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ICRR 12345
Report Number : ICRR12345

IEG ICR Review
Independent Evaluation Group

1. Project Data: Date Posted : 03/21/2006
PROJ ID :P040503 Appraisal Actual
Project Name :Gaza Industrial Est. Project Costs 84.5 53.5
US$M)
(US$M)
Country :West Bank & Gaza Loan/ US$M)
Loan /Credit (US$M) 10 7.2
Sector (s):Central
): government US$M)
Cofinancing (US$M) 51.0 22.8
administration; Power;
Roads and highways; Water
supply; Sewerage
L/C Number :
FY)
Board Approval (FY) 98
Partners involved : USAID, European Closing Date 06/30/2004 06/30/2005
Investment Bank (EIB), IFC,
Palestine Industrial Estates
Development Company
(PIEDCO)

Evaluator : Panel Reviewer : Division Manager : Division :
Lei Liu Roy Gilbert Alain A. Barbu IEGSG

2. Project Objectives and Components

a. Objectives

1. To increase direct and indirect employment in Gaza;
2. To contribute to Gaza's GDP by creating conditions conducive to private sector industrial investment, including appropriate physical infrastructure .

b. Components (or Key Conditions in the case of Adjustment Loans):

(i) Off-site Infrastructure (US$19.7 million at appraisal, US$11.3 actual cost, 23.3% of total project costs): the construction of facilities to enable Palestinian utilities and agencies to provide necessary services to the Gaza Industrial Estate (GIE) including water, waste water, sewage and storm water disposal, electric power, and access roads.

(ii) Land (US$23.5 million, US$23.5 million actual cost, 27.8% of total appraisal costs): leasing of the land used for the site and for the installation of off -site infrastructure.

(iii) Site Development (US$39.0 million, US$16.0 million actual cost, 46.2% of total appraisal costs): development of the GIE site, including standard factory buildings, open lots, administration building and on -site distribution of infrastructure and services .

(iv) Technical Assistance (US$2.3 million, US$1.4 million actual cost, 2.7% of total project costs): start-up costs and

technical assistance, including project management for the Palestinian Industrial Estates and Free Zones Authority
(PIEFZA); environmental monitoring equipment, equipment for PIEFZA and the Ministry of Industry; technical
assistance and training for the Palestinian Environmental Quality Authority (EQA); technical assistance, training and
studies for the Ministry of Industry, including studies for other industrial estates .
Two changes were made to the project components during the implementation : 1) in late 2000, US$0.5 million was
allocated for the construction of an office building for PIEFZA; 2) an Emergency Damage Repair and Services
Support component was added to the project and consequently US$ 0.8 million was spent in late 2002 to help the
Palestinian Authority (PA), Gaza municipalities and PIEFZA to repair damages and replace equipment lost through
the ongoing military actions in Gaza .

c. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Aside from the Bank credit, US$51.0 million cofinancing was expected at appraisal from USAID (US6.3 million),
EIB(21.1 million), IFC(US$9.0 million), and the private developer Palestine Industrial Estates Development Company
(PIEDCO, US$13.9 million). The Borrower (Palestine Liberation Organization(PLO) for the benefit of the Palestinian
Authority(PA)) contributed US$23.5 million in the form of land lease of approximately 48 hectares. The Bank was also
to transfer to the project a credit of US$ 0.7 million from an existing Bank project in Palestine .

The actual cost was about 30% less than what was expected due to the overall scaledown of the project following the
Intifada. EIB withdrew support due to problems with the PA that were unrelated to the project . Also, PIEDCO delayed
investment because of the lack of demand for the industrial estate resulting from bad operating environment . IFC's
and USAID's shares of cofinancing remained unchanged . The project was closed on June 30th 2005, one year
behind schedule. The ICR cited military operations along the border as the reason for the delay .

3. Relevance of Objectives & Design :

The project objectives were in line with the Bank's overall strategy for West Bank and Gaza (WBG) before the
Intifada: to establish a basis for sustained medium -term growth, to create employment through the delivery of public
infrastructure for poverty reduction and increased welfare, and to develop an environment more conducive to private
sector activity. The objectives remain relevant to the Bank's current assistance strategies for WBG, although more
attention has been paid to emergency assistance since the Intifada . The objectives were also ----and are likely still
----highly relevant to the PA's own development priorities, which at that time were to create investment and jobs
through the development of nine industrial estates in WBG of which the GIE was to be the first .
The project design supported the objectives it intended to achieve . The Bank and the PA took a calculated risk to go
ahead with the project even though guarantees or formal assurances of uninterrupted movement of people and
goods in and out of the GIE, which were a condition of loan effectiveness, could not be obtained from the

Israeli
authorities. In retrospect, it appears that the Bank may have been "overly optimistic" regarding the possibility of the
project meeting its development objectives, as indicated in the ICR .

4. Achievement of Objectives (Efficacy) :
Objective 1: to increase direct and indirect employment in Gaza Negligible . At the end of the project, only about
1,060 direct jobs were created (against a target of 20,000), and it was estimated that only about 1,600 indirect jobs
were created (against a target of 30,000). The violence of the Intifada particularly affected GIE that suffered closures
and direct mortar attacks. Many GIE tenants closed their business in these circumstances .
Objective 2: to contribute to Gaza's GDP by creating conditions conducive to private sector industrial investment,
including appropriate physical infrastructure . Negligible . At project closing the direct value added at GIE (using
wages as proxy) was about US$4.4 million (against an appraisal target of US$ 38.4 million), the total investment
planned by GIE tenants about US$22.5 million (against a target of US$180 million), and the space occupied at GIE
was only 27,000 square meters, against a target of 264,000 square meters.

5. Efficiency :
Efficiency was poor. The ERR was estimated at 15.5% at appraisal, the actual result, as estimated at closing, was
only 2.6%. The FRR was estimated at 14.5% at appraisal (for the GIE site development). The FRR at closing could
not be estimated due to a lack of revenue data but a rough analysis also showed that the project had substantial
financial losses and a NPV of minus US$ 4.5 million, discounted at 10%.

6. M&E Design, Implementation, & Utilization:
The key performance indicators were number of jobs created at GIE, value -added at GIE (using wages as proxy),
value of private industrial investment by GIE tenants (cumulative), and amount of space occupied at GIE . The M& E
design was sound and served as a good measurement of achievement of the project objectives . The ICR reported
that the indicators were monitored on a regular basis, and detailed results were presented in a table at the end of the
report.

7. Other (Safeguards, Fiduciary, Unintended Impacts--Positive & Negative):
The project was an Environmental Assessment "A" category. An environmental assessment report was prepared .
However, the ICR does not give information on how the mitigation measures identified at appraisal were implemented.

8. Ratings :	ICR	ICR Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Substantial	Modest	While the project might have laid some foundation for private sector development in WBG, the violence following the Intifada has prevented such potential from being substantially materialized.

Sustainability : Unlikely Unlikely
Bank Performance : Satisfactory Satisfactory
Borrower Perf .: Satisfactory Unsatisfactory The Government (PA) "did not do all it could have to ensure that PIEFZA was a capable authority as originally intended ." (ICR p.13, section 7.5). Neither did PIEFZA have "the structure, staffing or high-level ministerial support necessary to fulfill its obligations or mandate completely"(ICR p.13, section 7.6). Thus IEG rates the overall Borrower performance (including the performance of both the Government and the implementing agency PIEFZA) as unsatisfactory on balance .

Quality of ICR : Satisfactory

NOTES:
NOTES
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness .

9. Lessons:
The following lessons highlighted in the ICR are particularly relevant :
When designing development objectives for projects in conflict situations, it is advisable to put more emphasis on institutional aspects than on economic outcomes .
In countries of limited capacity, it might be more effective for project implementation to set up a semi-independent regulatory authority, instead of a fully independent one . This way the authority could have the ability and the high-level support needed to develop as planned . The experience with PIEFZA illustrates this point.

10. Assessment Recommended? Yes No
Why? At an appropriate time, as part of a cluster audit since there have been no IEG PPARs to date on West Bank and Gaza.

11. Comments on Quality of ICR:
The quality of ICR is satisfactory overall . It provides the necessary information for evaluating the project . However, there are some shortcomings. The ICR could have assessed more explicitly how the project remains relevant to the Bank's current assistance strategy and to the PA's development priorities . The explanation of why funds were realocated to build an office building for PIEFZA is unclear . The ICR also could have elaborated on the process leading to the Bank's decision to consider the condition of loan effectiveness - regarding arrangements for the movement of goods and access of people into and out of the GIE - satisfied within the context of the prevailing environment (corresponding information was subsequeently provided by the region). Finally, the ICR should have assessed compliance with safeguard policies since the project was an Environmental Assessment category “A"

project.