

WEST BANK AND GAZA UPDATE

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One Year of Intifada

At the signing of the Oslo Declaration, it was well-understood that peace would only take root if there were significant, sustained improvements in the economy of the West Bank and Gaza (WBG). Since October 1993, donor pledges have resulted in US\$5.5 billion in commitments and almost US\$4 billion in disbursements to the WBG. At US\$175 per person, aid to WBG represents one of the highest levels of per capita official development assistance anywhere in the world. Today, the value of this enormous collective effort is threatened by the breakdown in the peace process.

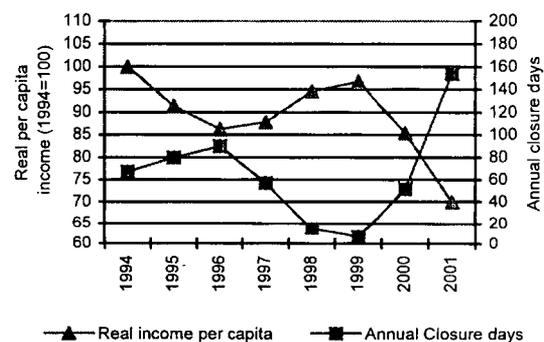
The Palestinian economic recovery that began in 1998 came to an abrupt halt with the start of the Intifada in September 2000, and the subsequent imposition of tight closure. The economy has been decimated over the past year. Once again, though, donors have demonstrated the importance they attach to a resolution of the Israeli-Palestinian conflict through the efforts they have made to sustain the Palestinian economy and its governance structures.

The Problem

The Palestinian economy is in severe recession. Per capita real income declined by 12 percent for 2000 as a whole, and will likely decline a further 18 percent this year. The share of the population living below the poverty line (of US\$2 per person per day) is currently estimated at 40-45 percent of the Palestinian population. While the human losses (death and injury) are beyond economic estimation, raw physical damage from the conflict is estimated at somewhere between US\$165 and US\$175

million as of the end of November 2001 (damage to houses and furnishings; public infrastructure; commercial properties and plants; and to agricultural land, including trees, wells, and irrigation systems). Far more significant, though, are Gross National Income losses, which will likely amount to US\$2.4 billion in real terms by the end of 2001. Average per capita income is below what it was when the Oslo accords were signed in 1993.

Per Capita Income and closures



Source: World Bank staff estimates and UNSCO.

Note: Income is measured by Gross National Income. Annual closure days include weekends and holy days, data for 2001 cover only until end-June.

¹ The Palestinian Red Crescent Society reported 600 deaths and 26,000 injuries during the first 11 months of the Intifada

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The proximate cause of the Palestinian economic crisis is Israel's closure of the Palestinian territories. Palestinian workers are no longer given permits to work in Israel and the settlements, and the flow of goods into and from the Palestinian areas has been severely interrupted. Military checkpoints exist on all main and most secondary roads within the West Bank and Gaza, hampering internal communication. Periodically, all traffic from and within the territories is shut down, and many communities have experienced prolonged periods of isolation. These closures have raised costs and crippled the business environment.

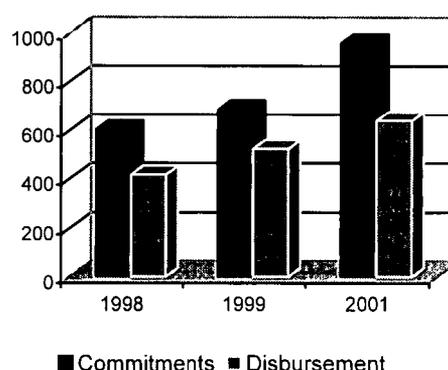
The Palestinian economic decline has been driven by unemployment. During the last quarter of 2000, some 100,000 Palestinians lost their jobs in Israel and the settlements, while another 76,000 were put out of work inside the Palestinian territories as demand collapsed and businesses were forced to lay off workers. Unemployment climbed from 9 percent to 28 percent of the Palestinian workforce in December 2000.

The Palestinian Authority (PA) is effectively bankrupt, since tax revenues have dwindled to a quarter of previous levels. Monthly budget needs under the "austerity budget" promulgated in March 2001 total some US\$90 million, but revenue collected by the PA now amounts to less than US\$20 million per month. Since April, though, Arab League donors have helped stave off fiscal collapse by contributing up to US\$45 million a month in budget support (through the Islamic Development Bank), while the European Union is now providing another US\$9 million per month². The remaining deficit has been managed by borrowing from commercial banks, delaying the payment of bills, cutting salaries and squeezing operating costs³. Under normal circumstances, about two-thirds of Palestinian revenue comes from customs and VAT collected by Israel on the Palestinian Authority's behalf. In the past, these taxes were remitted to the PA on a regular basis, but no such payments have been made by Israel since December 2000. Total revenues withheld by Israel are estimated as of end-October 2001 at approximately US\$260 million. Inevitably, the fabric of public institutions is badly frayed under this type of fiscal pressure.

Despite the difficulties of continuing work under these conditions, in aggregate terms donor funding has increased by some 25 percent in terms of disbursements, and 40 percent in terms of commitments, as compared with pre-Intifada levels. In 1999, donor disbursements

totaled US\$525 million. In the first 10 months of the Intifada, US\$442 million was disbursed, and by the end of 2001 disbursements are expected to exceed US\$800 million for the calendar year. The composition of these disbursements has changed drastically, however, with over 75 percent devoted to budget support and emergency relief, and with large capital projects (highways, industrial estates, and the port) delayed indefinitely. In effect, long-term investment has had to be sacrificed to short-term consumption.

**Estimated Donor Assistance
(USD millions)**



Source: MoPIC, UNSCO and staff estimates.

A full collapse of the economy and government has been averted. After three months of sharp deterioration in the last quarter of 2000, the economic situation stabilized as up to 55,000 workers from the West Bank managed to find work again (without permits) in Israel and the settlements. Meanwhile, households reduced their expenditures, and informal self-help networks emerged. PA service ministries and local governments tightened their belts.

As of end 2001, US\$800m is expected to be disbursed, of which US\$638m, or 79 percent, would be from the IDB (US\$450m) and the European Commission (US\$188m).

² Total budget commitments through the end of 2001 from donors amount to US\$575 million: US\$405 million from Arab League members through the IDB, US\$115 million from the EU, and one-time contributions of US\$30 million from Saudi Arabia, US\$15 million from the UAE and US\$10 million from Norway.

³ By the end of 2001, PA arrears to commercial suppliers are expected to total a dangerously high US\$400 million.

Critically, the donors (often working through NGOs) injected timely and generous emergency assistance. The unprecedented quantity of budget support has helped sustain a minimum level of demand and has prevented the disintegration of government structures. Donor contributions to UNRWA have also been key, as has the implementation of numerous small-scale workfare programs for the newly unemployed (with the World Bank and UNDP as major players)⁴. Without the commitment of the donors, and in particular the Arab League states⁵, all semblance of a functioning economy would have disappeared by now.

But economic collapse remains a real prospect. In the past three months, closure has once again tightened. If the confrontation persists at recent levels and if the closure is tightened further, donor and community efforts will not suffice, and economic disintegration will accelerate. Soon there would be little left of the private sector other than subsistence agriculture, petty trade and workshop manufacturing. Public services would soon begin to break down, with trash accumulating, frequent power and water cuts, intermittent drug supplies in hospitals and a shortage of textbooks and writing paper in schools. Notably vulnerable are the municipalities, which have received little emergency support and are in many cases in debt to Israeli utility companies. Poverty is deepening, particularly in isolated communities. Serious health and environment problems are emerging, and helplessness, deprivation and hatred are increasing.

A political solution would alter this prospect fundamentally, and a rapid recovery of the Palestinian economy would accompany a lifting of closure. That said, World Bank projections indicate that recovery to pre-Intifada per capita income levels would take at least two years - and this assumes that private investor confidence can be restored.

The Way Ahead

Israel, the PA and the donors will all need to play their part if there is to be a recovery.

Any robust recovery of the Palestinian economy assumes that the Israeli labor market would be re-opened to Palestinians, that the system of internal checkpoints would be dismantled and border restrictions eased. These actions would lower the costs of doing business and stimulate a recovery of Palestinian private enterprise. In addition, the tax revenues that have been withheld

from the Palestinian Authority would need to be released, and regular revenue clearances resumed.

For its part, the Palestinian Authority will need to maintain strong budget discipline in 2002 and refrain from non-essential expenditure, as well as work further on prioritizing emergency support needs through a unified 2002 emergency plan. Indications are that the PA also believes it important to recommit itself to the medium-term institutional and policy agenda that has been largely in suspense since the beginning of the Intifada. This agenda has two main planks - internal reform (which includes creating a professional civil service based on merit and transparency, eradicating abuse of official position, and fostering the emergence of democratic institutions), and the creation of a climate conducive to private sector development (by dismantling the PA's quasi-monopolies, cutting unnecessary procedures, passing and implementing key economic legislation⁶ and establishing a legal environment in which contracts can be enforced).

The donors could do well to focus their continued emergency support/recovery efforts on seven packages of assistance; taken together, these packages would provide a solid basis for an eventual resumption of growth:

- **Budget Support.** This must be continued for at least another year. The IMF has estimated needs at US\$872 million under a "status quo" scenario (this would fall to US\$552 million if Israel resumed regular revenue transfers to the PA). Under a "lifting of closure" recovery scenario, the Bank has estimated that budget support needs for 2002 would still total some US\$360-390 million.

- **Basic Services.** Targeted assistance for basic service delivery and for the key institutions responsible for delivering them is needed; agencies include the Ministries of Health, Education and Social Affairs, and the municipalities. An Emergency Services Support Program is under design, and would provide some \$80-100 million during the first six months of 2002. The aim of the ESSP is to address the severe shortages of drugs,

⁴ By the end of 2001, about US\$105 million will have been disbursed on emergency job programs, creating two million job-days.

⁵ Which are responsible for some 55 percent of the estimated disbursements for 2001.

⁶ Such as the Capital Markets Authority/Securities Law, the Secured Financing (leasing) Law (both of which should result in greater post-crisis investment flows), and the Income Tax Law.

school materials, and spare parts/fuel for water, electricity and solid waste collection systems. The World Bank will commit US\$20 million to the ESSP, and about US\$40 million has been pledged by the UK, the EU and the US.

■ **Job Creation.** Emergency job creation programs need to be sustained - both small-scale labor intensive construction projects, as well as income-generation activities. Several implementation channels exist and can be expanded. At least another US\$100 million in commitments would be needed in 2002.

■ **UNRWA.** The refugee population in WBG remains heavily dependent on UNRWA for basic social services and welfare payments. UNRWA's Third (Intifada) Emergency Appeal is still short by some US\$55 million, and an additional US\$100 million in Intifada-related emergency funding for 2002 would appear justified.

■ **Infrastructure and Land Rehabilitation.** Donor reconstruction and rehabilitation funding of somewhere between US\$35 million and US\$80 million would be justified to restore the areas damaged by armed conflict, with the prudent amount a function of the extent to which armed conflict has subsided. These various works can be packaged by area should individual donors prefer this.

■ **Re-engaging the Private Sector.** Thus far a neglected but essential area, three programs could now be put in place. Due to the fiscal crisis the PA has not been able to process VAT refunds to suppliers, and this could be addressed through a concessional loan of approximately US\$25 million to the PA. Emergency assistance to private enterprises could include support for commercial bank restructuring of loans, and grants to support the fixed costs of businesses, to enable them to survive this period of low demand. A notional sum of US\$25 million might be programmed for this. In addition, and assuming that armed conflict ceases, a Private Sector Emergency Recovery Fund is under design by the International Finance Corporation (this Fund, which could provide grants to repair damaged assets, concessional working capital loans and the purchase of non-performing loans from commercial banks, is tentatively sized at US\$100 million).

■ **Student Scholarships.** These could be provided to pupils and students unable to pay school/university fees, as a way of supporting their continuation in study and sustaining the financial viability of institutions of

learning. A notional allocation of US\$20 million is proposed.

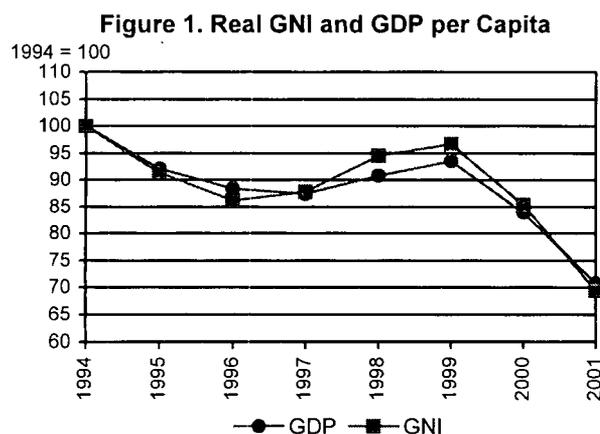
Under a "status quo" scenario, the amounts required to finance such an emergency program would total some US\$1.3 billion, or US\$0.9 billion were Israel to recommence revenue transfers. Under a scenario of political "rapprochement/lifting of closure", US\$0.85-0.9 billion would be needed.

Donors must also re-dedicate themselves to the medium-term development agenda. Most major infrastructure work has stalled. Whereas in 1999 donors committed US\$405 million to developmental infrastructure and technical assistance, only some US\$215 million is likely to be similarly committed in 2002. Those donors who have been most effective in implementing field programs during the Intifada are by and large those least dependent on expatriate management and technical assistance, and those whose programs work closely with local communities. The exigencies of the operating environment offer an opportunity here, since decentralized programs, if well-supported and monitored, can result in better poverty targeting, higher local content, and the strengthening of accountability.

Recent Economic Developments

■ Economic Output

The Intifada is now approximately one year old, and the economic upswing which characterized the Palestinian economy during 1998 and 1999 a by-gone era. The severe disruptions of economic life caused by levels of confrontation unprecedented in the post-Oslo period, and in particular the imposed restrictions on the movement of goods and people, have significantly reduced living standards among the Palestinian population. The World Bank estimates that average incomes, measured as Gross National Income (GNI) per capita, in 2001 will be 30 percent lower than it was in 1994, see Figure 1., the first year after the signing of the Oslo accords.



Source: World Bank Staff Estimates.

Throughout the period, GNI -- which includes worker remittances from abroad -- has been more volatile than Gross Domestic Production (GDP) because worker remittances have been highly sensitive to access (which recurrently has been tightened by Israeli authorities) to jobs in Israel and Israeli settlements for Palestinian workers. Since 1994, there has been a clear inverse relationship between the extent of closures, i.e., days when access to the Israeli labor market was shut off, and the estimated average annual income of the Palestinian population -- years with relatively few closure days have been associated with high average incomes and vice versa.

According to UNSCO, the crossing point between Gaza and Israel has been closed for more than 120 working days, from October 2000 to June 2001, equivalent to 61 percent of all working days during that period.

Compared to previous periods of closures, the measures implemented during the last 12 months have been extraordinarily harmful to economic activity in the Palestinian territories. The reason is that not only has it been exceedingly difficult for Palestinian workers to access their usual workplaces in Israel, but mobility within the West Bank and Gaza has also been significantly hampered. As a consequence, workers have faced difficulties in reaching their workplace, and producers have seen efficiency decline. UNSCO characterizes periods when no main roads are accessible to Palestinian traffic, and when many secondary roads are closed by physical barriers as "severe internal closure", and estimates that in the West Bank severe internal closure was in place during 54 percent of the time from October 1, 2000 to June 30, 2001. In Gaza severe internal closures were in place during 7 percent of the time.

Available indicators suggest that the economy experienced a sharp set-back in the months immediately following the outbreak of the Intifada, but that the dramatic drop in economic activity subsequently has been somewhat abated. The World Bank estimates that for the year 2000 as a whole, real GDP declined by 6-7 percent as a result of the extremely poor performance in the last quarter of 2000. In 2001, real GDP could decline an additionally 12 percent. The estimated decline in GNI could be even larger, approximately 15 percent in 2001, as worker remittances are expected to be reduced by more than 40 percent compared to the already low levels of 2000. Accounting for annual population growth of approximately 4 percent, the decline in GNI and GDP per capita would be even larger, see Table 1., which reports estimated macro-trends for the Palestinian territories over the last five years.

■ Private Investment and Consumption

Private investments have undoubtedly suffered extensively during the crisis, as investor confidence has taken a blow and available funds dried up. However, only indirect indicators for investment trends exist. One indicator is the volume of cement imports - an essential component of construction activities not produced within the Palestinian territories - which dropped by more than 60 percent during the last quarter of 2000, according to the Israeli company which is the monopoly supplier of cement to the Palestinian territories. Other indicators include the number of newly registered companies, which dropped 80 percent during the same period.

Commitments and Disbursements¹

Table 1. Summary of West Bank and Gaza Macro Trends, 1997-2001.

	1997	1998	1999	2000	2001
Gross National Income (GNI), US\$ M Current Prices	4,565	5,058	5,086	5,089	4,609
Gross Domestic Product (GDP), US\$ M Current Prices	3,959	4,230	4,288	4,360	4,093
Real Annual Change:					
GNI Per Capita	1.8%	7.7%	2.2%	-11.7%	-18.7%
GDP Per Capita	-1.1%	3.9%	3.0%	-10.3%	-15.7%
Private Consumption	4.0%	9.0%	6.1%	-6.7%	-14.0%
Public Consumption	10.0%	7.0%	9.7%	15.5%	-5.0%
Total Fixed Investment	7.7%	8.4%	16.1%	-19.1%	-29.8%
Export	4.0%	6.6%	3.3%	-7.4%	-7.6%
Import	8.0%	7.4%	9.2%	-10.9%	-19.4%
Other Items:					
Poverty, Share Of Population Below Poverty Line	25%	23%	21%	33%	46%
NIS/US\$, Annual Average	3.47	3.81	4.14	4.08	4.08
CPI, Annual Change	7.6%	5.6%	5.5%	2.7%	4.2%
Annual Closure Days	57	15	7	52	123 1)
Population, Mid-Year (1,000)	2,628	2,731	2,842	2,966	3,096

1) Until End-June, 2001.

Note: All Data Excludes East Jerusalem.

Sources: World Bank Staff Estimates, Palestinian Central Bureau of Statistics, UNSCO.

Moreover, the confrontations have resulted in destruction of some of the existing capital stock. Finally, the crisis has impacted a number of on-going investment projects, e.g., it has been reported that British Gas, which has a concession to explore gas off the coast of Gaza has halted operations. The World Bank estimates that total investment declined by approximately 19 percent in 2000 and could decline by another 30 percent in 2001.

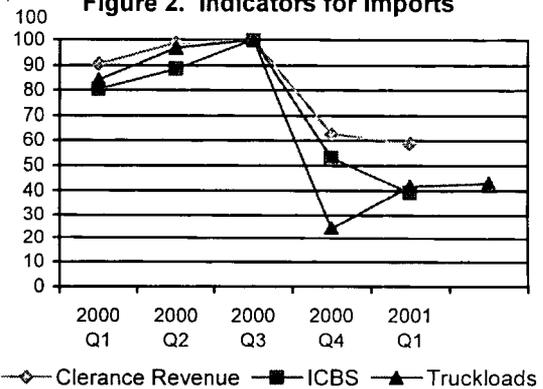
Declining employment and income levels have inevitably depressed private consumption. Although households have responded to the crisis by running down savings, it has also been necessary to cut back on consumption - in particular of non-essential items. Using the World Bank's model of the Palestinian economy, which explicitly distinguishes between essential and non-essential consumption, it is estimated that real private consumption declined almost 7 percent in 2000 and could further decline by 14 percent in 2001.

Foreign Trade

Various sources indicate that trade in goods and services between the Palestinian territories, Israel, and the rest of the world have dropped significantly during the Intifada, particularly imports. The number of truckloads passing through commercial crossing (either into Gaza, or across the Allenby Bridge to the West Bank), dropped

a stunning 75 percent, see Figure 2. Estimates based on

Figure 2. Indicators for Imports

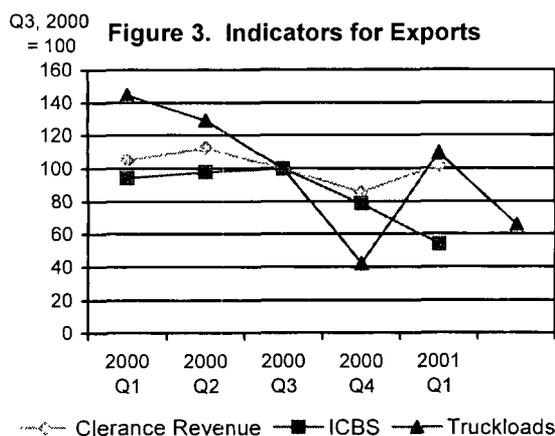


Sources: Palestinian Ministry of Finance, UNSCO, and Israel Central Bureau of Statistics.

VAT invoices collected by the Palestinian Central Bureau of Statistics, and trade data released by the Israeli Central Bureau of Statistics (ICBS) show a somewhat smaller decline. According to these figures, there was a decline in imports of 40-50 percent during the first three months of the Intifada.

Since the beginning of 2001, the level of imports has stabilized to a level of 40-60 percent below the pre-crisis level. In particular, the most recent figures for truckloads collected by UNSCO show that an average of 6,000 trucks per month entered into the West Bank and Gaza during the second quarter of 2001, compared to 14,000 prior to the crisis.

For the last quarter of 2000, the indicators show a similar pattern for exports: The number of trucks leaving the Palestinian territories declined sharply - approximately 60 percent - while estimates based on VAT invoices and ICBS data show a more modest decline of 15-20 percent, see Figure 3. The most recent figures, covering the



Sources: Palestinian Central Bureau of Statistics, UNSCO and Israel Central Bureau of Statistics.

first half of 2001 show a mixed picture, although the overall impression is one of stabilization: estimates based on VAT invoices indicate that exports picked up in the first quarter of 2001, while the ICBS estimates that exports continued to decline during the same period. Data for truckloads leaving the West Bank and Gaza show a strong recovery in the first quarter of 2001, followed by yet a set-back in the second quarter of 2001. The latter figures are somewhat puzzling when compared to figures for the number of closure days, which indicate that there were more closures in the first quarter of 2001 than in the second.

It should be noted that the three indicators are not directly comparable: e.g., the truckloads only capture trade in goods; the VAT invoices do not capture trade in agricultural products, which are exempt from VAT, while the ICBS data only estimate trade between Israel and the Palestinian

territories. Finally, truckloads are perhaps better indicators of changes in trade volumes, while the two other indicators measure changes in the value of trade.

Nevertheless, based on the above indicators, it seems safe to conclude that the relative decline in imports has been larger than that of exports. As imports initially were much larger than exports, the observed trends imply that the absolute decline in imports was approximately four times as large as the decline in exports. The strong decline in imports reflects both the drop in domestic demand due to lower incomes in the Palestinian economy and the increased difficulties in getting goods from abroad into the Palestinian territories. The demand for Palestinian goods abroad have not been affected significantly by the crisis per se, but increased transportation costs and reduced efficiency in production have undoubtedly reduced Palestinian producers' competitiveness.

Recognizing this pattern, the World Bank estimates that for the year 2000 as a whole, export volumes declined 7 percent compared to 1999, while import volumes declined approximately 11 percent. For 2001, it is estimated that exports will decline another 8 percent, while imports could drop approximately 20 percent.

■ Fiscal Accounts

The fiscal situation of the Palestinian Authority (PA) sharply deteriorated during the crises, as revenues plunged. Fiscal revenues are intrinsically linked to economic activity, as approximately 80 percent of current revenues are derived from indirect taxes. Moreover, since December 2000, the Israeli authorities have de facto suspended the transfer of revenue clearances. Finally, the efficiency of Palestinian tax collection has fallen during the crisis.

Monthly tax collection by the Palestinian Authority has averaged approximately US\$22 million, during the second quarter of 2001, compared to about US\$33 million during the third quarter of 2000, see Table 2. Monthly clearance revenues used to be approximately US\$55 million.

The Palestinian Authority has squeezed current expenditures by 15 percent compared to the level before the Intifada, by cutting back on non-wage expenditures. Non-wage expenditures used to amount to US\$54 million per month, but have in recent months only amounted to US\$34 million - a decline of almost 40 percent. The PA's wage expenditures have not been significantly affected. Mandatory emergency employee contributions

Commitments and Disbursements ¹		
Table 2. Impact of the Crisis on PA Fiscal Accounts.		
	Third Quarter 2000	Second Quarter 2001
	--- US\$ M Per Month ---	
Total Current Revenues	88	22
- Domestic	33	22
- Clearance ²	55	0
Current Expenditures	107	90
- Wages	53	57
- Non-Wage	54	34
Current Budget Deficit	19	68
Budget Support	0	48
Memorandum Item:		
Stock of Arrears, US\$ M, End-July 2001	N.A.	22

1) There has been no transfer of Clearance Revenues since December 2000. 2) The Stock of Arrears excludes Technical Wage Arrears (about US\$46 M as of end-June 2001). Sources: Ministry of Finance and IMF Staff Estimates.

have effectively reduced wage expenditures, but have at the same time been off-set by an increase in the number of PA employees. A total of approximately 6,000 persons have been added to the PA payroll during the first nine months of the Intifada.

The PA faces a considerable financing gap, equivalent to approximately US\$68 million per month as long as the Israeli authorities maintain the decision not to transfer the Clearance Revenues accrued to the PA. IMF puts the estimate of total withheld revenue clearance at US\$178 million by end-June 2001. The financing gap has so far been filled partly by budget support from a number of Arab states, the EU and some bilateral donors in the amount of approximately US\$48 million per month during the second quarter of 2001, and partly by the accumulation of arrears, estimated at approximately US\$280 million by end-July 2001. In recent months, accumulation of expenditure arrears has been very high, in the order of US\$20 million per month for the second quarter of 2001.

For the period July-December 2001, Arab donors have committed a total of US\$250 million - equivalent to US\$42.5 per month - and the EU another US\$42 million, equivalent to US\$7 million per month. Even with this continued support, the PA must find additional financing, or face even further expenditure cuts, or expenditure arrears accumulation. This places the PA in a highly vulnerable situation: On the one hand it is extremely difficult to cut expenditures. And any further squeeze

on public expenditures, both at the central and municipal level, would significantly reduce the level of public services, including such areas as health, education, and waste collection. This will in turn also have a considerable negative impact in the longer term, as human capital and the environment are degraded.

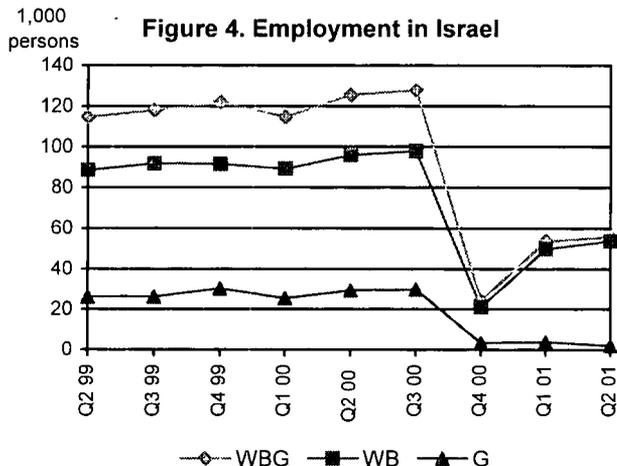
On the other hand, it is questionable how much longer the PA can continue to accumulate arrears. Until now, most suppliers to the PA have accepted long delays in payments on the grounds that the PA normally is an important buyer for many businesses, and that the withheld clearance revenue is seen as "collateral" which eventually will secure the payment for the goods. It should be noted however, that the estimated outstanding stock of arrears exceeds the estimated withheld clearance revenue by more than 50 percent. It should also be noted, however, that the stock of withheld revenue and the stock of expenditure arrears have not been accumulated over the same period. More specifically, the PA was already in arrears prior to the outbreak of the crisis. Moreover, the pace of accumulation of expenditure arrears has been lower than the pace of accumulation of withheld revenue.

Trends in public investments during the Intifada are difficult to gauge. Public investments are almost entirely donor-financed, and data from MOPIC on donor disbursements indicate that donor-financed capital expenditures declined by 20 percent in 2000. No data for 2001 have been made available, but as a number of donors have shifted their disbursements towards emergency response programs, public investments may have declined even further.

■ Labor Markets

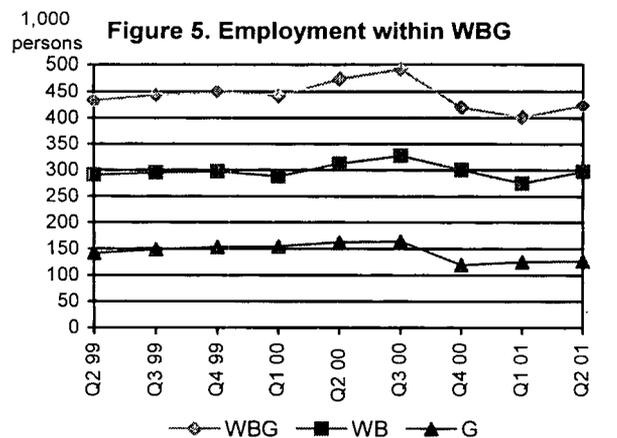
As noted above, there was a strong, immediate negative impact on the labor market following the outbreak of the Intifada. In particular, the number of Palestinians working in Israel and Israeli settlements plummeted -- during the first three months of the Intifada, some 100,000 jobs of a total of 120,000 were destroyed, see Figure 4. The situation subsequently improved somewhat, with approximately 55,000 workers commuting daily during the first and second quarter of 2001. Still, the number of Palestinians working in Israel is less than half its pre-crisis level. Moreover, the improvement has only benefited workers from the West Bank, and not workers from Gaza. For Gazans, employment opportunities in Israel have virtually ceased to exist, due to the effective enforcement of movement restrictions. By contrast, it

appears that a considerable number of Palestinians from the West Bank have been able to circumvent Israeli checkpoints both within the West Bank and along the Green Line.



Sources: Palestinian Central Bureau of Statistics and World Bank Staff Estimates.

Also, the employment level within the West Bank and Gaza has stabilized according to the latest figures released by the Palestinian Central Bureau of Statistics. After declining more than 25 percent during the first three months of the Intifada, domestic employment recovered slightly in the second quarter of 2000. Still, employment within the Palestinian territories is approximately lower by 66,000 workers than immediately prior to the outbreak of the Intifada, see Figure 5., equivalent to a drop of 13.5 percent.

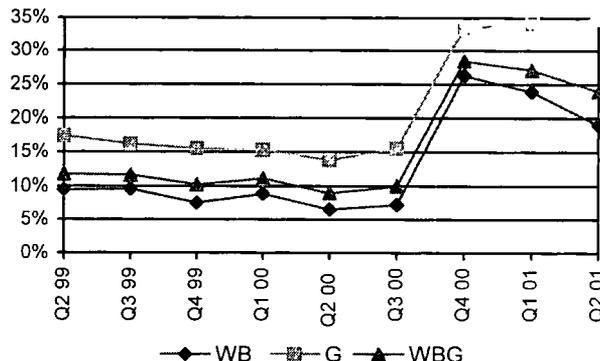


Sources: Palestinian Central Bureau of Statistics and World Bank Staff Estimates.

The drop in employment implies that currently on average each working person has to provide for 6.4 persons (including himself), compared to 4.8 persons in September 2000. The adverse impact on employment was larger in Gaza than in the West Bank, reflecting the almost total isolation of the Gazan economy imposed by the Israeli authorities.

The official Unemployment Rate stood at 24 percent in the second quarter of 2001, which is slightly lower than the previous quarter, but still significantly higher than the 10 percent reported in the third quarter of 2000, see Figure 6.

Figure 6. Unemployment Rate



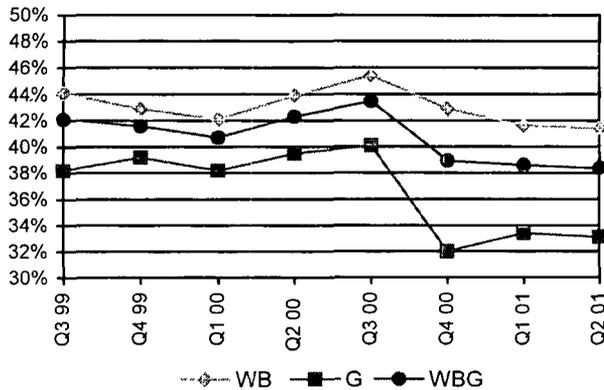
Sources: Palestinian Central Bureau of Statistics and World Bank Staff Estimates.

For various reasons, the official Unemployment Rate may not properly capture the impact of the crisis, see the June 2001 issue of the West Bank and Gaza Update. Notably, the official Unemployment Rate will underestimate the negative impact if a significant proportion of those who lose their jobs simply give up looking for another job. Adding these "discouraged" workers to the number of unemployed resulted in an Unemployment Rate of 33 percent in June 2001.

The Labor Force Participation Rate, i.e., the share of persons aged 15 years and above who are either employed or looking for a job, continued its decline -- in the second quarter of 2001, it dropped to 38.4 percent, see Figure 7., the lowest figure ever reported by the Palestinian Central Bureau of Statistics.

Particular in Gaza, the Labor Force Participation Rate has diminished: currently only approximately 1/3 of the working age population is engaged in the labor

Figure 7. Labor Force Participation Rate



Sources: Palestinian Central Bureau of Statistics and World Bank Staff Estimates.

market. This is low even when compared to other Middle Eastern economies, where labor force participation is among the lowest in the world. Poor prospects of finding a job is a main cause for the low labor force participation in Gaza -- many cease job-seeking activities, either because they learn that there is no demand for their labor, or because the mobility restrictions prevent them from getting to the potential workplace.

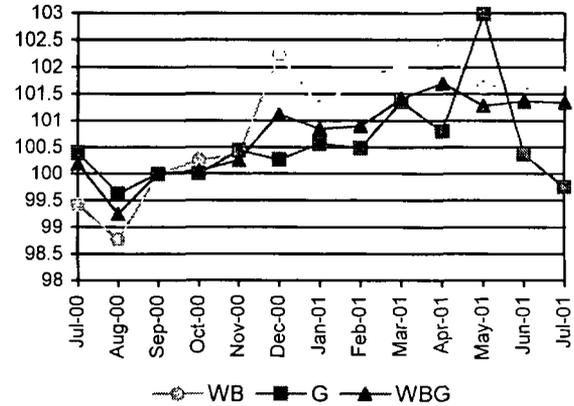
Prices

Overall inflation rates in the Palestinian Economy remain subdued. Since the beginning of the Intifada, the Consumer Price Index (CPI) has increased by approximately 2 percent in the West Bank and has been virtually unchanged in Gaza, see Figure 8. This indicates that there has been a concurrent decline in both demand and supply in the Palestinian economy. The difference between the trends in the West Bank and in Gaza may indicate that the West Bank has been more affected in supply - due to relatively larger increases in transportation costs - than Gaza, where demand factors (lower incomes and consumer demand) has been more dominant

The New Israeli Shekel (NIS) has been depreciating vis-à-vis the US\$ during the Intifada, from a level of NIS4.05/US\$ in September 2000 to NIS4.30/US\$ in September 2001. This may have fuelled inflation through increased prices of imported goods, but this effect has been muted by the decline in import during the same period.

However, the impression of overall price stability masks significant price changes in specific commodity groups.

September 2000 = **Figure 8. Overall Consumer Price Index**

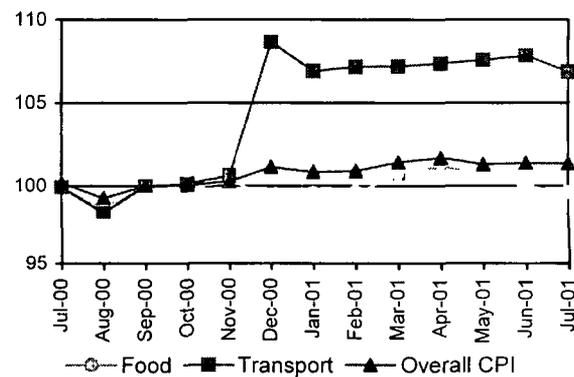


Source: Palestinian Central Bureau of Statistics.

In particular, the cost of transport increased substantially during the initial months of the Intifada -- between November and December 2000, increases of almost 10 percent were reported, see Figure 9.

Increasing transport cost is a direct reflection of the difficulties of getting around in the Palestinian territories.

September 2000 = **Figure 9. Consumer Prices of Selected Items**



Source: Palestinian Central Bureau of Statistics.

Not only have travel times increased greatly - a survey carried out recently by the World Bank suggests that travel times have roughly doubled during the start of the Intifada - but the wear and tear of transport equipment is also increasing, because trucks and busses often are forced to use dirt tracks to circumvent checkpoints and trenches in the roads.

Bank Group Operations

A. Multi-Donor Fund Administration

■ *Technical Assistance Trust Fund (TATF)*. As of September 2001, the TATF has received donor contributions of US\$24.07 million (including interest money earned), of which a total of US\$23.0 million has been disbursed to the Palestinian Authority. The objectives of the TATF are: (a) to assist in building Palestinian institutions and to enhance the Palestinian capacity for self-government; (b) to facilitate the implementation of investments in the Palestinian authorities; (c) to assist the Palestinian authorities in the design of integrated policies and programs; (d) to assess the feasibility of proposed physical investments for the longer term; and (e) to encourage the growth of the private sector. Out of 69 activities and projects, 64 have been already completed.

The value of currently running activities under the TATF is about US\$1.5 million.

The World Bank and PECDAR jointly administer the TATF which will be closing on December 31, 2001.

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

The PEACE Facility, a new multi-donor successor to the Holst Fund, was established in February 2001 as a vehicle to enhance donor partnership, emphasizing transparency and accountability, while ensuring effectiveness through carefully designed institutional and implementation arrangements. The PEACE Facility was set up in response to the need expressed by a number of donors for a multilateral or umbrella facility to support targeted activities, such as building financial

management capacity in selected institutions, conducting design and feasibility studies, and for attempting innovative projects and technologies -- activities which might otherwise be too small or unconventional to be funded efficiently through individual projects. Regrettably events over the past few months highlight the need for a vehicle that enables donors to mobilize and channel funds rapidly and with flexibility to the Palestinian people in response to the emergency situation. But the PEACE Facility can also be used to channel funds for specific investment projects, technical assistance, or capacity building, as agreed with the relevant Palestinian counterpart agency. Other features have been added to improve on the Holst Fund, namely by establishing separate donor accounts that enable each donor to monitor and track their specific contributions. The same partnership feature of the Holst remains, however, providing donors with a common platform for joint or collective efforts targeting a wide range of development needs. This Facility will serve four purposes, but, in general, the funds will be handled in the same manner regardless of the use: (a) financing for technical assistance activities; (b) financing of projects without Bank involvement; (c) co-financing with Bank projects and; (d) - unanticipated needs.

The new institutional arrangements introduced under the PEACE Facility are more responsive to and in line with the present roles of the Ministry of Finance (MOF) and the Ministry of Planning and International Cooperation (MOPIC) with respect to financial and fiscal management and public investment planning.

A grant from the Government of Canada in the amount of five million Canadian Dollars for an Employment for Social Development Project was the first contribution made to the PEACE Facility. An agreement was also signed with the Danish Government in August for a

contribution of approximately \$3.5 million for an Emergency Job Creation Project. Both projects will provide financing for labor intensive microprojects implemented at the community level through Local Government Units and under the overall management of the Ministry of Local Government.

B. Investment Projects

As of September 2001, the World Bank Group has 26 projects under implementation, three completed projects, and four projects under preparation through the World Bank, MIGA, and IFC Programs.

World Bank Ongoing Projects

■ *Education and Health Rehabilitation Project (EHRP)*. (US\$20 million credit from the World Bank; US\$20 million grant from Saudi Arabia; three grants totaling US\$8.65 million from Italy; and US\$0.40 million grant from Australia.) The IDA Fund is 100% committed and disbursed; the Saudi Grant is 87% committed and 80% disbursed; the Italian Grants are 65% committed and 47% disbursed; and the Australian Grant is 100% committed and disbursed. The Project is being implemented through PECDAR, the Ministry of Health, and the Ministry of Education.

Health Component: Under the IDA Fund in Gaza, all of the planned ten (10) clinics have been built, furnished, and the software programs completed. Under the Saudi Grant in the West Bank, one clinic, the extension for Rafidia Hospital, has been built, fully furnished, and equipment installed. The construction of Yatta Hospital is in progress. In Gaza, three clinics and one community hospital have been built, fully furnished, and equipment installed. The construction of the Ministry of Health's department building is progressing well. Under the Italian Grant in Gaza, the Ministry has approved the final version of the Pilot Master Plan for

Al Nasser Hospital in Khan Younis. The rehabilitation works for the existing hospital, the existing sewage system, and the construction of a corridor link between the existing and the new hospital is under design.

Education Component: Under the IDA Fund in Gaza, 11 new schools and the extensions for 11 existing schools have been built and fully furnished. Under the Saudi Grant in the West Bank, all of the planned 8 schools have been built and fully furnished. Three new schools are ready for tendering. In Gaza, 5 schools have been built and fully furnished. In the West Bank under the first Italian Grant, all of the planned 6 schools have been built and fully furnished and under the second grant, construction of 1 school and 4 community centers were complete and 5 schools and 1 community center are progressing well. Furniture, books, and laboratory equipment have been supplied. Under the Australian Grant, strengthening of policy-making, planning, and research capacity within the Ministry of Education, establishment of a school mapping database, and a maintenance scheduling system for the Ministry have all been completed.

■ *Health System Development Project (HSDPI).* (US\$7.9 million credit from the World Bank.) The development objectives of the Project are to enhance the management capacity of the Ministry of Health (MOH) and improve access to high-quality and affordable primary health care (PHC) services, especially in rural and underserved areas. The Project components are :

Component 1: Upgrading Primary Health Care Network (US\$ 5.76 million). This component aims to improve the quality of primary health care services for the disadvantaged population in the WBG. This component will support the following activities: (i) develop the functional standards for Level II PHC facilities (small clinics that can serve the basic needs for approximately 8,000 to

12,000 people); (ii) build MOH's capacity to plan and design PHC clinics; and (iii) replace approximately 40 substandard PHC facilities, including equipment and furniture, with clinics that meet the quality standards.

Component 2: Establishing Health Management Information System (HMIS) (US\$ 1.34 million). This component will establish the foundation for a comprehensive Health Management Information System in WBG. It is designed to yield operational benefits for clinicians and administrators, while providing essential data for decision making by health planners, policy makers, and service providers. This component will establish a Health Information Center (HIC) that would support the development and maintenance of the Management Information System (MIS) functions of MOH, and provide technical assistance for the development of a basic clinical information system and a unified health insurance information system. The clinical information system will also provide the monitoring tool for the activities of the Quality Improvement Program (QIP) supported in Component 3.

Component 3: Improving the Quality and Efficiency of Care (US\$ 0.87 million). This component will address the priority problem areas identified by the MOH with respect to the quality and efficiency of health care in WBG. This component will support the following activities: (i) institutionalization of the process of prioritizing and developing quality standards and quality improvement programs in the health system; (ii) application of quality standards and guidelines in selected priority interventions; (iii) rationalization of prescribing patterns and use; (iv) strengthening of MOH's capacity to improve the quality and cost-effectiveness of services contracted out by MOH; and (v) enhancement of MOH's capacity to monitor and evaluate health service quality and efficiency.

Component 4: Support to Project

Implementation Unit (PIU) for Project Coordination and Management (US\$ 0.88 million). This component will provide support to the Project Implementation Unit (PIU) through the provision of consultants' services, office computers, software, equipment, and furniture, to ensure the effective carrying out of the Project and the supervision of its execution.

The Project is being implemented by MOH, and expected to be completed by December 31, 2002.

■ *Municipal Infrastructure Development Project (MIDP I).* (US\$40 million credit from the World Bank; US\$1.96 million from Greece; and EURO3.67 million from Italy.) The project is planned to be closing at the end of year 2001; however, it may be extended by another year mainly due to the current crisis. This Project aims at rehabilitating high priority municipal infrastructure networks and systems in the West Bank and Gaza (WBG) through working directly with five selected municipalities (Gaza, Nablus, Hebron, Rafah and Jenin); the Ministry of Local Government (MLG); the Ministry of Public Works (MoPW); the Palestinian Water Authority (PWA); and PECDAR. Focus is on initiating institutional reform and capacity building at the local government level. So far, 91% of available funding has been committed to some 293 physical sub-projects, including 210 micro-projects. A total of 261 physical sub-projects have been completed. US\$1 million was taken from the Project for the preparation work for Bethlehem 2000. So far, more than 220 km of roads and 100 km of water and sewage pipelines have been constructed. Also, upgrading of three neighborhood areas in Gaza City have been completed. All other components with the Ministry of Local Government and the five selected municipalities for capacity building are currently active. However, due to the current crisis in the West Bank and Gaza, the capacity building component is moving slowly. As a response from the

World Bank to the current economic crisis in the West Bank and Gaza, the Bank has reallocated US\$2 million from the International Development Association (IDA) loan toward labor intensive projects. Most of these projects are completed. Three-year investment plans have been completed for Hebron and Gaza municipalities, are under implementation for Rafah municipality, and under RFP preparation for Jenin and Nablus municipalities. Diagnostic studies in Rafah and Jenin municipalities have been completed. A revenue management information system for municipalities in the WBG was awarded and is in the implementation stage. A Geographic Information System (GIS) is currently being developed at Gaza, Hebron and Nablus municipalities. A state-of-the-art computer center and network has been completed for Gaza, Jenin, Nablus and Rafah municipalities. An electricity study was completed for Hebron area and is in the stage of requesting proposals for Nablus.

■ *Second Municipal Infrastructure Project (MIDP II)*. (US\$26 million total Project cost, US\$7.5 million credit from the World Bank, US\$5.0 million grant from Saudi Arabia. Italy is currently considering contributing a sum of US\$7.2m - of which US\$4m for roads and US\$3.2m for water). This Project was approved by the World Bank Board on June 20th, 2000 and declared effective on December 19th, 2000 and Closing is expected in August 2004. Commitments: Two sub-projects stand at US\$1.93m. Disbursements: Two sub-projects stand at US\$0.82. 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. 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 a road maintenance management system for the first time in the Palestinian Authority. In addition, it will continue to provide support to the Ministry of Local Government for an accounting system and institutional reform, and will extend the capacity building component of MIDP I to six additional municipalities in WBG including: Jabalia, Khan Younis in Gaza, Tulkarem, Jericho, Tarqumia, and Al Ram in the West Bank. This subcomponent will provide support to improve municipal investment and development programming.

Sub-Components Progress: The Ministry of Public Works (MPW) has prepared design and tender documents for three road rehabilitation projects (estimated cost is \$2.10m from the IDA fund). MPW has completed the implementation of one out of three regional roads financed by IDA. (US\$0.5m out of US\$2.1m). The contract for Phase I of the second sub-project has been recently awarded in the amount of US\$0.75m. MPW has also tendered the Road Maintenance Management System Program as part of the Capacity Building Component. Bid evaluation is currently undergoing. Contract award is expected in mid-November 2001. In response to the current crisis in the West Bank and Gaza, US\$1.0 million has been reallocated from the project budget to employment generation projects. These funds will be used primarily to rehabilitate small stretches of roads, open agricultural roads, and for road maintenance.

■ *Gaza Water and Sanitation Services Project (GWSSP I)*. (US\$25 million credit from the World Bank; US\$50 million in parallel financing from EIB/EU.) The Project consists of: (a) the provision of an international Operator [Lyonnaise des Eaux, Khatib & Alami (LEKA)] under a four-year management contract to implement a service improvement program; (b) the provision of operating investment funds for the Operator built

into the management contract, essential to fund goods, equipment, works and services required for improving services and attainment of performance targets; and (c) the provision of technical assistance to strengthen the Palestinian Water Authority (PWA), to support implementation and monitoring of the Project, and to provide independent auditors to monitor the Operator's technical and financial performance. The implementing agency is the PWA. Some of the main achievements after four years of implementation of the Project as audited by an independent auditor are: over 1,200 km of pipe have been surveyed for leaks and over 16,000 illegal connections identified; over 22,000 service connections have been replaced, over 20,000 meters repaired, and a total of over 30,000 meters replaced; Unaccounted For Water (UFW) has been reduced from around 48% to 30%; reliable disinfectant (96% of water samples have positive chlorine residual). The existing management contract has been extended through June 2002. The Credit is fully committed and disbursements as of August 31, 2001, were US\$24.91 million. The closing date of the Project is December 31, 2001, but is expected to be extended to June 30, 2002. A supplemental credit of US\$6.0 million to finance the increased costs for implementing the rehabilitation program under this Project, was approved on November 1, 2001.

■ *Southern Area Water and Sanitation Improvement Project (SAWSIP)*. (US\$21 million from the World Bank and EURO30 million in parallel financing from EIB). The Project consists of: (a) the provision of an international Operator [General des Eaux, Khatib & Alami (GEKA)] under a four-year performance based management contract to implement a service improvement program for the Governorates of Bethlehem and Hebron in the West Bank; (b) the provision of operating investment funds for the Operator built into the management

contract, to finance essential operations and maintenance expenditures not covered by the revenues collected and which are required to achieve the yearly performance targets in the management contract; (c) the provision of funds (by EIB) to finance design, implementation and supervision of capital improvements such as system rehabilitation and improvement of water supply services, bulk transmission mains, distribution systems restructuring and rehabilitation, as well as an investment in rural water supply; and (d) the provision of technical assistance to support strengthening the institutional capacity of PWA and WSSA, to support implementation and monitoring of the Project and provide independent auditors to monitor the Operator's technical and financial performance. The implementing agency is the PWA. An independent audit of the Operator's First Year Performance indicated satisfactory performance. Project implementation continues to be satisfactory. However, it has slowed down since September 2000 because of the deteriorating political situation. Disbursements, as of August 31, 2001, are approximately US\$7.3 million representing about 35% of the Credit. The closing date of the Project is set for June 30, 2003.

■ *The Second Community Development Project (CDP II).* The CDP II is financed by the World Bank (US\$8 million), with parallel financing from the OPEC Fund (US\$8 million), and EIB (EURO 10 million). The project was made effective in June 1999 and to-date has under implementation microprojects targeting rehabilitation of infrastructure in small villages and municipalities in West Bank and Gaza. As of August, 2001, 163 projects have been contracted and 98 have been completed. A total of US\$10.4 million has been disbursed to the projects by the implementing agencies. The menu of projects includes rehabilitation and upgrading of: roads, schools, community centers, rehabilitation of clinics and water supply

and sewage networks. Most of the funds financed by the World Bank and OPEC Fund have been committed. A mid-term review carried out by the World Bank in February of 2001, has confirmed that the project objectives are being adequately met even under the current sociopolitical crisis on the ground.

■ *Legal Development Project (LDP).* (US\$5.5 million from the World Bank; US\$15 million cofinancing from Saudi Arabia and parallel financing of US\$1 million for legislative drafting from the United Kingdom.) The Project is a start to a long-term process of assisting the PA to modernize and harmonize existing legislation, to give rise to a legal framework adequate to support a modern market economy, and to encourage the growth of the private sector. The Project also supports the training of judges and court personnel in order to increase the efficiency and transparency of the judicial process. The Project is well underway. As part of the overall program of legal development in WBG, construction of two courthouses is planned—one each in the West Bank and in Gaza, to be funded by the Kingdom of Saudi Arabia.

■ *Palestinian Expatriate Professional Program (PEPP).* (US\$3 million credit from the World Bank and US\$0.3 million from the Netherlands.) The PEPP supports the recruitment of expatriate Palestinians to key management and senior technical positions in PA institutions as an institution-building measure. Since the program started in late 1997, 17 persons have been successfully recruited for positions at 11 ministries and agencies of the Palestinian Authority, including: the Ministries of Finance, Health, Higher Education, Housing, the Palestine Broadcasting Corporation, Palestine Monetary Authority, and the Bethlehem 2000 Committee. Qualified persons have been identified for positions at the Ministries of Agriculture and Education, the Insurance Controller's Office and the State Information service but recruitment

has not been consummated. The current crisis is seriously affecting the ability of current participants in the program to continue their work effectively but they have shown extraordinary fortitude and courage to keep working despite these difficulties.

PEPP Project Expatriate Profiles

Dr. Nebal Shaath is a Palestinian expatriate who, has been working at the Palestinian Ministry of Health since December 2000 under the auspices of the PEPP program. The PEPP program is financed by the Palestinian Authority, the Government of the Netherlands and the World Bank. Dr. Shaath is the Orthopedic Surgeon at the European Gaza Hospital. His main responsibility is upgrading the existing Orthopedic Surgery Centers, with special emphasis on Hand Surgery, Arthroscopy and Joint Replacement. This also includes the ongoing development and training of junior Orthopedic Surgeons as well as establishing and monitoring two additional centers in the West Bank for Orthopedic Surgery in order to reduce reliance on overseas treatment which is very expensive. In his first few months, Dr. Shaath has collaborated with the hospital directors and local counterparts to identify the basic needs and opportunities for improvements in existing departments of Orthopedic Surgery. He is now in the process of recommending measures to upgrade the structure and functions of the existing departments of Orthopedics in Gaza and West Bank, including staffing.

■ *Palestinian NGO Project.* (US\$10 million grant from the World Bank, US\$2.5 million in co-financing by Saudi Arabia and US\$2 million by Italy. This Project is managed by the Project Management Organization (PMO); Welfare Association Consortium.

The Grants Program: Despite difficult circumstances and severe restrictions on

movement, the PMO has remained fully operational utilizing more its satellite offices for accessing projects across the country. Of the 39 projects approved in Cycle I, 37 have been completed and US\$ 1,794,616 (98.14% of total funds) has been fully disbursed. For Cycle II, 35 projects were approved, 21 of which have been completed and US\$ 2,941,272 (91.64% of total funds allocated) has been disbursed. For Cycle III projects, of a total of US\$ 2,259,940, US\$ 1,611,923, or 66.92% has been disbursed. Cycle III projects have been most affected by the emergency situation and several of the recipients requested that their grant agreements be amended to extend their contracts beyond the original date.

For Block Grants, of a total of US\$ 2,950,386 allocated to sub-projects, US\$ 2,942,272, or 91.64% of total budgeted allocated for block grants, had been disbursed. Of a total of 195 sub-grants approved, a total of 115 (58.97%) have been completed. All Block Grant Managers, with the exception of one, managed to allocate all their budgets to sub-projects, albeit with delays due to the present circumstances.

In total, the PMO has obligated 100% of the original grants budget which is US\$ 10,848,258. From this US\$ 9,610,341 or 87.38% has been disbursed.

Additional Funds from the Italians: The PMO has received an additional US\$ 430,479 which represents interest accumulated on the Italian Trust Fund. The additional funding allowed for the approval of four new projects and budget increases for two ongoing projects.

Impact on Beneficiaries to date: Although a formal Impact Assessment is not required before July 2001, information available through the project's monitoring systems indicate that 30-40% of the 55 projects that have been completed under the Development Grant scheme have potential for longer-term sustainability and growth. The 55 projects that were completed in addition to those that are well underway (43 projects,

including those financed with the accrued Italian interest) managed to reach 106,874 poor and marginalized. This number is well above the targeted 50,000 beneficiaries set in the Project Appraisal Document. The beneficiaries so far can be disaggregated as follows: 14% women, 6% men, 60% children, 15% youth, 2% elderly and 3% disabled. As to the nature of the beneficiaries, most of the categories can be classified as marginalized.

In 2001, two workshops were held to present the findings of two important research works that were funded under the Bank's Palestinian NGO Project - i) An NGO Sector Mapping, which provides the most comprehensive database on NGOs in the West Bank and Gaza, and ii) *The Role of NGOs in Building Civil Society*, which provides considerable insight into how NGOs see their future role in building Palestinian civil society. The two research projects were undertaken by two reputable research centers, the Palestinian Economic Research Institute (MAS) and Bisan Research and Development Center, respectively.

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

■ *MIGA Investment Guarantee Fund.* (Total of US\$20 million, which consists of US\$10 million through a credit from the World Bank, approximately US\$5 million from EIB and US\$5 million from Japan.) This Fund, which is administered by MIGA, provides guarantees in the form of insurance against political risk for private investments in WBG. Under the terms of the Fund, investors who are nationals of, or companies incorporated in a MIGA member country, or who are Palestinian residents of WBG, are

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

■ *Bethlehem 2000 Project (B2000).* [US\$25 million credit from World Bank, US\$1 million grant from Norway and US\$1.76 million grant from Italy, EURO0.73 million from Austria]. The IDA Fund is 85% committed and 89% disbursed; the Norwegian Fund is 100% committed and 100% disbursed; and the Italian Fund is 100% committed and 100% disbursed; the Austrian Fund is 70% committed and 36% disbursed. The Bethlehem 2000 Project Authority, the Ministry of Local Government, the Ministry of Tourism and Antiquities, and the Ministry of Culture are implementing this Project.

Celebrations Support: The B2000 Project Authority was effectively consolidated under the leadership of Dr. Nabil Kassis and has performed very well. The infrastructure and celebration components were particularly well executed, and the Accounts Department has done a very good job of record keeping, control and reporting. However, the sponsorship, marketing, tourism

development and private sector department were never effectively staffed and not much was achieved in these areas. Until the recent closures, efforts were underway to consolidate these achievements by: (1) institutionalizing key elements of the events program on an annual basis; (2) mobilizing the private sector to consolidate and build on the improvements that have been made; and (3) embarking on a realistic marketing program in coordination with the Ministry of Tourism.

Infrastructure Progress: (1) Roads: the planned IDA components are now 100% complete. The Artas Road, co-financed with Italy is complete. The Shepherds Fields Roads, co-financed by Norway, including landscaping works, are complete. The IDA balance remaining is mainly due to the substitution effect of other donors (as noted above) some of which were used for Job Creation Sub-projects; (2) Water: the components here (all IDA) are 100% complete; (3) Cultural Heritage: three of the four sub-projects are complete. The fourth one, co-financed by Austria, is under implementation.

New B2000 Business Plan: A revised Business Plan has been prepared which should have provided the basis for the B2000 Project Authority's work for the remainder of the Project. This plan needs major revisions in the light of the current crisis.

Municipal Capacity Building: Discussions are now ongoing with Bethlehem area municipalities to help them establish the necessary working groups in order to develop the three-year investment program. Request for Proposal to hire a consultant to develop the program is in the final stage of preparation.

Cultural Heritage Reform: It was agreed through discussions with the Borrower that this component would be implemented by the B2000 Project Authority with managerial assistance from UNESCO.

■ *Electric Sector Investment and Management Project (ESIMP).* (US\$15 million from the World Bank, US\$38 million from EIB, US\$35 million from Italy, and US\$3 million financed by beneficiaries.) The objectives of this US\$91 million project are to rehabilitate the power distribution systems in the central and southern West Bank and to address the institutional structure for longer-term sector management. The Executive Directors of the World Bank approved the Project on August 31, 1999 and the Trust Fund Credit Agreement (TFCA) was signed at the time of the Bank/IMF Annual Meetings. Despite the present unrest, the implementation of the main activities (JDECo and PEA components) is progressing satisfactorily. Effectiveness conditions are yet to be completed for the HEPCo and SELCo components. A supervision mission will take place in beginning of September 2001, in particular to follow-up on the effectiveness conditions of SELCo and HEPCo respectively. About US\$4.23 million of the US\$15 million has been disbursed to date.

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

The Jenin Joint Service Council for Solid Waste Management (JSC) Project Implementation Unit (PIU) is currently preparing the needed documents to procure the assignment for detailed design of the Zahrat Finjan Sanitary Landfill. Request for Proposals will be

sent out to a long-list of firms within the coming few weeks.

Rehabilitation and closure of uncontrolled open dump sites has been a first priority and is currently being addressed by the JSC-PIU. While over 54 open dumps will be rehabilitated and closed in the coming six to eight months, only six large dump sites are expected to be rehabilitated and maintained to receive waste until the new landfill site in Zahrat Al-Fanjan is made operational mid- to late- 2002. So far 4 dump sites have been completely rehabilitated or closed. Twelve will be procured in the coming couple of weeks.

The JSC-PIU is in the process of improving access roads (10 km) to the temporary dump sites as part of this Project.

Public awareness will be an important component of the SWEMP. The JSC-PIU is currently entering into a contract to produce materials related to public awareness.

MENA is in the process of developing an environmental awareness strategy utilizing the expertise of specialized local non governmental organizations (NGOs); a short list of local NGOs have been identified through screening "expressions of interest", and tendering will take place in the coming two weeks;

The European Investment Bank (EIB) has approved the financing of components related to solid waste management, including purchase of equipment needed for primary and secondary collection of solid waste and costs for operations and maintenance. The JSC in cooperation with MLG is currently preparing the work-plan and tendering documents to purchase these equipment.

■ *Emergency Response Program (ERP).* (US\$11.61 million Grant from the World Bank): The overall objective of the ERP is to alleviate hardships to thousands of families through the provision of temporary employment for unskilled and semi-skilled laborers. Local suppliers and

contractors would also benefit through the increased demand for materials and works. The implementing agencies include: (1) the Ministry of Local Government (MLG); (2) The local government units (LGUs) and NGOs and (3) PECNDAR. The MLG has the sole responsibility of selection of projects and PECNDAR has the overall accounting, monitoring and reporting responsibility. The LGUs and NGOs implement their sub-projects directly. The Project was approved by the World Bank Board and declared effective on December 6, 2000 and was closed on August 31, 2001. A responsibility matrix was approved by PECNDAR, MLG and the Bank. About 210 micro-projects were identified by the LGUs and endorsed by the MLG. Thirty-two NGO's were selected by the Welfare Association to implement labor-intensive projects. Several workshops were conducted in the West Bank and Gaza to explain the mechanism of the program to the LGUs, MLG and PECNDAR. An auditor was contracted by the Bank, one local technical consulting firm was contracted by PECNDAR in Gaza and another four in the West Bank to monitor the progress and provide assistance to local government units to improve quality of work. A local firm was also contracted by PECNDAR to produce a documentary film on the Project. Total commitment now stands at US\$11.61 million, or 100% of the available funding. This commitment has been made to some 242 micro-projects in Gaza and the West Bank including the NGO micro projects. All sub-projects are completed in the West Bank and Gaza, US\$11.41 million has been disbursed to sub-projects and more than 210,000 man-days have been generated in the West Bank and Gaza. Canada (US\$3.2 million equivalent), Denmark (US \$ 3.7 million equivalent), Islamic Development Bank (US\$7 million) and United Kingdom (US \$ 2.2 million equivalent) have contributed to the program. Other donors have expressed interest in contributing. A workshop on employment generation program was

held in the World Bank office in El-Ram on September 24, 2001. More than 50 persons from the local authorities, ministries of Local Government, Planning and Public Works and governorates, private sector, NGOs, Welfare association, Donors and the World Bank participated in this workshop. The workshop discussed issues related to information sharing, experience in implementation, improving the quality of targeting poverty and lessons learned to improve the delivery of the program. From the workshop, it was learned that: 1) The employment generation program shall be flexible, 2) localize the work through using local contractors and local materials as much as possible; 3) the program helped in building capacity at the local level; 4) some sectors have better payoffs regarding employment, such the agriculture sector; 5) there is a need to balance between development and employment objectives; 6) the NGOs have a key role to play and they were able to target women; and 7) local authorities are in bad need for assistance in service delivery to avoid a possible collapse of the service system delivery.

■ *Education Action Project. (US\$7 million from the World Bank.)* The Palestinian Ministry of Education (MOE) has requested project support to reinforce the work already undertaken in the development of a Five-Year Plan and the development of a long term education strategy. The Education Action Project aims to strengthen the capacity of the Ministry of Education to manage the education system more effectively through improving policy-making, planning and budgeting at central and district levels. The project would also support the implementation of activities in targeted domains included in agreed annual departmental workplans derived from the Five-Year Education Plan (2001-2005). The Project has two complimentary components, plus support for the Project Management Unit. The first component provides support for strategies that assist policy making, planning, and budgeting across Ministry

departments; the second supports specific investments in education. The Project is designed to compliment efforts being made by the Ministry and the Donor Community to make the best use of available funding for the education sector.

The project components are:

Component 1: Strengthen Capacity of MOE (US\$ 1.76 million).

Sub-Component 1.1 Policy, planning and financing (S\$ 1.47 million). This sub-component would support the preparation and evaluation of Annual Work Plans and Budgets (AWPB) to operationalize the priorities of the Five-Year plan. The activities under this component include putting in place an EMIS including school mapping facilities and extending this to all District offices, computerizing the MOE financial management system, building a two story vertical extension to the MOE's annex, providing training, scholarships and workshops for MOE staff and stakeholders (in management, planning, economic and financial analysis), and providing technical assistance to support capacity building.

Sub-Component 1.2: Support for project implementation (US\$ 0.28 million) through covering the costs associated with improved management of financial and procurement systems to implement Trust Fund Credit-funded activities, and the hiring of external expertise to support MOE staff.

Component 2: Targeted Interventions (US\$ 5.88 million) This component would support the implementation of activities in the Five-Year Plan and AWPB prepared under sub-component 1.1. Activities would include sub-components for general and vocational education.

Sub-Component 2.1 General Education (US\$ 3.13 million). This sub-component includes the extension of a program for school improvement through staff review and school development program (including a fund for training); and the development of professional standards

for headmasters.

Sub-Component 2.2 Vocational Education (US\$ 2.75 million). This sub-component includes supporting the MOE to develop and pilot the curriculum and materials for the secondary vocational stream, and establishing pilot units for vocational secondary classrooms and workshops attached to existing general secondary schools.

The Project will be carried out by the Ministry of Education over a three year period (2001-2004), and is expected to become effective September 2001.

■ *Palestinian NGO II Project.* (Total budget US\$ 15 million) On 21 June 2001, the Board of the World Bank approved an US\$ 8 million grant for financing a second phase of the Palestinian NGO project. The new project builds on the first phase and 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. Moving away from being a source of funding for a large number of NGO projects, the new Project will place increased emphasis on impact and longer-term sustainability of projects being supported. It is, therefore, designed to fund a fewer number of projects in a selected number of priority sectors/regions. The Project will have four components:

The Partnership Grants Program that will award grants to consortia 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.

Development Grants Program that will award grants to NGOs or projects that have demonstrated success during PNGO I.

Sector Support Program that will work with existing networks to promote strategic thinking on the role of the sector, sector learning and information

exchange, enhanced PA/NGO dialogue and joint programming and improved capacity of networks to represent their constituencies.

An Emergency Grants Program that will rapidly disburse grants to emergency-type projects with shorter durations and a direct focus on alleviating hardship.

The new project will have a new governance structure, giving wider ownership to the NGOs through its expanded Supervisory Board. The Supervisory Board, whose members will include the five NGO networks, five representatives of civil society, three representatives of the Welfare Association Consortium, and, as observers, the Ministries of Planning (MOPIC) and of NGO Affairs will have the ultimate authority to approve grants to NGOs, it will play a key role in defining areas of intervention for supporting the NGO sector, and it will oversee the implementation of the project. The Welfare Association Consortium consisting of the Welfare Association, as the lead partner, the British Council and the Charities Aid Foundation (CAF), will implement the project through the existing structure of the Project Management Organization (the PMO). The project is expected to start its activities in October of this year.

World Bank Completed Projects

■ *Emergency Rehabilitation Project (ERP I).* (US\$30 million from the World Bank and US\$63.5 million in co-financing by Saudi Arabia, Denmark, Switzerland, and Kuwait.) The Project, implemented by PECDAR, financed a total of 140 infrastructure projects, built 418 classrooms, paved 260 km of roads in cities and villages, constructed approximately 410 km of water supply pipelines, 80 km of sewer lines and storm water lines, and five water reservoirs.

■ *Second Emergency Rehabilitation Project (ERP II).* (US\$20 million from the World Bank and US\$3.5 million in co-financing by the Italian Government.)

All available funding has been committed to 77 sub-projects in the road, water, wastewater, and school sectors (including 42 labor-intensive microprojects). All sub-projects have been completed. The Project, closed on June 30, 1999, was implemented through PECDAR in coordination with the municipalities in the West Bank and Gaza. Approximately 123 km of roads and about 110 km of water and sewage pipelines have been constructed. An implementation completion report for the Project has been completed.

■ *Community Development Project (CDP I).* (US\$10 million from the World Bank.) This community infrastructure rehabilitation program was started in 1997, and as of June 2000, over 250 infrastructure microprojects have been completed. The Project has been successful in attracting co-financing of nearly US\$13 million. The Canadian and World Bank-financed components have been completed and the Project has been closed. The OPEC-funded projects are expected to be closed by the end of the calendar year.

Closed Multi-Donor Fund Administration

■ *Holst Fund.* The Holst Fund closed on August 31, 2001 after seven years of operation. Twenty seven donors including the World Bank contributed US\$ 291 million to the Fund. About US\$ 213 million was used to finance the creation and operation of Palestinian institutions - namely, the Ministries of Health and Education. About US\$64 million has gone towards funding Employment Generation Programs, targeting areas severely affected by border closures and the current sociopolitical crisis. As of August 31, over 1100 labor intensive microprojects have been implemented and its estimated that over 3 million labor days of employment has been generated. A final report is being prepared and will be sent to all the Holst Fund donors.

Suspended Project.

■ *Institutional Development Project (IDP)*. The proposed Project has been on hold pending completion of discussions on the Public Management Review and Comprehensive Development Framework with the Palestinian Authority. When the crisis erupted in West Bank and Gaza in September 2000, the Country Management Unit determined that it would not be appropriate to begin preparation of the project, given the unpredictable nature of the local environment. Thus, a decision was made to temporarily withdraw the activity from the Bank's project pipeline and to wait until such time as project preparation can recommence.

World Bank Projects Under Preparation

■ *Financial Institutional Development Project (FIDP)*. (US\$7 million from the World Bank.) This Project aims to assist with the development of the legal, institutional, and regulatory framework for more efficient financial intermediation. The Project seeks to expand the pool of assets that can be used as collateral, thereby improving access to credit for small- and medium-size businesses. It would also support measures to modernize and expand land survey and registration, particularly in central urban areas where property values are high. Banks operating in WBG and the PMA have pledged nearly US\$1.5 million in equity in the Banking Sector Services Company to provide electronic banking services. Negotiations and presentation of the project to the World Bank's Board of Executive Directors is stalled waiting for a return to peaceful conditions in the WBG.

■ *Proposed Gaza Water and Sanitation Services Project (GWSSP II)*. (US\$25 million from the World Bank). The 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 the existing systems and facilities. Project preparation has been delayed because of the deteriorating political situation. The request for pre-qualification for prospective international operators was completed. 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.

■ *The Integrated Community Development Project*. (US\$10 million from the World Bank and co-financing by other donors). The overall Project objective is to implement an integrated community development project in poor and marginalized areas of the West Bank and Gaza. This objective would be pursued through identification of target areas, and the development and implementation of a multi-sectoral program which would include technical assistance. The Project will include the following proposed components: (a) community infrastructure upgrading; (b) natural resources management, including

agricultural components; (c) technical assistance to local government units in integrated development planning; and (d) introduction of information technology in communities through provision of community centers with hardware and software facilities. Project appraisal started in August 2001.

■ *Second Health Systems Development Project (HSDP II)*. (US\$18 million credit from the World Bank; total project cost US\$52 million.) The Project objectives are to improve the quality, access and cost-effectiveness of essential secondary and tertiary care health services for the population residing in northern Gaza and northern West Bank regions. The Project components are:

Component 1: Replacement and Upgrading of Two Hospital Systems (US\$48 million).

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

Sub-Component 1.2 (US\$25 million): This component will finance the preparation of a regional hospital rationalization plan for the northern West Bank region covering the districts of Nablus, Tulkarem, Jenin and Qalqilya. In addition, a hospital master plan, medical brief and detailed design and construction of a new Watani Hospital (internal medicine, pediatrics, oncology, and dialysis) to replace the substandard Watani Hospital in Nablus. A new site will be selected and evaluated for the new hospital, since the current hospital is located on a site which has no

room for further expansion.

Component 2: Capacity Building (US\$ 4 million)

This component will build upon the experience of the first Health System Development Project to extend the development of an integrated information and management systems to improve the productivity and quality of health care services in the targeted hospitals.

Sub-Component 2.1 Improving Hospital Management through Information System and Quality Improvement Programs (US\$2 million).

Sub-Component 2.2 Strengthening Hospital Insurance Administration (US\$1 million)

Sub-Component 2.3 Project Management Support (US\$1 million).

The project will be implemented by the Ministry of Health. Expected Appraisal Date is December 2001.

World Bank and IFC Joint Projects

■ *Housing Project.* US\$25 million credit from the World Bank, up to US\$4 million in equity from IFC.) 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. The World Bank loan was declared effective in March 1998 after which, private investors, including IFC, decided to provide equity to PMHC.

PMHC commenced operations in September 2000 and has accumulated a modest portfolio over the past year. 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 have been able to commence operations. 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. The borrower has also requested that a portion of the Bank loan be applied to the Housing Assistance Fund which has been designed to provide targeted assistance to low- and moderate-income households for the purchase of a primary residence. Restructuring of the Project to accommodate this request has been on hold for more than one year due to the current situation.

■ *Gaza Industrial Estate (GIE).* [US\$10 million from the World Bank for off-site infrastructure and institutional development, US\$9 million in equity (US\$1million) and loans (US\$8 million), and up to US\$7 million in syndicated loans from IFC to the developer/operator. EIB and USAID parallel financing, and the PA long-term lease of the land, amount to a further US\$65.5 million.] The GIE, on a 50 hectare site at Al-Muntar in the northeast of Gaza (adjacent to the Israeli border), is the first largely export-oriented industrial estate established to generate sustainable employment and stimulate industrial development in Gaza. The Project is expected to attract foreign and local investment, and to facilitate joint ventures between Palestinians and others. The GIE is managed and operated by Palestine Industrial Estate Development and Management Company (PIEDCO), a private sector company. Regulatory oversight, as well as offsite infrastructure, is provided by the Palestinian Industrial Estate and Free Zone Authority (PIEFZA). The GIE is being developed in three phases; Phase II construction was 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 general situation, under which closure has at times been applied to the GIE. Prior to

September 2000, some 34 firms had leased space at the GIE, filling all space made available under Phase I; of these, about 30 firms were operating, and 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.* (US\$5 million from the World Bank; US\$7.5 million each from the IFC and the participating banks; US\$3 million from the Netherlands). The Project has initiated a program to finance microenterprises in the WBG through the banking system in order to: (a) promote employment through private sector development; (b) achieve commercial viability and sustainability for microenterprise lending; and (c) build capacity in both the participating banks and the microenterprises by providing technical assistance. As of September 30, 2001 over 1,106 projects for approximately US\$12.4 million were approved, of which disbursements of approximately US\$11.8 million have been made to 1,031 projects. The disbursed loans were estimated to have created over 1,400 new full- and part-time jobs. The resident advisors, financed under the Dutch Trust Fund for technical assistance to the three participating banks, were forced to depart about three months early in October 2000, due to the prevailing circumstances. 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.

Commitments and Disbursements ¹					
<i>Disbursements Under World Bank Projects (In US \$ Million) - As of September 30, 2001</i>					
Current Projects	Allocated Amounts		Disbursed		Total Disbursed
	TFGWB	Joint	TFGWB	Joint	
EHRP	20.00	29.10	20.00	20.27	40.27
MIDP	40.00	5.41	35.21	3.53	38.74
Gaza Water/San.	25.00		24.80		24.80
Microent.	5.00		2.55		2.55
Housing	25.00		0.99		0.99
Legal	5.50	15.00	2.27		2.27
PEPP	3.00	0.32	1.24	0.32	1.56
NGO	10.00	4.60	10.00	4.24	14.24
GIF	10.00		3.49		3.49
Beth. 2000	25.00	3.61	22.03	2.76	24.79
CDP II	8.00		6.13		6.13
SAWSIP	21.00		6.91		6.91
ESIMP	15.00		3.89		3.89
Health	7.90		0.80		
MIDP II	7.50	5.00	0.65		
Solid Waste	9.50		1.10		
ERP	12.00				
FAP	7.00				
NGO II	8.00				
Completed Projects					
ERP I	30.00	71.24	30.00	63.48	93.48
MIGA Fund	10.00		10.00		10.00
ERP II	20.00	3.57	20.00	3.53	23.53
CDP I	10.00	2.81	10.00	2.73	12.73
Total	334.40	140.65	212.05	100.86	312.90
Multi-Donor Trust Funds					
		Donor Allocation		Total Disbursed	
The Holst Fund		285.28		285.22	
TATF		22.77		22.98	
Peace Facility		3.17			
Total		311.22		308.19	

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

¹ These figures do not include parallel and IFC financing.

IFC Projects

IFC Portfolio

Including the joint-projects above, under the Mainstream Program, eight projects worth US\$75.78 million have been approved to date. Under the Extended Reach Initiative, which

supported projects in the US\$0.25-5 million range, seven projects were approved for US\$7.42 million, out of which US\$4.47 million has been disbursed. The Extended Reach Initiative was discontinued in 2000.

All IFC financed projects have been affected by the ongoing political crisis. Most business activity has been reduced

noticeably, and most WBG companies are facing liquidity and severe operational difficulties due to the internal border closure.

Mainstream Projects

■ *Arab Palestine Investment Bank.* The Arab Palestine Investment Bank (APIB) was established in 1996 by Arab Bank, DEG, Enterprise Investment Company and IFC. As of July 31, 2001 APIB approved 27 loans worth US\$12.6 million, and had an outstanding portfolio of US\$9.1 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.* The Peace Technology Fund was set up with a committed capital of US\$63.2 million to provide equity capital for productive investments in the WBG. Prior to September 2000, PTF invested US\$11.0 million in three projects, but because of the ongoing crisis all pipeline investments have been put on hold.

■ *Palestine Tourism Investment Company Ltd. (PTIC).* The 250-keys Bethlehem Intercontinental Hotel Project, with an estimated project cost of US\$52 million, became fully operational in September 2000. It was the first international standard hotel in the West Bank. IFC invested US\$1.35 million in equity and US\$8 million in long-term loans. EIB provided about EURO12 million in a parallel loan. Both IFC and EIB loans have been fully disbursed. Because of the ongoing crisis in the WBG, tourism was one of the hardest hit sectors, and the complex was forced to cease all operations in late March 2001. The complex remains closed.

Extended Reach Projects

■ *Arab Concrete Products Company.* This Project enabled Arab Concrete Products Company to utilize fully its production capacity of ready-mix concrete, and expand its distribution capacity. IFC provided a long-term loan

of US\$0.8 million out of a total project cost of US\$2.6 million. Due to the crisis and mobility problems of labor and raw materials, the Project has witnessed a significant drop in operational levels, and at certain times it has come to a complete standstill.

■ *Jericho Motels Company.* Developed on 31,000 m² of land, the Jericho Resort Village consists of a 60-room hotel, 48 bungalows, 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, the Project was forced to cease operations in early October 2000. The complex remains closed.

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

■ *Arab Palestinian Storage Company.* The Project consisted of establishing a cold storage facility in Gaza with a capacity to store about 5,000 tons of perishable food products. The storage method 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 resale in the off-season. IFC provided a loan of US\$0.2 million out of a total project cost of US\$5.9 million. The Project started operations in September 1999. However, the border closures in Gaza, and the ongoing crisis, have significantly reduced the Project's volume of operations, and in some instances, operations were brought to a complete stop.

IFC Technical Assistance

IFC's technical assistance efforts were aimed at supporting the Palestinian Authority's efforts to further broaden and deepen the Palestinian financial sector. 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

■ Health and Education Bank Mission to West Bank and Gaza (WBG): August 3-18, 2001.

The mission, composed of staff from Headquarter and WBG Country Office, had the following objectives: (a) to review implementation progress of the Health System Development Project and Education & Health Rehabilitation Project ; (b) to revise the scope and design of the Second Health System Development Project based on the latest situation; (c) to assist MOH in conducting policy forum workshops to prepare a Comprehensive Palestinian Strategy for Physical Rehabilitation and Mental Health and; (d) to identify components for the proposed Emergency Support to Social Services Program to support the urgent needs of the health care providers in WBG.

■ Community Development and Environmental projects mission to WBG: August 6-31, 2001.

The team, composed of staff from Headquarter and WBG Country Office, undertook a supervision and pre-appraisal mission.

1) Solid Waste and Environmental Management Project) in Jenin and Toubas Governorates.

Under difficult sociopolitical conditions, the project still continues to show progress. Three uncontrolled dumpsites were closed while three other are being prepared in order to absorb the waste for the coming three years until the main landfill is ready.

2) Supervision of the Community Development Project (II).

The mission reviewed the progress of the project and despite the current crisis, the project was going well and of benefit to the Palestinian population.

3) Preparation for the Integrated Community Development Project.

The pre-appraisal mission initiated preparatory assessments that focus on five areas: community participation, institutional strengthening, agricultural interventions, environment assessment and Information and Communication Technology needs assessments. The project is expected to be presented to the Board in January 2002.

■ **Supervision Mission on the Electric Sector Investment and Management Project : August 29-September 6, 2001.**

The mission reviewed the overall progress of the Project Implementation Plan, including physical implementation, procurement, disbursements, the Palestinian Energy Authority technical assistance component, as well as the progress to launch the new distribution companies, Southern Electric Company and Hebron Electric Power Company.

■ **Water and Wastewater Sector Working Group Meeting.**

Despite the current emergency conditions, the water issue remains under focus as donors are still committed to support such an important sector. On October 17, 2001, about 30 representatives from PA institutions, donors and other stakeholders convened at the United Nations Special Coordinator's office to attend the Water and Wastewater Sector Working Group Meeting. During the meeting, delegates were updated on issues related to the development environment, the National Water Plan and the Palestinian Water Authority's (PWA) funding coordination program. Such program will help create a new dynamic tool for coordination between donors and the PWA. It will also help integrate the efforts of the PWA in the planning process according to the sectoral needs and the visions and interests of donors. Further, the meeting addressed in particular the project management obstacles under the current emergency conditions.

Staff News

Economist Claus Astrup has left the World Bank Office in the West Bank and Gaza. Mr. Astrup will nevertheless continue to contribute to the World Bank's work in the West Bank and Gaza from the Bank's headquarters in Washington. He can be reached by phone at + 001 202 458 4652 or by email at CASTRUP@worldbank.org.

New Bank Publications

■ **World Development Report 2002: Building Institutions for Markets** undertakes the complex issue of the basic institutions needed for markets to function properly. This year's World Development Report goes beyond a simple examination of institutional structure and explores the functions of institutions. Recognizing that one size does not fit all, the report asks what do all institutions which support markets do?

Institutions channel information, define and enforce property rights, and increase or prevent competition. Understanding the functions that current institutions and their proposed replacements would provide is the first step. Once you have identified the missing institutional functions, you can then build effective institutions by following some basic principles :

A design that complements institutions, human capabilities, and available technologies; innovations that identify institutional successes, and weaknesses, by experimenting with, and recognizing local conditions, and differences, ranging from social norms, to geography; a connection of communities of market players, by opening information flows, and trade; and, the promotion of competition among jurisdictions, firms, and individuals.

The careful analyses in the report links theory with pertinent evidence. Building Institutions for Markets contains selected World Development Indicators

■ **The World Bank Annual Report 2001**

Free download:

"www.worldbank.org/annualreport/"

Volume 1 : Year in Review

Volume 2 : Financial Statements and Appendixes

In Fiscal Year 2001, the World Bank intensified its efforts to help countries fight poverty. Major priorities included:

Helping the poorest countries prepare poverty reduction strategies, advancing their eligibility for significant debt relief;

Heightened collaboration with global partners around the international development goals;

New efforts in the fight against HIV/AIDS in particular;

Creation of a new Strategic Framework, laying out the guiding principles for Bank assistance at the country and global levels for the next three years.

World Bank Technical Papers:

■ 424: Farm Debt in the CIS : A Multi-Country Study of the Major Causes and Proposed Solutions.

■ 494: From Transition to EU Accession : The Bulgarian Labor Market during the 1990s.

■ 495: Managing Catastrophic Disaster Risks Using Alternative Risk Financing and Pooled Insurance Structures.

■ 509: Kosovo : Economic and Social Reforms for Peace and Reconciliation

■ 510: The TB and HIV/AIDS : Epidemics in the Russian Federation

■ 513: The Current Regulatory Framework Governing Business in Bulgaria.

■ 514: European Integration and Income Convergence : Lessons for Central and Eastern European Countries.

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The 'West Bank and Gaza Update' can also be found on the Internet at:

<http://www.worldbank.org>