

## In This Issue

1. Supporting the Palestinian Private Sector /3
2. High Level World Bank Delegation at Palestine Investment Conference /5
3. Expanding Access to Housing Finance /8
4. MIGA, a Partner in Facilitating Investment in West Bank and Gaza /10
5. Social Safety Net Reform Project /11
6. Gaza Emergency Water Project II - Additional Financing /12
7. World Bank Operations /14
8. West Bank and Gaza Portfolio /17
9. Economic Developments and Prospects /18
10. A Second Land Administration Project /22
11. Interview with the Director for the Social and Economic Development Group /23



The World Bank Group

A Quarterly Publication of the West Bank and Gaza Office

# WEST BANK AND GAZA UPDATE

June 2008



Supporting the  
**Palestinian**  
Private Sector

***West Bank Office Numbers:***

Switchboard 02- 2366500

Fax: 02- 2366543

***Country Director***

A. David Craig

02- 2366506

***Infrastructure Development***

Ibrahim Dajani

[idadani@worldbank.org](mailto:idadani@worldbank.org)

***Deputy to Country Director***

Faris Hadad-Zervos

02- 2366549

***Financial Management***

Suhair Mosa

02- 2366540

***Economics & Private Sector***

John Nasir

[jnasir@worldbank.org](mailto:jnasir@worldbank.org)

***Donor Coordination***

Nabila Assaf

02-2366535

***Social development***

Mesky Brhane

02-2366500

***Human Development***

Eileen Murray

02-2366500

***Water and Energy***

Zeyad Abu-Hassanein

08-2823422

***Public Information***

Mary Koussa

02-2366529

***Gaza Office:***

08- 2823422/2824746

Fax: 08- 2824296

***International Finance Corporation:******Investment Officer***

Youssef Habesch

02- 2366517

Fax: 02- 2366521

**Free Subscription****Newsletter at Internet**

[mkoussa@worldbank.org](mailto:mkoussa@worldbank.org)

<http://www.worldbank.org/ps>



# The World Bank Group: Supporting the Palestinian Private Sector

The Palestinian private sector has a unique potential to exploit growth opportunities and attract international investment. The World Bank's analysis of the Palestinian business environment concluded that it compared favorably with much of the rest of the region. The Bank's Doing Business report in June, 2007 ranked West Bank and Gaza (WBG) as comparable with countries like India, Indonesia or Honduras. In particular, WBG ranked 22<sup>nd</sup> in the world in terms of the Palestinian Authority's (PA) tax regime for business, and 33<sup>rd</sup> in the world in terms of the legal framework to protect investors. In terms of the PA's policy framework, the Palestinian economy ranked among the top half of all economies in regard to import and export costs and procedures. Indeed, export potential is enormous. The PA enjoys generous trade arrangements with the European Union and with countries in the region. In addition, there is a readymade market among the five million strong Palestinian Diaspora worldwide.

Given these facts, it is not surprising that recent World Bank analysis has shown that while Palestinian economic growth will be modestly positive this year, this trend would have been much higher if the private sector were allowed to realize its potential through the removal of movement and access restrictions by Israel. At the recent Palestinian Investor Conference in Bethlehem, the Bank's Managing Director, Juan Jose Daboub, reaffirmed the commitment of the entire World Bank Group to contribute to the international community's efforts to support private businesses with the tools they need to surmount these obstacles.

In addition to its work on development projects and in support of the PA budget, the World Bank is focused on tackling the hurdles facing Palestinian businesses, particularly the comprehensive system of movement and access restrictions currently in place inside the West Bank and on the Gaza Strip's borders. The World Bank remains firmly committed to advocating for the removal of these obstacles to trade and industrialization and is cooperating closely with the Quartet Representative, Tony Blair, in this effort. Recently, some progress has been made. However, if a virtuous cycle of growth is to be initiated and sustained, these improvements must be scaled-up and expanded upon. In parallel, the World Bank is working closely with the PA to reform the telecommunications and energy sectors, and to strengthen the legal and regulatory environment to provide better financial instruments for small businesses.

The World Bank's International Finance Corporation (IFC) is increasing its efforts to provide Palestinian businesses with the investments required to kick-start promising ventures. In addition to the \$130 million invested in 16 companies over the past decade, the IFC signed a commitment last month to invest \$75 million in a new \$500 million Affordable Housing Initiative. This will increase access for housing finance in the Palestinian territories, which will create over 3,000 jobs and ensure thousands of people can better afford houses. Further investments are being explored to provide loans to over 10,000 students on a commercial basis, and to develop trade finance facilities for commercial banks.

With a keen understanding of the risks facing potential investors in the WB&G, the World Bank's Multilateral Investment Guarantee Association (MIGA) is now finalizing an expansion of a \$30 million Investment Guarantee Fund. The fund will provide insurance for investors against risks such as war and civil disturbance, expropriation, or restrictions on repatriating profits. It is now being expanded to provide insurance not just for new foreign investors, but for local investors and for existing projects. The availability of insurance can give comfort to those investors looking for partners to share risks, encouraging both new investors and those considering scaling up current activities.

In December last year, donors pledged over \$7.7 billion to support the Palestinian Reform and Development Plan (PRDP) and the PA has taken dramatic steps to put that plan in motion. However, the World Bank Group is aware that the long-term success of these positive steps is dependent on the ability of the Palestinian private sector to fully exploit the opportunities they provide. Palestinian businesses have the craftsmanship, ingenuity, and entrepreneurial spirit to succeed. They are reliable, committed, and hard working suppliers of high quality products. The IBRD, IFC and MIGA are determined to provide them with the support necessary to take the lead in establishing a prosperous Palestinian economy as a central foundation of the Palestinian State.

*Country Director*  
A. David Craig

# High level World Bank delegation at Palestine Investment Conference

The Palestine Investment Conference (PIC), held in Bethlehem in May, was hopeful and impressive. Some 2,000 people, including some 550 businessmen from the Arab world and nearly 1,000 Diaspora Palestinians, participated in sessions on high-tech, construction, tourism and financial services, and discussed business opportunities on the sidelines. Palestinian entrepreneurs produced business plans for over 100 projects worth some \$2 billion, ranging from housing developments to high-tech services to a scheme for generating power from household waste. In total, \$1.4 billion worth of investments were announced during the conference .

World Bank Managing Director Juan Jose Daboub led a high-level Bank delegation to PIC. In his speech at the opening plenary session (see transcript below), he expressed the Bank's firm belief in the unique potential of the Palestinian private sector and affirmed the commitment of World Bank Group to support businessmen in surmounting the obstacles they face in its realization. Further details were provided by Michael Essex, Director of the International Finance Corporation (IFC), the Group's private sector investment arm, for Middle East and North Africa and Nabil Fawaz of the Multilateral Investment Guarantee Agency (MIGA), who described the World Bank Group's new investments in mortgage finance and instruments for political risk insurance for investors in the PA. (Comprehensive descriptions of the IFC and MIGA initiatives can be found in this issue.)

During his stay in the West Bank, Mr. Daboub met both President Abbas and Quartet Representative Tony Blair. These meetings were focused on the World Bank's work in supporting the PA budget and in facilitation of policy reforms promoting economic growth. He also engaged intensively with Palestinian businessmen, meeting many of them at both the conference and his visits to the Bethlehem Chamber of Commerce and Nassar Stone Company, a model of Palestinian export success despite current restrictions.

The visit closed with a seminar at Birzeit University, where Mr. Daboub presented the World Bank's Arab Initiative, focusing in his discussion on the regional priorities of quality of education and integration into the global marketplace. Following the presentation, he led a discussion with local academics and civil society leaders on Palestinian development priorities in the context of the wider Arab World.



**Juan Jose Daboub**

Joined the World Bank as Managing Director for Operations on July 1, 2006. Most recently he was El Salvador's Minister of Finance with responsibilities for international financial institutions including the World Bank, IME, and Inter-American Development Bank. Previously he served as Chief of Staff to the President of El Salvador. After completing his PhD, Dr. Daboub led a family owned business for nearly a decade before joining the Board of CEL, El Salvador's electric utility. After preparing CEL for privatization, he was named President of ANTEL, the state-owned telecommunications company, which he led through union negotiations and privatization. His family is of Palestinian descent and traces its roots to Bethlehem.



## Investing in Palestine: Partners for Change

### Speech by Juan-Jose Daboub, Managing Director of the World Bank Palestine Investment Conference, Bethlehem, May 22, 2008

Saba' Al Kheir!

Excellencies, ladies, gentlemen, members of the press.

Coming from a Palestinian family that emigrated to El Salvador over a century ago, my ancestors' homeland and its future prospects are issues that are close to my heart. As is the importance of peace and prosperity in the region. We are here to explore and capitalize on the economic potential of the Palestinian economy. We are here to be part of the future of Palestine. I'm confident that good matchmaking will take place. I know that when you enter a Palestinian store you can't leave without buying something!

A growing economy able to provide opportunities and jobs for the Palestinian people must be at the core of a lasting peace process. This can also encourage greater stability and business throughout the region. While the difficulties of investing here must be acknowledged, the returns can be significant.

#### Opportunities in the Arab World

Countries in the Arab World have made significant economic progress over the past few years. Since 2003, economic growth throughout the region has averaged over 6% per year – the strongest sustained growth performance since the 1970s. Strong growth is coming not just from high oil prices, but also from real efforts by governments to improve the business environment and make room for the private sector. Of course, more can be done by countries to integrate with the global economy and encourage innovation. But entrepreneurs throughout the region are showing that success is possible.

#### Opportunities in the West Bank and Gaza

The situation in the West Bank and Gaza is perhaps more difficult than in other parts of the Arab World. But so was Europe after World War II and East Asia before the introduction of economic freedoms. It can be done. We can make it happen! You may have several justified questions about the viability of commercial activities here under the current circumstances, with the number of checkpoints riddling the Palestinian Territories, and with the security incidents often taking place. And rightly you should.

Analysis by the World Bank has shown that while economic growth will be modestly positive this year, this trend would have been much higher in the absence of the current movement and access restrictions. There is a need for a resolution of the current difficult situation in Gaza, which represents a large part of the population, and a critical part of Palestinian identity.

These issues must be addressed more broadly – and are being addressed. We look forward to a practical and sustained resolution of these roadblocks to progress. To assist these efforts, the international community is committed to supporting West Bank and Gaza. In December last year, donors pledged over \$7.7 billion to support the Palestinian Reform and Development Plan. Much of this has been delivered, although a critical need remains for budget financing. We are encouraged by the efforts of the Palestinian Authority to make continued progress toward the goals of the Reform and Development Plan. But simply throwing MASARI at the Palestinian territories is not the answer. The key is removing obstacles, so that people can take destiny into their own hands, and to encourage productive investment. We must remember that throughout these turbulent periods, and at times much more difficult than this, the resilient Palestinian private sector was able to find opportunities, and to flourish. Despite constraints, the Palestinian economy began to grow in the second half of 2007, and is expected to grow further this coming year. And growth is likely to accelerate should there be progress in easing movement restrictions – as all parties have made commitments to do.

While there are risks, there can also be considerable returns for those businesses prepared to “get in the elevator on the ground floor”. The World Bank has conducted a thorough analysis of the Palestinian business environment, concluding that it compared favorably with much of the rest of the region. The Bank's Doing Business report ranks West Bank and Gaza as comparable with countries like India, Indonesia or Honduras. In particular, West Bank and Gaza ranks 22nd in the world in terms of the tax regime for business, and 33rd in the world in terms of the legal framework to protect investors. Further efforts could help, especially to streamline business registration and entry procedures. The Bank Group will work with the Authorities on these issues.

As we have heard yesterday and today from President Abbas and Prime Minister Fayyad, however, the Palestinian Authority seeks to enable and not to stifle business. Looking at the policy framework, the Palestinian economy is one of the world's most open – despite the obvious constraints. West Bank and Gaza ranks among the top half of all economies in regard to

import and export costs and procedures, even taking account of current constraints. It enjoys generous trade arrangements with the European Union and with countries in the region. There is a ready made market among the 5 million people in the Palestinian diaspora spread across the world. Many of whom would consider buying or distributing products with the label “Made by Palestinian hands”. During a visit to the Bethlehem Chamber of Commerce yesterday, I was very pleased to see the 14 star “Made in Bethlehem” label displayed prominently on a wide range of goods. So there is the human talent and ingenuity, and the markets needed, to start a successful enterprise in the West Bank and Gaza.

You may ask yourself, if this is such a lucrative place, why have others not come? My answer is that others have, and many have succeeded. Around you are the leaders of several Palestinian corporations. Investments range from smaller handicrafts manufacturers, to large, sophisticated, internationally focused stone and construction companies; from garments and food processing, to furniture, to pharmaceuticals. There are also pioneers in a rapidly growing ICT sector. All these businesses are displaying the craftsmanship, ingenuity, and entrepreneurial spirit to succeed. These businesses have not only flourished locally but are exporting to Europe, the US, and elsewhere. Against all odds, these businesses are generating jobs and prosperity. They are also helping to encourage people throughout the world to see the Palestinian people as reliable, committed, and hard working suppliers of high quality products.

### World Bank Group Engagement

The Bank Group is “putting its money where its mouth is”. We are not encouraging investors to do anything that we are not doing ourselves. Our financing for both the public and private sector in the Arab World has approximately doubled in the past five years. Across the Arab World, the Bank, and its two main private sector arms – IFC and MIGA – are now supporting a portfolio of activities valued at about \$3 billion. The World Bank Group has been operating in the West Bank and Gaza without interruption for fifteen years, since the 1993 Oslo Accords. In the past decade, IFC has committed almost \$130 million for 16 companies in West Bank and Gaza. Last month, IFC signed a commitment to invest \$75 million in a new \$500 million Affordable Housing Initiative. This will increase access for housing finance in the Palestinian territories, which will create over 3,000 jobs and ensure thousands of people can better afford houses. IFC investments in the Jacir Palace are also an example of the opportunities available. Additional potential investments being explored include: Student loan facilities, which could provide loans to over 10,000 students on a commercial basis, trade finance facilities to commercial banks, and other financial sector investments. This gives just a small sense of the wide range of commercial opportunities we see in West Bank and Gaza.

I am pleased to add that MIGA is finalizing an expansion of a \$30 million West Bank and Gaza Investment Guarantee Fund. The fund can provide insurance for investors against risks such as war and civil disturbance, expropriation, or restrictions on repatriating profits. It is now being expanded to provide insurance not just for new foreign investors, but for local investors and for existing projects. The availability of insurance can give comfort to those investors looking for partners to share risks, encouraging both new investors and those considering scaling up current activities.

The Bank has provided over \$580 million in public investment projects in West Bank and Gaza, and mobilized an additional \$1 billion in donor co-financing. Investments in critical infrastructure and the education system will help ensure that the transport links and skilled work force needed for investment continue to be built. The Palestinian Authority is relying heavily on the private sector to build its social and economic infrastructure. Proposed reforms in the telecommunications and energy sectors could significantly improve the ease of doing business – as well as potentially opening up opportunities in these sectors. Similarly, reforms to strengthen the legal and regulatory environment for leasing will provide new instruments in the financial sector, and for small businesses for which leasing is often more suitable than bank credit.

### Conclusion

Fee El Khitam. Investment opportunities are rarely realized from a distance. I am pleased by the large number of business leaders that have come to this Conference to take a first hand look at potential investments here. Investments now have the potential to set the stage for an even more vibrant Palestinian economy, which will be critical to provide jobs and prosperity to people, and to underpin the peace process. For those of you from the region, investments in the West Bank and Gaza can be seen as investments in the strategic security of the region – potentially leading to more business, not just here but in neighboring countries.

But investments are not altruism. Investments in West Bank and Gaza are also a chance to get in early. Leaders like you are uniquely placed to step up to the challenges and take the opportunities available. You have the ability and the responsibility to make it happen. Palestinians have proven to the world that they never give up. Such passion and perseverance can transform this land into a beacon of hope, despite adversities. The World Bank Group is here to contribute. My family left Bethlehem – the holy land – with a dream of a better future. They arrived in El Salvador, worked hard, overcame cultural, political, economic, and security obstacles, and made that dream a reality. Just two generations later, I’m pleased to be back here, just a few blocks from my grandfather’s birthplace, to help make the dreams of this generation of Palestinians come true, Inshallah.

Shukran Gazilan!

# World Bank Group: Expanding Access to Housing Finance

Spurred by the increasing public and private interest in the housing sector, the International Finance Cooperation, the World Bank Group's private sector arm, and the World Bank are providing both financial and technical support to the development of the housing finance sector. The IFC project aims to expand access to housing finance for low- and middle-income residents, address a severe housing shortage, and contribute to the development of the residential housing sector and related industries. In addition to IFC financing, the IFC and the World Bank will also provide advisory services, with a focus on training for the financial sector, improvements in the policies and regulations for housing finance, and assistance to financial institutions as they launch housing finance products and develop the market.

## **IFC and the Mortgage Finance Facility**

The International Finance Cooperation (IFC) is partnering with the U.S. Overseas Private Investment Corporation (OPIC), the Palestine Investment Fund (PIF), and the Bank of Palestine on a landmark initiative in the West Bank and Gaza.

The West Bank and Gaza needs 65,000 more homes today, with demand growing by 11,000 units a year and the housing supply in decline since 1999. The initiative will establish a new housing finance company, AMAL, that will use long-term funding of \$500 million to help an estimated 30,000 people obtain home loans on affordable terms. This, in turn, will boost development of the housing sector.

OPIC will provide up to \$250 million of the funding, with IFC, the PIF, and the Bank of Palestine each contributing up to \$75 million. Further funding will be provided by the Palestine Mortgage Housing Corporation and the U.K. Department of International Development. The new housing finance company will be established to originate affordable home loans in the West Bank and Gaza using this funding and other sources.

This initiative will also act as a catalyst for further investment in housing finance by demonstrating that there is indeed a viable market for affordable housing in the West Bank and Gaza.





## About IFC in West Bank and Gaza

IFC has over the past decade committed over US\$55 million in investments in 16 companies. In addition to the Housing Finance Project, IFC is exploring several possible interventions in a student loan program and support to the financial sector through different investment products including trade finance facility to commercial banks. Furthermore, IFC is providing advisory services on developing the legal and regulatory environment for leasing; SME management training; TA for bottling companies in the olive oil sector focusing on export markets; and developing a Corporate Governance Code. For more information, visit [www.ifc.org](http://www.ifc.org).

## World Bank Technical Assistance

The World Bank is in the process of formulating a technical assistance program addressing both the mortgage market and general aspects of housing policy as a complement to the IFC contribution to housing finance. The technical assistance program would work towards improving and harmonizing the regulatory framework for mortgage lending with both the Palestinian Monetary Authority and the Capital Markets Authority which regulate banks and specialized mortgage institutions respectively as well as address issues of consumer education and protection. The technical assistance program would also address the roles of the Palestine Mortgage and Housing Corporation (PMHC) and the newly launched mortgage finance company, Amal, and certain aspects of the broader housing policy including issues of establishing criteria for granting infrastructure and land subsidies to housing developments, improving affordability of housing through targeted subsidies, and reviewing regulatory options for rental housing.



**World Bank Group**  
Multilateral Investment  
Guarantee Agency



# MIGA, a Partner in Facilitating Investment in West Bank and Gaza

Investment in infrastructure and job creation are critical to reducing poverty and increasing peace and security in the West Bank and Gaza. With a vibrant entrepreneurial culture and an educated workforce, the West Bank & Gaza offers considerable investment potential. But this potential is not being fully realized due to perceptions of risk. Investors may be concerned about regulatory issues, the enforceability of contracts, security issues, and other noncommercial risks. The Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, can help assuage such concerns and facilitate investment.

MIGA was created in 1988 to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives. MIGA fulfills this mandate by offering political risk insurance (guarantees) to investors and lenders, covering risks such as expropriation, breach of contract, currency transfer restriction, and war and civil disturbance.

In 1998, MIGA became the administrator of a trust fund established to encourage the flow of foreign direct investment into the West Bank and Gaza. The fund—the West Bank and Gaza Investment Guarantee Trust Fund—is sponsored by the European Investment Bank, the government of Japan, and the Palestinian Authority.

Until now, the Trust Fund has not been actively used because of the security situation deteriorated which deterred foreign investors. As the coverage was only available to foreign investors, local entrepreneurs were not able to benefit from the political risk coverage offered by the fund. Recently, MIGA, along with the Trust Fund's donors, have been discussing how to make the fund more relevant, including opening up access to local investors. In April 2008, MIGA's Executive Vice President, Yukiko Omura, met with the Palestinian Authority and local business representatives to discuss these issues.

In addition to offering guarantee coverage to local investors, the donors plan to extend eligibility to existing investments (rather than just green field investments) and to increase the underwriting capacity of the fund. MIGA EVP Omura notes: "MIGA has a strong record of facilitating investment in environments affected by conflict. In our 20 year history, we've supported over 150 projects in more than 20 conflict-affected countries. We stand ready to work with investors who are committed to helping revive the Palestinian economy."

To learn more about MIGA, visit: [www.miga.org](http://www.miga.org)

To find out more about the existing fund, visit: [www.miga.org/documents/westbank08.pdf](http://www.miga.org/documents/westbank08.pdf).



# Social Safety Net Reform Project

## A Renew Commitment to Support the Poorest and Most Vulnerable



In April 2008, the World Bank's Board of Directors approved a \$10 million additional financing grant to the Social Safety Net Reform Project (SSNRP), renewing its commitment to support the Palestinian Authority (PA) in the reform of its social safety net systems. The proposed grant gives the PA the opportunity to continue to support the poorest and most vulnerable population groups in the West Bank & Gaza. This is consistent with the poverty focus of the 2008-2010 Palestinian Reform and Development Plan (PRDP), whereby the PA emphasizes its commitment to the social sectors, in particular the need to support poor households. The PRDP also raises the common concern over the inherent risk of substantial leakage of benefits to non-poor households as a result of having multiple cash benefit schemes with different targeting methods. The PRDP signals the PA's intention to have its targeting database fully operational by end 2008, including a ranking of up to 50,000 poorest households. The Ministry of Social Affairs (MOSA) is keen on completing the poverty ranking of poor households as a first step towards initiating a gradual merger of the various cash benefit programs, including the Special Hardship Case with the Bank-funded SSNRP.

This grant will help finance costs associated with the scaling up of the PA administered cash benefit program using the SSNRP; the scaling up would capitalize on MOSA's poverty targeting database which is designed to

select eligible households in a transparent manner using 42 proxy variables to measure households consumption levels. The grant is likely to leverage additional funds and technical assistance from donors who are keen to see the PA take the lead in administering cash benefit programs.

As a first step in this direction, and within the coming three months, the MOSA will be preparing an outline of a proposed social protection strategy that would be shared with all stakeholders. This strategy would lay the foundations to begin a process of building consensus among all stakeholders and the necessity for MOSA to play a lead role in coordinating various programs to ensure that resources are indeed channeled to the poorest of the poor in transparent manner.

The SSNRP grant is mentioned in the PRDP as an integral part of the PA's emergency program in the social sectors. It accompanies the ongoing Bank-administered Emergency Service Support Project (ESSP) Multi-Donor Trust Fund, and the Bank-financed Third Emergency Services Support Project (ESSP 3), as these operations are funding critical non-salary recurrent expenditures, mainly to benefit poor households. Together, these operations will help maintain essential social services operational and provide targeted support to poor households during the protracted ongoing crisis in the West Bank and Gaza.

# Additional Financing of the Gaza Emergency Water Project II

Since beginning operations in the West Bank & Gaza in 1994, the World Bank has committed a significant part of its development portfolio to develop Palestinian water and wastewater services. In 1996, the World Bank financed the first Gaza Water and Sanitation Services Improvement Project (GWSSIP) which was completed in 2001. The main objectives of this project were to improve the provision of water and sanitation services in terms of quality, quantity, and management and to explore appropriate institutional setups for the water service provision. By the closing of the GWSSIP, the municipalities of Gaza had agreed to establish the Coastal Municipalities Water Utility (CMWU). The Gaza Emergency Water Project (GEWP), launched in June 2005, was designed as a follow on project building on the success of the GWSSIP with a grant of US\$ 20.0 million implemented by the recently established CMWU. Moreover and as a renewal of its commitment, in April 2008 the World Bank approved additional financing of US\$ 5.0 million to GEWP in order to be able to finance the overrun costs associated with provisions of water and wastewater services delivery in Gaza; and strengthen the capacity of the newly established CMWU. The Gaza Emergency Water Project and its additional financing development objectives are to:

1. Improve the provision of adequate water and wastewater services in Gaza; and
2. Functionally, strengthen the newly established Coastal Municipalities Water Utility as independent well-run modern utility.
3. In addition, the project has a secondary objective to strengthen the PWA's capacity to assume sector regulatory functions

The GEWP budget is allocated to finance four components including i) Management Contract (MC) fee; ii) Capital and Operating Investment Fund (COIF); Technical Assistance to support the newly established CMWU; and iv) Capacity

Building to strengthen the PWA to play its role as the regulator of the Palestinian water sector. The management Contract was implemented by an international Operator which was entrusted the management of the COIF. The CMWU has appointed a multidisciplinary Project Management Unit (PMU) to oversee the implementation of the MC. The Management Contract has ended and the PMU will benefit from the capacity built in the local Operator team to continue the implementation of the Additional Financing and all remaining tasks under the original GEWP.

In terms of achievements, despite the extremely difficult conditions in Gaza, water and wastewater services continue to be provided. More than 50% of the water production wells have been rehabilitated, a significant number of wells newly drilled, the water systems almost 100% disinfected, old service connections and more than 30,000 meters and old asbestos main pipes were replaced, electro-mechanical equipment and sewer lines are regularly maintained, and the existing wastewater treatment facilities rehabilitated. The CMWU is also taking a leading role in dealing with emergencies resulting from Israeli military incursions, as well as in developing and implementing an Emergency Operational Plan for the North Gaza Wastewater Treatment Plant, in order to mitigate potential flooding risks associated with the accumulation of partially wastewater in Beit Lahiya, North Gaza.

Due to the political unrest in Gaza, the achievement of some institutional objectives, notably those related to the CMWU restructuring were delayed. The situation in Gaza has restricted the ability of international personnel to enter Gaza. However, significant progress has been made, most notably the finalization of the CMWU organization structure, renting and furnishing the CMWU regional offices, finalization of the utility staff skills assessment,





finalization of the utility financial manual, finalization of the water and wastewater billing system, opening the utility bank account, ongoing implementation of the customer services information system and ongoing procurement of the utility financial system. Moreover, the CMWU announced their readiness to start issuing the water bills for some areas from June 1, 2008. The entire Gaza region will be covered by October 2008. Despite it's the fact that the CMWU is very new, it has attracted the attention of donors as a capable institution. More than US\$ 50.0 million were pledged from different donors to finance parallel operations and investment projects in the water sector in Gaza.

Despite these project accomplishments since the project started in June 2005, the non-payment of staff salaries in 2006 and 2007 and the deteriorating economic situation in Gaza have adversely affected revenue collection and led to commercial losses in the distribution system. As a response, the CMWU Board of Directors has decided to transfer the billing and collection functions from the municipalities to the CMWU and to create an incentive-based system to motivate staff to improve collection efficiency. These measures, along with the resumption of payment of salaries to civil servants in the second half of 2007, are expected to improve the collection rates for water services in Gaza.





# The World Bank's Operations in West Bank and Gaza

June 2008

## On-going Bank Group Operations

Project Name & Details	Description
<p><b>Solid Waste and Environmental Management Project (SWEMP).</b>  World Bank: US\$9.5 million  Approval Date: October 10, 2000.  Closing Date: June 30, 2009  Task Team Leader: Andrew Mokakha</p>	<p>The overall objective of the project is to implement an environmentally sound solid waste management system for Jenin District. This objective has been pursued through the construction of a controlled sanitary landfill in Jenin District (Zahrat Al- Finjan); rehabilitation/closure of uncontrolled dumps; improvement in solid waste management (SWN) services in the district through the supply of equipment and the strengthening of management and operation capacities' building institutional capacity in the newly created Joint Services Council (JSC) for regional SWM services; and strengthening the institutional and monitoring capacity of Environmental Quality Authority (EQA). The Project is managed by the Joint Services Council for Solid Waste Management (JSU). The EC is financing the supply of collection vehicles and transfer stations relation set-ups.</p> <p>To successfully complete the key project activities that have been delayed due to the prevailing socio-political circumstances, the project's closing date was extended from June 30, 2008 to June 30, 2009.</p>
<p><b>Emergency Water Project (EWP).</b>  World Bank: US\$12.5 million  Approval Date: July 29, 2003  Closing Date: September 30, 2008  Task Team Leader: Sana Al Nimer</p>	<p>The main objective of the project is to support investments that would help alleviate the chronic shortages of safe water supplies; reduce water costs and health risks; and conserve scarce water resources by reducing system losses. The Project includes the following components: (a) Rehabilitation and improvement of Water Supply Transmission and Distribution System; and (b) Technical Assistance and Capacity Building provided to the Palestinian Water Authority.</p>
<p><b>Social Safety Net Reform Project (SSNRP).</b>  World Bank: US\$10.0 million plus US\$10.0 million additional financing approved in April 2008  Approval Date: June 3, 2004  Closing Date: June 30, 2012  Task Team Leader: Eileen Murray</p>	<p>The project was formally restructured in May 2007. The new project development objective is to mitigate the impact of the continued socio-economic crisis on a subset of the poorest and most vulnerable households. An additional is to strengthen the institutional capacity of Ministry of Social Affairs to manage cash transfer programs. The primary objective would be achieved by implementing a pilot incentive-based cash transfer mechanism with improved targeting modalities that would contribute to improving the living conditions of the beneficiaries. The Project also aims to strengthen the institutional capacity of PA agencies involved in the implementation of the proposed project, in particular in Ministry of Social Affairs.</p> <p>An Additional Financing of US\$10.0 million was approved on April 22, 2008 to help finance costs associated with the scaling up of the project and its transformation into a cash benefit program administrated by the Palestinian Authority, capitalizing on the Ministry of Social Affairs poverty targeting database.</p>
<p><b>North Gaza Emergency Sewage Treatment Project.</b>  World Bank: US\$7.8 million plus US\$12.0 million additional financing approved in April 2008  Approval Date: September 9, 2004  Closing Date: June 30, 2012  Task Team Leader: Sana Al Nimer.</p>	<p>The North Gaza Emergency Sewage Treatment project (NGEST) is the fourth in a series of Bank-funded water and sanitation projects since 1994. The Project consist of two parts Part A is 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. Approximately 300,000 people living in North Gaza will benefit from this project. The project overall estimated cost is about US\$ 63 million.</p> <p>An Additional Financing of US\$12.0 million was approved on April 22, 2008 to support the original objectives and the overall project design and components. Specifically, the additional financing will cover the overrun cost of Part A and risk management activities.</p>



## On-going Bank Group Operations

Project Name & Details	Description
<b><i>Land Administration Project</i></b> World Bank: US\$3 million Government of Finland: US\$3.1 million equivalent Approval Date: January 26, 2005 Closing Date: December 31, 2008 Task Team Leader: Ibrahim Dajani	The objective of this project is to assess/learn the extent of commitment and readiness of the PA to reforming land administration by introducing policy, legal and institutional changes to achieve efficient procedures for the issuance of land titles and registration of property transactions, and transparent processes for the management and disposal of public land. The project is the first phase of a more comprehensive Land Administration Program, which aims at enhancing economic growth by improving land tenure security and facilitating the development of efficient land and property markets in rural and urban areas through the development of an efficient system of land titling and registration based on clear, transparent and coherent policies and laws and supported by an appropriate institutional structure. A second project which will build on the results and success of this first project is planned to be launched in 2009.
<b><i>Tertiary Education Project</i></b> World Bank: US\$10 million Approval Date: April 26, 2005 Closing Date: December 31, 2009 Task Team Leader: Adriana Jaramillo	The project development objectives are: 1) to improve the regulatory environment for tertiary education management, relevance and quality assurance; 2) increase internal and external efficiency of the tertiary education system, as a first step towards seeking sustainability; and 3) to create incentives and provide the basis for improvements in efficiency, quality and relevance of tertiary education institutions in order to meet the socioeconomic needs of the Palestinian population. The project provides technical assistance on defining policies consistent with increasing the financial sustainability of the sector and improving the capacity to respond to labor market needs. It also provides incentive mechanisms to improve quality and relevance of the programs offered. On a competitive basis, institutions will apply for quality and management grants, administered by a Fund mechanism. In addition the project will provide technical assistance to improve the management of the current student loans program managed by the MOEHE, and will set the basis for expansion of the financial resources available for funding the student aid programs. The EC is providing co-financing in the amount of € 6 million.
<b><i>Gaza II Emergency Water</i></b> World Bank: US\$20 million plus US\$5.0 million additional financing approved in April 2008 Approval Date: June 7, 2005 Closing Date: January 31, 2010 Task Team Leader: Khairy Al-Jamal	<p>This Project is a follow-up to the previous 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, as well as by enhancing and deepening the involvement of the private sector through a three-year management contract; (b) to continue improving the water and sanitation services by rehabilitation, upgrading and expansion of existing systems and facilities; and (c) to strengthen the regulatory and institutional capacity of the Palestinian Water Authority. The whole population of Gaza (around 1.5 million people) are benefiting from the project.</p> <p>Additional financing of US\$5.0 million was approved on April 22, 2008 to supplement the project overrun expenses. This additional financing will furthermore strengthen the ability of CMWU to consolidate the ongoing institutional reform process by covering the operational expenses for one more year</p>
<b><i>Avian Influenza Prevention and Control Project</i></b> World Bank: US\$10 million Global Fund for Avian Influenza US\$3 million Approval Date: September 7, 2006 Closing date: January 31, 2009 Task Team Leader: Lucie Tran	West Bank and Gaza has been considered at high risk for Avian Influenza due to the large number of migratory birds crossing the territories and the high risk of spreading the infection among domestic poultry. In April, FAO/WHO confirmed AI H5N1 presence in 8 locations in Gaza and preventive culling was concluded in the infected areas. The project aims to strengthen the public and veterinary health sectors to respond to possible future outbreaks. The overall responsibility for overseeing and coordinating institutional and implementation arrangements is vested with the National Emergency Committee for Avian Influenza Control (NCAIC) which is chaired by the Minister of Health, while funds from the Global Trust Fund (US\$3 million) are being implemented by UNDP, focusing on quick implementation of the most urgent activities.

## On-going Bank Group Operations

Project Name & Details	Description
<p><b><i>Second Emergency Municipal Services and Rehabilitation Project</i></b>  World Bank: US\$10 million  The Netherlands: € 5 million  AFD: €12 million  Approval Date: December 19, 2006  Closing date: June 30, 2009  Task Team Leader: Meskerem Brhane</p>	<p>A prolonged period of economic contraction has had serious consequences for municipal revenues and the ability of local governments to continue providing basic services. This has translated into sharply increased health, safety, and sanitation risks for the Palestinian population resulting from mounting solid waste, and deteriorating streets, water and wastewater networks, particularly in heavily populated urban areas. The objectives of EMSRP II are to (a) provide funding for infrastructure rehabilitation and maintenance to help mitigate further deterioration in the delivery of essential municipal services, and (b) create temporary job opportunities at the local level through the launching of labor-intensive employment generation schemes. In addition, through the Municipal Development Lending Fund (MDLF), the Project would pilot innovative initiatives to improve municipal service cost recovery (through the introduction of pre-paid electric metering systems) and leverage partnerships with local NGOs to deliver services more effectively. The total cost of the project is currently estimated at US\$40.2 million with financing of US\$10 million from the Trust Fund for Gaza and West Bank (TFGWB), and further commitments from Netherlands and Agence Française de Développement. On-going discussions for funding with KFW and Sweden are likely to cover the balance.</p>
<p><b><i>Third Palestinian NGO Project</i></b>  World Bank: US\$10 million  AFD: €6 million  Approval Date: December 19, 2006  Closing date: December 31, 2009  Task Team Leader: Meskerem Brhane</p>	<p>The objective of the project is to provide 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. The first two PNGO projects successfully built up Palestinian NGO capacity to carry out social service delivery activities. Now, there is a need to consolidate and sustain this capacity by moving the driving force for further NGO development firmly into the hands of the Palestinian NGOs. To this end, PNGOIII will support the transformation of the Project Management Organization (PMO), the implementing unit within the Welfare Association of the previous projects, into the NGO Development Center (NDC), an institution dedicated to grant-making and sector development. At the <b>same</b> time, the project will provide funding to develop and sustain specific NGO-sponsored social service delivery activities.</p>
<p><b><i>Emergency Services Support Program III</i></b>  World Bank: US\$10 million  Approval Date: December 13, 2007  Closing Date: December 31, 2009  Task Team Leader: Eileen Murray</p>	<p>The development objective of the Emergency Services Support Program is to mitigate the deterioration of service delivery brought about by the inability of the Palestinian Authority to meet its non-salary recurrent costs. The ESSP finances the non-salary expenditures of the key social ministries and based on the PA's recurrent expenditure program for these ministries.</p>
<p><b><i>Village and Neighborhood Development Project</i></b>  World Bank: US\$10 million  Approval Date: April 22, 2008  Closing Date: October 30, 2012  Task Team Leader: Meskerem Brhane</p>	<p>The objective of this project is to promote a coordinated development approach which builds the capacity of communities to plan for and manage development sources. The project will support small communities in planning local initiatives, prioritizing needs through an inclusive and participatory process. It will also provide small grants to support joint activities among several village councils for subprojects that are part of the local plan. This will provide incentives for small communities to work together and eventually amalgamate and become a municipality.</p>
<p><b><i>Electricity Utility Management Project.</i></b>  World Bank: US\$12million  Approval Date: May 15, 2008  Closing Date: June 30, 2012  Task Team Leader: Meskerem Brhane</p>	<p>The development objective of the Electricity Utility Management Project is to reduce the fiscal burden of the sector on PA's budgetary resources through inter alia lower deductions from clearance revenues for arrears owed to IEC. This will be possible through adoption of appropriate sectoral efficiency enhancement measures taken and the key performance indicators of the electricity distribution utilities that will include: (a) improved collection performance; (b) lower technical/non-technical losses; (c) reduction in payables to IEC on account of electricity purchase; and (d) consolidation and increase in number of consumers. The Project will also ensure that NEDCO is fully operational through financing necessary capacity building measures.</p>
<p><b><i>Palestinian Reform and Development Plan (PRDP) Development Policy Grant</i></b>  World Bank: US\$40 million  Approval Date: June 5, 2008  Task Team Leader: John Nasir</p>	<p>The operation is designed to support the PA as it implements the reform program detailed in the PRDP. To have the largest impact, the project focuses on two specific areas: (i) strengthening the PA's fiscal position; and (ii) improving public fiscal management. The Bank will support the PRDP process in two complementary ways; (i) it has established the PRDP Trust Fund as requested by the PA; and (ii) will provide a development policy grant of \$40 million.</p>

# West Bank and Gaza Portfolio

June 2008

	Trust Fund for Gaza and the West Bank				Co-financing			
	Committed	Disbursed	Undisbursed	Disbursed	Committed	Disbursed	Undisbursed	Disbursed
CURRENT PROJECTS <sup>1</sup>	US\$ Million			Percent	US\$ Million			Percent *
011 Solid Waste and Environmental Management Project	9.5	9.0	0.5	95%				
04 Emergency Water Project	12.5	10.8	1.7	87%				
04 Social Safety Net Project	10.0	3.3	6.7	33%				
05 North Gaza Emergency Sewage Treatment Project	7.8	6.8	1.0	87%	4.6	0.0	4.6	0%
05 Land Administration Project	3.0	0.9	2.1	30%	1.5	0.9	0.5	63%
05 Tertiary Education Project	10.0	3.4	6.6	34%	3.9	1.4	2.4	37%
05 Gaza II Emergency Water Project	20.0	14.6	5.4	73%				
07 Avian Influenza Project	10.0	1.2	8.8	12%				
07 Palestinian NGO Project III	10.0	3.3	6.7	33%				
07 Emergency Municipal Services Rehabilitation Project II	10.0	3.5	6.5	35%				
07 Emergency Services Support Program III	10.0	1.9	8.0	19%				
08 Village and Neighborhood Development Project	10.0	0.0	0.0	0%				
08 Electricity Utility Management Project	12.0	0.0	0.0	0%				
08 PRDP- Development Policy Grant	40.0	40.0	0.0	100%				
<b>Total</b>	<b>174.8</b>	<b>56.7</b>	<b>118.1</b>	<b>32%</b>	<b>10.0</b>	<b>2.4</b>	<b>7.6</b>	<b>24%</b>
<b>DONOR FUNDED TRUST FUNDS</b>								
Palestinian Reform and Development Plan Trust Fund (PRDP-TF) <sup>2</sup>					108.0	108.0	0.0	100%
Local Government Capacity Building					2.5	2.0	0.5	79%
Emergency Services Support Program					77.5	44.9	32.6	58%
<b>Total</b>					<b>80.0</b>	<b>46.9</b>	<b>33.1</b>	<b>59%</b>
<b>COMPLETED PROJECTS <sup>1</sup></b>								
00 Electricity Sector Management Project	15.0	14.8	0.2	99%				
03 Emergency Services Support Project II	40.0	40.0	0.0	100%	71.6	71.6	0.0	100%
97 Palestinian Expatriate Professional Program	2.3	2.3	0.0	100%	0.3	0.3	0.0	100%
02 Emergency Services Support Project	20.0	20.0	0.0	100%	29.2	29.2	0.0	100%
04 Public Financial Management Reform SAO	20.0	20.0	0.0	100%				
97 Legal Development Program	2.8	2.5	0.0	89%				
96 Municipal Infrastructure and Development Project	40.0	40.0	0.0	100%	5.4	5.4	0.0	100%
97 Microenterprise Project	2.2	2.2	0.0	100%				
95 Emergency Rehabilitation Project	30.0	30.0	0.0	100%	63.9	63.9	0.0	100%
97 MIGA Fund	10.0	10.0	0.0	100%				
96 Emergency Rehabilitation Project II	20.0	20.0	0.0	100%	3.5	3.5	-0.0	100%
97 Community Development Project	10.0	10.0	0.0	100%	2.8	2.8		
01 Emergency Response Program	12.0	12.0	0.0	100%				
95 Education and Health Rehabilitation Project	20.0	20.0	0.0	100%	29.1	29.1	0.0	100%
99 Community Development Project II	8.0	8.0	0.0	100%				
97 Gaza Water and Sanitation Project	31.0	31.0	0.0	100%				
98 Palestinian NGO Project	10.0	10.0	0.0	100%	4.6	4.6	0.0	100%
99 Bethlehem 2000	25.0	25.0	0.0	100%	3.6	3.6	0.0	100%
97 Palestinian Housing Project	17.4	17.4	0.0	100%				
98 Gaza Industrial Estate	7.2	6.9	0.0	96%				
99 Southern Area Water and Sanitation Project	21.0	21.0	0.0	100%				
00 Health System Development Project	7.9	7.9	0.0	100%				
01 Education Action Project	7.0	6.9	0.0	99%				
03 Emergency Municipal Services Rehabilitation Project	20.0	20.0	0.0	100%				
01 Palestinian NGO II Project	8.0	8.0	0.0	100%	11.6	10.2	1.4	88%
02 Integrated Community Development Project	15.0	12.4	2.6	82%				
00 Municipal Infrastructure and Development Project II	7.5	7.3	0.0	97%				
<b>Total Completed</b>	<b>429.2</b>	<b>425.5</b>	<b>2.8</b>	<b>99%</b>	<b>225.7</b>	<b>224.3</b>	<b>1.4</b>	<b>99%</b>
<b>TOTAL (Current &amp; Completed)</b>	<b>532.0</b>	<b>482.3</b>	<b>49.7</b>	<b>91%</b>	<b>315.6</b>	<b>273.5</b>	<b>42.1</b>	<b>87%</b>
<b>CLOSED DONOR FUNDED TRUST FUNDS</b>								
The Holst Fund					285.7	285.7	0.0	100%
Technical Assistance Trust Fund					23.6	23.6	0.0	100%
PEACE Facility					25.0	25.0	-0.0	100%
Public Financial Management Reform Trust Fund					273.4	273.4	0.0	100%
<b>TOTAL DONOR FUNDED TRUST FUNDS</b>					<b>607.7</b>	<b>607.7</b>	<b>-0.0</b>	<b>100%</b>
<b>GRAND TOTAL</b>	<b>532.0</b>	<b>482.3</b>	<b>49.7</b>	<b>91%</b>	<b>923.3</b>	<b>881.2</b>	<b>42.1</b>	<b>95%</b>

\* For some cofinancing, investment income is added to the principal and disbursed, causing disbursements to go above 100%

1/ Year approved by World Bank Board of Executive Directors

2/ For more information on the Trust Fund please visit the website: [www.worldbank.org/ps](http://www.worldbank.org/ps)



# Economic Developments and Prospects<sup>1</sup>

1. ***Beyond the impacts of the protracted economic downturn since restrictions were imposed after the Second Intifadah, the Palestinian economy faces a more hazardous prospect***– a fundamental change in its composition, with GDP increasingly driven by government spending and donor aid, leaving little resources for investment thus further reducing the productive base for a self-sustaining economy. Contributing to the crisis is an expanding labor force and a shrinking private sector, placing further pressure on the public sector to become the primary alternative for jobs.
2. ***During the fiscal crisis in 2006 and 2007, the Palestinian economy relied on borrowing, remittances and increased aid outside the standard PA channels to sustain both public and private consumption. Investment, however, fell sharply.*** According to the Palestinian Central Bureau of Statistics (PCBS), household consumption dropped by only 0.6% between 2005 and 2006. However, investment fell to precariously low levels. Public investment in the last two years has nearly ceased as almost all government funds have been used to pay salaries and cover operating costs. The IMF estimates that private investments fell by over 15% between 2005 and 2006 and there is no evidence that it significantly increased in 2007. Gross capital formation by the private sector remains less than 16% in 2007.<sup>2</sup>
3. ***The formation of the Caretaker Government in mid-2007, and the resumption of aid have reversed the impacts of the aid boycott in 2006 and 2007, but only partially.*** Real GDP was negative in the first half of 2007 but began to recover in the West bank during the second half. Because of the situation in Gaza, real GDP growth in 2007 is estimated to be about 0%<sup>3</sup>, which given the rapidly growing population indicates falling per capita income<sup>4</sup>. Overall per capital income is estimated to be nearly 40% less than its peak in 1999. The contributing effects of the closures and movement restrictions cannot be overestimated. Between 1995 and 2000, the Palestinian economy was growing at an average rate of 6% per year. If that trend had continued after 2000, when restrictions intensified, real GDP may have been more than double its current value to reach over \$8 billion.

1 Excerpt from World Bank Economic Monitoring Report to the Ad-Hoc Liaison Committee (AHLC) in May, 2008 titled “Implementing the Palestinian Reform and Development Agenda”.

2 IMF Report to the AHLC, May, 2008.

3 IMF Report to the AHLC, May 2008. PCBS quarterly statistics suggest that total growth may be slightly higher. However, taking into account population growth rates would lead to the same conclusion regarding the low-to-negative per capita growth rates.

4 At the time of this report, no breakdown in this zero GDP growth figure between West Bank and Gaza was available. In view of the collapse in Gaza’s economy since June 2007, it is clear that GDP in the West Bank must have been positive. However, given that the population in the West Bank is almost double that of Gaza, it can be inferred that modest GDP growth in the former was not sufficient to offset the severe contraction in GDP in the latter.

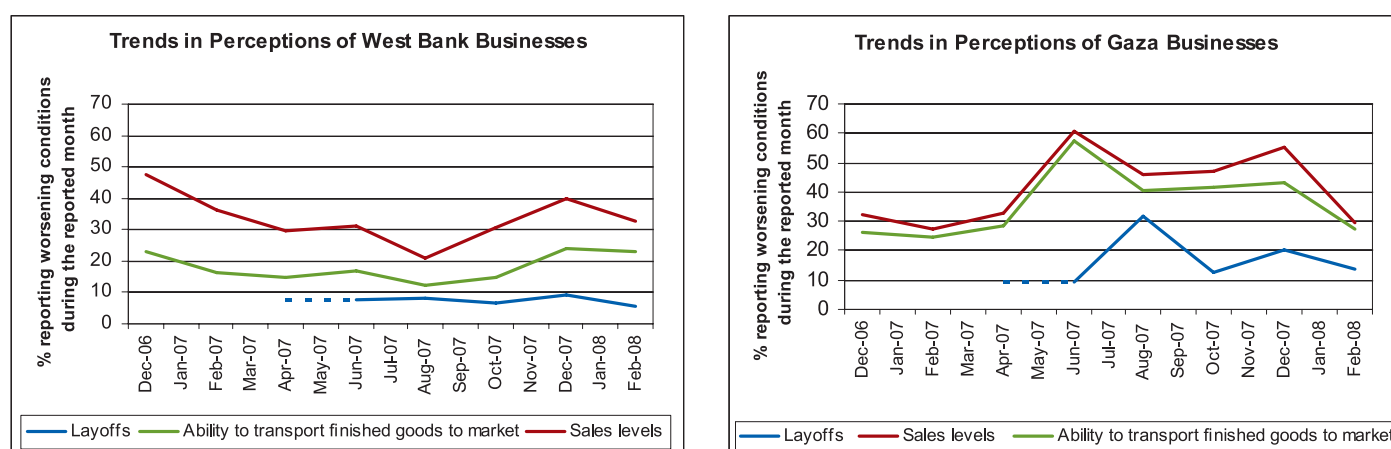


**4. Moreover, economic indicators have not changed considerably, despite the resumption in aid. Unemployment in WB&G stood at nearly 23% in 2007, up from only 10% before the beginning of the Intifadah in 2000.<sup>5</sup>**

Unemployment is highest in Gaza, at nearly 33% of the active work force. This rate is likely to become much higher as the layoffs in the industrial sector become permanent. The unemployment rate in the West Bank is approximately 19%. The percentage of Gazans who live in deep poverty<sup>6</sup> has been steadily increasing, rising from 21.6% in 1998 to nearly 35% in 2006. With the continued economic decline in 2007 and the implementation of even stricter closures on Gaza, the current deep poverty rate is expected to be higher than 2006 levels. These poverty levels reflect actual consumption. If remittances and food aid are excluded and poverty is based only on household income, the poverty rate in Gaza jumps to almost 67%. The increase in poverty in the West Bank is lower, but is still significant.

**5. Overall, a large proportion of the private sector in both the West Bank and Gaza continue to report worsening conditions in their operations.** In Gaza, the number of businesses reporting worsening conditions in terms of sales, ability to transport goods to markets, and number of layoffs peaked in June 2007 – August 2007 when the imposition of near complete closure of Gaza began. In the West Bank, the percent of businesses reporting increasingly worse conditions actually rose in the 4th quarter of 2007 with 24% reporting increasing difficulties in transporting goods, 40% reporting falling sales, and 9% reporting layoffs in December 2007 (see Figure 1).<sup>7</sup>

**Figure 1: Private Sector Perceptions**



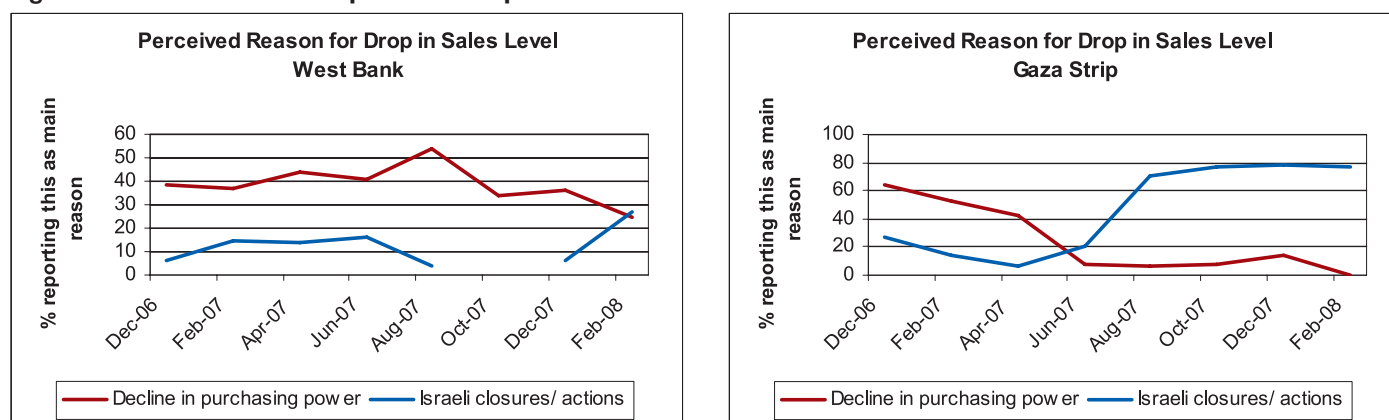
**6. Private sector activity remains constrained and hampered by movement and access restrictions and reduced consumption due to lower purchasing power.** In the West Bank, business owners perceive lower purchasing power due to the economic downturn on the one hand and Israeli closures, restrictions, and military actions on the other as nearly equal contributors to depressed sales (at about 25% of respondents). Unsurprisingly, in the Gaza Strip the vast majority of businesses attribute their depressed sales primarily to Israeli closures, up from about 14% one year ago when the West Bank businesses responded with the same percentage (see Figure 2).

<sup>5</sup> PCBS Labor Force Studies, 2008.

<sup>6</sup> Defined as a NIS 1,837, budget for a family of six for food, clothing and housing only.

<sup>7</sup> Survey on the Perceptions of the Owners/Managers of Industrial Establishments Regarding the Economic Situation, PCBS, various months from 2006 – 2008. Based on a survey of 350 - 500 establishments in the West Bank and Gaza.

**Figure 2: Private Sector Perceptions on Drops in Sales**



7. *The government's 2008 budget, approved on March 31<sup>st</sup>, envisions total spending of \$3.338 billion and a financing gap of over US\$2 billion that must be filled by external aid. This is in sharp contrast with the surplus budgets that prevailed in 1999 when the economy was growing.* The PA has announced a Palestinian Reform and Development Plan (PRDP) to increase revenues reduce expenditures and introduce sector reforms to enhance efficiency. But even with these measures and assuming resumed economic growth, the fiscal gap for recurrent expenditures alone is projected to remain high, at around \$1.63 billion in 2008.
8. *The current status of the economy is a result of the need for concrete PA reforms, matched with an immediate resolution of the movement and access restrictions related to Israeli security concerns and settlement growth which have fragmented the economy into disconnected cantons.* While the PA has moved ahead with its economic reforms, albeit slowly, there has been little progress on relaxing movement and access constraints. In the West Bank, the number of checkpoints increased from 376 in August 2005 to over 600 by mid-2008. There are currently 149 settlements in the West Bank, including East Jerusalem, and roughly 110 outposts many of which are regarded as illegal by the Israeli Government. Since the 1993 Oslo Accords, the Settlement population has risen 63% to approximately 450,000. Some 38% of the West Bank has been confiscated for current or future settlements, outposts, closed military areas, municipal boundaries and settlement regional jurisdiction. Palestinians without special permits are restricted from important agricultural areas in the Jordan valley and producers are cut off from the East Jerusalem market. The GoI has established five crossing points to transfer commercial goods between Israel and the West Bank. The crossing points use a back-to-back cargo transfer system similar to the one for crossing into Gaza, however the system is unlikely to accommodate the expected volume of traffic. Over 95% of Palestinian trade is undertaken with or through Israel.

#### Update on the Gaza Strip

9. *The continued closure policy on Gaza since the events of June 14<sup>th</sup>, 2007 has considerably eroded whatever private sector backbone remained in the economy, and in a manner that is progressively more difficult to reverse.*<sup>8</sup> As mentioned earlier, the percentage of Gazans who live in deep poverty has risen to nearly 35% in 2006, and is expected to have increased further in 2007 and 2008. If revised to exclude remittances and food aid, this poverty rate is closer to 67%.

<sup>8</sup> In response to this statement, the Israeli authorities note the need to stress the reasons behind the current closure policy, including the takeover of Gaza by Hamas militants, and the continued attacks on Israeli civilians. According to Israeli COGAT, about 3,500 homemade rockets have been launched from Gaza into Israel. In March alone, an estimated 110 rockets have been launched into Israel.

**10. Over 53%<sup>9</sup> of employment in Gaza is private sector-driven, representing more than 100,000 jobs.** Recent data on Gaza's GDP are not readily available, but Gaza contributed \$1.3 billion to Palestinian GDP in 2003 (44%), of which the private sector is the main economic driver. The impacts of the closures will become less reversible with time. Most Gazan industries are export-oriented and have purchase and supply contracts with Israeli and other firms. Gazan manufacturers rely almost entirely on imports for their inputs and until recently, about 76% of their furniture products, 90% of their garments and 20% of their food products were exported to Israel, and some to the West Bank.

**11. According to business associations in Gaza, the current restrictions have led to the suspension of 96% of Gaza's industrial operations,** including domestic and export-oriented manufacturing and agriculture, and services (see Table 1). They could access neither the inputs for production nor any export markets, transforming Gaza into a consumer economy driven primarily by public sector salaries and humanitarian assistance. During 2007, the furniture and garment sectors lost potential export sales of approximately \$17 million and \$24 million, respectively. In June 2007, about 6,500 worked in the furniture sector, and 25,000 in the garment sector. As of January 2008, these numbers dropped to 75 and zero, respectively. According to the Palestinian Contractors Union, the number of construction establishments dropped from 120 in January 2007 to almost zero in January 2008. All the construction and development projects, including those for UNDP and UNRWA which are valued at more than \$116 million, have been halted to the absence of construction materials. As a result of the closure imposed on Gaza since June 2007, the halted construction projects are estimated at \$240 million and 42,000 workers were laid off.<sup>10</sup> The scarcity of construction materials has resulted in a considerable rise in construction materials cost<sup>11</sup>.

**Table 1: Industrial Decline in Gaza<sup>12</sup>**

	June 2005	July 2007	December 2007	January 2008	February 2008	March 2008
Working Establishments	3,900	780	195	150	150	130
Working Employees	35,000	4,200	1,750	1,500	1,500	1,300

Note: PCBS data shows a less dramatic decrease in industrial employment, from 17,000 in Q2 of 2007 (April-June) to 11,000 in Q3 of 2007 (October-December), a drop of 33%. PCBS uses ILO standards in the determination of employment.

**12. The agriculture export sector, with more than 40,000 workers, has been particularly affected** as it is entirely dependent on the export market and on the imports of fertilizers, pesticides, packaging materials, and other inputs. To illustrate, as a result of border crossings closure, Gaza's carnation farmers were able to export only 10 million flowers out of at least 45 million flowers produced which resulted in \$6.5 million loss, and thus resorted to selling flowers as animal feed. It is worth mentioning that carnations and strawberries are the two largest agricultural exports from Gaza. Both carnations and strawberries can generate up to \$20 million in income (\$10 million each). The estimated lost income from strawberry sales during 2007/2008 season is approximately \$7 million.<sup>13</sup>

**13. The reduction in fuel imports into Gaza has impacted both private sector activities and donor projects.** The Israeli policy of reduction of fuel supplies as a response to continued attacks on Israel began on October 28<sup>th</sup>, 2007. Between January and September 2007, approximately 18 million liters of fuel were imported per month. This dropped by about 25% in November 2007, 14% in December, 20% in January 2008, 38% in February, and 25% in March. In February 2008, gasoline (diesel) dropped by approximately 67% and benzene steeply dropped by about 80%.<sup>14</sup>

<sup>9</sup> Q4 2007 as reported by PCBS Labor Force Press release, March 2008.

<sup>10</sup> According to PCBS, employment in the construction sector dropped by 78% between Q2 and Q4 of 2008.

<sup>11</sup> According to the Gaza Business Associations, the closures on Gaza have led to accumulated losses of \$500 million. In addition, the banking sector has dropped by 60%.

<sup>12</sup> Original data from Industrial associations in Gaza reported to Paltrade and recent World Bank interviews with Palestinian Federation of Industries (PFI).

<sup>13</sup> As reported by Gaza Agricultural Associations and Paltrade. PCBS data differs, showing an increase in

<sup>14</sup> Paltrade, Gaza Terminals Movement Monitoring, Semi-annual Report (Oct 2007 - Mar 2008) April 7, 2008.



# NEW WORLD BANK PROJECT: **A Second Land Administration Project**

The proposed project will build upon the achievements of the on-going Land Administration Project (LAP) and is based on the Palestinian Authority's priorities defined in the Palestinian Reform and Development Plan (PRDP) of December 2007 in which land administration and management reform were identified among the key priorities for stimulating economic development. The proposed LAP-2 project will build on the groundwork of the on-going LAP on land sector reform starting with key reform policies, institutional reform and restructuring of the Palestinian Land Authority, launching systematic land surveying and registration, and the improvement of existing legislation, regulations and procedures.

The World Bank together with its partners, the governments of Finland and Denmark, are expected to commit about US\$20 million over the next four years towards the LAP-2. These funds are expected to finance institutional development through re-engineering of the PLA regional offices and capacity building of its staff and systematic land surveying and registration of about 200,000 dunums in selected areas in the West Bank & Gaza as well as additional work on policy formulation with a specific focus on Waqf land; .





*In this interview, Ritva Reinikka the new Director for the Social and Economic Development Group (MNSD) at the World Bank's Middle East and North Africa (MENA) region shares her vision and plans for managing challenges and opportunities in the region and the World Bank. The MNSD scope of work covers economic policy, poverty, public sector, gender, private sector development, and finance.*

*Reinikka's appointment follows her field assignment as the World Bank's Country Director in Southern Africa. Prior to that Reinikka was research manager in the Development Research Group at the World Bank headquarters.*

**What are the challenges of your new job?**

As a newcomer to MENA a challenge for me is to get to know our client countries. My first visit to Egypt allowed me to meet key counterparts of our largest borrower. Together with my old department and the African Development Bank we also hosted a conference in Cairo for Africa's middle income countries, including our North African clients. The upcoming World Economic Forum in Sharm El Sheikh will give me another opportunity to meet many more counterparts, and a trip to Morocco is planned for June. These are all efforts to meet this challenge.

Another challenge is to get to know the MNSD team and the rest of the region. Thanks to our recent retreat, I was able to meet and interact with the entire team of our committed and talented economists and sector specialists both in headquarters and field offices. I asked for taped interviews from the region's country and sector directors to get a better sense from them of what they expect from my team and where they think there are opportunities for further collaboration. Directors said, for example, that country economists are important integrators, and I pledged to do my best to help them play this role. In the past, the position of MNSD director was merged with that of the regional chief economist. The region is now in the process of separating these two offices and hiring a chief economist. This will also mean some redefinition in the scope of my department's work.

**What are the immediate policy challenges that are currently on your agenda?**

From day one I have been working together with the team to respond to rapidly increasing food prices. This involves leading a regional task force of sector and country directors. The objective is to serve our clients better by integrating various aspects of the food price crisis, such as fiscal, trade, poverty, social protection, agriculture and water. The MENA countries are being much affected because they are large net food importers. For example, in Yemen, where price for wheat doubled in a year, poverty may have already increased by 6 percentage points reversing the gains in poverty reduction since 1998. Large food and energy subsidies are quite unique to MENA, ranging from 3 to 15 percent of GDP. Rising food prices have made reforming these programs even more difficult. Governments are looking to the Bank for policy advice on how to respond. The Bank is also exploring the creation of a rapid financing facility for especially fragile, poor countries.

**What are the key responsibilities that your department?**

My department has a wide range of responsibilities: from heading the region's work on economic policy, to leading poverty analysis, supporting increased trade and competitiveness, facilitating public sector reform and improved governance, promoting gender equity, improving the investment climate for the private sector, and to enhancing financial markets. These are the themes where we take leadership for the Bank in the MENA region. But we do not operate in a silo. This is why I have focused my time over the first couple of months to listening and interacting with as many client representatives as possible and various World Bank sector colleagues, including the IFC. My priority is to ensure that we work closely with other sectors and have an open dialogue with clients.



**What are some of the opportunities you see to enhance the role of the private sector in MENA's development?**

I am particularly keen to ramp up the Bank's support of private sector development in MENA. I believe this is imperative for the region to create job opportunities for a rapidly expanding labor force. In recent years, the Bank has conducted investment climate assessments (ICA) to better understand what prevents firms from investing more, growing, and creating jobs. The ongoing analytic and policy work includes issues such as access to finance, regulatory reform, land policy, corporate legal reform, and tax reform. In my past assignments I have also worked a lot with the ICAs and find them to be a useful tool for defining the reform agenda and for operational work.

We are also currently preparing a regional flagship report on private sector development which will be launch soon. Stay tuned!

**Where do you see progress on the governance agenda in MENA?**

MENA is home to some of the largest public sectors in the world, and hence efficient use of resources, transparency and public participation are particularly important. Over the past few years, the governance agenda has become one of the most important development issues for the MENA region as a whole. A variety of regional forums from Alexandria to Doha have underscored the importance of governance in fostering an enabling environment for private sector growth and ensuring that quality services are delivered to the public. Most of my career in the Bank I have worked on topic related to governance—especially on information, participation and client power—and very much want to contribute to it in MENA, too.

**What is your mission going forward?**

I subscribe to the idea that the World Bank is a development cooperative whose purpose is to serve its member countries as effectively as possible. In Southern Africa I used to say that the Bank Group is about development not ideology. So, my “mission” is to help put this spirit into practice regarding economic and private sector development in MENA by leading and supporting a team of over 50 economists and other professionals.

**What are some of the new ideas that will serve your vision for a more effective response?**

Despite promising efforts and initiatives, the MENA region is still lagging behind other regions with similar income levels in terms of women's access to economic opportunity, decision making, and in certain cases, equitable treatment under the law. Going forward, I hope that the Bank can significantly scale up analytic work and policy dialogue among MENA clients on gender.

Another passion of mine is impact evaluation. With limited resources and nearly unlimited needs, impact evaluations should be an integral part of policy and public spending decisions. We need to know what works, what doesn't and why. I intend to work with my team and our counterparts to put together a multi-sector impact evaluation program. This should serve the MENA region particularly well. Data collection and analysis is notoriously circumspect in MENA, and dissemination is even more limited, preventing greater transparency and accountability from the public sector. Promoting impact evaluation, and ensuring that these evaluations are reported well, can be an effective way to improve performance of public services.

**Based on your experience, how different or similar is development work in MENA from what you had to deal with in Southern Africa?**

To be sure, the two regions are very different. Yet, there are many similarities, too. The Southern Africa department spanned from the most pressing poverty in Madagascar to the increasingly sophisticated needs of middle income countries like South Africa or Botswana. MENA region has a similar variability. Job creation is a burning development issue for both regions. In Southern Africa, we were ramping up business 24/7, both lending and advisory services, with most demanding clients. In MENA we need to do the same thing. I believe that working collaboratively with other development organizations, such as the Arab funds and donors, governments, private sector and civil society is critical to the Bank's and my department's success.