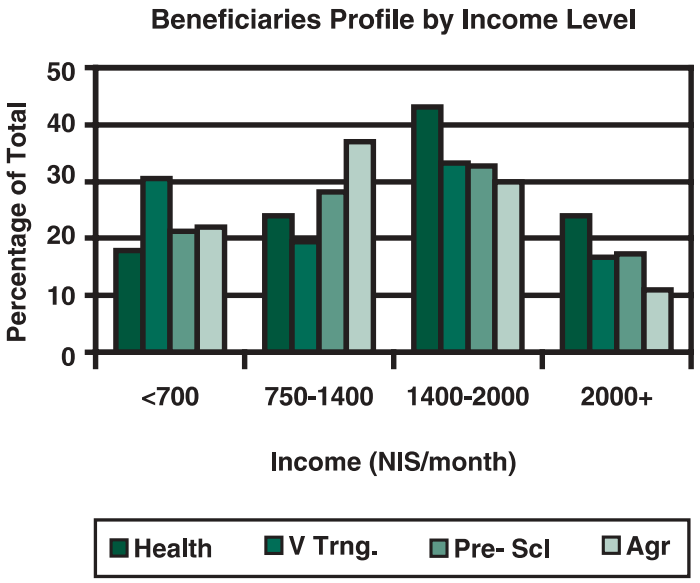
The World Bank Group

Rates of Utilization of Agricultural Services by Provider

	NGO			Governmental			Private		
	WB*	GS*	Total	WB	GS	Total	WB	GS	Total
Irrigation	28.6	26.3	27.7	21.2	4.5	14.5	0	14.3	8.8
Credit Loans	14.3	10.5	12.9	9.1	81.8	38.2	53.8	42.9	47.1
Land Reclamation	28.6	52.6	37.6	15.2	31.8	21.8	15.4	71.4	50
Veterinary Services	28.6	18.4	24.8	15.2	13.6	14.5	7.7	28.6	20.6
Training	17.5	42.1	26.7	21.2	9.1	16.4	0	23.8	14.7
In kind subsidized materials	42.9	57.9	48.5	63.6	68.2	65.5	23.1	76.2	55.9
Agricultural road rehabilitation	12.7	31.6	19.8	15.2	36.4	23.6	0	38.1	23.5
Marketing	4.8	2.6	4	6.1	0	3.6	38.5	71.4	58.8
Import/Export	0	5.3	2	0	0	0	0	66.7	41.2
Raw Materials Purchases	9.5	36.8	19.8	9.1	31.8	18.2	15.4	57.1	41.2

* WB- West Bank, GS=Gaza Strip

Who are the Beneficiaries of NGO Services? As the chart below shows, with the exception of users of agricultural services, more than 50% of beneficiaries of NGO services have reported an income level of NIS 1400-2000/month. NGO health services, in particular, seem to be largely utilized by households with relatively higher income levels. This could be attributed to the fact that the PA has in recent years extended health insurance coverage, providing free health services to a large segment of the population.



In education and agriculture, NGO services seemed to be more accessible to households with limited income. More than 50% of the beneficiaries of NGO services in these sectors reported an income of less than NIS 1400/month. In pre-school education, NGOs seem to have also found a particular niche in targeting rural communities where they account for almost a quarter of pre-school education services, as compared to only 13.3% in urban centers.

When asked about their targeting policies, only 10%, 11% and 43% of NGOs working in health, education and agriculture (respectively), confirmed that they targeted their services towards households/individuals with limited income. On the other hand, all of them identified poverty/income level as one of the important criteria for beneficiary selection. NGO targeting towards specific vulnerable groups – e.g. the disabled, youth, children/ women was more frequently reported.

3) Vertical vs. Horizontal Accountability. The accountability of Palestinian NGOs was investigated through their reporting and dissemination practices, the role of their Board of Directors and their monitoring and supervision of grant-financed projects. By and large, NGOs confirmed more consistency in vertical reporting and dissemination to their Board of Directors, the PA and financing donors, than they did towards the public – the communities they served, other NGOs and local authorities. According to the survey results, 93% and 73% of NGOs reported that they prepare annual activity and financial audit reports, respectively. In more than 70% of the cases, NGOs submitted both these reports to their Board of Directors, Ministry of Interior and financing agencies. However, less than a third confirmed distribution of financial reports to local

partner organizations, municipalities/village councils, and local community leaders. Only a quarter published their financial audit reports on their websites. Although these indicators are not a sufficient basis for assessing the extent to which Palestinian NGOs feel accountable towards their constituencies, they do point to the need for wider-based accountability.

Most NGOs reported an active functioning of their Boards, both in terms of regularity of meetings and alignment with the NGO Law. However, there was some ambiguity with respect to the roles of various administrative layers in approving financial reports and selecting auditors. Although the NGO Law stipulates that these functions be maintained at the level of the General Assembly, they are often delegated to the Board/Executive Directors, raising a potential problem of inadequate financial accountability.

4) Quality Standards and Monitoring. NGOs generally use a wide range of tools for monitoring the quality and impact of their services. However, there is an absence of harmonized service quality standards, making it difficult to monitor the quality of services across sectors. For example, in education, a third of NGOs surveyed obtained their service standards from donors. Only a few use UNESCO or Ministry of Education standards. Furthermore, although the level of monitoring by the NGOs was reported to be high, there was little evidence of regular monitoring/ inspection by the specialized ministries. In health, only a third of surveyed NGOs report to the Ministry of Health on their medical records. When asked to report on the last monitoring visit by the Ministry of Health, 77% of NGOs declined to answer and 8% confirmed that it was never done.

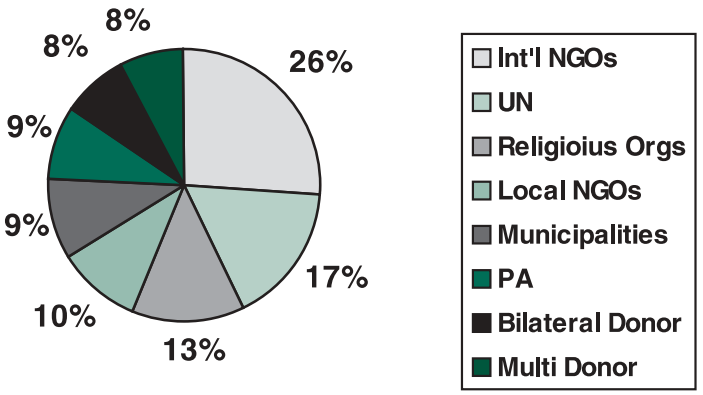
Very few NGOs reported having the capacity to monitor impact according to clearly identified benchmarks. At least two-thirds of the NGOs use formal evaluations and impact assessments as important tools for monitoring impact. However, when asked about the results of their work, NGOs reported on outputs and only the large NGOs had the capacity to document and monitor the results of their evaluations. While the majority of NGOs have a fee structure, in the majority of cases these fees were established by the organization itself. Only two of the 63 NGOs working in health use the fee structure of the Ministry of Health.

5) Beneficiary satisfaction with NGO services: Households generally reported a high/very high rate of satisfaction with NGO services. The rate of satisfaction was highest in the ***health sector***. When households were asked whether they would choose to receive their health services from an NGO or a government provider (financial cost being constant), 60% confirmed that they would choose the NGO.

In ***pre-school education***, households were equally satisfied with private and NGO services. Although households reported a high level of satisfaction with vocational training services offered by NGOs, this was not supported with an equally positive reporting on impact. Only 25% of those receiving vocational training from an NGO confirmed that the training has helped them find a job. By contrast, 57% of beneficiaries of private vocational training confirmed that the training helped them find a job.

Overall, the overall rate of satisfaction with the quality of ***agricultural services*** was not as high as that reported in the other sectors. Nevertheless, it was highest amongst the beneficiaries of NGO services, 67% of whom reported that the quality of the service they received was good or very good.

6) Funding Patterns Facing Palestinian NGOs. Palestinian NGOs are heavily dependent on donor funding. However, several of the larger NGOs seem to have successfully expanded their local revenue base through service fees and income-generating activities. Funding by international organizations and donors is skewed to the larger NGOs, largely on account of stronger capacity and wider coverage. Access to donor funding is complex and donor granting policies seem to lack transparency. When NGOs were asked about how they learnt about the last grant they received, 48% reported having known about the grant through a contact with an employee of the donor agency; 33% were directly invited by the donor to submit a proposal; and 25% learnt about the grant through a public announcement. In more than 50% of the cases, the duration of the last grant reported was less than six months, implying constraints on the ability of the NGOs to undertake longer-term planning.

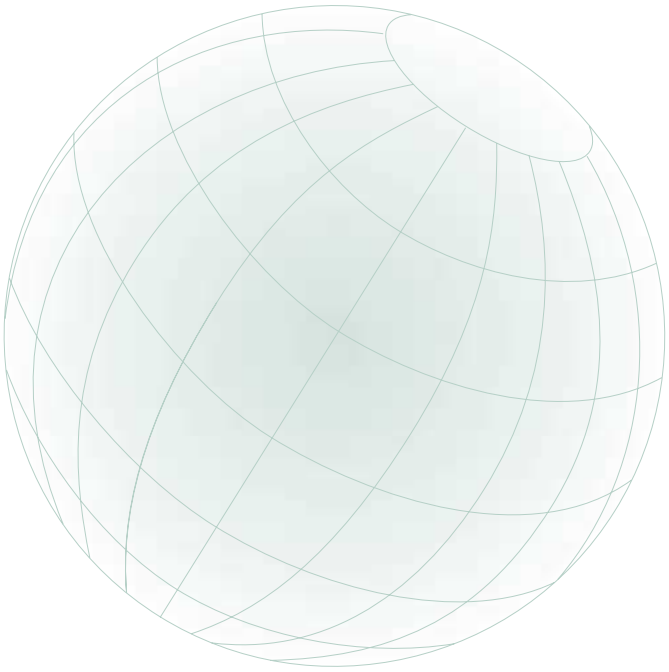


Survey data also revealed that sub-contracting was another important funding channel for NGOs. The PA and local private organizations accounted for the largest share of contracting agreements, followed by international organizations.

7) Cooperation with the PA and other Local Partners: The survey results revealed a high level of cooperation between NGOs and the PA. However, less than 25% confirmed participation in policy and sector planning. Most NGOs (73%) described the role of the PA as "supportive", 6.5% viewed the PA's role as "obstructive" and 13% characterized it as both. The forms of support most commonly reported involved the provision of funding, tax exemption, and sub-contracting. Only 38% of NGOs reported having formal relationships with local governments/ authorities.

The Report's Main Recommendations:

- Taking into account the current socio-economic situation, and the increasing needs of Palestinian communities, NGOs should receive an adequate level of financial and technical support to strengthen and sustain their role as complementary service providers. In view of the scarcity of resources, however, financial support to NGOs should be based on a careful and comprehensive review of existing capacity within the entire system of service delivery and an identification of the comparative advantage of the various providers. This will contribute to greater efficiencies in the system and support longer-term sustainability.



- The PA and NGOs need to collaborate towards developing appropriate quality and performance standards for service delivery. In parallel, efforts to strengthen the monitoring function of the specialized ministries should be sustained and further intensified.
- NGOs need to be supported towards adopting improved targeting policies and mechanisms to ensure that their services are accessible to the poorest and marginalized communities. Given the particularly high rates of poverty in Gaza, NGOs should be encouraged to expand their presence there, complementing the role of PA institutions and UNRWA..
- Given their important role as representatives of civil society, Palestinian NGOs need to actively engage in broadening their constituency base with civil society institutions and grassroots based organizations. This process should be accompanied by an activation of the NGOs advocacy role for more equitable and inclusive social policies.
- Palestinian NGO networks and umbrella organizations need to intensify their efforts towards enhancing accountability practices through voluntary mechanisms and the adoption of a broadly accepted NGO code of conduct. On its part, the PA should activate the by-laws approved by the Cabinet in order to remove existing ambiguities surrounding the NGO Law. This will contribute significantly to more transparency and improved performance in the sector.
- Opportunities for NGO partnerships with local partners, in particular the local governments, should be more actively explored, possibly through joint funding mechanisms. These are critical elements for the long-term sustainability of NGOs.
- Donors should explore more program-based and multi-year funding, using harmonized procedures and adequate fiduciary tools. Such programs should incorporate elements of institutional building that would strengthen the capacity of NGOs in defining their programs, based on beneficiary needs. This will, both, contribute to more effective and sustainable programs while strengthening NGO legitimacy vis-à-vis their constituencies.
- The PA and donors should consider NGO representation on aid-coordination structures to ensure more harmonization in donor-financed institutional building and development efforts.

Prepared by the World Bank Technical Team, February 28, 2006

An Interim Assessment of Passages and Trade Facilitation / February 2006

Background

It has been widely acknowledged that the future economic viability of the Palestinian economy depends on the creation of a trade logistics system which permits the safe, reliable and competitively-priced movement of people and cargo. This system has been described, at length, in a number of World Bank reports beginning with the December 2004 report to the AHLC, "Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects" which was broadly endorsed by the international community, the Palestinian Authority (PA) and Government of Israel (GoI) at a meeting in Oslo in December 2004. This and subsequent reports are available on the World Bank's website for the West Bank and Gaza (www.worldbank.org/we).

The creation of a functional trade logistics system for the West Bank and Gaza requires addressing four inter-related types of movement:

- Movement across the Gaza/West Bank-Israel borders, either to Israel or through Israel to third countries via Israeli sea and air ports.
- Internal movement within West Bank.
- Movement between Gaza and the West Bank.
- Direct access to third countries, via land borders (to Egypt and Jordan), by sea and by air.

Throughout 2005, the two governments, with technical support from the international donor community, sought to replace the current system--which is unilaterally managed, grounded in security considerations and based on the inefficient "back to back" system of cargo handling--with one that is cooperatively managed and ensures a proper balance between Israel's legitimate security requirements and Palestinian economic needs.

The various Bank papers written on border management over the past 15 months stress that there is no basic contradiction between these two objectives: **a judicious mixture of modern management and the use of new scanning technology will make it possible to create a regime that provides both high levels of security and commercial efficiency, and thereby is of benefit to all parties**. Elements of such a regime were incorporated in the *Agreement on Movement and Access* brokered by the US Secretary of State in November 2005. However, as of the writing of this update, very little has been implemented **and the system that exists today is virtually unchanged from that which existed in December 2004.**

This note summarizes the status of the movement of people and goods, with a particular emphasis on Gaza. This is a summary note; a more detailed analysis will be provided in the context of the Bank's update of "The Palestinian Economy and the Prospects for its Recovery" expected in April 2006.

Movement of Goods and People in Gaza

The Karni crossing, the only existing crossing for the export and import of goods serving Gaza's 1.4 million people, has evolved through a turbulent period in bilateral relations from a gated gap in the Gaza perimeter to today's complex and inefficient facility. Physically and procedurally, Karni is a culmination of *ad hoc* responses to specific incidents, terrorist attacks, and policy shifts.[1] As the Bank has expressed in earlier reports, remedying the current arrangements requires a thorough procedural and physical reform.

- Karni represents a serious physical barrier to Palestinian trade, embodying a design that introduces unnecessary delays, inflicts damage on goods, and severely limits the throughput of cargo.[2]
- It acts as a significant non-tariff barrier to trade, as a result of controls and processes which (a) make it difficult for Palestinian exporters and importers to avoid using Israeli middlemen and traders,[3] (b) discriminate against goods entering from the West Bank and exiting Gaza,[4] and (c) oblige Palestinian importers and producers to pay Israeli truckers to sit idle for long periods at the crossing.
- According to reports from shippers and producers, it has led to financial inefficiencies on both sides of the border as a consequence of the lack of clear and predictable procedures. This outcome can be expected in any situation in which the volume of trade is heavily controlled, and procedures are altered with little or no notice.
- It uses a "one size fits all" approach to inspection. This is incompatible with both modern security procedures and efficient cargo management.

The problems at Karni are related first and foremost to management and process. USAID has recently procured for the Government of Israel several millions of dollars worth of new scanner technology and supporting infrastructure which is being installed on the Israeli side of the wall. However, despite this newest technology, the design and flow, as currently configured, is based on maintaining the back-to-back system and may, in fact, require ***an additional layer*** of handling through the new scanners after passing through the first offloading into the current scanners and inspection cells.[5] GoI plans for new crossings on the West Bank (such as the one at Tulkarm/ Shair Efraim) appear to reinforce the back-to-back system despite evidence that, from a commercial perspective, this system as currently implemented constitutes a virtually insuperable impediment to competitive cargo movement. As the Bank and others have argued on many occasions, the purchase of additional scanners and other equipment will not remedy the current situation unless they are deployed within a fully-managed system.[6] There is no evidence that such a system is being developed; rather there appears to be continued resistance to the publication of service standards, procedures and fees and limited progress in terms of developing clear operating procedures which are shared between cooperating parties on both sides of the border.

The PA has compounded these problems by being slow in establishing its own unified border services agency. Such an organization is necessary in order to ensure efficient and secure border management and would significantly bolster the PA's ability to assume responsibility for the management of a port, airport and land borders with third countries. These benefits would result from having a single national entity responsible for the delivery of integrated services including the uniform application of laws and

[1] Recently, press reports have suggested that GoI is considering making Karni an "international crossing" which would mean an abrogation of the existing quasi-customs union put in place under the Paris Protocol.

[2] Everything is offloaded and passed through an opening in the border wall, or placed on the ground in clearing cells at the wall before being reloaded onto trucks on the other side of the wall. Moreover, all goods are handled in close proximity and without separation by cargo type--meaning that dirty cargoes (gravel and live animals, for example) are handled where they can contaminate agricultural and consumer goods.

[3] Many Palestinian producers have no dependable means of ensuring onward transport of goods once they cross into Israel, or of imported goods before they reach Gaza. To ensure market access, Palestinian producers and importers are thus heavily reliant on Israeli middlemen to clear landed goods and to ensure that exports leave Israel to third country markets.

[4] Goods exiting West Bank and headed to Gaza have already undergone a back-to-back procedure when leaving the West Bank and entering Israel. There does not appear to be a security-related reason to hold these cargoes at Karni before they enter Gaza as the trucks, drivers and cargoes have been free to move about inside Israel. Products loaded in Israel do not undergo a security inspection prior to reaching Karni, but are given preference on arrival there.

[5] The new system is not yet functional so operations could not be evaluated by the Bank.

[6] The shortcomings of modern equipment operating in a procedural vacuum are demonstrated by the failure of the truck scanner introduced at Karni in the first half of 2005 to improve the flow of cargo. The scanner, financed by the PA, was installed on the Israeli side of Karni. Rather than using it to accelerate the secure clearance of goods, it has been used to inspect empty containers exiting Gaza ---a process which could be done more quickly using less costly methods (i.e. laser technology).

regulations, and maintaining key relationships with the private sector, Israeli customs and border security, and with foreign border services agencies.

Despite extending operating hours and a commitment in the *Agreement on Movement and Access* to raise productivity at Karni to 150 trucks a day by December 31, 2005, the Karni operation remains mired in the same processes and problems described above. Data provided by Paltrade, a Palestinian private sector organization which has monitored the flow of trucks across Karni since June 2005, suggests that there has been **no sustained improvement** in the movement of goods across Karni before or after the disengagement. According to Paltrade and the Office of the Quartet Special Envoy, **in the six months preceding disengagement, an average of 43 trucks per day crossed out of Gaza, followed by 18 trucks a day in September and October 2005. From November 2005 to mid-February, the daily average flow again reached only 43 a day**.[7]

While there were certain weeks when the truck flow was in excess of 60 a day (still well below capacity according to World Bank calculations), the Karni crossing was completely closed from January 15 to February 5.[8] Given the high demand during this period for agricultural exports, the losses to the Palestinian economy have been substantial. Estimates by USAID contractors for the week of January 23-29 alone was some US$4.1 million for agricultural goods. Estimates by Paltrade were that losses to Palestinian exporters were some US$10.1 million from January 15-February 3. Losses to the Israeli economy for food and other imports destined for Gaza, as well as for Israeli fashion and textile producers who use Gaza workshops for piece work and product finishing, will also have been substantial although estimates have not been made. Moreover, such wide disparity in daily truck flow numbers demonstrate that movement remains extraordinarily ***unreliable and unpredictable*** – and therefore a strong disincentive in terms of attracting and promoting private sector investment in Gaza. As of the writing of this note, Karni has once again been closed (as of February 23).[9]

The Palestinian controlled Rafah terminal could offer an alternative to Karni for some direct exports to third countries (i.e. without the need to go through Israel) and the Agreement on Movement and Access allows exports to leave Rafah. A number of Palestinian exporters have sought to move goods through the Rafah terminal. In practice, however, this has not been possible. Anecdotal evidence suggests that efforts have been made to prohibit empty Egyptian trucks from entering the Rafah terminal in order to take products out, while GoI would prohibit any Palestinian truck leaving Rafah in order to take products across into Egypt (even if traveling only to the Egyptian side of the border to transfer goods to an Egyptian truck) from reentering Gaza. As Rafah is currently the only border terminal controlled by the PA, however, it is worth exploring the development of new supply chains that would take Palestinian goods to third country markets by transiting through Egyptian ports.

In terms of the movement of people, there have been significant improvements for Palestinian travelers entering and exiting Gaza to Egypt. According to data provided by the Office of the Quartet Special Envoy, travelers through the Rafah crossing have increased from a daily average of some 580 for the period January-June 2005 during which Rafah was under Israeli jurisdiction, to a daily average of about 1360 in the period November 2005-February 2006 when Rafah was transferred to the Palestinian Authority with oversight by EU monitors (EU BAM). According to the EU BAM, the 100,000th traveler to cross through Rafah under these new arrangements was recorded on February 7, 2005. It appears that Rafah operations are fully meeting passenger demand.

At the same, there has been relatively little change in the daily flow of workers and businessmen through the crossing at Erez into Israel. Since November, the average number of workers and businessmen entering Israel through Erez has averaged 1284 a day, compared to 1841 a day in the January-June 2005 period.[10] While for most periods, the daily flows were nearly the same as the immediate pre-disengagement (approximately 1925 daily),

[7] This includes data collected through 17 February.

[8] GoI closed the crossing in response to what it said was evidence of a tunnel. In response, the PA undertook digging operations but the nature of this threat was not resolved. The crossing was subsequently reopened after twenty days, but operations have been hampered by the damage to the area caused by the search for the tunnel.

[9] GoI claims that there were tremors which might have been related to tunnel activity. The Palestinian side of the terminal says that there is no evidence of this and that they had already undertaken digging at the terminal at the request of GoI during the January/February closure. GoI has offered the possibility of moving goods through Kerem Shalom at the southern end of Gaza. The PA has refused on the basis that the closing of Karni is unwarranted and against the provisions in the *Agreement on Movement and Access*.

[10] Data provided by the Office of the Quartet Special Envoy.

Erez also suffered from periods of complete closure such as during the last week of December and most of January. The number of workers remain far lower than the amount committed to by GoI in February 2005 when indications were that 15,000 permits would be available in order to provide short-term stability to the Palestinian economy.[11]

Connecting Gaza and the West Bank

The economic and social connections between Gaza and the West Bank have been largely severed since the beginning of the *intifada*; apart from permits given to a limited number of businessmen and high level officials, very few West Bank residents are able to visit Gaza and vice-versa. Cargoes transiting between one part of WBG and the other are subject to two back-to-back procedures and long delays, particularly when entering Gaza, rendering Palestinian products non-competitive compared to imports from Israel. Moreover, in periods when Israel closes access to and from Gaza as they have at present, the absence of a permanent link between Gaza and the West Bank means that producers cannot even sell goods into the whole domestic Palestinian market.[12] As a result, merchandise flows between the two Palestinian territories are minimal. In December 2004, the Bank pointed out that "an unfettered flow of people and goods between Gaza and the West Bank is needed to link the two territorial elements of the Palestinian economy, and to lay the basis for viable statehood. A functioning link would create a larger effective internal market, help trigger price and income convergence between Gaza and the West Bank and provide a pathway from the economy of the West Bank to a future seaport in Gaza." *The Agreement on Movement and Access* promoted this view with a commitment to begin bus convoys between the two territories for passengers by December 15 and truck convoys for goods by January 15. Both deadlines have passed, however, without these commitments being met.

In terms of a permanent link, Bank staff prepared a brief note on the issue in a June 19 paper entitled *"The Gaza/West Bank Link—Rail vs. Road"*. With USAID, the Bank is sponsoring a feasibility study of various options, including sunken road and rail options, for establishing a secure, economically viable, permanent link between the two Palestinian territories. Results from this study are expected in April 2006.

Internal Closure

Israel's disengagement has left Gaza free from internal closure, greatly improving the situation that prevailed during the *intifada*. The same, however, has not happened in the West Bank. The future status of the system of checkpoints and roadblocks in the West Bank remains unclear.[13] The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) regularly monitors and reports on the status of these obstacles. According to OCHA, the number of fixed obstacles had been reduced from 680 in November 2004 to some 396 in November 2005. However, this number has increased by nearly 100 to 484 as of February 2006. Moreover, the number of *manned checkpoints*, which constitute the most serious form of physical impediment to economic activity, has remained relatively constant -- 62 in November 2004, 52 in August 2005, 55 in November 2005 and 58 at present.

This is a summary note. A fuller assessment will be included in the World Bank's Economic Monitoring Report to the Ad Hoc Liaison Committee which is being prepared in April 2006.

[11] In discussions with the Bank in late 2004, GoI indicated that in the near-term Israel would issue 15,000 permits to Gazans and 20,000 to West Bankers. This understanding was reconfirmed to the Bank in February 2005 (see "The Palestinian Economy and the Prospects for its Recovery", December 2005).

[12] For example, because of the closure of Karni for much of January and February, the Gazan market is flooded with produce which was destined for Israel and third country markets beyond. This produce could be sold profitably into the West Bank market if there was a means for it to reach the West Bank such as through the use of truck convoys.

[13] On the eve of the *intifada*, there were approximately one dozen checkpoints in the West Bank (most of them around Jerusalem); by 2003, the number of obstacles of all kinds exceeded 700. This resulted in the severe fragmentation of the West Bank. These obstacles also block access to many of the main roads in the West Bank, which are now partially or wholly restricted for use by Israelis (the military and settlers). The Bank is currently finalizing a report on the settlements and movement in the West Bank which will analyze this situation further.

Recent Economic Developments

Economic Output

Recent economic data from a variety of sources (Palestinian imports from and exports to Israel through the fourth quarter of 2005; Palestinian employment data through the fourth quarter of 2005 and in Israel through June; banking sector data through end-October; fiscal data through end-2005; price data through February 2006) suggest that the economic recovery that began in 2003 continued through the year. Growth had been particularly robust in the first half of 2005 – particularly in employment. However, with the imposition of strict closure during the removal of Israeli settlements from Gaza and the lack of a "Disengagement Dividend" due to their continuation through the remainder of the year, economic growth slowed considerably. Continued restrictions on movement between Gaza and the West Bank and, in particular, on goods both to and from Gaza through Israel, as well as likely reductions in the number of Palestinian workers granted work permits for inside Israel, suggest that future growth prospects are quite fragile. Furthermore, economic performance in 2006 is extremely vulnerable to suspensions in the transfer of clearance revenues by the Government of Israel and by reductions in foreign assistance to the Palestinian Authority from the international donor community. Under such a scenario, economic growth would again turn negative, falling at rates similar to those witnessed during the early years of the *Intifada*.

In March 2006, World Bank staff undertook an analysis of the potential macroeconomic impact of a number of measures currently under active consideration by the Government of Israel and by the donor community. (Indeed, some of these measures are already under implementation; see below.) For comparative purposes, a "No Abrupt Changes" Scenario was also modeled. Essentially this involves a continuation of policy measures already in place at end-2005, including the current restrictions on trade and internal movement and the continued reduction in the number of Palestinians granted work permits for inside Israel and Israeli settlements. Under this scenario, Palestinian economic prospects are not good. In the past, the World Bank has estimated that annual growth rates in real GDP on the order of 10 percent were necessary to rapidly reduce unemployment and bring poverty rates to acceptable levels. Here, however, real GDP growth rates fall short of the 10 percent target, declining from 6.3 percent in 2005 and 4.9 percent in 2006 to negative rates the following years. By 2008, real incomes as measured by GDI per capita are 19 percent lower than in 2005; unemployment has grown to 34 percent of the workforce; and poverty rates increase to include 51 percent of the population. (*Table 1*).

Table 1. Macroeconomic Projections 2005-2008"No Abrupt Changes" Scenario

	2005	2006	2007	2008
GDP (US$ million)	4,044	4,296	4,272	4,264
real growth rate	6.3%	4.9%	-2.3%	-1.7%
GDP per capita (US$)	1,152	1,183	1,136	1,099
real growth rate	2.7%	1.3%	-5.56%	-4.9%
GDI per capita (US$)	1,657	1,648	1,533	1,433
real growth rate	4.3%	-2.6%	-8.6%	-8.5%
Unemployment Rate	23%	22%	29%	34%
Poverty Rate	44%	43%	48%	51%

World Bank staff projections, March 2006. Gross Domestic Product (GDP) measures productive activity within West Bank and Gaza; Gross Disposable Income (GDI) measures total income, including workers' remittances, foreign aid, and other current transfers.

Table 2. Macroeconomic Projections 2005-2008 "Suspension of Clearance Revenue Transfers, Trade and Labor Restrictions, And Reduced Aid Flows" Scenario

	2005	2006	2007	2008
GDP (US$ million)	4,044	2,910	2,835	2,851
real growth rate	6.3%	-24.5%	-4.3%	-1.0%
GDP per capita (US$)	1,152	802	754	735
real growth rate	2.7%	-27.1%	-7.4%	-4.2%
GDI per capita (US$)	1,657	1,199	1,089	1,020
real growth rate	4.3%	-30.0%	-10.8%	-8.3%
Unemployment Rate	23%	40%	44%	47%
Poverty Rate	44%	67%	72%	74%

World Bank staff projections, March 2006. See also note to Table 1.

This however, is neither the "worst case" nor "most likely" scenario. At present the Israeli Government has withheld clearance revenues (import tariffs and VAT collected by Israeli customs on behalf of the Palestinian Authority); tightened border closures and is considering a further reduction in the number of Palestinian workers' permits issued. At the same time, donors are considering reductions in their foreign assistance transfers to the Palestinian Authority, possibly eliminating budget support altogether.

Under this scenario, real GDP per capita declines by 27 percent in 2006 and personal incomes (real GDI per capita) by 30 percent – a one-year contraction of economic activity equivalent to a deep depression. Further declines the next two years bring unemployment to 47 percent and poverty to 74 percent by 2008. By 2008 the cumulative decline in real GDP since 1999 would reach 55 percent (*Table 2*).

Thus, the short-term economic prospects for West Bank / Gaza depend critically on a number of crucial decisions by all parties; only time will tell which of the two scenarios outlined above ends up being the more accurate predictor. *(For further information regarding these scenarios and their underlying assumptions, see "Economic Update and Potential Outlook", World Bank, March 15, 2006. This report can be found on page 3).*

Foreign Trade

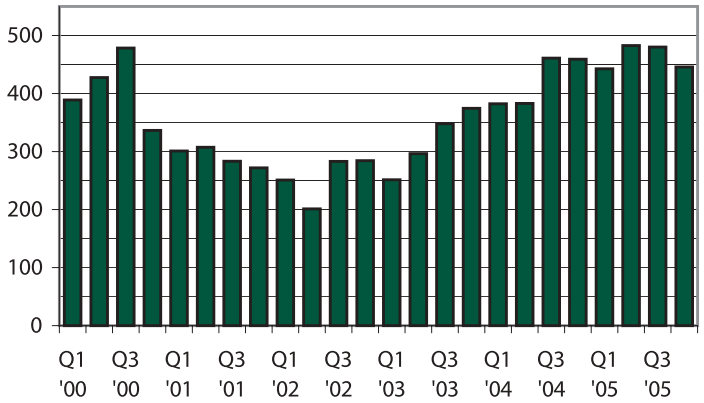
The importance of trade in promoting economic growth has been demonstrated time and time again, particularly for small, developing countries. For West Bank/Gaza, international trade is already important and is destined to play an ever increasing role in the future. During the past six years, imports of final goods, services, equipment, and intermediate inputs used in domestic production represented approximately 70 percent of GDP, while exports of goods and services represented between 15 and 20 percent of GDP. Such a large degree of openness is not without risk, however, leaving West Bank/Gaza vulnerable to external closure imposed by the Israelis – thereby cutting off this vital lifeline to the outside world.

Unfortunately for statistical analysis, trade is badly registered since most of it takes place between the West Bank and Israel where no customs stations exist to record the quantity and value of goods that cross (unlike trade between Gaza and Israel which can be counted). Nevertheless, the Israeli Central Bureau of Statistics estimates such flows, and we rely on their data to help understand the evolution of trade since 1998. Although ICBS estimates only cover Palestinian trade with Israel and not directly with the rest of the world, trade with Israel represents the bulk of total Palestinian trade.[1] Furthermore, significant shares of imported goods from Israel are actually originating from third countries – "indirect imports".

The impact of closures that followed the outbreak of the Intifada in September 2000, and their progressive tightening through summer 2002, was clearly reflected in the reduction of Palestinian trade with Israel. Merchandise imports, which had reached their peak in third quarter 2000 at NIS 1.9 billion (US$478 million equivalent), fell below the NIS 1 billion level (US$201 million) in second quarter 2002. From that point on, import growth was consistently steady, averaging NIS 2.1 billion (US$463 million) for each of the four quarters of 2005. Import growth was particularly strong in 2004 (over 30 percent); by the second half of that year, Palestinian imports from Israel had fully recovered to their pre-*Intifada* level – and continued to evidence further growth (10 percent) in 2005 (*Figure 1*).

[1] In 2002, exports from West Bank/Gaza to Israel represented 90 percent of total exports, while imports from or via Israel amounted to 98 percent of total Palestinian imports. (Approximately 55 percent of these imports were of Israeli goods, with the rest coming from third countries.)

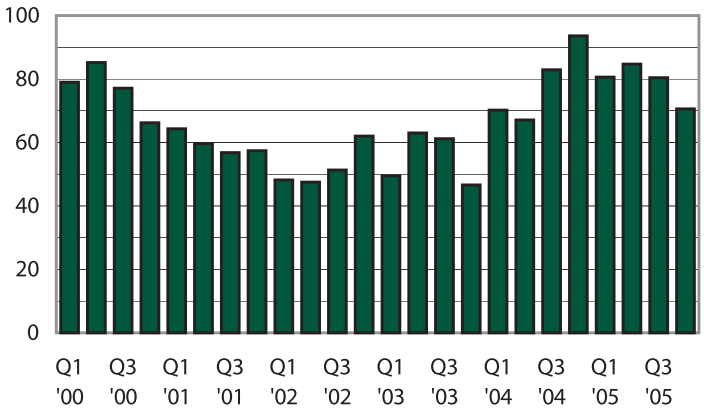
Figure 1. Merchandise Imports from Israel (million US Dollars)



Source: Israeli Central Bureau of Statistics

Trends in merchandise exports to Israel have followed a somewhat similar trend, although at much lower levels. Averaging approximately NIS 325 million (US$80 million equivalent) in pre-*Intifada* 2000, exports decline steadily through summer 2002 before rebounding in the second half of that year and in 2003 – only to hit their low point in the fourth quarter 2003 at NIS 207 million (US$47 million). As with imports, 2004 saw very strong growth – over 40 percent compared to 2003; although essentially flat in 2005, trends by year-end were again pointing downward. Nevertheless, at NIS 330 million (US$71 million) exports to Israel during fourth quarter 2005 remained above the pre-Intifada third quarter 2000 level. (*Figure 2*).

Figure 2. Merchandise Exports to Israel (million US Dollars)



Source: Israeli Central Bureau of Statistics.

At least three factors explained the reduction in exports witnessed during the first three years of the *Intifada*: increased costs in transportation resulting from internal closure made Palestinian products less competitive (*see Figure 14*); in the face of production and shipping interruptions due to both internal and external closure, foreign purchasers switched to more reliable, alternative sources of supply; and Palestinian producers switched to service domestic markets. Although the closure regime remained in place in 2004, its administration by then had become far more predictable – a key factor in the economic recovery of these years. One part of this recovery was a greater ability for Palestinian manufacturers to begin providing goods to the Israeli market (although their total value still remained small, dwarfed by Palestinian imports). Looking forward, the degree of external access permitted by the Israeli authorities – particularly out of Gaza – will determine whether the slow, but steady, decline in exports witnessed in 2005 will continue or if export growth rates can be increased and sustained.

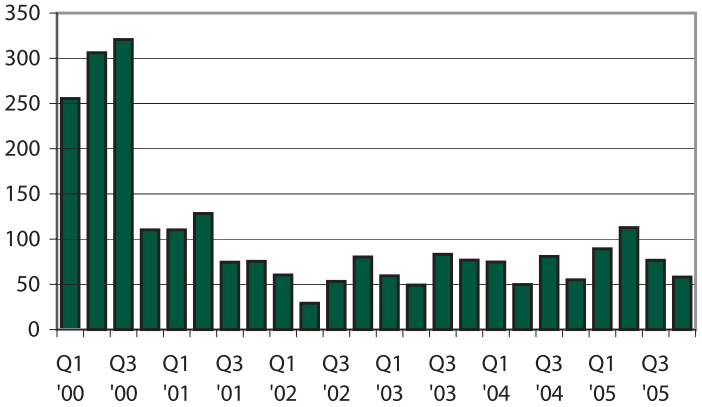
Employment and Unemployment

As a result of external closures nearly 100,000 Palestinian workers have lost their jobs in Israel since September 2000. According to Palestinian Central Bureau of Statistics (PCBS) data, 146,000 Palestinians (116,000 from the West Bank, incl. East Jerusalem, and 30,000 from Gaza) were working in Israel and Israeli industrial estates and settlements during the third quarter 2000. At its low point during the second quarter of 2002, this number had fallen to 33,000 before rebounding in the following quarter to 53,000; since then, the number of Palestinian workers in Israel and settlements has been relatively stable, increasing (or decreasing) with the extent of closure imposed in the wake of specific terror incidents. In second quarter 2005 their number peaked at 67,000; by fourth quarter 2005 it had fallen to 60,000 (virtually all from the West Bank including East Jerusalem) (*Table 2*).[2]

Fewer jobs in Israel have meant a significant decline in workers remittances. According to the Israeli Central Bureau of Statistics, third quarter 2000 remittances totaled US$321 million. In fourth quarter 2005, only $58 million – a decline of 82 percent (*see Figure 3*) – was remitted. The considerable decline during the second half of 2005 completely erased the growth in remittances seen in the first two quarters: second quarter 2005 remittances were US$113 million – their highest level in four years.

[2] Of these 60,000 nearly half held an Israeli-ID or foreign passport; the World Bank estimates that 85 percent of Israeli-ID holders reside in East Jerusalem. The balance in the number of workers in Israel from the West Bank are believed to be divided roughly equally between those holding work permits and those working illegally ("clandestine" workers).

Figure 3. Workers' Remittances from Israel (million US Dollars)



Source: Israeli Central Bureau of Statistics

The decrease from pre-*Intifada* levels has had considerable direct consequence on the income of Palestinian households; workers' remittances from Israel represented some 18 percent of total disposable incomes in 1999. Reduced income, in turn, meant reduced demand for domestic goods, and therefore lower levels of domestic employment within the West Bank and Gaza.

This negative impact that job losses in Israel has had on domestic employment was aggravated by the difficulties in conducting business within the West Bank and Gaza as a result of internal closures and curfews, particularly in 2002, which resulted in significant increases in transaction costs, disruptions in production cycles, losses of perishable output, and lower economies of scale.

At its low point in third quarter 2002 domestic employment stood at 387,300 – a drop of 25 percent from pre-*Intifada* third quarter 2000. By second quarter 2003 domestic employment had recovered to the extent that the number of Palestinians employed within the West Bank and Gaza surpassed the levels prior to the Intifada. At the same time, however, the number of unemployed grew considerably, from 73,600 in the pre-*Intifada* third quarter 2000 to 197,800 currently (*see Table 2*).

In fourth quarter 2005 the number of Palestinians working inside the West Bank was 384,100 compared to 357,500 just before the *Intifada*, an increase of 9.4 percent. At its low point in second and third quarter 2002, their number had fallen to 282,200 and 280,900 respectively. Although generally growing from that point forward, seasonal variations can be seen.

Employment growth in the fourth quarter is usually concentrated in agriculture (particularly in olive-harvest years), only to fall off again in the first quarter of the following year. The second and third quarters are usually the strongest, with a concentration of employment in construction.

Fourth quarter 2005, however, showed a weakness in job generation in the West Bank. For the second quarter in a row, employment declined – a trend likely to continue into the first quarter of 2006 due to seasonal factors.

Inside the Gaza Strip 157,700 Gazans were employed during third quarter 2000. By third quarter 2002, the low point during the Intifada, this number had fallen to 106,500 (a 33 percent decline). Four quarters (one year) of continuous job growth found 170,900 Gazans employed domestically, before the decline registered during the fourth quarter of 2003 reduced the number of employed to 163,200.

Since then job levels within Gaza have fluctuated (falling as low as 146,100 in second quarter 2004 due to a severe deterioration in the security situation during that period), before resuming an upward path. By the fourth quarter 2005, domestic employment in Gaza had reached 187,700.

Despite the recent increases in employment, with population growing at just above 4 percent per year, dependency ratios – the total population divided by the number of employed persons – have increased significantly over the *Intifada* period.

Whereas in the third quarter of 2000 each job holder in the West Bank was supporting 4.3 persons, by the fourth quarter of 2005 each employed person was supporting 5.2 persons. In Gaza the dependency ratio increased more dramatically, from 5.9 in the last quarter prior to the *Intifada* to 7.7.

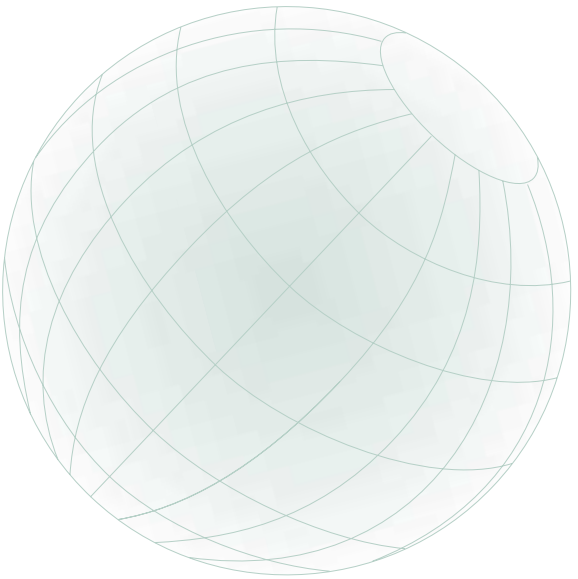


Table 3. Number of Palestinians Employed and Unemployed (thousands)

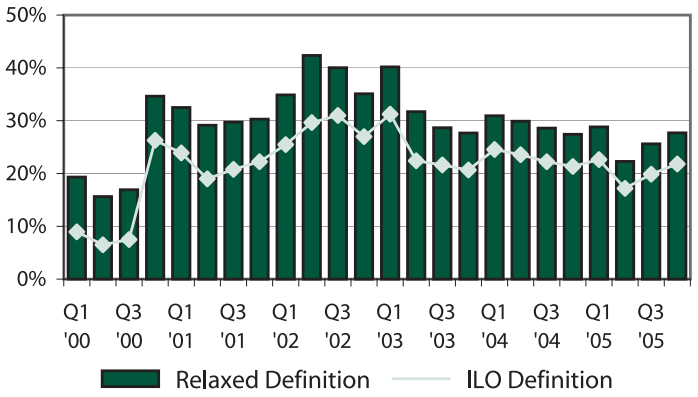
	Q-1	Q-2	Q-3	Q-4	Q-1	Q-2	Q-3	Q-4	Annual Averages					
	2004	2004	2004	2004	2005	2005	2005	2005	2000	2001	2002	2003	2004	2005
Employment														
Working in West Bank	349	367	371	394	359	412	405	384	334	310	297	343	370	390
Working in Gaza	167	146	154	163	167	177	186	188	145	125	128	166	157	180
Working in Israel – from West BankWorking in Israel	47	45	53	48	60	65	64	60	94	67	45	49	48	62
– from Gaza Strip	6	0	1	1	0	2	1	0	22	2	3	5	2	1
Total Employed	**569**	**559**	**581**	**605**	**586**	**656**	**657**	**632**	**595**	**505**	**474**	**565**	**578**	**633**
Unemployed (ILO)	**202**	**224**	**212**	**208**	**209**	**176**	**193**	**198**	**100**	**170**	**216**	**194**	**212**	**194**
Discouraged Workers	68	67	69	64	64	58	68	65	98	113	117	89	67	64
Total, Unemployed and Discouraged	**271**	**291**	**281**	**272**	**272**	**235**	**261**	**263**	**198**	**283**	**333**	**283**	**279**	**258**
Dependency Ratios														
West Bank	5.7	5.6	5.4	5.3	5.6	5.0	5.1	5.4	4.7	5.6	6.3	5.7	5.5	5.2
Gaza Strip	7.6	9.1	8.7	8.3	8.2	7.7	7.4	7.5	6.6	9.1	9.3	7.5	8.4	7.7

Source: PCBS. Note: Employment data for workers in Israel includes employment in Israeli settlements and industrial estates. West Bank data includes East Jerusalem. Annual averages are averages of the four quarters that year. Due to rounding errors, totals may not equal sum of components.

As mentioned above, a growing population, declining levels of Palestinian employment in Israel and Israeli settlements, and a lack of domestic job creation during the first two years of the *Intifada*, led to dramatic increases in unemployment and unemployment rates. Despite the job growth in recent quarters, the absolute number of unemployed remains far in excess of pre-*Intifada* levels. (Under International Labor Organization (ILO) standard definitions, a person must be actively seeking work in order to be considered "unemployed".)

The unemployment rate in the West Bank peaked at 31.2 percent in the first quarter 2003. For the next two years, the rate fluctuated between 21 and 25 percent, falling below the 20 percent line in second quarter 2005. Such a level was short-lived, however, as unemployment rates grew in the second half of the year, reaching 21.8 percent in fourth quarter 2005 (*Figure 4*).

Figure 4. West Bank Unemployment Rates

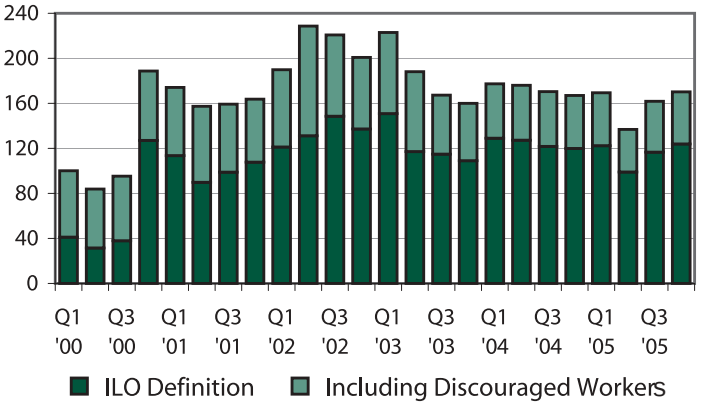


Source: PCBS. Data for West Bank includes East Jerusalem.

Because a large number of persons without employment have stopped looking for jobs (so-called "discouraged workers"), they are not considered part of the labor force and not included in ILO-standard definition unemployment rates. If such persons are counted, the "relaxed definition" unemployment rate for the West Bank during fourth quarter 2005 was 27.7 percent. (This rate reached its highest level in second quarter 2002, at 42.4 percent.)

Focusing instead on the number of unemployed and the number of "discouraged workers" rather than on unemployment rates shows how much joblessness has grown. From a total of 95,300 in pre-Intifada third quarter 2000 (37,900 unemployed and 57,400 discouraged), their number peaked at 228,700 in second quarter 2002 (131,200 unemployed; 97,500 discouraged). Despite recent employment growth (and declining unemployment rates), their number remains large – in fact, grew significantly in the second half of 2005. In fourth quarter 2005, 123,900 West Bankers were unemployed, and a further 46,300 had stopped looking – a "relaxed definition" unemployment level of 170,200 (*Table 3 and Figure 5*).

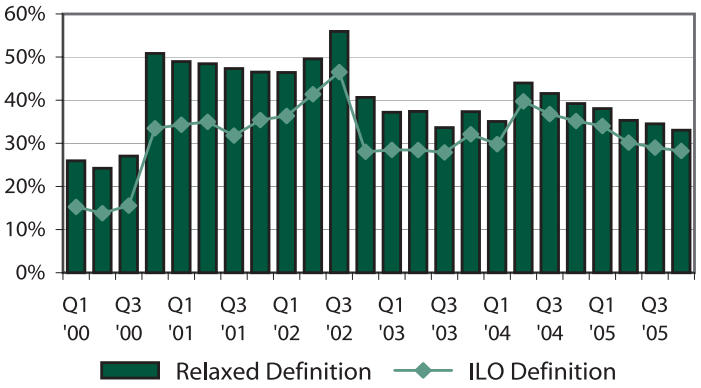
Figure 5. West Bank Unemployment
(thousands of persons)



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

In Gaza, the fourth quarter 2005 unemployment rate stood at 28.2 percent (73,900 individuals). This represented the sixth consecutive quarter of reduced unemployment, both in terms of rates and absolute numbers. (Second quarter 2004 saw the highest number of unemployed in Gaza – 96,600 – and a near record unemployment rate of 39.7 percent.) Prior to the Intifada the unemployment rate in Gaza was 15.5 percent (35,700 persons). (*Figures 6 and 7.*)

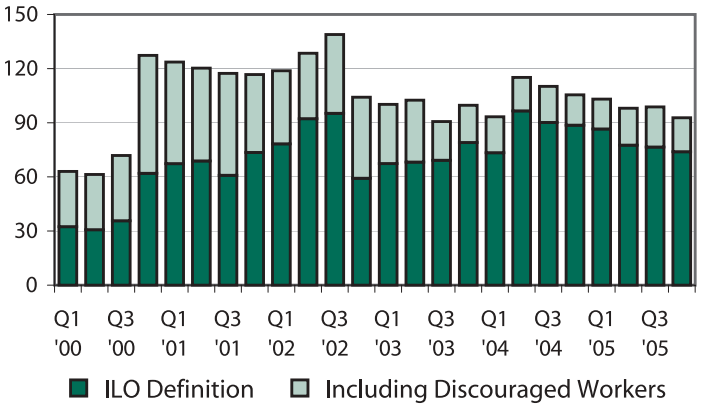
Figure 6. Gaza Strip
Unemployment Rates



Source: PCBS.

Including "discouraged workers" produces a relaxed definition unemployment rate of 33.1 percent in Gaza for fourth quarter 2005; the number of unemployed by this definition increases from 73,900 to 92,800.

Figure 7. Gaza Strip Unemployment
(thousands of persons)



Source: PCBS.

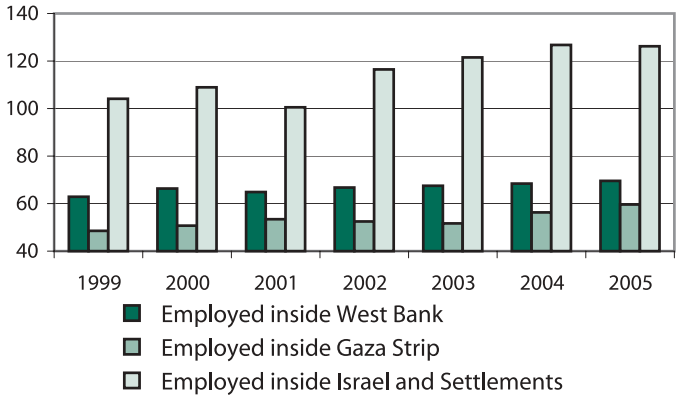
Wage employment represents approximately 55 percent of total employment in the West Bank, and two-thirds of total employment in Gaza – percentages that have remained fairly stable since the outbreak of the *Intifada*.[3]

Prior to the *Intifada* nominal wages were rising steadily; with the economic growth witnessed from summer 2003 through 2005, average daily wages again rose (*see Figure 8*). By fourth quarter 2005 the average daily wage received by wage employees working in the West Bank was NIS 71.3 (equivalent to US$15.29); for wage employees working in Gaza, the average daily wage stood at NIS 63.5 (equivalent to US$13.62); by comparison, wage employees working in Israel and Israeli settlements received on average NIS 130.2 (US$27.94) daily.[4]

[3] The other three types of employment (broken down by status) are "employer", representing approximately 5 percent of total employment in the West Bank and 3 percent in Gaza; "self-employed", amounting to roughly 28 percent in the West Bank and 23 percent in the Gaza Strip; and "unpaid family member", approximately 11 percent of employment in the West Bank and 9 percent in Gaza. Nearly 70 percent of unpaid family members are engaged in agricultural work (for women, roughly 90 percent); roughly 20 percent work in commerce (e.g., a family member's store or repair shop). The rest are scattered among the remaining economic sectors.

[4] Because a "simple average" can be strongly affected by large or extreme values ("outliers"), this section uses a "95 percent trimmed mean" in order to reduce their impact. The top 2-1/2 percent and bottom 2-1/2 percent of the data are excluded (thereby removing the most extreme responses, which in some cases are simply the result of incorrect data entry), and the remaining 95 percent of observations are then averaged.

Figure 8. Average Daily Wages
(NI Shekels)



Source: World Bank staff calculations based on PCBS data. est Bank includes East Jerusalem. Averages are 95 percent trimmed means; see footnote 4.

Wage behavior in 2001, 2002, and the first half of 2003 is less obvious, as employers adopted a combination of strategies to cope with the considerable drop in demand witnessed during this period. Some employers reduced salaries in order to try and preserve their workers' jobs – in effect, trying to share the pain.

Most, however, reduced employment. Between third quarter 2000 and fourth quarter 2000 the number of wage employees working in the private sector in the West Bank fell by 28,500; by second quarter 2002 a further 27,900 West Bank private sector wage employees were no longer working – a decline of 48 percent from the last quarter prior to the *Intifada* when 117,600 workers enjoyed regular wage employment.

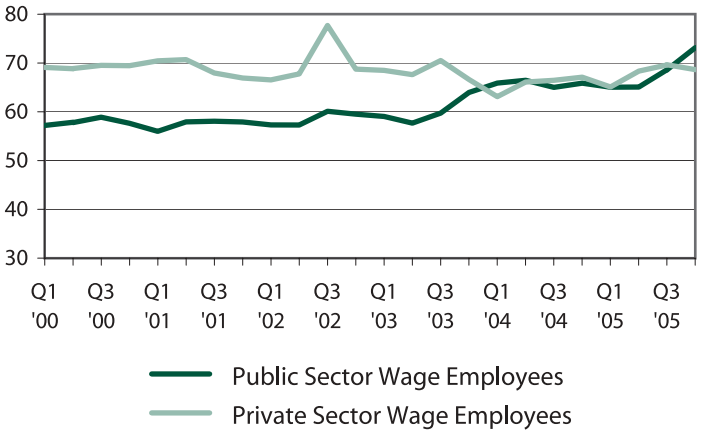
In Gaza, the reduction was more sudden: whereas 43,000 Gazans held regular wage employment in third quarter 2000, that number fell to 22,600 in the fourth quarter 2000; a further 2,900 were without regular private sector wage jobs by third quarter 2002 – a decline of 59 percent.

Often it was lower skilled (and lower paid) workers, or workers with fewer years of job experience (again, often lower paid as a result of less time on the job), who were the first to be dismissed. Consequently, the average daily wage received by those who continued to be employed could actually increase from one quarter to the next.

Focusing on average wage data for all wage employees, therefore, can be a somewhat misleading indicator because it does not take into consideration what is known as the "composition effect" – the impact of changes in the number of persons employed, or changes in the distribution of wage employment by sector (for example, agricultural workers receive lower salaries than do manufacturing workers), or by type of employer (PA vs. private sector for example; *see Figures 9 and 10*).

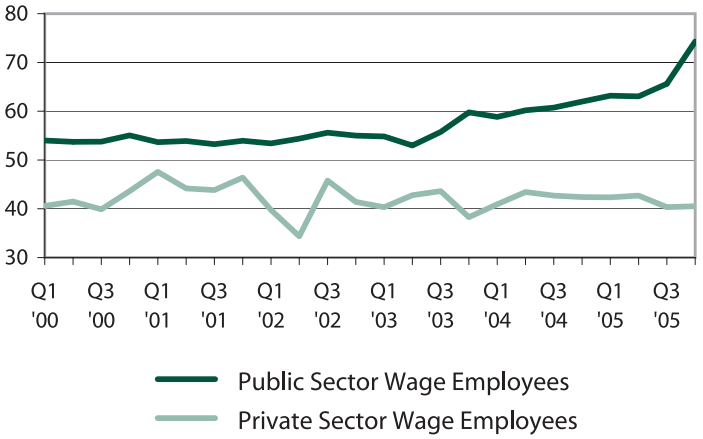
This is particularly true in Gaza where there has been not only a large increase in PA employment (which occurred in the West Bank as well) but also a significant difference in PA versus private sector wages.[5] Looking at the average wage rate overall in Gaza blurs together two very different dynamics.

Figure 9. Average Daily Wages in West Bank
(NI Shekels)



Source: World Bank staff calculations based on PCBS data. West Bank includes East Jerusalem. Averages are 95 percent trimmed means; see footnote 4.

Figure 10. Average Daily Wages in Gaza Strip
(NI Shekels)

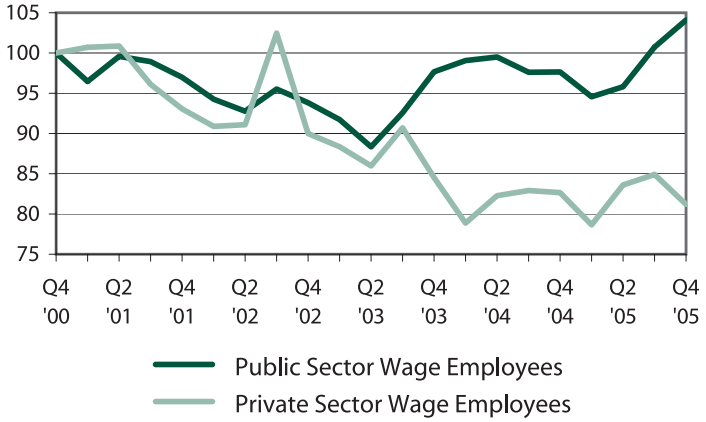


Source: World Bank staff calculations based on PCBS data. Averages are 95 percent trimmed means; see footnote 4.

[5] In the West Bank, the average daily wage for PA employees was roughly NIS 11 below the average of private sector wage employees through the third quarter of 2003. For the next two years they were approximately equal. In the fourth quarter of 2005 a gap appeared in favor of PA wage employees, with a daily wage NIS 4.5 higher than that of private sector workers. In Gaza, the PA average daily wage was NIS 12 above the private sector average through third quarter of 2003. Starting in fourth quarter 2003 the difference between PA and private sector wages widened, until it reached NIS 34 in the fourth quarter of 2005. PA daily wages in West Bank have generally exceeded PA wages in Gaza by about NIS 4 throughout the past six years.

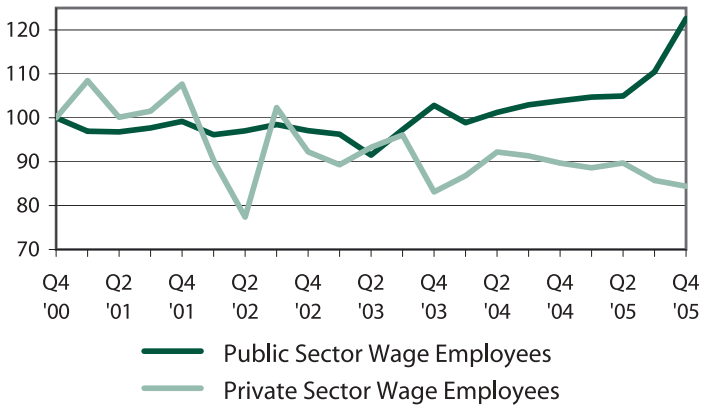
For wage earners who continued to be employed, the impact of the increase in dependency ratios during the course of the Intifada (and the implied obligation on working Palestinians to support greater numbers of extended family member) was exacerbated by the decline in average real wages over much of the period. Inflation has meant a considerable reduction in purchasing power for private sector wage employees although their nominal wages remained roughly steady, while the increase in public sector wages over the past two years has more than made up for inflation's impact. In the West Bank, average private sector real wages have declined 17.9 percent since fourth quarter 2000 while average public sector real wages decreased only 1.1 percent (Figure 11); in Gaza, the decrease for the private sector was 13.0 percent against an increase of 10.9 percent of public sector wage employees (Figure 12).

Figure 11. West Bank Real Wage Indices
(Fourth Quarter 2000 = 100)



Source: World Bank staff calculations based on PCBS wage data. West Bank includes East Jerusalem. Averages are 95 percent trimmed means, deflated by PCBS consumer price indices for Remaining West Bank and re-based to Fourth Quarter 2000 = 100.

Figure 12. Gaza Strip Real Wage Indices
(Fourth Quarter 2000 = 100)

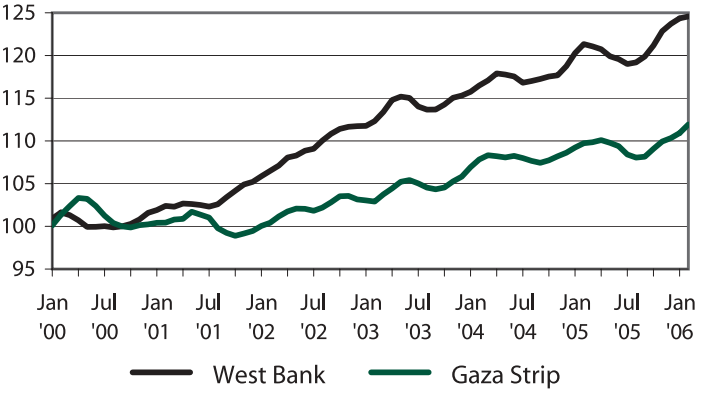


Source: World Bank staff calculations based on PCBS wage data. Averages are 95 percent trimmed means, deflated by PCBS consumer price indices for Gaza Strip and re-based to Fourth Quarter 2000 = 100.

Prices and Inflation

Consumer prices, measured in NI shekels, increased in both the West Bank and in Gaza in 2005, by 2.9 percent in the West Bank and 1.2 percent in Gaza. For the West Bank, this represents no change from 2004's inflation rate (also 2.9 percent), and a decrease from the 3.2 percent recorded in 2004 in Gaza. During the first two months of 2006, inflation in the West Bank is virtually unchanged – falling to 2.8 percent – while in Gaza inflation has picked up noticeably – to 2.7 percent – compared to the January-February 2005 period (*Figure 13*).

Figure 13. Consumer Price Indices
(July-September 2000 = 100)



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

Leading the increase in 2005 in the West Bank were Beverages and Tobacco (up 5.7 percent), Miscellaneous Goods and Services (up 4.1 percent), and Housing (up 4.0 percent). This is the first year since the *Intifada* that the Transport and Communications price index has not been either the number one or number two contributor to West Bank consumer inflation. In 2004 this component was up 5.6 percent; in 2002 it rose 21.9 percent largely due to the impact of internal closure (*see below*). For the first two months of 2006, Transport and Communications costs have again accelerated, up 5.5% compared to the first two months of last year, an increase largely driven by increases in the price of gasoline. Other leading contributors thus far in 2006 continue to be Miscellaneous Goods and Services (up 6.4 percent), Housing (up 5.0 percent), and Beverages and Tobacco (up 4.4 percent) compared to January-February 2005.

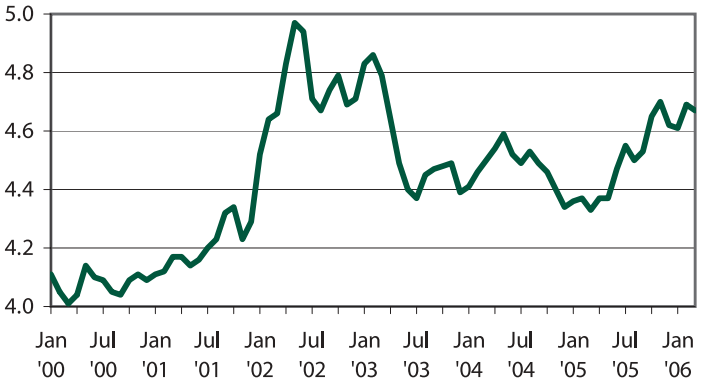
In 2004 in Gaza, the Food Index represented the second largest increase among the components of the consumer

price index, rising 4.8 percent (compared to a 3.5 percent increase in 2003.) Food costs stabilized in 2005, increasing just 0.5 percent above 2004's level. Leading the increases this past year were Housing and Beverages and Tobacco; both components were up 5.0 percent. The Transport and Communications price index rose 2.8 percent, a rate roughly half of what was witnessed in 2004 when this component led the increase in Gaza's CPI, increasing by 5.7 percent. Thus far in 2006, Transport and Communications prices is again the leader, up 5.7 percent compared to the first two months of 2005, and a rate more than twice the rate of increase registered so far in the overall CPI for Gaza.

Because so much of what is consumed in West Bank and Gaza are imported goods, changes in the shekel-dollar exchange rate can impact prices domestically. For example, the depreciation of the Israeli shekel in 2001 and early 2002 (particularly strong in the period November 2001-April 2002; depreciation is represented as an upward movement in *Figure 14*) and its subsequent appreciation (especially in the period February-July 2003; seen as a downward movement in the figure) corresponds to a period of accelerating inflation during 2002 and its subsequent slowing down in 2003.

From December 2000 to December 2001 the shekel lost 4.9 percent of its value with respect to the US dollar; from December 2001 until May 2002 the Shekel weakened a further 15.9 percent. As a result, prices of goods, expressed in shekels, imported into Israel from overseas – and by extension, into the West Bank and Gaza – mechanically increased and the overall consumer price index, also measured in shekels, increased – not by the same amount, but to the extent that the CPI market basket is made up of imported goods or of services priced in dollars (such as rents). With an appreciating shekel – from February 2003 through December 2003 the shekel strengthened 9.7 percent against the dollar (11.7 percent since the shekel's weakest point in May 2002) – imports become cheaper and, to the extent that importers actually pass on these reductions to consumers as opposed to increasing their profit margins, inflation measured in shekels lessens.

Figure 14. NI Shekel-US Dollar Exchange Rate (monthly average)



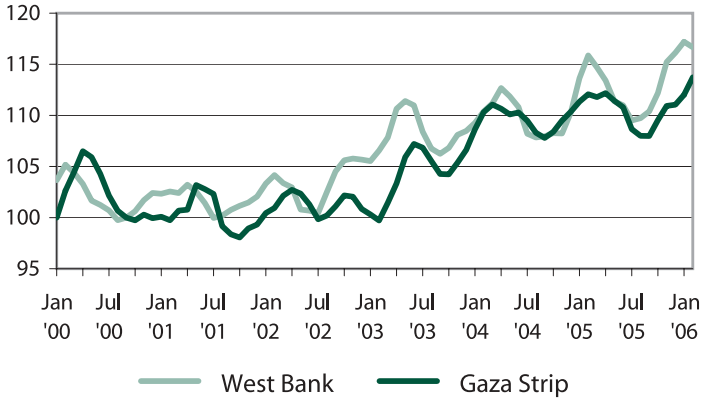
Source: Central Bank of Israel.

During 2004, the shekel first weakened against the dollar, depreciating by 4.6 percent through May, and then strengthened; by year's end, the shekel gained 1.2 percent. In 2005 the shekel's value against the dollar was largely stable during the first half of the year and then weakened, losing 6.5 percent from December 2004 to December 2005. For the past six months the NIS-USD exchange rate has been roughly stable, ending March 2006 at 4.67. But should the rate of NIS depreciation again accelerate, inflation tendencies might be expected to pick up.

As Figure 13 indicated, there is a degree of regularity concerning the pattern of price increases during the course of the year. Much of 2005's increase in overall consumer prices occurred during the first quarter, followed by modest declines in the summer and fall months, with price increases again noticed in the last quarter. Similar seasonality was observed in 2003 and 2004.

Food prices generally exhibit strong seasonality effects, peaking during the first quarter (*see Figure 15*). At this point, food prices usually decline in the second and third quarters, before rising modestly in the final quarter of the year – a pattern that is likely to continue through 2006. Over the course of 2005, the Food price index increased 2.7 percent in the West Bank and 0.5 percent in Gaza; comparing January-February 2006 to the first two months of 2005, food prices have increased 1.0 percent in West Bank and 3.3 percent in Gaza.

Figure 15. Food Price Indices
(July-September 2000 = 100)



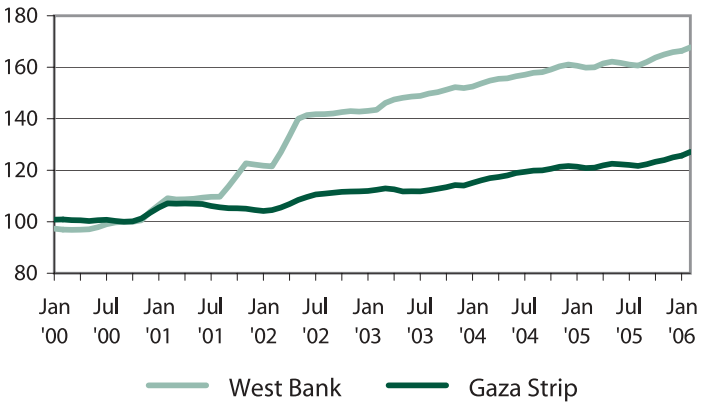
Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

While food prices explain much of the seasonality reflected in the CPI and exchange rate movements help explain basic trends in tradable consumer goods prices (particularly in non-food prices, which are less affected by seasonality), tightened closure during the *Intifada* period also impacted consumer prices overall.

This effect came through both direct and indirect channels: directly through changes in the transportation component of the consumer price index (which measures transportation prices that have increased as a result of heightened closure, such as taxi fares) and indirectly through increased costs of shipping for producers and distributors, which were in turn passed on as increases in the final price of all goods faced by consumers in the market place, and were seen as increases in these components' price indices (for example, increases in the price of food resulting from higher shipping costs and greater perishability because of delays and damage due to off- and on-loading at back-to-back platforms).

The tightening of closure associated with the outbreak of the *Intifada* in fall 2000 affected both Gaza and the West Bank, while Israeli military interventions in the West Bank in autumn 2001 and spring 2002 explain the difference in movement in the transportation price index in the West Bank and Gaza during these years. In effect, these were negative shocks that raised the level of the West Bank transportation price index (seen as upward steps in *Figure 16*). In 2004, both West Bank and Gaza witnessed proportional increases in transportation prices: 5.6 percent in the West Bank, and 5.7 percent in Gaza. In 2005 has continued to show roughly parallel increases of 2.8 percent in Gaza and 3.0 percent in the West Bank.

Figure 16. Transportation Price Indices
(July-September 2000 = 100)

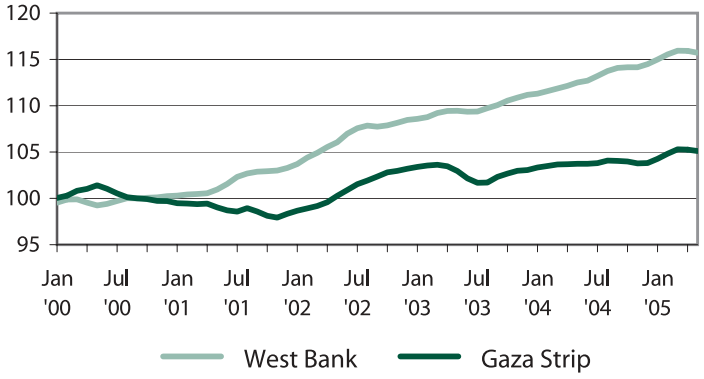


Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

Excluding food (in order to remove the impact of food's seasonality), the consumer price index in the West Bank has risen by 2.8 percent in 2005; in Gaza, the non-food CPI increased 1.5 percent last year. These rates are below what has been witnessed in previous years. (In 2001, non-food prices rose 4.4 percent in the West Bank and fell 0.2 percent in Gaza; in 2002, non-food prices rose 8.6 percent in the West Bank and by 2.3 percent in Gaza; in 2003, 4.4 percent in the West Bank and 2.1 percent in Gaza; in 2005, they rose 3.7 percent in the West Bank and 1.9 percent in Gaza.)

When the Transportation and Communication price index is also excluded – transportation prices being most affected by changes in the closure regime (and also by changes in world energy prices, which can be quite volatile) – a clearer portrait of general price changes emerges. Such an index can be seen as a measure of "core inflation." Non-food, non-transportation prices in the West Bank increased 2.9 percent in 2005 and by 1.3 percent in Gaza (*Figure 17*).

Figure 17. "Core Inflation" Indices,
CPI excluding Food and Transportation
(July-September 2000 = 100)



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

These core inflation rates are in line with those of previous years. In 2004, non-food, non-transportation prices rose 3.0 percent in the West Bank and 0.9 percent in Gaza; in 2003, they rose 2.9 percent in the West Bank and 1.8 percent in Gaza. (During 2002, non-food, non-transportation prices rose 4.7 percent in the West Bank and 2.2 percent in Gaza; the higher rate in the West Bank is largely the indirect impact on prices due to closures. In 2001, these prices rose 2.0 percent in the West Bank and fell 1.6 percent in Gaza.). For the first two months of 2006, core inflation is running slightly higher than the rates seen last year: 3.5 percent in the West Bank and 1.8 percent in Gaza.

By John Wetter, Sr. Country Economist
Sami H. Miaari, Research Economist

West Bank and Gaza Recent Economic and Financial Developments

By the International Monetary Fund

Economic Activity

Although the recovery in the West Bank and Gaza (WBG) was sustained during 2005, economic activity remains highly dependent on political and security developments. Real GDP continued to grow by an estimated 6 percent in 2005, driven by a substantial increase in government spending and increased activity in construction, transportation, trade, and real estate. In line with this economic expansion, unemployment fell to 23.5 percent by late 2005. Inflation remained low, at 3.6 percent in 2005 (annual average).[1] Nonetheless, conditions for private sector development remained constrained by the volatile security situation, and the Israeli restrictions on passage and further extensions of the separation wall. As a result, economic activity remained depressed at levels well below its potential. The November 2005 agreement on movement and access was a welcome step towards easing some of the constraints on the movement of Palestinian goods and people but, so far, very little of the agreement has been implemented.

Fiscal Developments

The Palestinian National Authority's (PNA) fiscal deficit widened substantially in 2005, as expenditures increases more than offset strong revenue performance. Revenues increased by 36 percent to over US$1.2 billion in 2005. Expenditures[2], however, also increased sharply, by 30 percent to almost US$2 billion. As a result, the deficit reached US$777 million in 2005, or 17 percent of GDP, compared with US$574 million in 2004. Only US$349 million in external budget support was received, however, about the same level as in 2004, but roughly half the US$654 million foreseen in the budget.[3] The resulting fiscal gap was financed mainly by advances from the Palestine Investment Fund (PIF) and unplanned borrowing from domestic banks[4]—often backed by PIF assets.

The strong revenue performance mostly reflected increased excise receipts resulting from higher oil prices, exceptional profits transfers from PNA-owned corporations, as well as administrative improvements. Gross clearance revenues collected by the Government of Israel (GoI)[5] on behalf of the PNA rose to over US$740 million (a 20 percent increase from 2004), boosted by the higher petroleum prices and improved monitoring and cross-checking of taxes. These revenue transfers amounted to about two-thirds of the PNA's total revenues. Domestic revenues increased to almost US$0.5 billion, due to a large increase in dividends paid to the PNA by the PIF, a substantial increase in licensing fees from telecommunications, higher income tax receipts from higher wages and changes in revenue administration procedures. Total revenues reached about 27 percent of GDP in 2005[6], similar to the average revenue ratio in other non-oil producing countries in the region.

[1] Price changes in WBG largely mirror inflation developments in Israel

[2] Includes wages, nonwage current expenditure, PNA-financed capital expenditure, net lending, and VAT refunds.

[3] In 2005, external budget support included almost US$190 million from Arab donors, and slightly more than US$130 million from the Reform Trust Fund administered by the World Bank.

[4] Outstanding PNA debt to commercial banks reached a record of US$642 million at end-December.

[5] Clearance revenue are indirect taxes collected by the Government of Israel on behalf of the PNA, and represent about two-thirds of total revenue.

[6] Net of VAT refunds.

6. **The wage bill grew much faster than envisaged in the Wage Bill Containment Plan (WBCP)[7] owing to large salary increases.** The Security Service law[8] raised the average monthly wage for security personnel by 34 percent[9] between June and December, while the total number of security personnel remained reportedly unchanged at 57,067 (although some 14,000 trainees were hired, see below). In addition, following the second phase of implementation of the 1998 Civil Service law[10], the average monthly wage for civil servants was raised by about 16 percent between June and December 2005. Net recruitment in the civil service amounted to 3,666 persons, bringing the total number of civil service employees to 79,705 by year-end. Overall, the wage bill increased from US$870 million to US$1 billion between 2004 and 2005. Due to the strong revenue performance, however, the ratio of the wage bill to gross revenues fell to 82 percent in 2005—84 percent in the last quarter—down from 91 percent in the previous year.

Non-wage expenditures[11] rose sharply between 2004 and 2005, from US$485 million to US$637 million, mainly owing to higher transfers and, to some extent, higher operating expenditures. Higher transfers reflected a larger number of retirees, plus a higher average pension per retiree following the adoption of the new Unified Pension Law (UPL)[12], and the mid-year salary increases, which also increased PNA pension contributions. Transfers were also impacted significantly by the introduction of a temporary unemployment benefit program and, in the last quarter, a program to recruit security trainees[13]. Increases in operating expenditures were mostly concentrated in the security services and debt service[14], with the latter reflecting the higher recourse to domestic financing in the last few years.

[7] The WBCP, a benchmark for disbursements from the World Bank Public Finance Reform Trust Fund agreed by the authorities in 2004, aimed at (a) maintaining a stable security forces wage bill in nominal terms; (b) limiting net recruitment to 2,000 persons in 2005 mostly in the areas of health and education; (c) restraining salaries to a 2 percent wage drift by, in particular, not raising professional allowances for teachers and not implementing the second phase of the 1998 Civil Service law; and (d) reducing the wage bill to 80 percent of budgetary revenue by 2006.

[8] The law was implemented in August, but became effective on July 1st for all but 8,000 security personnel identified as inactive but maintained on the payroll.

[9] Wage increases are quoted in New Israeli Shekels (NIS).

[10] The new salary scale for civilians was initiated in July for education and completed in October for all ministries, effective on July 1st and including back pay in the October payroll.

[11] Includes non-wage current expenditure and PA-financed capital expenditure.

[12] Which stipulates for the PNA paying employer contributions to the pension fund for all security personnel aged less than 45.

[13] There were 13,852 new security trainees by end-December 2005.

[14] Debt service increased by about US$20 million in 2005, totaling US$43 million.

Net lending increased sharply in 2005, to over twice the budget allocation, due to a general inability to recover the higher costs of energy products. This included the need to cover non-payment of utility bills by consumers; increased electricity generation by the Gaza power plant using relatively expensive fuel oil; and subsidies on petroleum product prices. Consequently, US$344 million was spent on net lending in 2005, more than double the amount in 2004[15].

The already tight liquidity situation became even more precarious in early 2006, following the parliamentary elections. Even with the receipt of clearance revenues from the GoI, the PNA was facing a monthly financing gap of some US$70–80 million—almost three times the average monthly external support received in the last two years—due to the full effect of last year's wage increases and the changes in pension legislation. In the first two months of 2006, the PNA managed to pay its wage bill, transfers, and purchases of essential goods and services with additional bank loans, some income tax advances, and limited amounts of external support. Other payments, including pension contributions, were delayed. The convening of the new parliament in mid-February, however, prompted the GoI to withhold the transfer of clearance revenues, causing a net revenue shortfall of some US$50–55 million per month, and raising the monthly fiscal gap to over US$130 million.

Financial Sector

The financial sector remains relatively sound[16]. Private sector deposits continue to grow at a slow rate of 2 percent, reaching about 77 percent of GDP at end-2005. Credit to the private sector continued to grow at a rapid pace, although it remained at a level of around 30 percent of GDP in 2005, which is very low relative to the regional average. The result is a highly liquid banking sector—with a liquidity ratio of about 74 percent. The Palestine Monetary Authority, however, has yet to resolve the situation of a few undercapitalized, but non-systemic banks. The stock market continued its strong performance throughout 2005, with the Al Quds index registering an increase of more than 300 percent over 2004, due to speculative activities. More recently, however, the index fell on a monthly basis by about 11.5 percent during both January and February 2006, although by end-February the index was still 116 percent up from a year before.

[15] About US$109 million was transferred to the General Petroleum Company in 2005 to cover losses from petroleum prices in WBG not reflecting import prices.

[16] The share of non-performing loans (NPLs) decreased from 10.4 percent at end-2004 to 7.7 percent at end-2005.

Table 1. West Bank and Gaza: Central Government Current Fiscal Operations, 2004–2005

	2004		2005				
	Prel.	Budget 5/	QI	QII	QIII	QIV	Year
	(in million of US dollars)						
Gross Revenue	954	1,078	254	342	291	331	1,217
Gross domestic	337	396	86	152	95	142	476
Tax revenues	191	230	53	65	67	46	231
Nontax revenues	146	166	33	87	28	96	245
Gross monthly clearance	617	682	167	190	196	188	742
Expenditure 1/ 2/	1,355	1,582	320	407	445	466	1,638
Wages	870	936	236	235	253	278	1,001
Civilian	538	566	148	149	153	165	614
Security 3/	333	371	88	86	100	113	387
Nonwage expenditure	449	623	81	155	177	180	593
Of which: Operating	193	263	36	72	57	53	218
Transfers	257	360	45	83	120	127	375
PA financed capital spending 1/	36	23	3	17	16	8	44
Net lending 4/	157	130	59	93	85	107	344
VAT refunds	16	20	1	1	5	4	12
Balance 1/	-574	-654	-127	-160	-244	-247	-777
External budget support	353	654	71	174	54	51	349
Balance after budget support 1/	-221	0	-56	14	-190	-196	-428
Total other financing	221	0	56	-14	190	196	428
Exceptional PIF profits	...	...	0	0	109	64	173
Gross withheld clearance revenues	97	92	10	43	11	73	137
Net domestic bank financing	134	-69	74	105	84	52	315
Net change in arrears (- = repayment) and residual	-9	-23	-28	-162	-14	7	-198
	(in percent of GDP)						
Gross revenue	23.4	24.0	...	...	...	...	27.1
Expenditure 1/2/	33.2	35.3	...	...	...	...	36.5
Wages	21.4	20.9	...	...	...	...	22.3
Nonwages	11.0	13.9	...	...	...	...	13.2
Net lending and VAT refunds	4.2	3.3	...	...	...	...	7.9
Balance 1/	-14.1	-14.6	...	...	...	...	-17.3
Balance after budget support 1/	-5.4	0.0	...	...	...	...	-9.5
Memorandum items:							
Nominal GDP in U.S. dollar	4,076	4,488	...	...	...	...	4,488
Exchange rate NIS/$ (period average)	4.48	4.35	4.36	4.41	4.54	4.65	4.49
Government employment (end of period)	133,106	...	134,984	135,811	135,226	136,772	136,772
Of which: civilian	76,039	...	77,917	78,744	78,159	79,705	79,705
Of which: security	57,067	...	57,067	57,067	57,067	57,067	57,067

Sources: Ministry of finance, and Fund staff estimates.
1/ Excludes foreign financed capital spending.
2/ Excludes net lending and VAT refunds.
3/ In the 2005 budget, includes all employees of the Ministry of the Interior and Internal security services.
4/ PA transfers or payments deducted at source by GOI from disbursements of withheld clearance revenue for bills owed by Palestinian municipalities and other entities.
5/ Budget valued at actual exchange rate. The exchange rate initially used was NIS 4.70 per U.S. dollar.

World Bank Activities in West Bank and Gaza

Speech by David Craig Country Director for the West Bank and Gaza Private Sector Roundtable in Ramallah

March 7th, 2006

Good afternoon Minister Sinokorot, Mr. Masrouji and friends, and thank you for inviting me to meet and speak with you today. I have met some of you already but for those of you who I have yet to meet, my name is David Craig, and I took over as the Country Director from Nigel Roberts on the 15th of January this year. As I am still very new here and have much to learn about the issues facing West Bank and Gaza, I especially welcome the opportunity to hear from the other speakers and members of the private sector.

I have been asked to speak with you today about the role of the World Bank Group and its organizations - including the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC) – in the West Bank and Gaza. My MIGA and IFC colleagues could not be here today to explain their program in detail but I'll try my best to give you an overview of their work here generally.

But let me first talk about the World Bank Group role in countries dealing with or emerging from conflicts, in general. This, I hope, will stress to you the importance we attach to the private sector as a driving force for development.

As you may know, ***reconstruction and growth in areas of conflict is at the heart of the World Bank's mission***, dating from our creation after World War II. ***Over time, our mission evolved into poverty reduction in all countries***, including financial and policy assistance to developing countries throughout the world. New institutions within the World Bank Group have emerged to tackle important issues such as private sector development, investment guarantees and investment dispute resolution, among others. But these are all related activities forming part of our poverty reduction mission. ***As you know all-too-well, unrest and conflict are both a cause and a consequence of poverty. So growth in conflict areas is an intrinsic part of our overall development agenda***.

Development is now accepted by the international community to be a critical tool in preventing both potential and renewed unrest. ***A 2003 World Bank study showed that developing countries with poor policies and institutions are fifteen times more likely to suffer from conflict than the richest countries***. So, understanding the link between development and conflict is crucial to making a lasting impact anywhere. It also follows that any assistance program should establish the basis for sustainable growth.

Since 1990, the World Bank has substantially increased its assistance to conflict-affected countries. One event was a turning point for a new, multilateral approach. This came in 1994 when the international donor community asked the Bank to administer multilateral trust funds to support the peace process in the ***West Bank and Gaza***. The first trust fund supported the establishment of the Palestinian Authority and its capacity to deliver public services. Subsequent trust funds provided for emergency employment generation projects during a time of renewed conflict

This framework has operated on the view that, in addition to physical reconstruction, the World Bank and other donors should support the development of institutions and build the capacity needed for sustainable development driven by the private sector. This requires sound policies for macroeconomic management, good governance, growth and employment generation, access to social services and social safety nets. In a nutshell, this is about establishing the social and economic foundations of a well-functioning market economy.

In other words, post-conflict reconstruction means not only a transition from conflict to peace, but

also a transition from a planned to a market-based economy.

Now, let us move to the World Bank's program in the West Bank and Gaza. Since 1994, our Board of Directors representing the 184 countries that own the World Bank, has approved 34 projects worth approximately $500 million, of which a third are in the form of a grant. These projects have covered a range of areas from electricity to land administration to education and other social services. To date, a total of about $435 million has been disbursed on these projects. We have compiled a brief information sheet which we will distribute at the end of this meeting.

In terms of overall support to the private sector, the World Bank's main contribution continues to focus on the institutional reforms I just highlighted, as well as the creation of an overall business and economic environment, mainly through improved access and movement into and out of the West Bank and Gaza. It has been widely accepted that the future economic viability of the Palestinian economy depends on the creation of a trade logistics system which permits the safe, reliable and competitively-priced movement of people and cargo.

In order to attract and maintain private investment, investors in the West Bank and Gaza need a system which is reliable and predictable. Elements of such a system would include freedom of internal movement within and between Gaza and the West Bank, across the Israel borders, either to Israel or through Israel to third countries, and direct access to third countries, via land borders to Egypt and Jordan, by sea and by air. This system has been described in detail in a number of World Bank reports which are available on our website (www.worldbank.org/ps). Unfortunately, what we are reporting is that the system that exists today is virtually unchanged from that which existed in December 2004.

However, as I am sure you are all acutely aware, the current political situation has created a bit of uncertainty for the work programs of the donor community. In terms of the World Bank, our current work program of 12 projects is quite advanced and continues to be implemented. The bulk of our projects are already being carried out by private sector consultants and contractors who have been hired under competitive bidding processes consistent with the World Bank's procedures. Our future program and projects will, as has been the case so far, depend on the future mandate given to us by our Board of Directors.

The Bank also continues with its analytical work, which has been used by donors and PA to weigh the costs and benefits of their policies. We are currently completing our "Country Economic Memorandum", as well as a "Economic Monitoring Note" which will be presented to the Ad Hoc Liaison Committee, and the community at large. In both of these analyses, the role of the private sector as an engine of growth will be analyzed, and constraints to private sector growth will be addressed. We will present a preliminary assessment of how the private sector has fared since the onset of the second intifada compared to its pre-intifada levels and what can be done to improve competitiveness in the current political climate.

In addition to the work I just described, the World Bank will continue in its role as the secretariat for the Private Sector Working Group, including overseeing the implementation of various aspects of the joint Palestinian – Israeli private sector declaration on promoting economic growth in the West Bank and Gaza. This declaration was written ahead of the Investors Conference in London in December of last year and presented to the Chancellor of the Exchequer, Gordon Brown. As you might suspect, the main objectives of the declaration centered on increasing the reliability and efficiency of movement of goods and people; protecting investors and their businesses; and reducing the legal and regulatory obstacles facing private investors. The first meeting of the executive committee will take place tomorrow in Jerusalem and will set the agenda for the upcoming year.

Now, let me turn your attention briefly to another aspect of the World Bank's involvement with the private sector. As Youssef Habesh could not attend this meeting today, I would like to take the liberty of discussing a bit about the work of our sister organization, the International Finance Corporation, or the IFC, which is the private sector arm of the World Bank and an organization with whom we work with closely. Prior to the Intifada, IFC was very active in the territories and had committed a total of US$54 million in 15 companies, of which US$31 million had been disbursed, including equity investments amounting to US$ 14 million. In the period since September 2000, IFC has focused on managing the portfolio and has reduced its exposure significantly. By end September 2005, IFC's outstanding portfolio stood at $15 million in 11 firms.

Looking forward, IFC believes that there could be an opportunity to re-enter the market, and it plans to re-engage in Gaza with its traditional investment products as well as by providing technical assistance through the Private Enterprise Partnership for Middle East and North Africa also known by the more catchy acronym of "PEP-MENA." Teams from the

IFC have completed mapping missions to assess private sector opportunities. IFC is considering investments in the financial sector, industry and services which could include microfinance, a small business financing facility with local banks, a hotel, a private hospital in Gaza, an offshore gas investment and industrial estates.

Through PEP-MENA, IFC plans to provide support through increased technical assistance for micro, small and medium-enterprise development, including an SME management training program, technical assistance for microfinance institutions, advisory services for banks to help them cater to SME clients including the provision of credit, and an SME sector analysis targeting growth sectors such as agribusiness, stone and marble, construction and pharmaceuticals. In general, TA interventions will be designed to develop SMEs and make them more bankable.

Another organization affiliated with the World Bank is the Multilateral Investment Guarantee Agency or MIGA. Since 1998, MIGA has been administering a $23 million trust fund for insuring investments in the West Bank and Gaza against political risks such as currency transfer, expropriation, war and civil disturbance. This has been financed by the Palestinian Authority under a World Bank loan, the European Investment Bank and the Government of Japan. The fund is currently capped to a maximum of $5 million per project though donors will be asked to consider whether this cap should be raised to accommodate larger investments.

This is a brief summary of the World Bank's work, its current portfolio, etc. If you'd like more information on any of these issues, please visit our website or feel free to get in touch with us.

Thank you.

Case Study
Consultations with Palestinian Civil Society on Improving Women's Rights

Women's rights take on a special meaning in the context of legal and judicial reform. As such reform is underway in the West Bank and Gaza (WBG), special attention should be paid to ensure women have an equal opportunity to access justice and exercise basic rights. In general, women in WBG face the same obstacles to accessing justice as do all residents: a slow and inefficient court system; a weak legal framework; non-implementation of court decisions; and other restrictions. However, there are numerous obstacles that are unique to the plight of women in WBG. These obstacles have been highlighted to the Bank by members of civil society through the Bank's ongoing studies on access to justice. The following is a synopsis of the primary impediments identified by civil society:

Legal Framework

The legal framework in the West Bank and Gaza, though problematic, is not the primary problem for women. It is non application of laws and non-implementation of court decisions that are the primary obstacles to exercise of basic rights. When court decisions cannot be implemented women are forced to turn to informal justice mechanisms, which in general are less protective of women's rights.

- The **Criminal Code** still provides that killing a family member for purposes of "honor" is a mitigating factor to charges of murder.
- The **Family Law** has not been amended since the 1970's, and thus many provisions are out of date. In particular, those provisions related to maintenance payments in cases of divorce provide sums that are inadequate for women to survive on and care for children. One positive development has been the establishment of a maintenance fund by the PA, which ensures women receive maintenance payments since enforcement of court decisions on husbands was highly problematic.
- In terms of **labor rights**, the primary problem is sexual harassment in the workplace.

Movement Restrictions and Residence Issues

Restrictions on both movement and the ability to legally change residence have considerable impact on women, particularly in East Jerusalem. According to several accounts by civil society organizations, West Bank residents that marry Jerusalem ID holders are not systematically granted IDs themselves. Even in the West Bank, administrative control over the assignment of official residence in unclear. With construction of the Separation Barrier nearing completion, restrictions and their impact are likely to become more problematic, particularly in East Jerusalem.

- Women from the West Bank who marry men from East Jerusalem often have problems securing **Jerusalem IDs**. If they reside in East Jerusalem they are forced to limit movements so as not to be identified and returned to the West Bank. Women in such a situation are extremely vulnerable since they have little ability to exercise rights. For example they cannot file for divorce in Israeli courts, and if they file petitions in the PA courts, the decision cannot be enforced against their husbands because they reside in East Jerusalem. Children of such marriages also have considerable problems securing Jerusalem IDs.

- Women from **Gaza** who marry men from the West Bank faces similar difficulties, as they must request a change of residence from the GOI, and such requests are rarely granted. If they remain in the West Bank without the proper ID they risk being forcibly returned to Gaza. The situation is much the same for women from the West Bank or Gaza that marry Israeli Arabs, especially since amendments to the Israeli Citizenship Law severely restrict the ability of Israeli Arabs to marry persons from the West Bank or Gaza.
- **Children** born to Jerusalem ID holders living in the West Bank cannot receive Jerusalem IDs, because they are not living in Jerusalem, and have considerable difficulty obtaining West Bank IDs. The latter is due to PA concerns that requests for such IDs, which need the approval of the GOI Ministry of Interior, will alert the GOI to the fact Jerusalem ID holders are residing outside of East Jerusalem resulting in the cancellation of their Jerusalem IDs.

Access to Justice in Area C

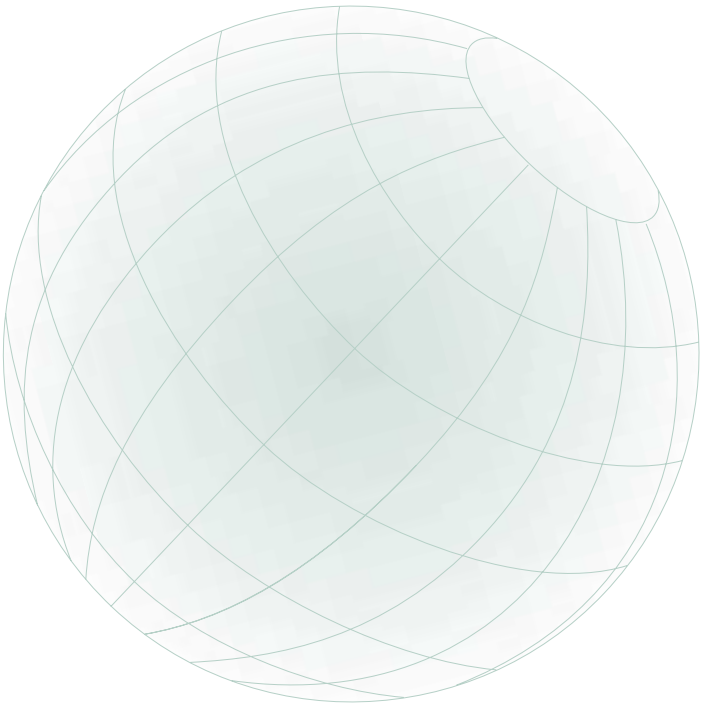
According to the Oslo Accords, PA courts have no jurisdiction in Area C. Instead, the GOI has full jurisdiction over civil and security matters. In practice, the GOI has retained authority only over select civil matters such as land administration, zoning and planning. It has allowed de facto jurisdiction of the PA courts in areas A and B over other matters, such as family law.

- Women seeking a divorce or restraining order for an abusive spouse would normally have to file a petition in a PA court in Areas A or B since there are no bodies in Area C to handle such issues. However, any decisions rendered would have to be implemented through the GOI, which has full civil and security jurisdiction in Area C. So a woman seeking a restraining order from an abusive husband would have no effective remedy. She would also have problems implementing child custody and divorce rulings.
- In practice, many women are forced to receive decisions from a PA court and use this as a basis for negotiations through informal justice channels. However, informal justice mechanisms do not always provide an adequate level of protection of women's rights.

Recommended Reforms

In order to address these obstacles, the following **reform recommendations** are widely regarded as priorities:

- Investing in the judiciary and prosecutors, in particular setting clear criteria for the appointment and promotion of both.
- Increasing the number of judges and prosecutors to reduce the backlog of cases.
- Supporting the enforcement of court decisions.
- Strengthening the relationship between the courts and the police.
- Providing judicial training on women's issues.
- Encouraging Palestinians to use the formal court system instead of the informal sector.



Case Study
Transparency and Good Governance in Tertiary Education

The recent World-Bank- EU financed Tertiary Education Project has already achieved a number of important steps towards transparency in the allocation of funds to support innovative projects in universities and colleges across the West Bank and Gaza. This project, which amounts to 10 million US from the World Bank and 5 million euro from the EU, seeks to (i) improve the policy-making environment for tertiary education management, governance and quality assurance; (ii) increase the internal and external efficiency of tertiary education institutions as a first step towards achieving sustainability; and (iii) create incentives and provide the basis for improvements in quality, relevance and equity of tertiary education institutions in order to meet the socio-economic needs of the Palestinian population.

The project has, among other steps, introduced mechanisms to ensure a level of competition between tertiary education projects seeking to improve the quality and relevance of education services. The Quality Improvement Fund (QIF)- financed jointly by the World Bank and the European Commission- was established as an independent body reporting to a Board consisting of representatives from academia, the private sector, the Council for Higher Education, and the Accreditation and Quality Assurance Commission.

All universities and colleges are eligible to apply for QIF grants, provided that they have a clear plan for quality assurance and self-evaluation. Under this mechanism, universities and colleges submit their proposals to a 'peer review scoring system'. Priorities for grant awards are given to those proposals that are consistent with the Palestinian Authority's established development plans in the sector. A strong emphasis is also placed on projects that: (a) seek to develop human resources and the quality of the educational programs; (b) stress partnerships between local and international, as well as public and private, universities and colleges; and (c) address the potential for alternative sources of funding and revenues.

Universities and colleges throughout the West Bank and Gaza have been very active in preparing and presenting proposals to the QIF- 42 proposals were submitted to QIF within the first six months of project implementaion. To date, nine proposals have been approved by the QIF Board in the first round of selection. These include proposals for: establishment of a Biotechnology Training and Research Unit at the Palestine Polytechnic University in Hebron; Development of a Professional Diploma Program for Small and Medium Enterprises at Bethlehem University; Introduction of a Masters Program in Clinical Nutrition at Al-Azhar University; and Introduction of a Food Processing and Management Program at the College of Educational Sciences and Women's Community, among others.

This exercise has shown that there is a considerable potential for innovation and creativity within Palestinian tertiary institutions. Moreover, the professional peer review system, relying on the local academic community, has demonstrated that such a model can in fact succeed.