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**FUND-CHANNELING OPTIONS FOR  
EARLY RECOVERY AND BEYOND:  
THE WORLD BANK PERSPECTIVE**

**International Conference in Support of the Palestinian Economy for the Reconstruction of Gaza  
March 2, 2009**

**The World Bank Group**

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**ACRONYMS**

CMWU - Coastal Municipal Water Utility in Gaza  
CTA - Central Treasury Account  
EIB - European Investment Bank  
EMSRP - Emergency Municipal Service and Rehabilitation  
ESSP - Emergency Services Support  
EU - European Union  
EUMP - Electric Utility Management  
GEWP - Gaza Emergency Water Project  
LACS - Local Aid Coordination Secretariat  
LDP - Letter of Development Policy  
MDLF - Municipal Development and Lending Fund  
MDTF - Multi-Donor Trust Funds  
MOEHE - Ministry of Education and Higher Education  
MOH - Ministry of Health  
MOSA - Ministry of Social Affairs  
NDC - NGOs Development Center

NGEST - North Gaza Emergency Sewage Treatment  
NGO - Non-Governmental Organization  
PA - Palestinian Authority  
PNA - Palestinian National Authority  
PCBS - Palestinian Central Bureau of Statistics  
PCU - Project Coordination Unit  
PRDP - Palestinian Recovery and Development Plan  
PWA - Palestinian Water Authority  
SSNRP - Social Safety Net Reform  
TF - Trust Fund  
WB&G - West Bank and Gaza

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## EXECUTIVE SUMMARY

In September 2008, at the Ad Hoc Liaison Committee (AHLC), the World Bank had indicated little improvement in the economic and social situation in the West Bank, while highlighting a progressive worsening in the living condition of the Gaza population. The recent ground invasion of the Gaza strip has delivered an additional blow to the already devastated economy and, since the end of December 2008, more people have been forced to rely purely on humanitarian assistance and foreign aid.

The Palestinian Authority (PA), in collaboration with the donor community, has taken the leadership in delivering such assistance and in distributing the available resources to the affected population in Gaza. It has also produced a damage assessment, summarized in the report on *The Palestinian National Early Recovery and Reconstruction Plan for Gaza, 2009 2010* (Sharm El-Sheikh, March 2, 2009) to guide the deliberations of the International Conference in Support of the Palestinian Economy for the Reconstruction of Gaza.

A number of World Bank teams have contributed to the report and carried out damage assessments in the sectors where the Bank is one of the PA partners in project implementation (social safety nets, water and sanitation, municipal and community development, and energy). To complement the PA report, the World Bank would like to provide the donor community – through the present report – with an outline of the various fund-channeling options to support a coordinate response for the recovery and the reconstruction of Gaza.

The first section of the report provides a brief overview of the importance of budget support to the PA, by highlighting that 50 percent of the PA's recurrent expenditures are for the benefit of Gaza, with major items being salaries for teachers and health workers. The report recommends potential donors to provide budget support to the PA directly through the Central Treasury Account. In those situations where our donor partners wish to consider other alternatives, we encourage them to channel their funds to the PA through the EU-PEGASE or through the PRDP-Trust Fund administered by the World Bank.

The second section describes a number of institutions that have a long track-record of implementing donor-financed activities with good performance on procurement and financial management. Donors who wish to provide support to Gaza through Palestinian institutions other than the PA can also choose to work with the Municipal Development and Lending Fund (MDLF) and the NGO Development Center (NDC). On PA implementation capacity in Gaza, the report also provides information on the Palestinian Water Authority (PWA), the Palestinian Energy Authority (PEA), and the Coastal Municipalities Water Utility (CMWU). These institutions have the capacity to implement donor-financed activities in Gaza, provided that the necessary materials are allowed through the crossings.

Finally, the third section of the report emphasizes the importance of a quick re-start of existing donor-financed projects in Gaza and the scope for donors to channel funds to these projects, through parallel finance mechanisms. It describes the seven World Bank projects that provide support to Gaza. This section emphasizes the advantages of scaling up successful on-going projects in key areas, such as social safety nets, water and sanitation, municipalities and NGOs, and electricity. It also notes that the projects which finance cash transfers and/or services (through the PA, municipalities or NGOs) are fully functioning (provided that a steady flow of cash is allowed to enter Gaza). Those that finance physical components, instead, will become executable only once the restrictions are removed and crossings are opened to basic materials, including cement, steel, glass, equipment, and spare parts.

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## 1. INTRODUCTION

The Palestinian Authority (PA) has issued a detailed report<sup>1</sup> to guide the deliberations of the International Conference in Support of the Palestinian Economy for the Reconstruction of Gaza.

The World Bank has contributed to the preparation of the PA's report, along with other international organizations and bodies, notably the United Nations (UN) agencies, the European Union (EU), and the International Monetary Fund (IMF). The World Bank fully endorses the findings and recommendations of the PA's report. We concur with the Prime Minister, Dr Salam Fayyad, when he says: *"I hope that this dark hour will prove to be the turning point for Gaza and the rest of Palestine. This early recovery and reconstruction plan has the potential not only to rebuild Gaza, but to build it back better, and I hope that all those with an interest in doing so will be united behind it."*

The PA's report provides a detailed assessment of the impacts of the crisis and of the options available to support the recovery. Options for providing humanitarian support to the people of Gaza are outlined in more detail in various reports by UN agencies. In addition, in its recent report<sup>2</sup> the EU offers a rich and open menu of options for channeling support both to PA and to other Palestinian institutions, under the fiduciary oversight of the EU. Finally, the IMF in its recent report<sup>3</sup> documents the continuing progress of the PA towards budgetary and fiscal management and calls for a close cooperation among the three parties, the PA, the Government of Israel, and donors for the recovery and reconstruction of Gaza.

The present report by the World Bank is designed to complement the reports of the PA, UN agencies, the EU, and the IMF. The World Bank operates entirely through national and local Palestinian institutions. The report therefore:

- provides a brief overview of the importance of budget support to the Palestinian Authority (PA), the role of PA expenditures in providing services to the people of Gaza, and the various ways of providing budget support (or its equivalent) to the PA;
- describes other Palestinian institutions which have a proven track-record in implementing donor-financed projects in Gaza in water and sanitation, municipal infrastructure, energy, and NGO-based service delivery;
- describes a broad array of World Bank-financed projects and multi-donor trust funds that are already operating in Gaza and which could be scaled up quickly with additional donor resources.

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## 2. DIRECT SUPPORT TO THE PALESTINIAN AUTHORITY

The Paris Conference of December 2007 launched a new era of public finance management in the Palestinian Authority (PA). The PA issued its Palestinian Reform and Development Plan, PRDP (2008 to 2010), and used the Plan as the basis for the Budget for 2008. Twelve months later, the updated PRDP (2009 to 2011) was again used as the basis for preparing the Budget for 2009.

The PRDP marked the beginning of a return to fiscal orthodoxy, with strong reform measures designed to move the PA's finances back onto long term path towards

sustainability. The World Bank and the IMF endorsed the initial PRDP and have followed its execution very closely over the intervening 12 months. During 2008, the PA met most of the key targets in the 2008 Budget. The PA's total wage bill was contained, while maintaining core expenditures for health and education workers, both in Gaza and the West Bank. Arrears in wage payments to PA employees were eliminated. The use of PA funds to settle unpaid electricity bills (so-called net lending) was reduced significantly. All key macro-economic indicators, as a percentage of GDP, improved. As a result, the PA entered the 2009 budget year, prior to the crisis in Gaza, with significantly stronger fundamentals, including a lower external financing requirement than in 2008 (see PNA - *The Palestinian National Early Recovery and Reconstruction Plan for Gaza, 2009-2010*, table 11). At that point, the PA was solidly on-track to reduce aid dependence and shift resources from recurrent expenditure to investment. Details are available in the reports submitted for the conference by the PNA and by the IMF.

### **2.1 Direct Transfers to the Central Treasury Account (CTA)**

The World Bank encourages donor partners to provide financial assistance to the PA through the CTA. A direct transfer allows donors complete flexibility in the modalities of transfer and ensures a high degree of transparency in the flow of funds. All expenditures from the CTA are made in accordance with the national budget, and are disclosed in monthly reports that are available by the 15<sup>th</sup> of the following month. All salary payments and major procurements are made by the Ministry of Finance with controls applied through a new accounting system. This system is used to prepare the monthly reports. It is in the process of being extended to the 10 largest line ministries.

Using the CTA and the PA budgetary systems integrates expenditure decisions and minimizes the risk of gaps and overlaps in support. It also helps the PA develop budget discipline and strengthen its public financial management systems (see PNA, *The Palestinian National Early Recovery and Reconstruction Plan for Gaza, 2009-2010*, p. 19). To further encourage donors to use the CTA, the World Bank and the International Monetary Fund have jointly agreed to monitor and report to donors on the PA's allocation and use of funds, and to assess the progress in meeting the goals outlined in the PRDP. The monitoring is provided on a quarterly basis and focuses on progress in improving the fiscal position and implementing public financial management reforms.

### **2.2 The PEGASE**

"PEGASE is the European Union's mechanism to support the Palestinian people through implementation of the Palestinian Authority's Reform and Development Plan (PRDP). It includes:

- The direct delivery of targeted and carefully monitored direct financial support to the Palestinian population, either through the PA's own Single Treasury Account (STA) or via direct payments to eligible companies and individuals in full transparency, cooperation and agreement with the PA;
- Assistance for the PA's implementation of medium to large-sized development projects as set out in the PRDP, with substantial technical assistance and careful control and monitoring of contracting and payment. PEGASE is a mechanism which is open to all donors, including those outside the EU, and international organizations.

Donors who contribute to PEGASE contribute to the considerable reduction of transaction costs for the Palestinian Authority and to increased ownership, transparency and effectiveness, in line with their Paris Declaration undertakings." (EU PEGASE – *A Guide to Donors Wishing to Contribute through PEGASE to the Early Recovery and Reconstruction of Gaza*, March 2, 2009)

### **2.3 The PRDP Trust Fund (PRDP-TF)**

The PRDP TF was established by the World Bank in April 2008 at the request of the PA and several donors who wanted an independently supervised mechanism for channeling budget support funds to West Bank and Gaza (WB&G). A Trust Fund Legal Agreement was signed by the PA and the World Bank in Washington on April 11, 2008. Since then, the PRDP-TF has disbursed US\$ 282 million in 6 different tranches.

The release of funds from the PRDP-TF is based upon the satisfactory implementation of key reforms identified in the PRDP (2008-2010) related to the goals of strengthening the PA's fiscal position and improving public financial management as laid out in the PA's PRDP. Key policy reforms include expenditure containment (particularly wages, and net lending) and progressive strengthening of public finance management while maintaining an acceptable level of social expenditures and social protection. Key reform measures and targets are updated at the beginning of each new budget year, in consultation with the World Bank and the IMF.

As already highlighted above, the World Bank closely monitors the implementation of the policy agenda. In line with the Paris Declaration on Aid Effectiveness, the PRDP-TF disburses untied, un-earmarked donor funds to the PA's Central Treasury Account.

Disbursements are made only after (i) a rigorous assessment of the new public financial management procedures adopted by the Ministry of Finance; (ii) a satisfactory assessment of the viability and priorities of the annual PA budget; and (iii) a satisfactory assessment of the progress of implementation of reforms linked to the PRDP and included in the Letter of Development Policy (LDP). The PA addresses the LDP to the World Bank every time it requests World Bank budget support (\$40 million per year in the past two years). The PA is providing quarterly reports on their progress towards the PRDP goals. The Bank, in consultation with the IMF, reviews these reports and based upon satisfactory progress, makes disbursements.

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## **3. SUPPORT TO PALESTINIAN INSTITUTIONS IN GAZA**

Funds can also be channeled through semi-autonomous institutions that support the PA's sectoral interventions. These institutions have offices and effective teams in Gaza, and have extensive experience in implementing projects for various donors, including the World Bank. They have also demonstrated effective financial management monitoring, implementation, and reporting capacities.

We group them by sector of expertise and focus on Water and Sanitation, Municipal and Community Development, and Energy.

### **3.1 Water and Sanitation**

#### **• The Palestinian Water Authority (PWA)**

The PWA is a governmental authority entrusted with the regulatory functions of the Palestinian water sector: quality assurance, economic management, and environmental safeguards. It has also been involved in project implementation. The PWA was established in 1995 following the Oslo Agreement. It is a member of the Joint Water Committee, a body established under the Oslo accords to share information about water issues affecting both Israel and WB&G. The PWA is therefore the primary Palestinian contact with the Israeli authorities.

Through its regulatory function, the PWA is responsible for licensing water abstraction; licensing of wastewater disposals to any watercourse; imposing quality standards for drinking water, wastewater disposal, and water works specifications; and imposing water tariffs for various uses. In addition, the PWA is in charge of the monitoring and management of water resources, including all water-related transboundary issues.

The PWA was heavily involved in the implementation of water projects and maintaining the service provision for years; however, this role has been declining since the establishment of the Coastal Municipalities Water Utility (CMWU). PWA has a longterm (2020) sector strategy with clear investment plans and an appropriate institutional set up, playing an important role in overseeing donor support for the water sector. Several donors (including the World Bank) have been financing the PWA investments (e.g., the NGEST project) and capacity building programs.

#### **• The Coastal Municipal Water Utility (CMWU)**

The CMWU is an independent water utility responsible for managing all water and wastewater systems in Gaza. It was legally established pursuant to the 1997 PA local Government law and was officially created in 2000 through a Memorandum of Understanding signed by all municipalities in Gaza that are shareholders. Before its establishment, water and sanitation services in the Gaza strip were fragmented among 25 municipal and village councils, whose managerial capacity was weak and

whose tariffs barely covered operations and maintenance costs.

Over the last 3 years, and despite its recent establishment, the CMWU has managed to attract the attention of other donors as a reliable institution and has received more than US\$ 60 million in funding for projects and institutional development. The funds have contributed to the delivery of adequate water and wastewater services to the entire population of Gaza (1.5 million).

The CMWU has established an efficient financial management system that keeps records on all financial proceeds and all expenditures. Donors' contributions flow through dedicated special accounts and all procurement is conducted in a transparent way to ensure cost-effectiveness and fairness. An external auditor audits the CMWU's accounts on a regular basis. The CMWU has also appointed an internal auditor for quality assurance purposes.

The capacity of the CMWU has been strengthened by a World Bank project and today the new national Water Law and its bylaws give the utility a large degree of financial and operational autonomy to run itself.

### **3.2 Municipal and Community Development**

- **The NGO Development Center (NDC)**

The NDC is a Palestinian NGO with the mandate to mobilize, allocate and manage grants to NGOs, while enhancing their capacity to improve service delivery and promoting accountability and transparency. It is the largest Palestinian organization of its kind. The NDC provides grants to different types of NGOs including the highly skilled ones, such as those providing healthcare to small community based organizations. It has supported NGOs working with marginalized and vulnerable groups in the following thematic areas: agriculture, people with disability, youth development, psychosocial support, and tertiary healthcare. Projects to be financed are selected in a transparent manner: NGOs submit proposals that are screened against eligibility criteria, followed by field appraisal by NDC staff and final approval by NDC's Board. The NDC has an effective monitoring and evaluation system in place to track results on the ground. It also assists NGOs in developing sound financial management systems thereby ensuring that its funds are going for intended purposes.

The NDC has an office in Gaza staffed with a highly capable team, which has developed close working relationships with NGOs across the Gaza Strip. Currently, at least 40 percent of NDC's funding goes to Gaza.

A Board of Directors consisting of representatives of the four main Palestinian NGO networks, NGOs, and the private sector oversees the NDC's operations. Approximately, half of the Board members are from Gaza. The NDC has effective financial management systems in place, including an independent external auditor that reports to the finance

committee of the Board. Audit results have been consistently positive. In addition, the NDC coordinates with the relevant PA line ministries, especially the Ministry of Planning, to ensure its interventions are consistent with the PA's policies and strategies.

The NDC currently manages US\$28 million for the following donors: AFD, Denmark, the Netherlands, Sweden, Switzerland, and the World Bank.

- **The Municipal Development and Lending Fund (MDLF)**

The MDLF is an autonomous public institution established by the PA in 2005 to support municipalities in fulfilling their mandate as front line service providers through transparent, rules-based financing and technical assistance. The PRDP identifies the MDLF as the PA's preferred mechanism for channeling funds to municipalities. A Board consisting of representatives of key PA line ministries, the Palestinian Monetary Authority, the private sector, civil society, and municipalities governs it. The MDLF has an independent external auditor that reports to the Board's audit committee and has a good track record in reporting to the PA and donors. The audit results have consistently been positive. It also has solid monitoring and evaluation systems in place so it can report on results on the ground.

The MDLF has an office in Gaza, staffed by a highly capable team that has developed excellent partnership with all 25 municipalities. Forty percent of the MDLF's programs are in Gaza.

On the basis of priorities identified by municipalities, MDLF finances infrastructure investments (mostly rehabilitation or expansion of existing roads, street lighting, and water and wastewater), costs for critical services for the public (spare parts or the actual service cost) and provides technical assistance to municipalities to improve their management practices. Projects to be financed are selected in a transparent manner: municipalities submit proposals that are screened against eligibility criteria, followed by field appraisal by MDLF staff and final approval by the Board. The MDLF has an effective monitoring and evaluation system in place to track results on the ground. Municipalities identify suppliers and contractors using sound procurement practices and sign contracts with them. However, the MDLF makes the payments, thereby ensuring fiduciary controls.

The MDLF is currently managing over US\$115 million for programs covering all 132 municipalities across the West Bank and Gaza and reaching 70 percent of the total population of WB&G. Donors include, but are not limited to, Afd, Denmark, GtZ, Italy, KfW, the Netherlands, Sweden, and the World Bank.

### **3.3 Energy**

- **The Palestinian Energy Authority (PEA)**

The Palestine Energy Authority (PEA) was established in 1995 as the sole agency responsible for sector development (Law No. 12 of 1995). PEA has offices in West Bank and Gaza, staffed by competent people and has developed excellent partnership with all electricity distribution companies and municipalities in addition to the donor community

The PEA is responsible for providing the citizens of WB&G with reliable electricity supply at a price that is affordable and that permits the efficient long term development of the sector and the economy as a whole.

Consistent with the above objectives and given the urgent problems of the sector, priority is being given to: remedying current system deficiencies; improving service delivery and public accountability; and laying the legal, institutional, economic, financial, and technical basis for efficient system development. Thus over the last years the PEA has undertaken a number of actions, studies, consultations, and projects aimed at improving system performance and service delivery, as well as reforming the institutional framework. These have been undertaken in conjunction with municipalities, and villages, and with the assistance of the World Bank, and the donors that include Norway, Sweden, Spain, France, EIB, and EU.

In line with its objectives, PEA expects to complete electrification of all the remaining non-electrified communities in the West Bank during 2009.

PEA is currently managing over US\$167 million for programs covering all aspects of the electricity sectors including transmission, distribution, and institutional development.

## **4. WORLD BANK FINANCED PROJECTS IN GAZA**

The Bank has many available instruments in a wide array of sectors that can be relatively quickly scaled up to deliver immediate results on the ground to the most disadvantaged groups in Gaza. The quickest and most effective way for the donor community to fund investments in Gaza would be to scale up successful on-going projects in key areas such as support to social safety nets, water and sanitation, municipalities and NGOs, and electricity.

Parallel financing arrangements would likely be the most appropriate option for such an emergency situation, as joint financing mechanisms, including the creation of new trust fund mechanisms could be time consuming. In the event that donors would prefer to channel their funds through a Bank administered trust fund, the main option would be to use existing Multi-Donor Trust Funds (MDTF) such as the MDTF for Emergency Services Support. Another option would be to set up co-financing trust funds dedicated to specific projects or more generally to the West Bank and Gaza. The timeframe to set up such instruments is usually 60 days.

The paragraphs below provide a brief description of the World Bank projects that could receive and quickly disburse donors' funding, divided by sector. Additional information is available in the Annexes attached.

### **4.1 Social Safety Nets**

- **Social Safety Net Reform (SSNRP)** – supports reforms of the Palestinian social safety net, which includes putting in place a transparent targeting

mechanism that provides cash benefits to poor households. Sixty percent of project funds are currently being disbursed in Gaza.

- **Emergency Services Support (ESSP)** – funds non-salary recurrent expenditures for key social sector ministries; it is accompanied by the on-going Bank administered ESSP Multi-Donor Trust Fund. These companion operations help to maintain essential social services operational during the crisis both in Gaza and the West Bank. Sixty percent of funding is disbursed in Gaza.

#### 4.2 Water and Sanitation

- **North Gaza Emergency Sewage Treatment (NGEST)** – addresses a serious health, safety, and environmental problem affecting the population of Northern Gaza, which was dumping untreated sewage into a lake. The lake was reaching its physical capacity and safety limits. The project has contributed to the creation of infiltration basis to drain the lake and aims at constructing a wastewater treatment plant as a sustainable long-term solution. One hundred percent of the project is disbursed in Gaza.
- **Gaza II Emergency Water (GEWP II)** – contributes to the improvement of the water services in terms of quantities (additional wells) and quality (monitoring). It also provides continuous rehabilitation, maintenance and replacements of mechanical equipment. The project also contributes to the creation and proper functioning of the Coastal Municipality Water Utility (CMWU). One hundred percent of project funds go to Gaza.

#### 4.3 Municipal and Community Development

- **Second Emergency Municipal Services and Rehabilitation (EMSRRP II)** – provides funding for infrastructure rehabilitation and maintenance to help mitigate further deterioration in the delivery of essential municipal services. It has prioritized investments in solid waste collection; street lighting; provision of water, wastewater and electricity services; street cleaning; rehabilitation of existing infrastructure; and labor intensive employment. Sixty percent of project funds go to Gaza.
- **Palestinian NGOs III (PNGO III)** – provides social services to those who are poor, vulnerable or affected by the deteriorating socioeconomic conditions by establishing an effective mechanism to improve the quality and sustainability of NGO social service delivery. Projects are prepared with community participation. Forty percent of project funds go to Gaza.

#### 4.4 Energy

- **Electric Utility Management (EUMP)** – supports the rehabilitation of basic physical infrastructure, institution building, private sector development, and regulatory and institutional reform over the medium term. It will also contribute to the reduction of the net lending arising from payment arrears to the Israeli Electric Corporation over the short term. Although the project mainly focuses on the West Bank, it would be possible to allocate substantial amounts to the urgent needs in Gaza if more funds were available.

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## ANNEXES: WORLD BANK PROJECTS FICHES

### Annex 1: Social Safety Net Reform Project (SSNRP)

**Objective:** To mitigate the impact of the continued socio-economic crisis on a subset of the poorest and most vulnerable households. An additional objective is to strengthen the institutional capacity of the Ministry of Social Affairs to manage cash transfer programs. This is being achieved by implementing a well targeted pilot incentive-based cash transfer mechanism that is in the process of being scaled up and transformed into a full-fledged PA administered cash assistance program that can be scaled up during a crisis. Original amount committed in the project: US\$10 million; additional financing: US\$15 million, 5 of which provided by the Food Price Crisis Response Grant. Closing date: June 30, 2012.

**Activities and Results on the Ground:** The principal benefit of the project is to slow further deterioration of human capital resulting from declining educational attainment, and lower health and nutritional status of poor households. The project also strengthens the capacity of the Ministry of Social Affairs to implement successfully program objectives for the beneficiary families in the West Bank and Gaza.

The program provides cash assistance benefits to about 5,000 of the poorest households in West Bank and Gaza; a transparent poverty targeting mechanism is in place, using over 30 proxy poverty variables to measure poverty levels of beneficiary households. In addition to the current beneficiaries, some 20,000 poorest households that have been adversely affected by the recent increase in food prices will benefit from the scaled up SSNRP. These households will be selected using the SSNRP poverty targeting database through "proxy means testing" to determine household eligibility.

**Institutional/Implementation Arrangements:** The Ministries of Finance and Social Affairs are responsible for program implementation. The Ministry of Finance is responsible for making timely bimonthly transfers to beneficiary households in West Bank and Gaza. The Ministry of Social Affairs is responsible for the targeting aspects of this program, including carrying out home visits to beneficiary households to confirm their eligibility to receive cash benefits.

The Ministry of Finance transfers the needed funds for the cash benefit payments to beneficiary households through the Bank of Palestine. These households are informed that their funds are available at the Bank. Once the payment process is completed, the Bank of Palestine submits the documentation to the Ministry of Finance, which in turn justifies this amount to the donors.

The Ministry of Social Affairs has prepared a draft social protection strategy to merge the EU funded Special Hardship Program (SHP, essential part of EU-PEGASE) with the World Bank funded SSNRP, into a PA administered cash assistance program that would use transparent modalities to benefit the poorest households in West Bank and Gaza.

**Absorptive Capacity:** The project could be scaled up to provide cash benefits to more than 50,000 households.

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### Annex 2: Emergency Services Support Project III (ESSP) and Multi Donor Trust Fund (MDTF)

**Objective:** The project helps mitigate the deterioration in the provision of essential public services in education, health, and social services. It mainly funds operating costs<sup>4</sup> for the Ministries of Education and Higher Education (MOEHE), Health (MOH), and Social Affairs (MOSA), focusing on non salary recurrent expenditures essential to the continued functioning of public facilities, and using line ministries' administrative practices. These are acceptable to the Bank. Amount committed in

the project US\$10 million; amount committed in the MDTF: US\$ 85 million (including a recent US\$5 million from the EU). Closing date: June 30, 2010.

**Activities and Results on the Ground:** The main benefit of the project is to fill the most critical financing gaps in the social sector, such as essential budget needs that allow schools and health services to operate, and social care to remain available. The ESSP offers the PA a flexible instrument with transparency and fiduciary rigor that can also attract donors' contributions, thus continuing to increase budgets for social services that are critical for the well-being of the population.

Over the past year, the ESSP has financed non-salary recurrent expenditures that have enabled schools, health facilities, and social care centers to operate in crisis situations in Gaza. It has also put in place a transparent mechanism for contracting out tertiary health care services to selected hospitals in the West Bank and in Jerusalem.

**Institutional/Implementation arrangements:** The Ministry of Finance has the primary responsibility for overseeing project implementation and ensuring coherence with the Bank's procedures and guidelines. In performing this function, it draws on existing technical and implementation capacity in the Ministries of Health, Education and Higher Education, and Social Affairs. Such Ministries are responsible for the day to day implementation and the management of the project accounts for the respective components. Each Ministry prepares individual work programs and budgets and is in turn responsible for monitoring project performance.

The ESSP Project Coordination Unit at the Ministry of Finance (ESSP PCU) oversees and manages the project. The PCU staff includes a project coordinator, a financial officer, a disbursement officer, a procurement officer, and four accountants, who are knowledgeable in World Bank financial management and procurement procedures due to their involvement in previous phases of the ESSP.

A reliable fiduciary system provides the Bank with a greater sense of assurance that the control mechanism will reduce the level of fiduciary risks. Ex-ante reviews of the payment process have been established at the line ministries. Transactions are rejected if they are not eligible or do not meet all the agreed to criteria.

**Absorptive Capacity:** A multi-donor trust fund administered by the Bank is in place. Donors could continue to channel funds through this mechanism. About \$50 million per year of additional funding could be absorbed.

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### Annex 3: North Gaza Emergency Sewage Treatment (NGEST)

**Objective:** The NGEST is the fourth in a series of Bank-funded water and sanitation projects since 1994. The Project consists of two parts: Part A - addressing the immediate and impending health, environmental, and safety hazards to the communities near the poorly-treated and rapidly growing sewage lake in the Beit Lahia area of North Gaza; and Part B - a long-term solution for the adequate treatment and disposal of wastewater in North Gaza, which entails the construction of a new wastewater treatment plant expected to be financed by various donors. Closing date: June 30, 2012.

**Activities and Results on the Ground:** The project is expected to benefit a population of about 300,000 people living in Beit Lahia, Beit Hanoun, Um A 1 Nasser, and the Jabalya. While the sewerage collection systems in the Northern Gaza area are relatively well developed with coverage of about 75 percent, there is an urgent need to implement adequate treatment and disposal facilities.

The Project is expected to generate significant health and environmental benefits, in terms of enhancing water resources and lowering medical costs associated with the treatment of water-borne diseases. The existing treatment plant located in Beit Lahia is operating at almost three times its design capacity, and no provision has been made for the safe disposal and/or reuse of treated effluent.

In relation to the treatment and disposal of wastewater, a major benefit of the project is the protection of groundwater from contamination by poorly treated sewage and the recharge of the aquifer. The design of the wastewater treatment plant has taken into consideration the digestion and use (for electricity generation) of generated sludge with the aim of protecting the environment. This will also have positive economic benefits to the farmers who are presently using chemical fertilizers. Furthermore, the project will generate substantial job opportunities during the construction period, which will have a significant impact on the depressed local economy.

**Institutional/Implementation arrangements:** The Palestinian Water Authority (PWA) has overall regulatory responsibility for the sector and provides policy guidance and support. Currently, the Palestinian entities whose mandates directly affect the water sector are: (i) the National Water Council chaired by the President of the Palestinian Authority and composed of 13 members representing public and private sectors; (ii) PWA; and (iii) various water utilities, joint service councils, and municipalities.

The Project Management Unit is responsible for the day-to-day implementation of the project: accounting; evaluations; monitoring of commitments/disbursements; monitoring of deviations, if any, from the implementation plan; and analysis of constraints and mitigation measures, to ensure the timely implementation of project activities. It is responsible for the selection and employment of consultants and for the preparation of contracts.

A Project Implementation Plan (PIP) has been prepared by the PWA. The security modalities for project implementation have been discussed and agreed and a Project Coordination Committee (PCC) is in place. The PCC includes PWA, Israeli Authorities, the Local Aid Coordination Committee (LACC) and the Bank.

**Absorptive Capacity:** The project cost is about US\$80 million. Part A has been completed with an approximate cost of US\$13 million which was financed jointly by the World Bank and the European Investment Bank. An additional Financing of 12 million has been approved by the Bank to implement the recovery scheme. The remaining 55 million will cover the construction cost of Part B. A number of donors including France, Sweden, the European Union, the World Bank, and Belgium, have agreed to finance Part B. The PMU can absorb US\$ 15 million a year. The disbursement, however, depends very much on the security conditions in Gaza, and on access and movements restrictions such as materials, cash, personnel, etc.

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### Annex 4: Gaza II Emergency Water

**Objective:** This Project is a follow-up to the previous Gaza Water Supply and Sanitation Project (GWSSP). The development objectives of this Project are to: (a) 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), as well as by enhancing and deepening the involvement of the private sector through a three-year management contract; (b) continue improving the water and sanitation services by rehabilitation, upgrading, and expansion of existing systems and facilities; and (c) strengthen the regulatory and institutional capacity of the Palestinian Water Authority (PWA). Closing date: January 31<sup>st</sup> 2010.

**Activities and Results on the Ground:** The project has been targeting the entire population of Gaza, estimated at around 1.5 million. Low income households have benefitted from access to reliable piped water supplies at much lower prices than charged by vendors. Households have also experienced health and environmental benefits from improved access to water and wastewater services.

In addition, the project has (i) increased efficiency of the distribution system through leakage management and network rehabilitation; (ii) higher revenue generation and greater cost recovery; (iii) improved water quality and more regular supply to customers with fewer breaks in service; (iv) improved wastewater collection and treatment efficiency; (v) enhanced private sector participation in the delivery of water and wastewater services; (vi) improved planning, project design, procurement, and implementation through the functional establishment of the CMWU.

All this has been achieved through replacement of pipes; expansion of distribution and collection systems; rehabilitation and construction of more than 50 wells which have increased the water supply by 40% over the last 3 years; replacement of 20,000 water meters; 100% disinfection of drinking water; and rehabilitation of the three wastewater treatment facilities in Gaza. The CMWU has also developed its organizational structure, customer service and billing system, and needs assessment, and is in process of developing its financial system. The regional offices of the CMWU have been established and are well equipped.

**Institutional/Implementation arrangements:** The CMWU is the executing agency, vested with the responsibility of owning all water and wastewater assets and providing and managing water and wastewater services in all Gaza governorates. The CMWU, through its Board of Directors and with the assistance of the PMU,

has overall responsibility for project execution, except for a small technical assistance program to build regulatory capacity for the PWA. This small program will be directly managed by the PWA itself.

The PMU is responsible for day-to-day project activities, and monitors the performance indicators during the implementation period. It also liaises with other entities such as PWA and the Ministry of Local Governments to ensure effective implementation of the project. A steering committee, composed of Ministries of Health, Agriculture, Local Government, Planning, Finance and the Environmental Quality Authority and PWA, was established to oversee the implementation progress and review the sector development priorities.

**Absorptive Capacity:** The project had originally a budget of US\$ 20 million and an Additional Financing of US\$5.0 million was recently approved. In addition, the CMWU managed to secure more than US\$ 60 million from other donors over the last 3 years. It is highly recommended to keep the engagement with the CMWU which proved to be very a credible organization and could be able to invest up to US\$ 20.0 million a year. The disbursement pace however strongly depend on the security restriction of access and movement conditions in Gaza.

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#### **Annex 5: Second Emergency Municipal Services and Rehabilitation Project II (EMSRP)**

**Objective:** The objectives of EMSRP II are to (a) mitigate against further deterioration of essential municipal services through rehabilitation of damaged or deteriorating infrastructure and the provision of non-wage budgetary support for direct service costs (examples of services include: solid waste collection, street lighting, provision of water and wastewater services, street cleaning); (b) create temporary job opportunities through labor-intensive employment generation schemes; and (c) support initiatives that foster local government-NGO partnerships to respond to urgent community needs. Launched in February 2007, the EMSRP II finances all 132 municipalities in the West Bank and Gaza, covering over 70 percent of the total Palestinian population (and the entirety of Gaza's population). Closing date: June 30, 2009 (it could be extended if a scale up is foreseen).

**Activities and Results on the Ground:** The EMSRP II uses a transparent and equitable formula in determining grant allocations to municipalities. It finances service provision priorities as identified by municipalities in consultation with citizens. As such, it is one of few programs in Gaza that specifically finances municipal service provision. This has enabled municipalities to survive as institutions, most of which have been in existence since Ottoman times, and therefore, have well established administrative and service delivery functions. The 25 municipalities in Gaza provide the closest level of governance and are indeed one of the first institutions to which people turn in times of crisis. By covering service costs such as solid waste collection, pest control, street cleaning etc, the project has enabled municipalities to carry out their mandate of maintaining public health and safety.

**Institutional/Implementation Arrangements:** The Municipal Development and Lending Fund (MDLF) is the implementing agency. The MDLF is an autonomous juridical entity established by the PA to support municipalities in fulfilling their mandate as front line service providers through transparent, rules-based financing, and technical assistance. Its Board consists of representatives from key PA line ministries, private sector, civil society, and municipalities. Its operations are governed by its internal by-laws which set out its structure, as well as the responsibilities of the Board, staff, committees, and related entities. As highlighted in the PRDP, it is also the PA's preferred channel of development assistance to local authorities. It has offices in both Ramallah and Gaza with highly qualified staff.

Municipalities submit their proposals to the MDLF which vets them against criteria of eligible activities, following a well established field appraisal process. Eligible projects are then approved by the Board in an efficient manner. Municipalities sign contracts with suppliers and contractors following Bank procurement guidelines, but the MDLF is responsible for paying them, thereby ensuring effective fiduciary controls. To ensure objectivity in the review of its operations and as a sound fiduciary measure, MDLF appoints an independent external auditor to perform duties described in its Finance, Accounting and Auditing Manual. A detailed Financial Management and Accounting Manual provides the guidelines by which the MDLF carries out its fiduciary function. The MDLF is responsible for monitoring and evaluation and reporting on the funds that it administers. It also carries out assessments designed to inform emergency assistance programs supporting municipalities and local service provision.

**Absorptive Capacity:** The EMSRP II is funded by several donors, including World Bank for a total cost of US\$40.2 million over a two year period. The project is capable of absorbing up to US\$ 50 million for the reconstruction of Gaza.

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#### **Annex 6: Palestinian NGOs Project III (PNGO III)**

##### **Objective:**

The objective of the PNGO III is to provide social services to those who are poor, vulnerable or affected by the deteriorating socioeconomic conditions. It also provides technical assistance to NGOs in order to improve transparency and accountability. Closing date: December 31, 2009.

**Activities and Results on the Ground:** the project components are: (i) NGO Grants for Social Service Delivery, with priority on agriculture, health, youth development, early childhood development, mental health, and social protection; (ii) NGO Sector Development, with focus on the preparation and implementation of an NGO Code of Conduct to promote accountability, transparency, and good governance; and (iii) Institutional Development of the NGO Development Center (NDC), a leading NGO which implements the project, to establish a results based monitoring and evaluation system, improving the resources mobilization capacity and project management capacity building.

PNGOIII supports close to 97 NGOs of various sizes across the West Bank and Gaza to provide services in agriculture, health, education, culture & recreation, disability and mental health services, IT & communication, environment, and income generation. Forty percent of its grants go to Gaza; it reaches over 300,000 people. They are targeted poor, vulnerable, and marginalized groups such as the elderly, youth and children. Examples of PNGOIII interventions are as follows: support to Al Awda Hospital in Gaza in introducing new surgical procedures has reduced the number of referral cases abroad; support to farmers' NGOs has produced an increasing amount of farmland claims, and has contributed to the introduction of new farming techniques, and to the creation of labor intensive employment.

**Institutional/Implementation Arrangements:** The NDC is governed by its Board elected from its 22 member General Assembly. The Board is composed of representatives from the NGO community, academia and the private sector. It is the largest NGO of its kind, working hand-in-hand with Palestinian NGOs, local cooperatives, and community development organizations to enhance their service delivery and build a more capable, responsive Palestinian civil society. NDC's programs and grants empower Palestinians to help Palestinians by providing NGOs the skills, tools and funds they require to address social needs and promote self-reliance midst adversity. The organization also advocates greater NGO transparency and accountability through the adoption of professional financial and management practices, and promotes sector-wide coordination and sharing of best practice experiences.

NGOs submit their proposals to the NDC which vets them against criteria of eligible activities, following a well established field appraisal process. Eligible projects are then approved by the Board in an efficient manner. NGOs sign Grant Implementation Agreements with NDC and are fully responsible for implementing their projects, including procurement and payments. NDC is responsible for supervising NGOs and providing them with technical assistance to ensure funds are used for intended purposes. The NDC has an independent external auditor which carries out spot audits on the NGOs. The external auditor also audits NDC and reports to the Board's audit committee and the results have been consistently positive. The NDC is fully responsible for monitoring and evaluation, procurement, and financial management. It has proven its ability to provide proper guidance and oversight of the NGOs with which it works. NDC has a fully staffed office in Gaza and has established effective partnerships with NGOs on the ground.

**Absorptive Capacity:** The project is benefiting of a US\$10 million World Bank grant and it is able to absorb approximately US\$10-US\$12 million annually.

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## Annex 7: Electric Utility Management Project (EUMP)

**Objective:** The project development objective is to reduce the fiscal burden of the electricity sector on PA's budgetary resources through lower deductions from clearance revenues for arrears owed to Israeli Electricity Corporation (IEC). This will be achieved by the adoption of appropriate sectoral efficiency enhancement measures for the following key performance indicators of the electricity distribution utilities: (a) improved collection performance; (b) lower technical and non-technical losses; (c) reduction in payables to Israeli Electric Corporation on account of electricity purchase; and (d) consolidation and increase in the number of consumers.

While the investment component of the Project is mainly focused on meeting the sectoral needs of the West Bank, the Technical Assistance components include financing capacity building of the Gaza Electric Distribution Company (GEDCO). Within the overall project objective, it is possible to reallocate some of the funding to the emergency needs of Gaza.

**Activities and Results on the Ground:** The project was approved on March 2008 and declared effective on June 30, 2008. It is in its initial stage of implementation. Preparation of the first batch of bidding documents is in progress and now expected to be ready by March 2009. The Project mainly focuses on the development of four new substations which will supply energy to a newly reconfigured distribution system, on meeting the investment needs of the newly formed Northern Electric Distribution company, on the provision of consulting services to the Palestinian Energy Authority, and on capacity building for all utilities in the West Bank and Gaza, including the Palestinian Electricity Transmission Company, and the Palestinian Electricity Regulatory Commission.

**Institutional/Implementation arrangements:** A Project Management Unit (PMU) has been created to implement the project on behalf of the PEA. The PMU works in close coordination with all the power distribution companies. Its primary responsibilities include providing assistance to the Palestinian Energy Authority (PEA) on overall project management and implementation supervision, preparing bidding documents for procurement process, and executing the bidding process etc.

**Absorptive Capacity:** At appraisal, the total cost of the project was estimated at US\$140.1 million, of which an amount of US\$12 million is financed by the World Bank. A request for reallocation of funds in the EUMP for about US\$2.5 million for Gaza Reconstruction is under preparation and expected shortly. Additional finance will be necessary to replenish this amount. In addition several other activities to be implemented within a three year period could be considered for Additional Financing within the overall objective of the Project. These include:

- Implementation of SCADA system: Two new SCADA systems for North and South and upgrading of the existing system in Central West bank – estimated cost US\$5.0 million
- Rehabilitation of about two 33/11kV substations in Central West Bank – estimated cost US\$1.0 million.
- Construction of a new 33/11-6.6 kV substation in Nablus – estimated cost US\$1.5 million.

Thus, total absorptive capacity is about US\$10.0 million including US\$2.5 million as a result of reallocation.

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## Notes

<sup>1</sup> PNA - "The Palestinian National Early Recovery and Reconstruction Plan for Gaza, 2009-2010", Sharm El-Sheikh, March 2, 2009.

<sup>2</sup> EU PEGASE – *A Guide to Donors Wishing to Contribute through PEGASE to the Early Recovery and Reconstruction of Gaza*, March 2, 2009

<sup>3</sup> IMF – *Macroeconomic and Fiscal Framework for the West Bank and Gaza: Third Review of Progress*. February 25, 2009.

<sup>4</sup> Operating costs include: (a) rent payments for offices and facilities; (b) water and electricity utilities; (c) transportation including fuel, vehicle maintenance, licensing and insurance; (d) communication including telephones, fax, and mail; (e) consumable and other perishable items; (f) maintenance of equipment and buildings; (g) heating fuel; (h) cleaning services; (i) advertisement costs solely related to procurement under the Project; (j) commercial bank charges; and (k) per diem and transportation allowances for MOEHE, MOH, MOSA and the Project Coordination Unit (PCU) staff for activities directly related to the project.