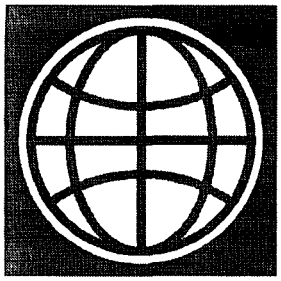


WEST BANK AND GAZA UPDATE

The World Bank Group

A Quarterly Publication of the West Bank and Gaza Office
August 2002

The Palestinian Authority's (PA) Reform Agenda

Donors Mobilize To Support, Advance PA Initiative

The Palestinian Authority issued its "100 Days Plan of the Palestinian Government" on June 23, 2002. The Plan describes how the Government intends to make the Palestinian Authority "more efficient and effective in the service of the national good". (For a summary of the Plan, see Box.)

A local task force was established in order to support and advance this initiative, as well as to monitor its implementation - including the identification of obstacles that stand in the way of its successful achievement. On behalf of the International Task Force on Palestinian Reform (the so-called "Quartet plus Four" consisting of the European Union, Russia, the United States, and the United Nations, plus Japan, Norway, the International Monetary Fund, and the World Bank) and working closely with the members of the PA Ministerial Reform Committee, benchmarks were identified by which progress will be measured on each Reform Agenda item. To this end, "Reform Support Groups" have been established in seven areas:(i) financial accountability; (ii) ministerial and civil service reform; (iii) market economics; (iv) judiciary/rule of law; (v) local government; (vi) civil society; and (vii) elections.

One of the primary functions of these Reform Support Groups is the identification of appropriate Donor instruments for providing the necessary technical assistance and financial resources, which would be required both immediately and in the medium-term.

Recognizing that greater accountability and transparency in expenditure management is due the Palestinian people (and would go far to reassure Donor capitals that their financial support is indeed being used in the most effective and efficient manner), the Reform Agenda includes a number of specific measures in the area of fiscal management to be implemented within the first 100 days - many of which have been accomplished ahead of schedule.

Domestic Consensus In Support Of Reform

With the current emphasis being placed on a need for Palestinian reform, it is easy to overlook the notable achievements in developing Palestinian administrative and institutional capacity that occurred in the period since Oslo. Institutions were created, ministries and agencies staffed, and essential Government services provided.

Understandably, in such a setting, a number of inefficiencies and redundancies in administrative structure resulted. Nevertheless, prior to the Intifada and the subsequent institution of internal closures and curfews, as well as external closures, progress was real, if undoubtedly incomplete.

More importantly, at the same time there also existed a general consensus among Palestinian civil society, the PA, and the Palestinian Legislative Council (PLC),

CONTENTS

and the international Donor community on the need for further institutional development. This included reforms in the areas of: governance, accountability, transparency, responsiveness, and efficiency of public services. While there was some divergence of opinion regarding the pace or sequencing of particular steps, there was general agreement on the path a reform program would take. This consensus is even stronger today.

Genuine administrative and financial reform cannot be imposed from the outside; it must be domestically driven, deriving from the wishes of the Palestinian people and their leadership. Palestinian civil society and public opinion has strongly supported such endeavors. Public opinion polls have shown near unanimity on the need to uproot corruption, base public sector employment on qualification and merit, achieve a more efficient justice system, and improve the performance of ministries. There was similar support for a stronger role for local Government, a more democratic decision-making process, and wider participation in Government policy.

PA And PLC Commitments

In recent months the Palestinian Authority and the Palestinian Legislative Council have explicitly committed themselves to a number of important reform measures. In the March 2002 World Bank publication, "*Fifteen Months - Intifada, Closures and Palestinian Economic Crisis - An Assessment,*" the PA pledged itself to measures in expenditure management, planning, and aid coordination designed to cope with the current emergency, as well as a number of structural measures that advance the medium-term policy and institutional agenda.

On March 16, 2002, the PLC affirmed its commitment for a number of PA institutional reform measures designed to improve transparency of Government operations, greater accountability, and constitutional and judicial reform.

Thus, the appointment by President Arafat of the Ministerial Reform Committee to produce an agenda of reform measures is but the most recent in a series of domestic reform initiatives.

Donor Support

Discussions among the Donor community quickly showed that there was considerable willingness to collectively advance a number of agenda items in the areas of institutional reform and good governance, particularly in the areas of fiscal management, economic policymaking, civil service and administrative capacity building (at both the national and municipal levels), and development of a legal environment conducive to private sector activity. Other areas, such as support for presidential, legislative, and municipal elections and reform of the security apparatus, are largely being pursued on a bilateral basis.

The World Bank Program

World Bank technical assistance and operational support is being focused around four areas: (i) financial management and economic policy-making; (ii) public administration and civil service reform; (iii) strengthening local government; and (iv) private sector development. Over the coming six months, considerable analytical and diagnostic work will need to be undertaken in these areas to ensure that critical work is adequately funded and that PA decisions are undertaken with the benefit of rigorous supporting analysis. Actual implementation of reform initiatives in these areas can reasonably be expected to take two- to three-years.

Financial Management And Economic Policy-Making

Broad-based public sector rationalization is a key element in fiscal reform. Improved management of the civil service is critical to achieving fiscal discipline, budget controls, accountability, and effectiveness and efficiency in the operation of Government programs.

Nevertheless, public financial management may be significantly improved in a number of key areas independently of civil service reform. This applies in particular to such weaknesses as repeated spending in excess of budgetary allocations, failure to issue payments to line ministries or settle debts in a timely manner, thus constraining operating budgets and building up arrears, severe delays in issuing VAT refunds, thus discouraging private sector investment, and delays in finalizing and reporting the public accounts.

Sound budgetary and financial management practices require that the budget be comprehensive and include all revenues and expenditures; otherwise there can be no assurance that scarce resources are assigned to priority programs. The creation of the single treasury

account, the inclusion in this account of revenues formerly outside the budget, and the cancellation of ministries ability to finance operations through independent revenue sources will go far towards meeting this objective.

Public enterprises, as well as other PA equity investments are being transferred to the newly established Palestinian Investment Fund (PIF). The release of audited details of the PA's private sector equity holdings in 2000 was an important step towards greater accountability. Going forward, the regular publication of PIF revenues and expenditures as part of the public accounts will further signal the PA's commitment to transparency in financial operations and thereby help boost public and international confidence in PA financial management.

Expenditure management capacity at the Ministry of Finance is being strengthened through the adoption of several other measures and procedures. Moving to the medium-term, the adoption of a modern, automated financial management system, Government Financial Management Information System (GFMIS), would provide rapid, comprehensive data for regular review of revenues, expenditures financing, transactions, cash balances, and spending versus budget allocations.

Such a system would not only help in gaining better control of expenditures, but also in increasing efficiencies and effectiveness in policy and program implementation that could be expected from adopting a medium-term framework for planning.

Adopting as a goal the linkage of spending priorities and investment plans over a specific timeframe with realistic financing projections means developing or increasing capacity in such functions as economic forecasting, debt management, and integration of capital and recurrent budgets for this goal to be actualized. The World Bank is ready to provide such support.

Over the next few months the World Bank will be jointly conducting with the PA a Country Financial Accountability Assessment (CFAA) - a diagnostic tool for enhancing financial accountability arrangements in both the public and private sectors. Typically, a CFAA's public sector component focuses on budgeting, accounting and financial reporting, internal control systems and records management, public sector auditing, legislative scrutiny of public sector financial management, and public access to information, with the idea of pinpointing specific areas in need of strengthening. On the basis of such a review, a package of technical assistance to build capacity in the identified areas of weakness might be sought.

Particularly in the current situation during which economic activity is declining and economic units are shrinking rather than expanding, strengthening the capacity of core institutions to monitor events, evaluate data, and develop appropriate macroeconomic policies - be they fiscal, monetary, trade and competitiveness, labor, or public investment - is critical.

Improving the performance of core economic functions will involve considerable upgrading of ministry systems and staff skills that can only take place over time and should only be done within the context of a rationalization of the functions and responsibilities of the three core economic ministries: the Ministry of Finance (MOF), the Ministry of Planning and International Cooperation (MOPIC), and the Ministry of Economy, Trade, and Industry (MOETI).

Public Administration And Civil Service Reform

In February 1999 the World Bank produced a comprehensive report, *Strengthening Public Sector Management*, which called for improvements in a number of areas, particularly in the civil service incentive and personnel management structure.

In the words of the study, excessive and unplanned hiring "may be ascribed it the first instance to a lack of ministerial organization charts and job descriptions and overlapping responsibilities among ministries... Similarly, the failure to clarify ministerial mandates may mean that the authorities prefer to leave ministerial responsibilities deliberately vague in order not to hinder job creation."[1]

Furthermore, the lack of clarity in the roles and the overlap in responsibilities between the various PA ministries and agencies has, in a few instances, resulted in a delay or even the cancellation of Donor-funded projects.

The recent reduction by one-third in the number of ministers presents a unique opportunity for further

[1] *West Bank & Gaza: Strengthening Public Sector Management, Social and Economic Development Group, Middle East and North Africa Region, The World Bank, 1999, page 26.*

rationalization. Ministerial mandates need to be clarified with overlapping authorities and redundancies removed, as recommended by the PLC Budget Committee and the Tripartite Action Plan of October 1999, and numerous subsequent studies. Enabling legislation needs to be passed to clarify ministerial responsibilities, convey the authority to establish operational policies, and to develop sectoral regulations.

Flowing naturally from the identification of ministerial functions and required organizational structure, such "strategic reviews" would then be extended to determine the real personnel needs and budgetary requirements, allowing for improved service delivery and eventual "right-sizing".

At the same time, as work on the administrative elements of the civil service (e.g., establishing unified, merit-based, open, and transparent recruitment, compensation, benefits, and promotion procedures) moves forward, development of a unified pension system that is financially sustainable and covers all public employees needs to progress. Such a system is a prerequisite for implementing a successful program of civil service restructuring that is commensurate with ministerial and agency requirements, and protective of the PA's fiscal position.

Improvements in public service delivery are another core objective of public administrative reform. This involves increasing the management roles of government in determining policy, setting service standards for government and non-government providers, and planning and regulating service provision - all of which require strengthening the capacity of ministries and agencies to effectively supervise, monitor and evaluate, and to conduct policy assessment.

Strengthening Local Government

The inability of the Palestinian Authority to invest in capital development since 1994 only reinforces the argument for increasing the fiscal base, institutional capacity, and political autonomy of municipalities at all levels and in all regions. The balance of the relationship between central and local government has yet to be settled comfortably; in a highly unstable political situation, the tendency of the PA to centralize government - reflected in central control over revenue collection, financial management and controls, and reliance on appointments by the Ministry of Local Government, especially at the village council level - is understandable. Yet the deeper the centralization, even if entered into with the intention of later reversal, the more difficult will be any subsequent decentralization.

Notwithstanding the legitimacy that would accrue through periodic municipal elections, strengthening local government is also about finding means to hold municipal authorities accountable. The multiplicity of governance structures has not helped (many new municipalities and village councils appear to have been established for political reasons, without regard for financial or institutional capabilities). So long as the municipal authorities receive fees mainly by transfer from the central authority rather than taxes from local constituencies, accountability will be further impeded.

At the same time, local governments can and should increase their revenues by improved management of user fees. When and where such direct fees are inappropriate, local governments need to have access to a suitable tax base. Property taxes are appropriate for such purposes, and should be reserved exclusively for local governments' use. The Palestinian Authority has agreed to hand over the administration of property taxes to local governments; such transfer should be accelerated. Similarly, recognizing the existence of regional disparities in local tax bases, the PA should devise an appropriate financing system, possibly through "equalization" transfers, in order to ensure equity and efficiency in providing essential services.

The Ministry of Local Government (MOLG) will need to play a lead role, along with other relevant authorities, in assuring proper financial management and accountability. Looking forward, MOLG should also prepare to expand municipal boundaries once this is possible politically in order to alleviate overcrowding and congestion, and to plan appropriately for the delivery of new infrastructure and services. Urban planning, including master plans, commercial and residential districting, traffic management, and the like, will all be urgently needed, following upon years of piecemeal and limited efforts - the consequence of key physical and economic resources being outside the control of either the municipality or the PA.

Private Sector Development

The fundamental prerequisite for improving the environment for private sector investment and economic activity in the West Bank and Gaza is the

reduction of political instability and the return to unfettered movement of goods, services, and individuals. Only in such a context will the private sector be able to achieve its potential for job creation and dynamic, sustainable economic growth. Until then, recovery of the private sector will be halting at best; Donor-supported interventions such as the proposed *Private Sector Crisis and Recovery Fund*, while helpful in assisting in the process of private sector revival, will be limited in their effectiveness.

There remain a number of steps that need to be taken in order to improve the institutional framework and the current and future environment for productive private investment in Palestine. Arguably the most important of these are measures designed to create an appropriate legal framework for commercial activities and an effective, independent judicial system to implement and uphold laws and regulations, contracts, and property rights.

Such measures can significantly reduce the uncertainty and related costs of doing business. Studies show that differences in the quality of the institutional framework explain a large part of the differences in economic development among countries. Indeed, the importance of a sound institutional framework well exceeds the attraction of specific incentives for investment. Experience in other developing countries suggests that an emphasis on tax and other incentives to encourage investment in export-oriented manufacturing industries, in the absence of sound macroeconomic and framework polices, has had disappointing results in promoting growth.

From a governance perspective, creating a firm foundation of "economic legality" - laws, rules, and regulations that are consistent, widely disseminated and accessible to the public, broadly consistent with global norms, and applied and enforced uniformly by institutions of integrity - remains the over-arching task.

While much has been done to fill the gaps in needed commercial legislation in recent years - *the Agency Law, Investment Encouragement Law, Industrial Zones Law, Domestic Arbitration Law, Condominium Law*, and *Labor Law* - gaps in implementing regulations remain, and additional legislation still needs to be drafted. Major strides could be rapidly achieved simply by completing the substantial backlog of draft laws awaiting parliamentary consideration and presidential endorsement. These include the: *Income Tax Law, Competition Law, Company Law, Intellectual Property Law, Securities Law (Capital Markets Authority Law), Insurance Law, Secured Lending and Leasing Law, International Commercial Arbitration Law, Rental Law, Pensions Law, Banking Law, Provident Funds Law, Mutual Funds Law, and Accounting and Auditing Law.*

The need to strengthen the regulatory environment is pressing, and particularly necessary for the deeper development of financial intermediation in the West Bank and Gaza.

The Country Financial Accountability Assessment, mentioned above in the context of public sector finance, also has a private sector component, one aspect being a review of private sector financial accounting and auditing practices. Other areas that would be reviewed involve corporate governance and disclosure rules and other aspects of financial accountability for publicly traded companies.

In addition to the salutary effect increased accounting and auditing standards would have on financial intermediation, business lending could also be increased by increasing the categories of assets that are eligible for use as collateral for loans. Similarly, removing obstacles preventing clear titling and registration of land would increase liquidity in the real estate sector, as well as support further business-related finance.

Completing the preparation of the framework for private sector development in advance of Palestinian statehood is imperative, given the challenges and opportunities that statehood will present. With independence will come a heightened need to generate jobs and investments associated with start-up and refugee absorption costs. While statehood is likely to be associated with a significant influx of assistance and compensation funds, without an appropriate framework, the return on such flows will be diminished and a one-time opportunity squandered.

"100 Days Plan of the Palestinian Government"

Released on June 23, 2002, the Palestinian Authority's (PA) Reform Agenda expressed the commitment of the Palestinian Government to a broad program of reforms. Because a number of specific measures were identified to be implemented within 100 days (while implementation of all other measures would be initiated so as to have a "tangible and visible" effect within three months of the Plan's adoption), the entire Reform Agenda has come to be known as the "100 Days Plan of the Palestinian Government." The Reform Agenda items are summarized here:

In The General Domain:

- Reinforce separation of powers of the legislative, executive, and judiciary branches of government;
- Restructure and modernize ministries and government institutions;
- Prepare for municipal, legislative, and presidential elections;
- Put into force all laws that have been passed;
- Improve the standard of living, particularly of the unemployed, and other segments of society that live in dire conditions;
- Rebuild the infrastructure that has been destroyed by the occupation;
- Tend to the needs of the wounded, families of those killed during the occupation, prisoners, and detainees.

In The Domain Of Public Security:

- Restructure and modernize the Ministry of Interior;
- The Ministry of Interior is to be in charge of all matters relating to internal security;
- Activate the role of the Ministry of Interior in the enforcement of court rulings;
- Respond to the expectations of the people for safety, order, and respect of the law;
- Improve discipline in the security services and strengthen social control;
- Reinforce the loyalty of the security services to the job, the PA, and the country;
- Raise awareness of the population to the measures above and secure their understanding, cooperation, and support.

In The Financial Domain:

- Reform operations in the Ministry of Finance;
- Deposit all incomes of the PA into a single account of the Treasury;
- Manage all commercial and investment operations through a Palestinian Investment Fund, which is subject to stringent standards of disclosure and audit;
- Limit expansion of employment in the public sector and unify payroll administration under the Ministry of Finance;
- Modernize the pension scheme;
- Strengthen internal and external auditing;
- Develop the process of preparing the general budget to include recurrent and developmental expenditure;
- Develop a monthly expenditure plan for the remainder of 2002;
- Begin preparation of the 2003 Budget;
- Reorganize the financial relations between MOF and the municipalities/local authorities.

In The Judicial Domain:

- Strengthen the judiciary, through appointment of judges and development of infrastructure;
- Implement measures required by the Judiciary Law;
- Prepare draft laws, decrees and decisions to accompany the Basic Law;
- Establish the Government Legal Cases Administration to handle cases to which the Government is party.

In Other Domains:

- Reinforce Palestinian values, including the spirit of democracy, enlightenment, and openness;
- Activate the role of the Ministry of Awqaf to serve national and religious objectives;
- Resolve the financial crisis of the universities, schools, and hospitals;
- Review Government institutions that operate outside the jurisdiction of the ministries with a view to attach or incorporate them within the ministries;
- End the role of the security services in civilian affairs;
- Improve employment policy, to prevent an inflated civil service;
- Unify and develop institutions - and promulgate laws - that encourage investment;
- Improve the training and conditions of employment of human resources;
- Increase the effectiveness of the Palestinian diplomatic corps;
- Rebuild the management boards of Government institutions according to the law;
- Pay special attention to the pollution of the environment

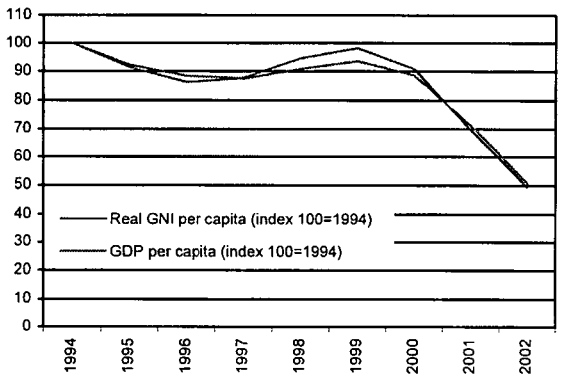
Recent Economic Developments

□ ***Economic Output.***

Very limited statistical information on the Palestinian economy precludes in-depth quantitative analysis of the impact of the restrictions on movements of goods and people and the destructions of physical capital.[1] But all indicators up to end-March 2002 indicate a strong recession of the Palestinian economy since September 2000. Economic losses, in terms of foregone output and impoverishment of the population are huge, not to mention humanitarian costs.

Slightly revising its macroeconomic figures on the basis of additional statistical information for 2000 and 2001, the World Bank estimates that per capita GDP declined by 24 percent between 1999 and 2001, while GNI per capita declined by 29 percent during the same period, *see Figure 1.*

Figure 1. Real GNI and GDP per capita



Source: World Bank Estimates. Date excludes East Jerusalem

Many factors explain this very inferior economic performance, most of them obvious to even the most casual observer of the situation in West Bank and Gaza. Restrictions on the movement of goods and people ("closures") have had a profound negative effect on economic activity across all sectors, as it has reduced the overall productivity of the Palestinian economy, through a number of channels: external closures dried up workers remittances, which entailed a negative multiplier effect on the demand for domestic goods. The combination of internal and external closures led to a sharp increase in transaction costs, which reduced productivity and competitiveness of Palestinian firms, as well as the overall adjustment capacity of the Palestinian economy to the decline in demand. In spite of a high and growing unemployment, prices and wages did not sufficiently adjust downwards, which bears a high cost for the economy and society as a whole, notably in terms of equity (poverty) and aggregate purchasing power. In turn, the substitution away of imports in favor of domestic goods remained relatively modest: the ratio of imports over GDP went down from 71 percent in 1999 to 68 percent in 2001. This is a result of the high dependency of Palestinian production on imported inputs, which leaves little possibilities of substitution in the short run in favor of domestic inputs.

The Palestinian Authority and, to a lesser extent, Palestinian households nevertheless managed to maintain minimum levels of consumption. The former by indebting itself (on the back of the private Palestinian and Israeli sectors and the donor community), the latter by depleting their private savings. The donor community also helped to a significant extent cushioning the negative impact of the crisis on living standards by sustaining public and private consumption. But this inevitably produced negative effects on available savings and investments, which, once combined with the severe physical damages caused on infrastructure and productive capacities by the conflict, led to a large decline in the per capita capital stock level. This would definitely affect the capacity of the Palestinian economy to eventually rebound should conditions be met one day.

The estimated social cost of the crisis is huge in itself. But it is also high compared to the ones observed during recent crises in other parts of the world. In Indonesia for instance, the poverty rate jumped from 11 to 19 percent during the financial crisis of 1998. In Ecuador, El Nino increased incidence of poverty in affected areas by more than 10 percentage points.[2] In comparison, the World Bank estimates that the share of population below the poverty line of approximately US$2 a day increased by some 20-25 percentage points since September 2000 in WBG. The much stronger response in WBG compared to other places is probably because

[1] See World Bank (2002), *15-month Intifada, Closure and Palestinian Economic Crisis, An assessment*, for a detailed description on closures and physical destruction between September 2000 and December 2001.

[2] See World Bank (2002), *15-month Intifada, Closure and Palestinian Economic Crisis, An assessment*, for a detailed description on closures and physical destruction between September 2000 and December 2001.

of the unique nature of "closures", which has devastating impacts on the economy and reduces at the same time the capacity of the economy to cope with it (see below). In addition, a very large share (compared to other countries) of the Palestinian population before the crisis was clustered just above the poverty line, and fell below with the crisis.

Table 1. Estimated Macroeconomic Trends, 1998-2001

	1998	1999	2000	2001
Gross National Income (GNI), US$ mill.	5,058	5,166	5,419	4,503
Gross Domestic Product (GDP), US$ mill.	4,230	4,289	4,607	4,014
Real annual change:				
GNI per capita	7.7%	3.9%	-7.5%	-23.2%
GDP per capita	3.9%	3.1%	-5.3%	-19.5%
Private Consumption	9.0%	7.5%	-5.6%	-14.0%
Public Consumption	7.0%	20.3%	31.0%	-1.6%
Total Fixed Investment	8.4%	-8.3%	-28.3%	-82.2%
Export	6.6%	2.3%	-8.8%	-17.9%
Import	7.4%	5.4%	-16.2%	-29.3%
Other items				
Poverty, share of population below poverty line	23%	20%	31%	44%
NIS/US$, annual average	3.81	4.14	4.08	4.21
CPI, annual change	5.6%	5.5%	2.7%	2.1%
Annual Closure days	26	16	75	210
Population, mid-year (1,000)	2,731	2,842	2,966	3,096

Sources: World Bank Staff Calculation, PCBS, UNSCO. Note: All data excludes East Jerusalem.

Besides, the decline in economic activity and incomes in 2000 and 2001 has most likely been severely aggravated by recent developments on the ground. First, the military operation launched by Israeli military forces on March 29, 2002 resulted in massive destruction[5] of infrastructure and productive capacities; second, the frequent imposition of curfews in major Palestinian cities literally freezes all kind of economic activities, be it trade, consumption or production; third, tighter internal and external restrictions imposed on the movement of goods and people further hampers economies of scale and specialization, and dries up the possibility of generating incomes abroad; fourth, the decline in economic activity in Israel, the depreciation of the NIS and the tightening of Israeli fiscal policy can only produce negative outcomes for the Palestinian economy in the short run.

As of July 2002, prospects of economic recovery are desperately grim. The World Bank projects that under current conditions Real GDP and GNI could decline a further 20-25 percent in 2002 compared to 2001. Productive capacities and markets have been lost, some of them permanently. Households, firms and the Palestinian Authority have adopted strategies which have proven to be efficient in coping with the crisis, but most of them look unsustainable in the medium run.

In such circumstances, foreign assistance, though useful and timely, can just maintain minimum welfare and cannot pretend fostering economic recovery. Only a resolution of the Israeli-Palestinian conflict accompanied by a profound change in the Palestinian economic environment can encourage it.

[5] The World Bank estimated that physical damages resulting from the Israeli military operation in March 2002 amount to some US$ 350, to be added to the US$ 300 million of physical damages incurred since the beginning of the conflict. This is roughly equivalent to 10 percent of total productive capacities.

□ ***Foreign Trade.***

Trade plays traditionally an important role in the small and open Palestinian economy. As of 1999, imports of final goods, services, equipment and intermediate inputs represented approximately 70 percent of GDP. Exports of goods and services represented less than 20 percent of GDP. Looking at recent trends in trade is important in itself, given the importance of the sector in total GDP, but also because it might give some indirect insights on final consumption, producer costs, and external competitiveness.

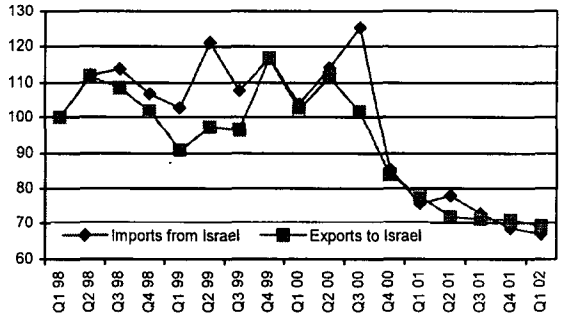
Trade is unfortunately badly registered, as most of it takes place between the West Bank and Israel, where no custom stations exist (in contrast to trade between Gaza and Israel). The Israeli Central Bureau of statistics nevertheless estimates such flows, and we rely on their data to depict the evolution of trade since 1998. This only covers Palestinian trade with Israel, and not with the rest of the world. However, trade with Israel represents the bulk of total Palestinian trade[4] - although a significant share of imported goods from Israel actually originates in third countries, the so-called "indirect imports". Finally, and even after accounting for the depreciation of the New Israeli Shekel in early 2002, there is no strong reason to believe that the share of trade with Israel in total trade significantly changed with the intifada.

There is no doubt that foreign trade suffered extraordinarily from the closures, due to the extreme difficulties in reaching markets outside the West Bank and Gaza. Various indicators point to substantial decline in both imports and exports. The decline in import appeared almost immediately after the outbreak of the Intifada, in step with the decline in remittances (see below). In 2001 and early 2002, imports declined less rapidly, and were by end March 2002 at about 50-55 percent of their pre-intifada levels of September 2000 (in value terms), according to data from the Israeli Central Bureau of Statistics, *see Figure 2.*

The decline in exports has been more gradual, reflecting continuing loss of market shares abroad. By the end of March 2002, data from the Israeli Central Bureau of Statistics suggest that export was 30-35 percent lower than immediately before the Intifada, *see Figure 2.*

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

Figure 2. Trade with Israel (Index 100-Q1 98)



Source : Israeli Central Bureau of Statistics.

Compared to 1999, both exports and imports declined by approximately 30 percent in value (expressed in current US dollars). This probably means that imports volumes declined more than 30 percent, under the likely assumption that the domestic price of imported goods increased since 1999 as a result of significantly higher transaction costs (World Bank, 2002). At the same time, it probably also means that the consumption of both intermediate and final Palestinian goods in WBG declined by no more than 30 percent, as the later became cheaper compared to imports. The relative change in demand for imported goods and domestically produced goods obviously depends on the extent to which goods are substitutable across origin. But the increase in transaction costs, largely documented (see also the section on prices below), as well as increased consumption of own produce suggest that imports declined more rapidly than the consumption of domestic goods.

Coincidentally, the reported decrease by the Israeli Central Bureau of Statistics of US$ 490 million in the Palestinian trade deficit with Israel between 1999 and 2001 is almost similar to the reported decrease in workers remittances from Israel. Finally, the significant drop in exports give little credit to the idea that the Palestinian recession is only driven by a decline in domestic demand. Demand in international markets for Palestinian products had no reason to significantly decline over the period. But the competitiveness of Palestinian products abroad have most likely been affected by higher transaction costs (in particular transport costs) and more expensive imported inputs. Besides, producers might have substituted part of their production away from external markets to provision domestic ones, easier and less costly to reach despite lowered demand.

□ ***Fiscal Accounts.***

The fiscal situation of the Palestinian Authority continues to be in dire straits, in spite of the extraordinary budget support from the international community.

The fiscal accounts have been severely impacted by the crisis, via three main channels. First, the sharp decline in PA revenue collections associated with the decline in economic activity and the disruption of tax administration; second, the suspension since December 2000 by the Government of Israel of the transfer to the PA of the revenues it collects on the PA's behalf (the so?called clearance revenues); and third, the increase in emergency expenditures.

Central government revenue fell from a monthly average of US$83 million in 1999 to US$23 million by Q1/2002. This collapse in tax revenue was to a large extent compensated by emergency budget support from donor countries, of which the PA received 735 million between November 2000 and end-March 2002. This left an average monthly budget deficit of approximately US$23 million, which has been managed through a combination of accumulating arrears to suppliers, taking occasional loans from domestic banks, and delaying the payment of certain non-salary expenses.

By the end of March 2002, the PA had accumulated at least US 490 million in arrears. This level of arrears has had a pernicious impact on the private sector, resulting in an acute liquidity shortage, mounting non-performing loans in the banking system, and increasing cases of insolvency. Vendors have felt compelled to continue providing credit, but many have reached a point where they are no longer willing, or able, to do so. Settling these arrears will be a matter of top priority once Israel hands over the withheld clearance revenue (US$590 million in gross terms owed as of end-March 2002).

Since March, the PA's fiscal situation has further deteriorated, as disbursements from the Arab States have been falling behind commitments made at the most recent Arab League Summit. For the four-month period April-July, commitments totaled US$220 millions, or US$55 millions per month, but disbursements only reached about US$116 millions. Israel's decision in early August to transfer some of the withheld clearance revenue was a positive sign, but the approximately US$15 million transferred so far is not nearly enough to fill the gap, and the situation is clearly not sustainable.

Table 2. PA Fiscal Accounts - Monthly Average (US$ million)

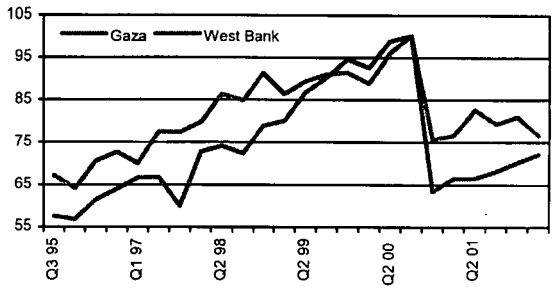
	1999	2000	2001	Jan-Mar 2002
Revenue	83	77	23	21
Domestic	31	29	23	21
Clearance	53	49	0	0
Current expenditure	79	99	91	90
Wages	44	52	57	55
Non wages	35	48	35	35
Of which: emergency expenditures	0	6	13	22
PA-financed capital expenditure	0	1	2	3
Recurrent balance including PA-financed capital expenditure	4	-23	-70	-72
Financing	-4	23	70	72
Expenditure arrears (net accumulation)	1	5	23	21
External budgetary financing		5	44	51
Arab states	0	3	36	42
European Union	0	2	8	9
Norway	0	0	1	0
Domestic bank financing and residual	-5	13	3	0
Memorandum items:				
Stock of withheld revenue clearances (end of period)	0	10	507	588
Stock of expenditure arrears (end of period)	90	155	430	489
PA employment (in thousand employees, end of period)	104	115	122	123

Sources: Palestinian Authority (PA) and IMF staff estimates.

□ ***Labor Markets.***

Employment sharply declined in Q1-2002, after stagnating most of 2001. This decline affected only workers from the West Bank, working either in the West Bank or in Israel and Israeli settlements (ISI). In total, 19,000 jobs were lost in Q1-2002 (10,000 in the West Bank, 9,000 in ISI) compared to the previous quarter for West Bankers. By contrast, Gaza, whose employment levels had been particularly affected during the first months of the crisis is regaining progressively some of its losses (*see Figure 3*). This, most likely as a result of a stronger deterioration of the economic environment in West Bank compared to Gaza.

Figure 3. Total Employment in West Bank and Gaza (Index 100=Q3 2000)



Source: World Bank estimates based on PCBS. Note: The employment figures reported differs from those published by the PCBS, as they exclude the estimated number of employed persons in East Jerusalem. Total employment includes workers in ISI.

Table 3. Number of Palestinian Jobs (thousands)

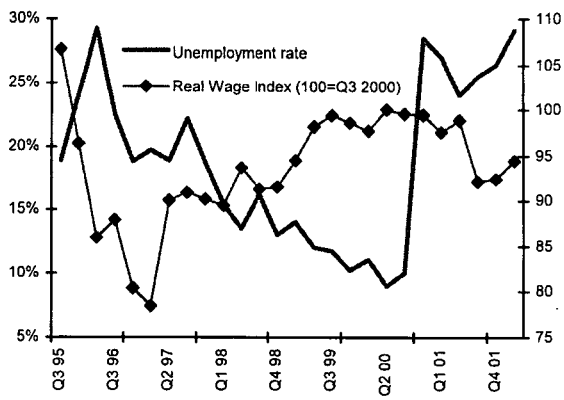
	Q3 95	Q3 00	Q4 00	Q1 01	Q2 01	Q3 01	Q4 01	Q1 02
Workers in West Bank	233	327	300	276	298	297	298	289
Workers in Gaza	107	164	120	125	127	129	134	138
Workers from West Bank in Israel	53	98	21	50	54	41	47	37
Workers from Gaza in Israel	4	30	3	4	2	3	2	2
Total	397	619	445	455	481	470	481	466

Source: World Bank estimates based on PCBS. Note: The employment figures reported differs from those published by the PCBS, as they exclude the estimated number of employed persons in East Jerusalem.

In Q1-2002, Gaza experienced a slight increase in employment. In net terms, some 4,000 jobs were created in Gaza, most of which in agriculture. The number of Gazan workers in ISI (mainly employed in industrial estates at the border with Israel) remains stable, at around 2,000. The positive job creation in Gaza was however insufficient to reduce the unemployment level and rate, as the active population is naturally growing fast and new job opportunities encourage people to participate on the labor market (hence increasing the pool of active workers).

Using the ILO definition of unemployment, the unemployment rate went up from 22 to 26 percent in West Bank and 35 to 36 percent in Gaza from Q4-2001 to Q1-2002.[5] In total, given the larger weight of the West Bank in total active population, the unemployment rate in the Palestinian Territories rose from 26 to 29 percent during this period (*see Figure 4*).

Figure 4. Real Wage Adjustment 1995-2001



Source: World Bank staff calculations based on PCBS. Data excludes East Jerusalem.

[5] Using the "relaxed definition" of unemployment, which includes discouraged workers shows similar trends. In this case, the unemployment rate went up from 35 percent in Q4-2001 to 39 percent in Q1-2002. See previous issues of West Bank and Gaza Update for a discussion on these two definitions of unemployment.

As a result of external closures, some 90,000 Palestinian workers have lost their jobs in Israel since September 2000. The implied decline in workers remittances in 2001 (a 52 percent decline with respect to 2000, and a 58 percent decline with respect to 1999 once accounted for changes in nominal wages) is very significant, and has direct consequences on the income of Palestinian households, as workers' remittances from Israel represented some 18 percent of their total disposable incomes in 1999. In turn, lower incomes inevitably affected the demand for Palestinian goods and services, and hence labor demand for Palestinian workers producing such goods and services.

However, it is difficult to believe that the decline in domestic jobs could have been caused solely by this (negative) multiplier effect. Some supply-side effects must have also played a role, as job losses in WBG exceed by far what could be expected from a simple multiplier effect. Indeed, 65,000 net jobs were lost during the same time in West Bank and Gaza, or 75,000 jobs in the Palestinian private sector once accounted for the creation of 10,000 jobs in the Palestinian Authority since September 2000 (*see Table 2*). Moreover, this observation does not account for the gigantic opportunity cost represented by the sum of jobs which were not created during this period, that one could estimate around 70,000 under assumptions of constant labor participation and unemployment rates.

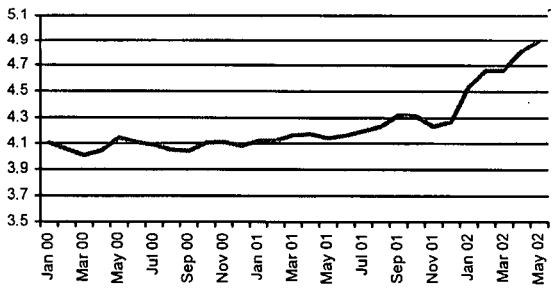
Some of the negative effects of the crisis on the supply-side of the economy have already been documented: closures entail greater transaction costs (out of which transport costs are estimated by PCBS to have increased by 30 percent since September 2000 - see the section on prices below), disruption in production cycles, lost perishable output, lower economies of scale and specialization; moreover, physical damages of infrastructure, land and factories reduce the productive capacity of the Palestinian economy. But closures, and in particular internal closures, also most likely diminish the Palestinian labor market capacity of adjustment to the crisis. Contrary to what happened during the first wave of harsh external closures in 1995-96, real wages did not drastically decline after September 2000, in spite of a large and growing unemployment rate. The *Figure 4* below depicts clearly the opposite evolution of real wages and unemployment until Mid-2000. But as it can be observed, the sudden and large increase in unemployment rate after September 2000 was only accompanied by a modest decline in real wages.

The low inflation rate in 2000-2001 (2.4 percent on average each year, *see Table 1*) probably limited downward adjustments on real wages. But it is also likely that the dis-integration (in its literal sense, i.e. partitioning) of labor markets, due to internal closures, reduced their contestability and in turn the matching of labor demand and supply.[6] As a result, most of the adjustment took place in the form of growing unemployment (as well as the increase in the number of discouraged workers), which is more costly for the Palestinian society as a whole than a generalized reduction in real wages, for its effects on aggregate purchasing power and poverty. Besides, the slow decline in real wages did not enable exporters to gain market shares through increased wage competitiveness, as already discussed in the trade section.

□ ***Prices.***

Consumer price inflation picked up in both West Bank and Gaza between December 2001 and May 2002. During these five months, consumer prices grew by 2.0 percent in West Bank and 2.6 percent in Gaza. In annual terms, it is equivalent to 4.8 percent in West Bank and 6.3 percent in Gaza, significantly above the annual inflation rates recorded in 2000 and 2001 (*see Table 1*). The strong depreciation of the NIS since December 2001 (*see Figure 5*) explains to a large extent this acceleration of inflation: during the same period, the New Israeli

Figure 5. NIS/US$ Monthly Exchang Rate



Source: Central Bank of Israel.

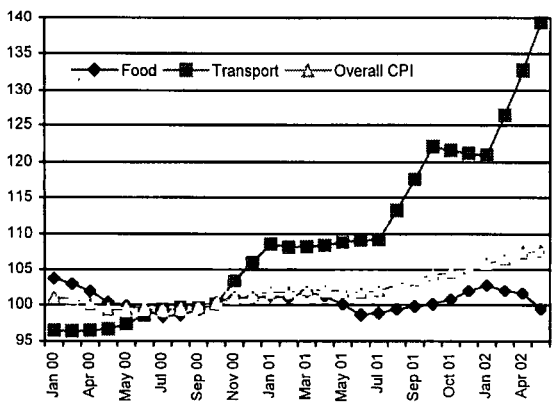
[6] Putting aside the impact of internal closures, Palestinian labor markets in West Bank and Gaza are considered to be flexible. There is no official minimum wage in place, and labor market regulation is very limited. There is no formal unemployment insurance system either, which could lower labor participation and/or increase reservation wages.

Shekel lost 14.4 percent of its value with respect to the US dollar. As a result, prices of imported goods mechanically increase, and, depending on substitution effects (between imports and domestically produced goods), the overall consumer price index increase. A higher inflation in Gaza might indicate a higher dependency (at least in the short run) on imported goods compared to the West Bank.

Nonetheless, this recent evolution of prices significantly contrasts with the trends observed in West Bank and in Gaza since the outbreak of the intifada in September 2000 (with prices increasing much more rapidly in the West Bank than in Gaza). While the recent evolution can largely be attributed to the influence of the NIS depreciation, which can in turn be considered as an external shock (mostly reflecting the declining confidence in the Israeli economy), the longer term trends probably illustrate more accurately domestic constraints in the West Bank and in Gaza.

In the West Bank, consumer prices increased steadily (+7 percent since September 2000, *see Figure 6*). This principally as a result of transport costs increases (+40 percent), which contributed for 3/4 in the overall CPI increase. On the other hand, the price of tradable goods (food, textiles, manufactured goods, etc.) did not significantly increase over the period. This is consistent with the hypothesis that the price of imported goods increased compared to the price of domestic goods (which are pulled down by the downward pressure exerted on wages).

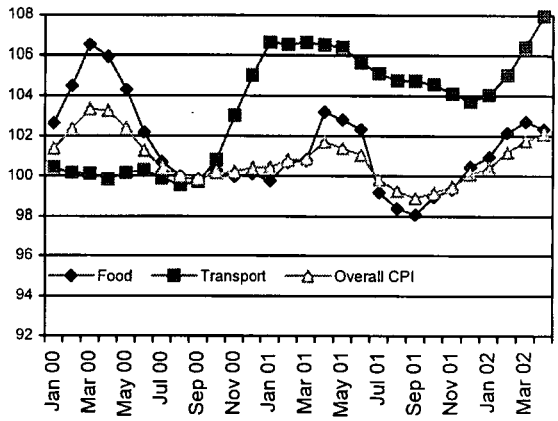
Figure 6. Price Indicies, West Bank



Source: World Bank staff calculations based on PCBS. Data excludes East Jerusalem. Price indices are 3-month moving averages

In Gaza, price levels staid more stable on overall, with the exception of transport (+10 percent since September 2000), *see Figure 7*. The later contributed for almost 1/2 in the overall CPI increase (+2 percent since September 2000). Food prices looked rather cyclical, but did not increase over the period, suggesting that nor the West Bank neither Gaza did experience generalized food shortages.

Figure 7. Price Indicies, Gaza



Source: World Bank staff calculations based on PCBS. Price indices are 3-month moving averages.

The fact that transport costs increased more rapidly in West Bank reflects tighter internal closures than in Gaza. But the higher inflation rate in West Bank compared to Gaza since September 2000 also probably means that domestic supply (out of which transport services is an important input) and imports were put under stronger constraint in West Bank. In Gaza, by contrast, demand was probably more affected than supply, which in turn exerted a downward pressure on prices.

Bank Group Operations

A. Multi-Donor Fund Administration

■ ***Palestinian Economic Assistance and Cooperation Expansion (PEACE) Facility.*** The PEACE Facility, a multi-donor successor to the Holst Fund, was set up in response to the need expressed by a number of Donors for a multilateral or umbrella facility to support targeted activities ranging from technical assistance to projects.

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

Project Progress:

♦ *Canadian International Development Agency (CIDA) - Canadian Contribution*: US$3.25 million grant. Effectiveness date: November 14, 2001. Expected closing date: March 31, 2003. The estimated total direct employment is 80,000 person-days (42,000 in the West Bank and 38,000 in Gaza). 97.5% of the funds have been committed to some 40 sub-projects, and (61% as been. Nineteen sub-projects have been completed, and to date, 45,147 person-days have been generated.

♦ *Danish International Development Assistance (DANIDA) - Government of Denmark Contribution*: US$3.5 million grant. Effectiveness date: November 25, 2001. Expected closing date: December 31, 2002. The estimated total direct employment is 70-80, 000 person-days. 86.4% of the funds have been committed to some 30 sub-projects in the middle area of Gaza, and 52% of the funds have been disbursed. Ten projects have been completed. To date, 34,145 person-days have been generated.

♦ *Department of International Development (DFID) - British Contribution*: US$2.2 million grant. Effectiveness date: January 5, 2002. Expected closing date: October 31, 2003. The estimated total direct employment is 35,000 person-days (18,000 in the West Bank and 17,000 in Gaza). 63% of the funds have been committed (to some 19 sub-projects, and 10% have been disbursed One project has been completed. To date 2,147 person-days has been generated.

♦ *Islamic Development Bank (IDB)*: US$7 million grant. Effectiveness date: July 3, 2002. Expected closing date: June 30, 2003. The estimated total direct employment is 160-170,000 person-days. PECDAR and the Welfare Association Consortium (WAC) have mobilized to implement the project.

♦ *Italian Cooperation Contribution*: Euro 10 million grant. Expected Effectiveness date: September 2002. Expected closing date: September 2004. The estimated total direct employment is 240,000 person-days (126,000 in the West Bank and 114,000 in Gaza). The project is now fully prepared and the grant agreement is expected to be signed by the Palestinian Authority in the near future.

B. Investment Projects

As of July 2002, the World Bank Group has 21 projects under implementation, six completed projects, and three projects under preparation.

Ongoing World Bank Projects

■ ***Education and Health Rehabilitation Project (EHRP).***

World Bank: US$20 m.
Saudi Arabia: US$20 m.
Italy: US$8.65 m.
Australia: US$0.4 m.
Approval date: July 9, 1995.
World Bank closing date: June 30, 2001.
Saudi and Italian closing date: December 31, 2002.

Description: The project consisted of the following components:

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

2. Improve Quality of Services. This component aimed to: (a) initiate a quality improvement program in primary and secondary services through technical assistance and training; and (b) support health education program for schools.

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

Latest developments: The World Bank component has been closed and the Implementation Completion Report (ICR) has been completed. Under the Saudi Grant, thirteen schools have been built and fully furnished; four clinics, two hospitals (in Dier Elbalah, Gaza, and in Yatta, West Bank, and the extension of Rafidia Hospital in Nablus have been built, fully furnished and equipment installed. The Ministry of Health Department building is under construction and is progressing well. Under the Italian Grants, eleven schools and five community centers for the handicapped have been built and fully furnished. Construction of one school and one community center for the handicapped is progressing well. Equipment, teaching and learning aids have been supplied to the schools and to the community centers for the handicapped. Under the Australian Grant, strengtheningof policy-making, planning, and research capacity within the Ministry of Education, establishment of a school mapping database, and a maintenance scheduling system for the Ministry have all been completed.

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

Description: The Education Action Project (EAP) aims to support the implementation of the Ministry of Education's (MOE) Five-Year Development Plan. The objective of the project is to improve the management capacity of the education system to deliver quality services in a fiscally feasible manner. The project has two complementary components: The first directly supports strengthening the management capacity of the Ministry of Education (MOE) for policy, planning and budgeting across departments. The second supports specific investments in targeted programs in line with the objectives of the MOE's Five-Year Plan, including a program for school improvement through staff review and school development program, and the development of professional standards for headteachers, and support to Vocational Education.

Latest Developments: Despite the obstacles imposed by the political unrest and emergency situation in WBG, the Project has made substantial progress on most of its components since credit effectiveness on November 21, 2001. A Project Launch Workshop was held on May 13, 2002. In addition, work has already started on the following activities: construction of atwo-floor extension to the existing MOE building in Ramallah, preparation of a Finarcial Management Manual and the accompanying training, selected training for teachers and supervisors, preparation of materials for training modules for teachers and supervisors, identification of four sites to build vocational education units. Procurement of equipment and furniture and curriculum development for vocational education is underway.

□ ***Health System Development Project (HSDP).***
World Bank : US$7.9 m.
Borrower(PA): 850,000
Approval Date: December 9, 1999
Closing Date: April 30, 2003

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

Latest Developments: Due to the current political situation, some of the project components have been facing serious delays, especially in the West Bank: The five primary health care centers in Gaza are functioning, whereas the construction of the nine PHC centers for the first phase in the West Bank have been delayed; as is also the case for the construction of the Health Information Center in Nablus.

Despite this, the project has managed to develop a management information system for the Treatment Abroad and Referal Department and the Health Insurance Department, and to prepare the first version of the Palestinian Data Dictionary in addition to the first version of the Clinic Information System. Also, of the first version of the Palestinian Essential Drug List and Formularies has been printed and distributed.

□ ***Municipal Infrastructure Development Project (MIDPI).***
World Bank : US$40 m.
Greece: US$1.74 m.
Italy: EURO 3.67 m.
Approval date: June 12, 1996.
Closing date: December 31, 2002.

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

The Capacity Building Component which involved MLG and five selected addressed issues related to developing the municipal planning and financial management structures, primarily 3-year investment plans, a Financial Management Information System (FMIS) and a Reformed Management Information System (RMIS).

Latest Developments: Reallocation of remaining funds: To respond to the need for immediate assistance to repair damage incurred by the recent incursions, the Bank has reallocated US$2 million (5% of Bank financing) of the remaining balance originally designated to Capacity Building for labor-intentive damage repair. The funds will be distributed among not only the participating municipalities in this program but also among other communities in need for assistance.

The Physical Component has been successfully completed with almost all available funding committed to some 300 physical sub-projects, including 210 micro-projects. So far, more than 220 km of roads and 100 km of water and sewage pipelines have been constructed. Also, upgrading of three neighborhood areas in Gaza City have been completed.

The Capacity Building Component has been severely delayed as a result of the past 21 months' political instability.

To date, only Hebron, Gaza and Rafah municipalities have successfully completed their three-year investment plans. Nablus and Jenin Municipalities have completed the diagnostic studies but have been unable to continue the tendering process for the three-year investment plans. A Revenue Management Information System for WBG Municipalities has been awarded and implemented in many of the participating municipalities. A Geographic Information System (GIS) has been implementation in Gaza Municipality, but Hebron and Nablus Municipality's bidding were delayed by the incursions. A state-of-the-art computer and network center has been completed in Gaza, Jenin, Nablus and

Rafah. An electricity study was completed for the Hebron Municipality but was stopped in Nablus due to inability to complete the procurement of this item.

□ ***Second Municipal Infrastructure Project (MIDP II).***

World Bank : US$7.5 m.
Saudi Arabia: US$5 m.
(Italy is currently considering contributing a sum of US$5.7m of which US$2.5m will be for roads and US$3.2m for water)}.
Approval date: June 20, 2000.
Closing date: December 31, 2004.

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

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

□ ***Solid Waste and Environmental Management Project (SWEMP).***

World Bank: US$9.5 m.
US$1.25 million is anticipated from the PA.
Approval date: October 10,, 2000.
Closing date: December 31, 2005.
Description: The Project is financing interventions in solid waste collection, transfer, and disposal of waste for the District of Jenin. The project is managed by the Joint Services Council for Solid Waste Management (JSU) and is being executed through a Project Implementation Unit (JSC-PIU). The project is assisting the strengthening of the capacity of the Environmental Quality Authority.

Latest Developments: Considering the current sociopolitical constraints, the JSC-PIU has focused on closing uncontrolled dumpsites and rehabilitating others in order to extend their operational life till the delayed new regional landfill proposed at Zahrat Al-Fanjan is operational. To - date,. three dumpsites (Faquaa, Qabatyia, Seilt Al Harthya) have been closed and four dumpsites (Jenin, Srouj, Al Mahata and Arabeh) are being rehabilitated to act as regional controlled dumpsites during the interim period. Access roads to these sites are also being rehabilitated. In addition, the JSC has also been actively involved in cleaning up of accumulated wastes during the recent closures and military incursions. Furthermore, the JSC-PIU has moved forward in preparing for the proposed construction of the Zahrat Al Fanjan landfill. Six qualified international firms were short-listed and have been invited to submit proposals for the detailed design of the landfill. Both JSC-PIU and the Environmental Agency recognize the importance of public awareness campaigns and are gearing themselves to solicit proposals from NGOs and local consulting firms to carry out this important task.

Most recently, the European Union has approved the financing of components related to solid waste management, including purchase of equipment needed for primary and secondary collection of solid waste including support for operations and maintenance. The JSC, in cooperation with MLG, have completed the work-plan required for this component. The EU consultant working with the JSC-PIU has also completed a needs assessment and prepared tender documents for the supply of equipment. Its envisioned that the tendering process will commence shortly.

□ ***Gaza Water and Sanitation Services Project (GWSSP I).***

World Bank: US$31 m.
Approval date: July 5, 1996
Closing date: December 31, 2002

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

Latest Developments: Some of the main achievements after four years of implementation of the Project, as audited by an independent auditor are: over 1,200 km of pipe have been surveyed for leaks and over 16,000 illegal connections identified; over 22,000 service connections have been replaced, over 20,000 meters of pipe has been repaired, and a total of over 30,000 meters replaced. Recent measures of Unaccounted-For-Water (UFW) are around 30%, while reliable disinfection is maintained at 98%. The existing Management Contract has been extended through December 2002. The Credit is fully committed and disbursements as of August, 2002 stand at US$29.9 million.

□ ***Southern Area Water and Sanitation Improvement Project (SAWSIP).***

World Bank: US$21 m.
EIB: EURO30 m.
Approval date: June 5, 1999.
Closing date: June 30, 2003.

Description: The Project consists of: (a) the provision of an international Operator [General des Eaux, Khatib & Alami (GEKA)] under a four-year performance based Management Contract to implement a Service Improvement Program for the Governorates of Bethlehem and Hebron in the West Bank; (b) the provision of operating investment funds for the Operator built into the Management Contract, to finance essential operations and maintenance expenditures not covered by the revenues collected and which are required to achieve the yearly

performance targets in the Management Contract; (c) the provision of funds (by EIB) to finance design, implementation, and supervision of capital improvements, such as, system rehabilitation and improvement of water supply services; bulk transmission mains; distribution systems restructuring and rehabilitation; as well as an investment in rural water supply; and (d) the provision of technical assistance to support strengthening the institutional capacity of PWA and WSSA, to support implementation and monitoring of the Project and provide independent auditors to monitor the Operator's technical and financial performance. The implementing agency is the PWA.

Latest Developments: An independent audit of the Operator's First Year Performance indicated satisfactory performance. Project implementation continues to be satisfactorybut has slowed down since September 2000 as a result of the deteriorating political situation. Disbursements, as of August 2002 are approximately US$9.1 million, representing about 43% of the Credit.

☐ *The Second Community Development Project (CDP II).*

World Bank: US$8 m.
OPEC Fund:US$8 m.
Approval date: March 30, 1999.
Closing date: October 31 2002

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

Implementing Agency: PECDAR.

☐ *Legal Development Project (LDP).*

World Bank :US$5.5 m.
Saudi Arabia: US$12 m.
Approval date: June 24 1997.
Closing date: December 31, 2003.

Description: The Project aims to initiate a long-term process of assisting the PA to modernize and harmonize existing legislation, to give rise to a legal framework adequate to support a modern market economy, and to encourage the growth of the Private Sector. It also supports the training of judges and court personnel in order to increase the efficiency and transparency of the judicial process.

Latest Development: In December 2001, US$2.7 million of the credit amount was cancelled due to slow implementation of certain project components. The United Kingdom has provided valuable financing for legislative drafting As part of the overall program of legal development in WBG, construction of two courthouses is planned-(one each in the West Bank and in Gaza), to be funded by the Kingdom of Saudi Arabia. In this regard, the shortlist of Consulting Engineering Firms was established, the Request for Proposals to produce the design and bidding documents was issued to these firms, incoming proposals were evaluated and negotiations with the top ranked firm were concluded. The Bank is awaiting the transfer of funds from the donor to clear contract award.

☐ *Palestinian Expatriate Professional Program (PEPP).*

World Bank : US$3 m.
Netherland: US$0.3 m.
Approval date: May 22, 1998
Closing date: June 30, 2003.

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

Latest Developments: Recruitment will be restarted for new priority positions to be identified in the Ministries of Economy and Trade, Education, Finance, Health and Higher Education. The current crisis is seriously affecting the ability of current participants in the Program to continue their work effectively, but they have shown extraordinary fortitude and courage to keep working despite these difficulties.

☐ *Palestinian NGO Project (PNGO I)*

World Bank :US$10 m.
Saudi:: US$2.5 m.
Italy: US$2.5 m.
Approval date: December 1996.
Closing date: June 2003.

Description: The Project is aimed at delivering services to the poor and the marginalized in the Palestinian society through NGOs; improving the institutional capacity of the NGOs which receive grants under this project; and enhance the working relationship between the Palestinian Authority (PA) and the Palestinian NGO sector. The Project had Two Main Grant-Awarding Schemes: The Development Grants Program and the Block Grants Program. The project is being implemented by the Welfare Association Consortium, consisting of the Welfare Association, the British Council and the Charities Aid Foundation (CAF).

Latest Development: The Project is nearing completion, having disbursed a total of 94% of the total US$ 11.241 that was made available for financing both grant schemes. As of July 2002, out of the 111 projects funded from the Development Grant funds of US$ 7.788 million, 88 have been completed raising the disbursement rate to 92% of total funds available. Of the US$ 2,950.38 million allocated to Block Grants, a total of 195 sub-projects have been funded and completed.

Impact Assessment: The PMO had completed the field work for assessing the impact of both Block and Development Grant Schemes. The results of the field work will serve as a basis for a formal assessment of the impact of the project on the beneficiaries. The Impact Assessment

report will be made public once it becomes available.

☐ *Palestinian NGO Project (PNGO II)*

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

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

The Project has four main components:

1. The Partnership Grants Program (US$ 9.5 m.) which awards grants to "groups" of NGOs consisting of strong "lead" NGOs and smaller NGOs who, in partnership, will implement sub-projects that are inter-linked by a common objective, with a strong component of capacity building and networking.

2. The Development Grants Program (US$ 2.5 m.) which awards grants to NGOs or projects that have demonstrated success during PNGO I and which have a potential of longer-term self-sustainability.

3. The Sector Support Program (US$ 1.5 m.) works with NGO networks to i) promote strategic thinking on the role of the sector; ii) sector learning and information exchange; iii) enhanced PA/NGO dialogue and joint programming; and, iv) improved services by the Networks to their constituencies.

4. An Emergency Grants Program (US$ 2.5 m.) which disburses grants to emergency projects with shorter durations and a direct focus on alleviating hardship and generating employment.

Latest Developments: 1. Partnership Grants: Seven Partnership Grant Managers (NGOs) were pre-qualified for this program and have received Technical Assistance for developing full project proposals. The review of proposals is expected to be completed for awarding grants by September 2002.

2. Development Grants: The pre-selection of qualifying NGOs has been completed and those short-listed will be invited to submit proposals for funding by the end of August, 2002.

3. Sector Support: Consultants have been commissioned to develop the design of the mentioned sub-components.

4. Emergency Grants: A total of US$ 1.8 million has been approved for funding 32 projects in the West Bank and Gaza.

Additional Emergency Grants (US$ 1.1 million from IDB, US$ 0.6million from CIDA; and US$ 1.5 million from the Italian Government): In addition to its role as Implementing Agency for the PNGO I/II projects, WAC has been asked to implement donor-financed emergency grants for job-creation projects through NGOs. As of now, the PMO is managing a total of US$ 1.7 million of such grants from the IDB and Canadian CIDA while preparing for the implementation of a similar program using funds from the Italian Government.

Reporting on Physical and Institutional Damage to the NGO Sector: In partnership with the Canadian CIDA and Palestinian NGO networks, the Welfare Association Consortium has produced a report on the institutional and physical damage inflicted on NGOs as a result of the March/April incursions into West Bank cities. Total damage has been estimated at US$ 4.5 million.

☐ *Bethlehem 2000 Project (B2000).*

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

Description: The project is composed of the following components:

1. *Celebration Support*: The Bethlehem 2000 Project Authority has successfully staged the 1999 christmas celebrations.

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

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

Latest Development: 2. *Infrastructure Progress*: (1) Roads: the planned IDA components are 100% complete. The Artas Road co-financed with Italy is complete. The Shepherds Fields Road, co-financed by Norway, including landscaping works, is complete. (2) The water: components are 100% complete; (3) *Cultural Heritage*: three of the four sub-projects are complete. The fourth one, co-financed by Austria, is under implementation.

3. *Municipal Capacity Building*: The Request for Proposals for the development of a three-year investment plan was issued to shortlisted consulting firms. Discussions to activate other components are ongoing with MLG and the Bethlehem Area Municipalities.

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

World Bank: US$15 m.
Approval date: August 31, 1999.
Closing date: June 30, 2004.

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

Latest Development: Despite the present unrest, the implementation of the main activities (JDECo and PEA components) is progressing satisfactorily. Effectiveness conditions have been completed for the HEPCo and SELCo components and work has already started.

A supervision mission will take place in September 2002, in particular to follow-up on the start-up of SELCo and HEPCo Companies. About US$8.5 million of the US$15 million has been disbursed to date.

□ ***Emergency Services Support Project (ESSP).***

World Bank: US$20 m.
UK/DFID: US$7.8 m.
Netherlands: US$5.9 m.
EU: US$9.6 m.
Pledged funding from Sweden, Denmark and Finland estimated at US$ 7 million.
Approval date: February 28, 2002.
Closing date: June 30, 2004.

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

Latest Developments: To-date, commitments stand at 53.6 and disbursements at 29 % It is anticipated that disbursement level would come up to 50% by the end of September 2002. However, daily curfews and continuous closures, particularly in the West Bank, do pose a great threat on the progress and has caused delays in a number of planned activities.

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

World Bank: US$10 million.
Approval date: May 23, 2002.
Closing date: June 30, 2006
The Project seeks to improve the quality and availability of basic social and economic services in poor and marginalized communities of West Bank and Gaza. This new Project is a continuation of community development interventions financed through the World Bank under Community Development Projects I and II. Investments will finance rehabilitation of roads, water supply and sanitation systems, schools, clinics, and thereby preserve and extend the capital stock of villages and small municipalities. The Project will also fund interventions in the Agricultural Sector, including rehabilitation of wells, roads, and terraces. Lastly, the Project would pilot new initiatives in Information and Communication Technology (ICT) by financing the establishment of Multi-purpose Telecenters and thereby improving access to information and training for the poor and marginalized. The project launch is awaiting the signature of Credit Agreement by the Palestinian Ministry of Finance.

Completed World Bank Projects

□ ***Emergency Response Program (ESRP).***

World Bank: US$11.61 million
Effective date: December 6, 2000.
Closing date: August 31, 2001.
The overall objective of the ERP was to alleviate economic hardship through the provision of temporary employment for unskilled and semi-skilled laborers. Local suppliers and contractors also benefited through the increased demand for materials and works. The implementing agencies included the Ministry of Local Government (MLG), Local Government Units (LGUs) and NGOs, and PECDAR. An Implementation Completion Report has been completed.

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

A total of 209 sub-projects were implemented. This included the rehabilitation of about 69 kilometers of the road network, 18 kilometers of fences, and 2 kilometers of retaining walls. In addition, about 52,000 square meters of sidewalks were constructed. About 62 kilometers of pipes were laid for the water and sanitation systems. In addition, 204 classrooms were constructed. About 160 community rooms were constructed, some of which will be used as clinics. Local NGOs implemented a total of 33 sub-projects.

□ ***Emergency Rehabilitation Project (ERP I).***

World Bank: US$30 m.
Saudi Arabia, Denmark, Switzerland, Kuwait: US$63.5 m.
Approval date: November 29, 1994.
Closing date: December 31, 1998.
The Project (implemented by PECDAR) financed a total of 140 infrastructure projects, including construction of 418 classrooms, paving of 260 km of roads, and construction of approximately 410 km of water supply pipelines, 80 km of sewer lines and storm water lines and five water reservoirs.

□ ***Second Emergency Rehabilitation Project (ERP II).***

World Bank: US$20 m.
Italy: US$3.7 m.
Approval date: May 10 1997.
Closing date: June 30, 1999.
All available funding has been committed to 77. All 77 sub-projects in the road, water, waste water, and school sectors (including 42 labor-intensive micro projects)have been completed. The Project was implemented through PECDAR in coordination with the WBG municipalities. Approximately 123 km of roads and about 110 km of water

and sewage pipelines have been constructed. An Implementation Completion Report for the Project has been completed.

■ ***Community Development Project (CDP I).***

World Bank: US$10 m.
OPEC Fund: US$10 m.
CIDA (Canadian Grant): US$2.7 m.
Approval date: May 15, 1997
Closing date: December 31,1999.
About 260 infrastructure microprojects (roads, schools, community centers, sewer lines and water reservoirs) were implemented. There was strong community participation and ownership including beneficiary contributions in cash averaging 10% of the project costs. The project was implemented by PECDAR.

Closed Multi-Donor Fund Administration

■ *Holst Fund.* The multi-donor Holst US$291 m. from 27 donors
Approval date: July 29, 1994
Closing date: August 31, 2001
closed after seven years of operation. US$222.5million was used to finance the creation and operation of Palestinian institutions - namely, the Ministries of Health and Education. About US$63.2 million was allocated towards funding Employment Generation Programs, targeting areas which were severely affected by border closures and the current sociopolitical crisis. The Holst Fund financed over 1000 labor intensive microprojects and it is estimated that over three million labor days of employment were generated. The project completion report is expected to be sent to all 27 donors shortly.

■ ***Technical Assistance Trust Fund (TATF).***

US$22.97 million grant from 12 donors
Approval date: March 31, 1994.
Closing date: December 31, 2001.
The objectives of the TATF were to: (a) assist in building Palestinian institutions and to enhance the Palestinian capacity for self-government; (b) facilitate the implementation of investments in the Palestinian Authority ; (c) assist the Palestinian Authority in the design of integrated policies and programs; (d) assess the feasibility of proposed physical investments for the longer term; and (e) encourage the growth of the private sector.

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

World Bank Projects Under Preparation

■ ***Gaza Water and Sanitation Services Project (GWSSP II).***

World Bank: US$25m.
This Project is a follow-up to the ongoing GWSSP. The development objectives of this project are: (a) to develop a sustainable institutional structure of the water and wastewater sector in Gaza by supporting the functional establishment of a Coastal Municipalities Water Utility (CMWU) under the ownership of the local governments representing those communities, as well as by enhancing and deepening the involvement of the private sector through a competitively bid operating contract, and strengthening the regulatory and institutional capacity of the Palestinian Water Authority (PWA); and (b) to continue improving the water and sanitation services by rehabilitation, upgrading and expansion of existing systems and facilities. Project preparation has been delayed because of the deteriorating political situation. The request for pre-qualification for prospective international Operators has been completed and four Operators/ joint ventures were pre-qualified. Like the GWSSP, this Project is part of a larger parallel capital program to improve water and sanitation services in Gaza. The Project includes substantial investments in the establishment of a bulk water supply network connecting the various municipalities in Gaza, in the sewerage network, and in wastewater treatment plants. These investments, totaling about US$340 million for 2000-2005, will be financed by soft loans and grants from EIB, USAID, and KFW.

■ ***Second Health System Development Project (HSDPII).***

World Bank: US$ 8 million.
Expected Board Approval
Date: April 2003
The Project objectives are to improve the quality, access, and cost-effectiveness of essential secondary and tertiary care health services for the population residing in northern Gaza and northern West Bank regions. In the original plan, the Project intended to replace and upgrade two hospital systems: Al Shifa Hospital in Gaza and Al Watani Hospital in Nablus, in addition to build upon the experience of the First Health System Development Project to extend the development of integrated information and management systems to improve the productivity and quality of health care services in the targeted hospitals.

Due to the current political situation, the preparation work for the Second Health System Development Project (HSDP) has been delayed by more than 1-1/2 years due to the inability of the preparation missions to visit the project sites. In addition, the amount of financing available both from the Bank and from co-financing sources have been significantly reduced as a result of the crisis. Consequently, the scope of the project has been considerably reduced. The following components from the original plan will be retained in the revised plan for the second HSDP: a) a regional Hospital Rationalization Plan for the Northern West Bank, b) hospital master plans for Shifa Hospital in Gaza City and New Watani Hospital in Nablus, c) a waste management pilot program; d) management information system; and e) quality improvement.

World Bank and IFC Joint Projects

■ ***Housing Project***

World Bank: US$25 m.
IFC: Up to US$4 million in equity investment
Approval date: April 14, 1998.

Closing date: March 2004.
The largest component of this Project supported the creation and initial operations of the Palestine Mortgage and Housing Corporation (PMHC) which was designed to facilitate the flow of private capital into the Housing Sector in WBG. PMHC commenced operations in September 2000 and has accumulated a modest portfolio over the past year and a half. Although the present situation has significantly slowed down PMHC's operations, both affiliates, the Liquidity Facility (LF), providing long-term funds for lending by banks and other primary mortgage lenders in WBG, and the Mortgage Insurance Fund (MIF), providing partial risk coverage for primary lenders, continue to build and increase their respective portfolios. Canada Mortgage and Housing Corporation (CMHC) is the technical partner for the PMHC and continues to provide PMHC with technical assistance and capacity building support.

Based on discussions with recent Bank missions the borrower has agreed to reduce the scope of the project to the PMHC component and has requested a two year extension to complete the project. The Bank has agreed to process that request.

Commitments and Disbursements[1]

Disbursements Under World Bank Projects (In US$ Million) - As of June 2002.

Current Projects	Allocated Amounts TFGWB	Allocated Amounts Joint	Disbursed TFGWB	Disbursed Joint	Total Disbursed
EHRP	20.00	29.10	20.00	20.27	40.27
EHRP	20.00	29.10	20.00	23.26	43.26
MIDP	40.00	5.41	36.84	4.01	40.85
Gaza Water/San.	31.00		29.13		29.13
Microent.	5.00		2.35		2.35
Housing	25.00		2.63		2.63
Legal	2.79	15.00	2.32		2.32
PEPP	3.00	0.32	1.46	0.32	1.78
NGO	10.00	4.60	10.00	4.80	14.80
GIE	10.00		4.38		4.38
Beth. 2000	25.00	3.61	22.77	2.76	25.53
CDP II	8.00		8.00		8.00
SAWSIP	21.00		8.32		8.32
ESIMP	15.00		8.44		8.44
Health	7.90		3.19		3.19
MIDP II	7.50	5.00	1.18		1.18
Solid Waste	9.50		1.42		1.42
EAP	7.00		0.30		0.30
NGO II	8.00	7.15	1.55	0.74	2.29
ESSP	20.00	7.21	3.95		3.95
ICDP	10.00				
Completed Projects					
ERP I	30.00	63.48	30.00	63.47	93.47
MIGA Fund	10.00		10.00		10.00
ERP II	20.00	3.50	20.00	3.70	23.70
CDP I	10.00	2.81	10.00	2.81	12.81
ERSP*	12.00				
TOTAL	**367.69**	**147.19**	**238.23**	**105.87**	**344.10**

Multi-Donor Trust Fund	Donor Allocation	Total Disbursed
The Holst Fund	285.72	285.72
TATF	22.97	23.60
PEACE Facility	26.16	2.72
TOTAL	**334.85**	**312.04**

* The Bank's $12 million grant to the ERP came from accrued investment income and was channeled thought the Holst Fund (disbursements reflected in the Holst total below)

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

☐ *Gaza Industrial Estate (GIE)*

World Bank : US$10 m.
IFC: US$9 millionUS$7 m. syndicated loans
EIB, USAID, the PA: US$65.5 million
Approval date: March 24, 1998
Closing date: June 30, 2004.

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

Latest Developments: The GIE is being developed in three phases; Phase II construction was underway by September 2000, but due to the crisis situation construction ceased, except for finishing work on structures that were near completion. PIEDCO management has decided to postpone further development until the political and economic situation improves. Potential investors have also become scarce in recent months due to the depressed investment environment, in which GIE operations have at times been directly impacted by closures. Prior to September 2000, some 34 firms had leased space at the GIE, filling all space made available under Phase I; of these, nearly 30 firms were

operating, and around 1,200 people were employed at the GIE. The number of firms operating, and the number of people working at the GIE has fluctuated considerably based on evolution in the closure and security situations since October 2000. More information on firms operating at the GIE can be found at "www.piedco.com".

▣ *Microenterprise Project (MEP).*

World Bank: US$5 m.
IFC: US$7.5 m.
Netherlands: US$3 m.
Participating Banks: US$7.5 m.
Approval date: April 8, 1997
Closing Date: July 31, 2002

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

Latest Developments: As of June 30, 2002, over 1100 loans million were approved, of which disbursements of approximately US$ 12.1 million have been made to projects. The disbursed loans were estimated to have created over 1,400 new full- and part-time jobs. Since the crisis began in WBG in late September 2000, the pipeline for new lending has declined sharply, and focus has shifted to managing the current portfolio which has witnessed an increase in arrears. In view of the persistent nature of the conflict and the reduced demand for loans in an uncertain business environment, the Palestinian Authority decided not to extend the Trust Fund Credit closing date and to return the uncommitted balace to the Trust Funds for Gaza and the West Bank for future emergency operations.

MIGA Operation

■ *Investment Guarantee Fund (MIGA).*

World Bank :US$10 m.

The Fund, which is administered by MIGA, provides guarantees in the form of insurance against political risk for private investment in WBG. Under the terms of the Fund, investors who are nationals of, or companies incorporated in a MIGA member country, or who are Palestinian residents of WBG, are eligible to obtain guarantees, provided that the investment is brought in from outside WBG. The Fund currently has the capacity to issue guarantees for up to US$5 million per project. If a project requires more insurance capacity, requested by the project sponsor(s), MIGA will explore the possibility of obtaining coinsurance with public and private underwriters, including coinsurance under MIGA's Cooperative Underwriting Program. During FY99, MIGA issued its first Contract of Guarantee on behalf of the Trust Fund for a project in the tourism industry. However, this contract was cancelled in FY01. The Trust Fund remains open for applications. Since inception of the Fund, over 20 applications have been received for almost US$400 million in investments in WBG's infrastructure, manufacturing, real estate, services, and tourism sectors. The interest of seeking investment guarantees from the Trust Fund continues to be strong.

IFC Projects

IFC Portfolio

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

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

Mainstream Projects

■ *Arab Palestine Investment Bank. (APIB)*

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

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

As of December 31, 2001, APIB approved 27 loans worth US$12.6 million, and had an outstanding portfolio of US$8.8 million. Due to the ongoing crisis, the pipeline for new lending has significantly decreased, and focus has shifted to managing the existing portfolio.

■ *Peace Technology Fund (PTF)*

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

The Peace Technology Fund was set up with a committed capital of US$63.2 million to provide equity capital for productive investments in the West Bank & Gaza. PTF was to encourage economic cooperation between Palestinian and Israeli companies and, if appropriate, invest in joint ventures between Palestinian companies and Israeli or international companies, thereby encouraging transfer of technology and employment generation in the West Bank & Gaza.

PTF was expected to invest primarily in small - and medium - sized companies across a broad spectrum of high value added and/or employment generating industries.

Prior to September 2000, PTF invested US$11.0 million in three projects, but because of the ongoing crisis all pipeline investments have been put on hold.

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

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

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

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

Extended Reach Projects

□ ***Arab Concrete Products Company (ACPC)***

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

This Project enabled Arab Concrete Products Company to utilize fully its production capacity of ready-mix concrete, and expand its distribution capacity. IFC provided a long-term loan of US$0.8 million out of a total project cost of US$2.6 million. Due to the crisis and mobility problems of labor and raw materials, the Project has witnessed a significant drop in operational levels, and at certain times, it has come to a complete standstill.

□ ***Jericho Motels Company (JMC)***

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

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

□ ***Arab Palestinian Storage Company (APSC)***

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

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

IFC Technical Assistance

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

Bank Group News

□ ***Education Action Project Launched at Workshop.***

On May 27, 2002 a workshop was held at the Ministry of Education to launch the Education Action Project. The Workshop aimed to provide information on it's the project components and activities, as well as to provide short-term training on procurement and financial procedures. The latter part of the workshop could unfortunately not place due to the existing closures and restrictions on movement. The Project was also presented in the context of the Ministry of Education's Five-Year Educational Development Plan.

□ ***Palestinian Higher Education Financing Strategy.***

The World Bank has provided Technical Assistance for a higher education financing strategy. The main purpose of the strategy has been to create a more effective, accessible, efficient, sustainable, and accountable higher education system. In developing the strategy, it was noted that the level of public financial support for Palestinian higher education is not now (nor likely in the foreseeable future) to be sufficient to ensure financial sustainability of the system, as it currently exists. Therefore, major reforms are being proposed for public funds to be targeted in ways to improve what will remain a largely public, not-for-profit, higher education system.

□ ***World Bank - West Bank Country Office Visited by Students.***

On August 1, 2002, the World Bank External Affairs Department hosted a group of Political Science students from Al-Quds University for a half-day seminar. The seminar presented the World Bank and its mission, not only in the West Bank and Gaza and the Middle East and North Africa Region, but also around the World. This seminar is one of a series that the World Bank intends to host in an effort to raise awareness of its role in the West Bank and Gaza.

■ ***Co-Chair Secretariat for the Donor Community Created.***

The Norwegian Representative Office, the Office of the United Nations Special Coordinator, and the World Bank (as Co-Chairs of the Local Aid Coordination Committee), have established a Co-Chair Secretariat. The mission of this new Secretariat is to enhance the operation of current aid coordination mechanisms, as well as to improve information flow, and the quality, usability, and timeliness of information available to the Donor Community.

The Co-Chair Secretariat is staffed with professionals seconded by each of the Co-Chairs. The Secretariat currently consists of a Head of Office, Deputy Head, and three Program Officers.

The Co-Chair Secretariat is located on the first floor of the World Bank Building in Al Ram. Contact numbers are:

Tel.: 972 (02) 2344951 to 54;
Fax: 972 (02) 234 4956

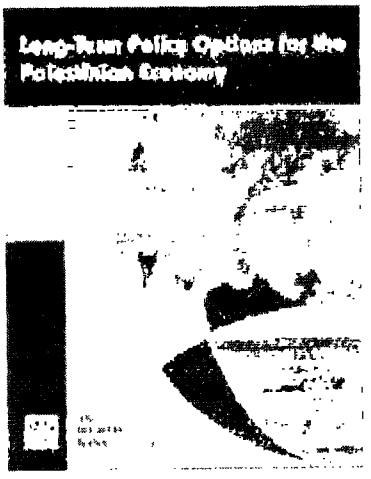
STAFF NEWS

■ ***Newly Recruited Staff / NGO Department.***

Shereen Shaheen, who has a background in Development Studies and Mass Communication, has joined the World Bank Country Office as a consultant to provide assistance in the supervision and monitoring of the World Bank- financed Palestinian NGO Project. She is responsible for following up the day-to-day management of the Project, ensuring that action plans are implemented, and that progress is made towards achieving the Project's objectives and expected outputs. Additional functions include taking part in engagement of the Bank in a policy dialogue with civil society, and sustaining dialogue as input to the Bank's programs. Prior to joining the Bank, Ms Shaheen worked at Massar, a private consulting firm in Ramallah, Care International in Jordan, and a project for Save the Children in Jordan.

New Bank Publications

THE REPORT ON PALESTINIAN OPTIONS



The Report examines Palestinian trade, labor, and growth outcomes during the interim period, and the prospects for growth under different policy scenarios in the context of a Final Status Agreement. The Report will be available on the Country Office Website, and copies for distribution can be obtained at the "Public Information Center of the World Bank office."

NEW STUDIES:

Fifteen Months - Intifada, Closures and Palestinian Economic Crisis: An Assessment. *English Full Report, English and Arabic Summary Report.*

Long-Term Policy Options for the Palestinian Economy. *English Full Report, English and Arabic Summary Report.*

Strategy for Financing Palestinian Higher Education. *English.*

RECENT PUBLICATIONS:

■ ***Cultural Heritage And Development: A Framework For Action In The Middle East And North Africa.***

This Report analyzes the cultural heritage sector in the countries of the Middle East and North Africa, and the World Bank's policy and operational experiences in this sector over the past six years, 1996-2001. It has three objectives: 1) to explore the characteristics, capacities, needs, and constraints of the Region's cultural sector and their relevance to overall country development; 2) to take stock, describe, and analyze the World Bank's past and current support for preservation and management of the Region's cultural heritage; and 3) to extract the lessons of experience and define the strategy framework for future Bank assistance for preserving and managing the MENA Region's patrimony.

■ ***Voices Of The Poor: From Many Lands.***

"From Many Lands" gives us an opportunity to meet the invisible people, see their invisible world, and hear their voices as they talk among themselves and talk to us.

Voices of the Poor is a multicountry research initiative to understand poverty from the standpoint of the poor. The Voices of the Poor Project was undertaken to present World Bank activities, and the World Development Report 2000/2001. There are three books from this Project: 1) Can Anyone Hear Us? This volume gathers the voices of over 40,000 poor women and men in 50 countries from the World Bank's participatory poverty assessments; 2) Crying Out For Change. This book pulls together new field work conducted in 1999 in 23 countries; and 3) From Many Lands presents 14 country case studies and concludes with an overview chapter on an empowering approach to development.

■ ***From Early Child Development To Human Development.***

Investing in every child at an early age is an investment in both human and economic development for all. Children born in poverty are far more likely to grow undeveloped in both body and mind. Science tells us that Early Child Development (ECD) is critical, and marks a child for life, and, young children who are well nurtured, do better in school, and develop the skills to compete in a global economy. It is in this context that the Bank hosted a conference to review the state of knowledge on brain development, the link between ECD and human development, the standards of care to improve children's educational outcomes, the qualitative and quantitative measures of effective programs, and elements of quality in ECD programs.

This Book contains the proceedings of the Conference on Investing in Our

Children's Future, which brought together leading experts, academicians, and practitioners from nongovernmental organizations, civil society, governments, and international organizations.

□ ***Livestock Development: Implications On Rural Poverty, The Environment, And Global Food Security.***
This Book was prepared by a group of livestock specialists from the World Bank. This Book argues that livestock can play an important role in poverty reduction, that the effects of livestock on the environment can be adequately managed, and that livestock can make an important contribution to global food security. This will only happen, however, if an appropriate policy framework is put in place, one that enables the introduction of equitable, clean, and safe technologies throughout the food chain. Finally, the Book summarizes the type of activities that the World Bank should support.

□ ***A Strategy For Development.***
During his first year as Chief Economist and Senior Vice President of the World Bank, Nick Stern articulated the outlines of an emerging strategy for development in a series of speeches. Together they provide an analysis of development experience and an agenda for action in the coming years. In his introduction, the author explains the evolution of his ideas, starting with early work in Africa and India, within the larger context of changes in development, thinking, and strategy. The speeches that follow draw on his varied experience and on the research findings and operational experience of the World Bank. The first speech provides an overview of the past five decades of development. Speeches that follow explore current development issues in India, Indonesia, Pakistan, and China. A Strategy For Development is then outlined: building an economic climate that facilitates investment and growth, and empowering poor people to participate in that growth. A concluding speech examines the role of the international financial institutions in promoting investment and overcoming poverty.

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

Contact Numbers

West Bank Office Numbers:

Switchboard 02 - 2366500
Fax 02 - 2366543

Country Director
Nigel Roberts
02 - 2366505

Deputy Head of Office/ Social Development/NGOs
Sima Kanaan
02-2366506

Health/Education
Salam Kanaan
02-2366534

Infrastructure Development
Majed El-Bayya
08-2824746

Senior Economist
John Wetter
02-2366522

External Affairs & Aid Coordination Department
Ma'moon Sbeih
02-2366511

Institutional Development
Stefano Mocci
02-2366535

Projects Disbursements
Adel Odeh
02-2366515

Public Information Center
Mary Koussa
02-2366529

Gaza Office Numbers:

Coordinator
Husam Abu Dagga
08-2823422/2824746
Fax:08-2824296

International Finance Corporation
Tel: 02-2366517, Fax: 02-2366521

West Bank and Gaza Update editorial team

Ma'moon Sbeih - Editor
Mary Koussa
Hege Wade
Sebastien Dessus
Claus Astrup
Rami Khoury
With special thanks to Mary Saba

For further information contact:
Ma'moon Sbeih
Tel. (972) 2 2366511
email: msbeih@worldbank.org

The 'West Bank and Gaza Update' can also be found on the Internet at: http://www.worldbank.org