

In This Issue

1. Commitment in an Uncertain Environment /3
2. Improving Municipal Management /4
3. Tertiary Education Management Information System /6
4. Supporting Non-Governmental Organizations /7
5. Accountability and Reliability - Enhancing Democratic Governance of NGOs /10
6. Economic Monitoring Note /11
7. World Bank Projects in West Bank and Gaza /14
8. West Bank and Gaza Portfolio /17
9. North Gaza Emergency Sewage Treatment Project Update /18



The World Bank Group

A Quarterly Publication of the West Bank and Gaza Office

WEST BANK AND GAZA UPDATE

June 2010



Commitment in an Uncertain Environment

Contact Numbers

West Bank Office Numbers:

Switchboard 02- 2366500

Fax: 02- 2366543

Country Director

Mariam Sherman

02- 2366506

*Deputy to Country Director
and Donor Coordination*

Dina Abu-Ghaida

02- 2366506

Economics and Private Sector

John Nasir

02-2366553

Urban Development

Soraya Goga

02-2366500

Water and Energy

Zeyad Abu-Hassanein

08-2823422

Infrastructure Development

Ibrahim Dajani

idajani@worldbank.org

*Governance and
Public Financial Management*

Mark Ahern

02- 2366512

Financial Management

Suhair Musa

02- 2366540

Human Development

Eileen Murray

02-2366500

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

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

Commitment in an Uncertain Environment

World Bank Support for Palestinian Private Sector Growth and Institution Building Under Unstable Conditions

The West Bank and Gaza (WB&G) program presents a unique challenge for the World Bank: Operations in a conflict-affected environment requires that we be flexible in our approaches, while, at the same time, ensuring that the outcomes of our actions deliver real benefits to the Palestinian people.

The pressures in conflict situations often result in economic aid fulfilling a humanitarian function, contributing to dependency rather than catalyzing sustainable economic growth. Under these conditions, we at the World Bank are obligated to constantly reevaluate and adjust our operations, to ensure that we are striking the correct balance between response to short-term needs and attention to long-term goals.

In order to achieve this balance we have identified two key principles that guide us in the planning of our operations. *First*, given the limited financing available to the World Bank, our work is most effective if it leverages and complements the work of other reformers and donors. Therefore, timely and accurate identification of the appropriate junctures for our interventions is an imperative.

Second, if we are to meet our primary development objective -- supporting the development of systems that can provide sustained delivery of high quality services to the Palestinian people -- we must focus on actions that facilitate the establishment of a fiscally stable Palestinian State, underpinned by robust and well governed institutions of state and civil society.

Fiscal stability is predicated on economic growth. Growth, however, is only sustainable if it is driven primarily by the private sector. The Israeli closures, significantly tightened since the outbreak of the *Second Intifada* in 2000, have stymied private sector development. Although some of the restrictions have been significantly relaxed in the recent past, we have yet to see the resurgence of Palestinian private enterprise required for the Palestinian Authority (PA) to reduce its dependence on aid. There are numerous committed businesses active in the market, but much more needs to be done to support their growth and the entry and prosperity of more businesses.

Restrictions on access to *markets*, particularly in Gaza and East Jerusalem, to *natural resources*, primarily land in Area C and *investment* continue to impede business development. Over the next few months much of the Bank's analytical and advisory capacity will be dedicated to (a) assessing the potential for private sector growth and recommending policies that encourage its realization; (b) measuring the current economic impact of restrictions and providing recommendations both for easing them. The first products of this renewed effort will be published in the autumn.

Much of the WB&G project portfolio is designed to effectively support Palestinian **institution building**. Given the program's relatively limited financial resources and the fluidity of the situation on the ground, we place particular emphasis on preserving and developing *human capital*, both in the public sector and in civil society. This edition of the West Bank and Gaza Update reports on a number of these projects.

Governance is another field where we strive to integrate our global expertise with local knowledge in support of Palestinian institutions. A major study of this issue is nearing completion and, based on its results, we will engage in an extensive outreach effort during the second half of the year. We believe the results will improve public confidence in the many areas where performance is satisfactory, and, in parallel, encourage reform where it is not.

As the World Bank's new Country Director, I return to the region after thirteen years. It is a privilege to be back. The challenges we face are formidable. However, in the short time since my return, I have been struck by the extraordinary capacity and commitment of the Palestinian people to bring about change, even under the most adverse conditions. I look forward to continuing the work of my predecessors in support of Palestinian reformers and entrepreneurs through the synthesis of our global expertise with their local knowledge.

Mariam Sherman
Country Director





Improving Municipal Management

Strengthening Local Authorities for Better Public Service

Palestinian Local Governments

Building a strong and effective state requires not only a focus on national government institutions but also those at the local level. Some municipalities in West Bank and Gaza trace their establishment to the 19th century, confirming the long tradition of Palestinian local self-governance. The Palestinian Authority (PA) recognizes that strong and effective local governments are critical to building a viable state. That's why the Prime Minister's plan for state building calls for developing the capacities of Local Government Units, promoting their participation in the development process and helping them attain financial and administrative independence. It also calls for promoting accountability by developing oversight systems. To address these concerns, the PA launched the Municipal Development Program (MDP) in December 2009.



World Bank Support to the Municipalities

The Bank, together with the PA and 5 Financing Partners (the Agence Française de Développement, the Danish International Development Assistance, the Swedish International Development Cooperation Agency, German Development Bank, and the German Technical Cooperation) are supporting the MDP designed and implemented by the Municipal Development and Lending Fund (MDLF). The MDP provides capital investment grants based on priorities set by municipalities (with the participation of their citizens) and technical assistance to address the management and governance challenges that municipalities face. The PA contributes 10 percent of the MDP's budget. The MDLF manages funds from the PA and the Financing Partners, offering municipalities a coordinated, transparent, rules-based funding mechanism and the expertise to develop capacity and improve performance. The MDP marks the first time infrastructure aid has been directly tied to municipal government performance through the Grant Allocation Mechanism, where grants are made via a formula based on population, need, and performance. Municipalities have been ranked according to 12 commonly accepted "good management" practices such as planning, transparency, and sound financial management. The MDP is a multi-phase program, with each phase lasting about three years and serves all 132 municipalities in the West Bank and Gaza. The long term goal of the MDP is to help municipalities become credit-worthy, so they are able to access the capital markets to finance local projects.



Donor Harmonization

The MDP is a result of a long history of partnership between each of the Financing Partners, the Ministry of Local Government, and MDLF. This represents one of the first sector wide interventions in the West Bank and Gaza. By joining the MDP, the Financing Partners have opted for a coordinated national program based on long-term objectives. Resources are pooled so that larger infrastructure grant amounts become available to municipalities. This has a direct impact on the level and quality of services that citizens can expect from their municipalities. The pooled funding also lowers transaction costs for municipalities and the MDLF. Neither the municipalities nor the MDLF report to each donor separately; instead the same procurement and financial management systems for all activities are used. The Financing Partners have also organized themselves so all consultations and discussions with the PA and MDLF are carried out jointly, making dialogue and discussions more constructive. In addition, they have been able to leverage the strengths and technical expertise that comes from the wide international experience of each of the partners.



Tertiary Education Management Information System

The main objective of the Tertiary Education Management Information Systems (TEMIS) is to put in place a fully integrated management information system covering all aspects of higher education data collection, data processing, and reporting requirements. The TEMIS is designed to support informed policy making and to fulfill the Ministry of Education and Higher Education (MOEHE) responsibilities to publish higher education statistics more efficiently and effectively. The TEMIS main functions are:

- Collect automated data from Higher Education (HE) institutions in a timely fashion;
- Organize and validate this information, and store it in a central location;
- Prepare timely reports;
- Generate customized reports to suit decision making and research needs; and
- Support managerial decision making, education planning, and policy formulation.

Technically the TEMIS consists of three main subsystems or modules: (i) the Tertiary Education Data Collection (TEDC) which is implemented at the higher education institutes' sites; (ii) the Tertiary Education Data Processing (TEDP), located at the ministry site; and (iii) the Tertiary Education Data Reports (TEDR), which is also a MOEHE function.

The TEMIS currently helps higher education stakeholders such as government agencies, bilateral donors, international financial institutions, etc. to obtain better-quality, standardized, and timely data on HE institutions and to better monitor the status and progress of Palestinian HE.

Other TEMIS advantages include:

- *Efficiency* through the adoption of an automated system for information exchange and a centralized location of HE information that reduces the time involved in searching for alternative information sources;
- *Higher data reliability* by introducing qualitative standards on the type of data required. This in turn ensures that data are reported in a consistent and standardized format by all HE institutions;
- *Predictability* via a standardized frequency of information collection; and
- *Standardization and customization* to respond both to generic as well as to specific information needs.

TEMIS Portal - In order for TEMIS to become fully effective a WEB based portal is being developed. This will provide quick access to all available information by all entities involved in HE in Palestine.

A man in a black shirt and dark pants is bent over, working in an olive grove. He is using a tool to clear the ground around the base of an olive tree. The ground is uneven, with patches of green grass and bare soil. In the background, other olive trees and a body of water are visible. The scene is brightly lit, suggesting a sunny day.

Supporting Non-Governmental Organizations

Improving the Quality and Sustainability of NGO Social Service Delivery

Background

Palestinian Non-Governmental Organizations (NGOs) have a long history of providing social services. In sectors such as early childhood education, specialized health care, and agriculture, they are the sole providers of services and are especially effective at reaching the poor and marginalized. Prior to the establishment of the Palestinian Authority, most donor funding to the West Bank and Gaza was channeled through NGOs. In the 1990s, following the Oslo Accords, donor assistance to NGOs contracted precipitously, leading to a real hardship among the poor and disadvantaged in areas where only NGOs were service providers.

Bank Support to Palestinian NGOs

To address this concern, in 1997 the Bank launched the Palestinian NGO Project (PNGO), an innovative project which provided grants to NGOs providing social services. Moreover, the signatory of the Legal Agreement and the recipient of the Bank's funds was itself an NGO, the Welfare Association, the first such arrangement of its kind for the Bank. The first PNGO project far exceeded its objectives, reaching more than 213,000 beneficiaries, compared to the projected 50,000. Beneficiaries reported high rates of satisfaction with the quality of services received. Building on the lessons learned of this first experience, Palestinian NGOII was launched in 2001. The total amount of the Bank's funding for these two projects was \$US18 million but they successfully leveraged an additional \$US30 million from other donors because of the transparent systems for grant-making that were established.

Under Palestinian NGOIII, launched in 2007, the Bank supported the establishment of the Palestinian NGO Development Center (NDC), born out of the project management unit responsible for managing previously PNGO and PNGOII. NDC's mandate is to promote the development of a responsive and accountable Palestinian civil society through both technical assistance and mobilizing resources for grant making to Palestinian NGOs so that they continue to provide needed services for the poor and

most marginalized. Bank support under PNGOIII continued to stress the importance of service delivery to Palestinian communities through NGOs, while focusing only on those services where there is a gap or which complement the role of line ministries so as not to duplicate services. It also contributed towards institutional development of the NGO sector. By focusing on issues such as good governance, accountability, and transparency, the project supported the sector in being responsive to the needs of Palestinians, especially those who are poor and vulnerable. Building the capacity of Palestinian NGOs will provide the basis for long-term sustainability of these services. It also contributes to equity in access to social services for the poor and marginalized.

Since the first project was launched in 1997, the PA has made concerted efforts to build a Palestinian state. A dynamic civil society signals a healthy state. Building on this long experience, the Bank, jointly with the Agence Française de Développement (AFD), has continued its engagement in the sector through the soon to be launched Palestinian NGOIV Project. Contributing towards the PA's state building efforts, the project establishes mechanisms that promote deepening the PA's partnership with NGOs, especially in the area of some types of service delivery and enhanced coordination to avoid duplication. In addition to service delivery, the proposed operation will enable NGOs to develop good governance systems and become more accountable and transparent. It will also map current services provided by NGOs with a view of clarifying the service delivery roles between NGOs and the PA in order to promote strong partnerships.

The long engagement of the Bank in the NGO sector through the series of NGO projects has meant that despite the intensely volatile climate the project has continued to innovate and promote institutional development of the sector. Under conflict conditions, the provision of social services through NGOs has proven to be an effective means of addressing the needs of communities, especially the poor and vulnerable while enhancing institutional capacity.





Achievements of the PNGO Projects

Developing the NGO Code of Conduct. Enabling NGOs to improve their governance, accountability, and transparency mechanisms under PNGOIII. The code describes ethical guidelines and management standards for NGOs.

Empower Households and Communities for Self-Reliance. Sub-grants supporting innovative income generating activities for the poorest households, especially in the agriculture sector. Tree planting is one of the few ways available to protect Palestinian lands from confiscation.

Developing Human Capital. Programs supporting men, women, and youth in technology training, job-skills development, adult literacy, conservation education, etc.

Social Protection. Strengthening the quality of education for children with special needs, psychosocial counseling, and mental health services.

Investments in Community Assets. Construction of assets for villages and urban communities, including facilities for computer laboratories, health clinics, and community centers. Facilitating public-private-local government partnerships in developing plans to meet infrastructure deficits.

Strengthening the Legal Environment for NGO operations. The NGO law was revised under the PNGO project in close collaboration with the PA.

Safety Net for Employees of Palestinian NGOs. Under PNGOII, a group health insurance plan for all NGO employees was put in place. Previously, staff of NGOs had no access to health insurance.

Improving Specialized Services. Under PNGOIII, neurosurgery services were established at Al-Makased Hospital in Jerusalem and St. John's in Nablus. This has eliminated the need for referrals abroad (or to Israel) bringing down the healthcare costs and ensuring better patient care. This service is also now being extended to Gaza through support to Al-Wafa hospital.

Accountability and Reliability Enhancing Democratic Governance of NGOs

The Palestinian NGO sector has always played a vital role in Palestinian society. Since its inception, the NGO sector has been an integral part of the Palestinian national movement in its aspiration for a free and sovereign Palestinian state. Its vitality and dynamism are at the root of the evolution of Palestinian civil society.

Taking this into consideration, the NGO Development Center's (NDC) goal has been the development and empowerment of Palestinian civil society institutions. This has included systematically promoting good governance within the NGO sector.

Acting as the Secretariat for a coalition of four Palestinian NGO networks – the Palestinian NGO Network, the Palestinian National Institute of NGOs, the General Union of Charitable Societies, and the General Union for NGOs in Gaza -- NDC, facilitated the development of the Palestinian NGO Code of Conduct through a broad based consultative process. Being the first of its kind in the Arab world, the Palestinian NGO Code of Conduct sets out priorities and operational instructions for local NGOs to gain confidence and develop appropriate good governance practices. The code is made up of twelve principles and specifies the ground rules to be observed by NGO boards, administrations, and staff while fulfilling their tasks.

This code also reflects international standards of good governance including transparency and accountability. Although adherence to the code is voluntary, more than 530 NGOs, constituting 30 percent of functional NGOs in Palestine, have signed the Code of Conduct as an operational standard that they will uphold.

Another initiative of NDC, which complements the Code of Conduct, is the NGO Resource Kit. The kit consists of a set of learning resources and tools on information management and is designed to broaden the utilization of good governance practices, self-assessment, monitoring and evaluation, and strategic planning. It includes manuals, guidelines, and assessment tools to be used as a reference for compliance with

the principles of the Code of Conduct. In addition, a Coaching and Technical Assistance Program has been launched to help NGOs upgrade their systems, procedures, and practices to be in better compliance with the Code principles. In the pilot phase, 65 NGOs benefited from this program: technical assistance was tailored for each NGO based on an assessment using the Code Organizational Capacity Assessment Tool.

Indicators of the program's success are that 74 percent of the participating NGOs (compared to 14 percent prior to the launch of the program) have made their financial reports public, either by using the NGOs portal or through their own websites.

It is worth mentioning that the civil society initiative of the Arab League adopted the Palestinian NGOs Code of Conduct developed by NDC as the exemplary code for NGOs in the Arab World. NDC's role remains essential to the collective local and international efforts to build a strong and active NGO community in Palestine. These efforts are consistent with the national goal to promote good governance and a participatory culture in a society that is now standing at a crossroads on its path to statehood.

For more information about the code of conduct please visit our website:
www.ndc.ps

*The article is the courtesy of Ghassan Kasabreh,
Director of NGO Development Center.*

ECONOMIC MONITORING NOTE

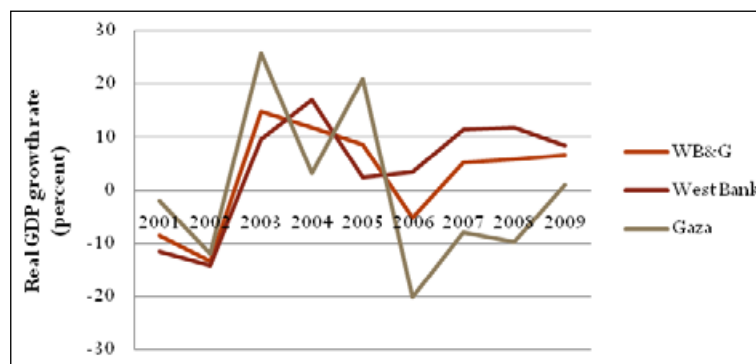
I. Overview

In 2009 WB&G experienced a third consecutive year of economic growth and rising per capita GDP. While this resurgence is a cause of optimism, the situation remains precarious. Growth in the West Bank can be partly attributed to the relatively stable security environment and improving business environment. But it appears to be mostly driven by large inflows of foreign assistance that may not be sustainable. The economy in Gaza remains devastated; however, a regular flow of goods coming through tunnels from Egypt and via other sources have allowed a few private sector activities to resume. Despite the growth, the recurrent deficit rose from roughly US\$1.3 billion in 2008 to US\$1.6 billion on a commitment basis in 2009, mostly as a result of emergency spending in Gaza in the aftermath of Israel's military operation (Operation Cast Lead, December 27, 2008 – January 18, 2009). The PA has made substantial progress in implementing reforms in public financial management and fiscal strengthening. Nonetheless, there is a need for significant further steps to achieve fiscal sustainability. Furthermore, economic performance remains significantly obstructed by the continued restrictions on Palestinian activity in Area C and settlement growth¹.

II. Economic Developments

Growth in WB&G accelerated in 2009: initial estimates suggest real growth reached 6.8 percent, well above the 5.5 percent projected in the PA's 2009 budget. Most of the growth was in the West Bank, where the International Monetary Fund (IMF) and Palestinian Central Bureau of Statistics (PCBS) estimate real GDP growth was 8.5 percent. In addition, and despite the continued closure of Gaza, growth there was estimated to be positive at about 1 percent². For 2008, PCBS has recently issued revised estimates that put real growth at about 5.9 percent for WB&G, implying an increase in per capita GDP (see Figure 1). This means that the 2009 performance is the third consecutive year of per capita GDP growth and may signal that at least the West Bank economy is beginning to recover after years of decline.

Figure 1: Economic growth 2001-2009



Source: PCBS and World Bank staff calculations

The revival of growth in the West Bank is impressive but it is also precarious. It is being driven by a combination of large inflows of donor assistance, PA government reforms that have increased investor confidence, and the loosening of some Israeli security restrictions. However, the high level of external assistance over the past two to three years is probably the most important factor. In 2009, the PA received nearly US\$1.4 billion in budget support coming on top of US\$1.8 billion in 2008 and nearly US\$1 billion in 2007³. The large amounts of budget support have allowed the PA to maintain expansionary fiscal policies to support growth. In 2009, total PA commitments were equivalent to around 52 percent of GDP, with wage expenditures alone around 24 percent of GDP.

In contrast to the public sector, growth in important parts of the private sector has not been as robust. Between 1999 and 2009, manufacturing output was flat and its share in GDP fell from 12.5 to 11 percent. Output in agriculture fell by 47 percent during the same period, so that its share in GDP declined from 10.4 to 4.8 percent. The PA's reforms that have resulted in improved security and more efficient service delivery along with the Government of Israel's loosening of its security restrictions have significantly increased investor confidence: discussions with the private sector reveal the importance it places on sustaining this loosening through additional measures in 2010. However, there is yet no sign of a large-scale revival of private investment in the productive sectors of the economy. Since 2007, real output in the "manufacturing" and "hotels and restaurants" categories of GDP has increased by 7.3 and 8.5 percent respectively, well below the overall increase of GDP of 13 percent. The biggest jump in private sector activity has

1. See World Bank. 2007. Movement and Access Restrictions in the West Bank: Uncertainty and Inefficiency in the Palestinian Economy.

2. PCBS has not yet published GDP estimates for West Bank and Gaza separately. These figures are based on IMF estimates.

3. These figures do not take into account hundreds of millions more in aid that have flowed into the economy through the United Nations and from bilateral assistance programs.

been in the construction and real estate service sectors, which have gone up by nearly 28 percent. In the face of the PA's projected fiscal retrenchment, it is imperative that private investment take off – and that will require improved access to markets in Israel, East Jerusalem, as well as to Area C.

Despite the ongoing blockade, the IMF estimates that real GDP growth in Gaza was 1 percent in 2009, implying a continued decline in per capita GDP. Since the vast majority of the Gaza private sector remains moribund, the economy is sustained by government spending and humanitarian assistance. It is unclear how much spending the Hamas authorities undertake, but they have a large security force and a substantial civil service. The PA regularly pays its more than 63,000 employees in Gaza and maintains its large system of social transfers to needy households in Gaza. In addition to this regular spending, the PA has also undertaken substantial emergency spending in Gaza to offset some of the effects of the recent fighting. In 2009, the PA indicates that emergency spending in Gaza reached US\$300 million and has detailed US\$142 million in spending to help families who lost their homes, make emergency repairs to utilities, and for other emergency requirements. In addition, the international community continues to provide humanitarian aid for Gaza, led by the United Nations Relief and Works Agency (UNRWA) providing services for the more than 950,000 registered refugees.

Rather than reflecting a recovery of the Gaza economy, the reported 1 percent real GDP growth results from the development of coping mechanisms that have allowed some economic activity to resume on a very limited scale. The sustained flow of goods arriving through tunnels from Egypt, including fuel, spare parts, and limited inputs, has allowed some production and private sector activities to resume – albeit in the context of an unregulated informal economy. Monitoring by the Palestine Trade Center (PalTrade) and local business organizations finds that employment in the industrial sector has increased from about 2,000 during 2008 to nearly 5,000 at the end of 2009 (see Table 1), well short of the 35,000 employed in June 2007 before the total closure⁴. In many cases, enterprises have transformed themselves to offer different services, such as a construction firm opening a restaurant or changing markets from export to domestic. However, most remain simply closed.

Table 1: Gaza -- Status of key industrial sectors during three periods

Sector	Indicator	Before closure (14 June 2007)	During the Closure 2008	Currently Dec 09–Jan 10	Notes
Industry	No. of working establishments	3,900	117	1170 See notes	10% of establishments are working with 20%–50% capacity; 20% operating with around 10% capacity; 70% of industrial establishments are closed
	No. of workers	35,000	2000	5,000	
Construction	No. of working establishments	125	8	50	(Current scope includes small maintenance works)
	No. of workers	50,000	100	1,500	

Source: Palestinian Federation of Industries and Palestinian Contractors' Union, as reported in PalTrade

Unemployment rates in the WB&G reflect the growth. In the West Bank unemployment in the fourth quarter of 2009 fell to 18 percent from 20 percent in the same quarter of 2008. At the same time the labor force participation rate rose from 43 to 44 percent. Unemployment also dropped in Gaza, falling from 45 percent in the fourth quarter of 2008 to 39 percent in the last quarter of 2009. However, part of this can be explained by the fact that the labor force participation rate also dropped from 39 to 37 percent. Unemployment in Gaza has also been ameliorated by job creation schemes funded by donors. A recent survey conducted jointly by the Food and Agricultural Organization and World Food Program found that 61 percent of the Gaza and 25 percent of the West Bank population is food insecure.

4. Employment in 2007 was already depressed since even then it was costly and difficult to import and export.

III. The PA Fiscal Position

Despite the revival of growth and its extensive reform program, the PA's recurrent deficit increased in 2009, mostly as a result of emergency spending in Gaza in the aftermath of Israel's military operation. The recurrent budget deficit on a commitment basis was nearly US\$1.6 billion, up from US\$1.3 billion in 2008 and almost US\$143 million more than projected in the revised 2009 budget. Most of the deficit growth can be attributed to the emergency situation in Gaza, which forced the PA to add US\$300 million to the budget mid-year. In addition, about US\$141 million in arrears were brought forward from 2008 and reported as 2009 commitments. Thus, commitments actually incurred in 2009 were below the revised budget. Nonetheless, wage expenditures exceeded the budget by about 2 percent, mostly due to compensation provided to public employees for the interest paid on loans they incurred in 2006 when the PA was unable to pay salaries.

The original 2009 budget called for donor support of US\$1.15 billion to fund the recurrent deficit and another US\$503 million for the development budget. It was hoped that there would be an improvement in the quality of the budget compared to previous years by beginning to shift donor funding from recurrent costs to development expenditures. In September 2009 the projected support necessary for the recurrent and development budgets was raised to US\$1.45 and US\$1.1 billion respectively to respond to the needs in Gaza. However, at the end of the year the recurrent deficit was nearly US\$1.6 billion and including development spending made the overall deficit more than US\$1.77 billion. Only about US\$1.36 billion in budget support and another US\$390 million in development financing materialized. Consequently, the PA was forced to turn to borrowing from local banks and accumulating arrears of US\$221 million. Thus, because of the emergency in Gaza, there was no significant shift of external resources from recurrent to development expenditures in 2009.

The recently released 2010 budget commits the PA to resuming the path to less dependence on donor support for recurrent expenditures. The budget projects a recurrent budget deficit of US\$1.2 billion and US\$670 million in development expenditures. However, these projections are based on strong assumptions and will require discipline on the PA's part. The projections assume real GDP growth of 7 percent and that the PA will be able to increase domestic revenues by almost 21 percent through improved tax collection. They also assume that the PA will maintain the same level of non-wage expenditures that it did in 2009. Finally, the PA's decision to give a general 4 percent wage increase to public sector employees has increased the budget expenditures. However, the share of the wage bill in GDP is expected to decline from 24 percent in 2009 to 22 percent in 2010.

IV. Public Finance Management

Related to the reforms that strengthen the PA's fiscal position are reforms that increase the efficiency and transparency of Government expenditure, i.e. reforms in public financial management (PFM) and procurement. The PA has a strong track record of strengthening its PFM system in order to ensure that government resources are managed in a transparent and accountable manner. The initial focus of the current government was on ensuring that cash controls were operating effectively, while more recently attention has been given to improving the budget preparation procedures, and the accounting and reporting of government expenditures.

In preparing the 2010 budget a number of advances were made. For the first time the PA received expenditure requests from budget units through a shared database. It also took another step on the path towards a program based budget by updating the accounting system so that it can capture expenditure information at the level of programs. For the 2011 budget the Ministry of Finance (MoF) intends to introduce a new budget classification based on international standards.

In recent months improvements have also been made in the way the budget is executed, which has strengthened the MoF's control of expenditures. In particular the computerized accounting system now connects the MoF with all line ministries and governorate offices and a commitment control system has been introduced to provide MoF with more control over expenditures in 2010. Another significant step is the completion by the MoF in December 2009 of the 2008 financial statements and submission to the State Audit and Administrative Control Bureau (SAACB). This is the first time that the PA has produced closed financial statements based on international standards. Developments have also occurred in the tax administration system, which have improved the effectiveness of enforcement activity since mid-2009 and in conjunction with the stronger economy there has been a noticeable increase in the taxes being collected.

5. The PA recognized that public sector wages were higher than in the private sector and unsustainable. To deal with this challenge the PRDP committed the PA to having no general wage increase and allowing inflation to slowly lower real wages. However, due to unexpectedly high inflation of nearly 10 percent in 2008, the PA provided a 6 percent wage increase in 2009. Inflation in 2009 was only about 2.75 percent. The 4 percent general wage increase provides a real wage increase for most PA employees.

World Bank Projects in West Bank and Gaza

May 2010

Project Name & Details	
<p><i>Social Safety Net Reform Project (SSNRP).</i></p> <p>World Bank: US\$10.0 million, plus US\$10 million additional financing approved in April 2008, US\$5 million additional financing from the food crisis trust fund approved in November 2008, and US\$3.4 million additional financing from the food crisis approved in FY10.</p> <p>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 goal is to strengthen the institutional capacity of the 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 the 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. In addition, the project had received additional financing in the amount of US\$5m from the global food price crisis trust fund in November, 2008.</p> <p>In response to the conflict in Gaza in December 2008 and January 2009, the project received additional financing of US\$3 million approved on May 28, 2009.</p>
<p><i>North Gaza Emergency Sewage Treatment Project.</i></p> <p>World Bank: US\$7.8 million plus US\$12 million additional financing approved in April 2008</p> <p>Approval Date: September 9, 2004 Closing Date: June 30, 2012 Task Team Leader: Richard Pollard</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 - 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.</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 covers the overrun cost of Part A and risk management activities.</p>
<p><i>Tertiary Education Project</i></p> <p>World Bank: US\$10 million, plus US\$5 million additional financing approved in May 2009, (Gaza emergency response program)</p> <p>Approval Date: April 26, 2005 Closing Date: December 31, 2012 Task Team Leader: Ernesto Cuadra</p>	<p>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.</p> <p>In addition the project provides technical assistance to improve the management of the current student loans program managed by the MOEHE, and set the basis for expansion of the financial resources available for funding the student aid programs. In response to the Gaza conflict in December 2008 - January 2009, the project received an additional financing of US\$5million on May 28, 2009.</p>

Project Name & Details	
<p><i>Gaza II Emergency Water</i> World Bank: US\$20 million, plus US\$5 million additional financing approved in April 2008, and US\$3 million additional financing approved in May 2009. (Gaza emergency response program)</p> <p>Approval Date: June 7, 2005 Closing Date: December 31, 2010 Task Team Leader: Richard Pollard</p>	<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 overruns. This additional financing furthermore strengthens the ability of Coastal Municipalities Water Utility to consolidate the ongoing institutional reform process by covering its operational expenses for one more year.</p> <p>In response to the Gaza conflict in December 2008 – January 2009, the project received an additional financing of US\$3 million in May 28, 2009.</p>
<p><i>Second Emergency Municipal Services and Rehabilitation Project</i> World Bank: US\$10 million, plus US\$3 million additional financing approved in May 2009. (Gaza emergency response program)</p> <p>Approval Date: December 19, 2006 Closing date: June 30, 2011 Task Team Leader: Soraya Goga</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 will 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.</p> <p>In response to the conflict in Gaza in December 2008 and January 2009, the project received additional financing of US\$3 million on May 28, 2009.</p>
<p><i>Third Palestinian NGO Project</i> World Bank: US\$10 million, plus US\$3 million additional financing approved in May 2009. (Gaza emergency response program)</p> <p>Approval Date: December 19, 2006 Closing date: March 31, 2011 Task Team Leader: Soraya Goga</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 same time, the project will provide funding to develop and sustain specific NGO-sponsored social service delivery activities.</p> <p>In response to the conflict presented in Gaza in December 2008 and January 2009, the project received additional financing of US\$3 million on May 28, 2009.</p>

Project Name & Details

Emergency Services Support Program III
World Bank: US\$10 million, plus US\$5 million additional financing approved in May 2009. (Gaza emergency response program)

Approval Date: December 13, 2007
Closing Date: December 31, 2010
Task Team Leader: Eileen Murray

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.

In response to the Gaza conflict in December 2008 – January 2009, the project received additional financing of US\$5 million on May 28, 2009.

Village and Neighborhood Development Project

World Bank: US\$10 million

Approval Date: April 22, 2008
Closing Date: April 30, 2012
Task Team Leader: Soraya Goga

The objective of this project is to promote a coordinated development approach which builds the capacity of communities to plan for and manage development resources. The project will support small communities in planning local initiatives and 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.

Electric Utility Management Project.
World Bank: US\$12 million, plus US\$2.5million additional financing approved in May 2009. (Gaza emergency response program)

Approval Date: May 15, 2008
Closing Date: September 30, 2013
Task Team Leader: Husam Beides

The development objective of the Electricity Utility Management Project is to reduce the fiscal burden of the sector on the PA's budget 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. 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 North Electric Distribution Company (NEDCO) is fully operational through financing necessary capacity building measures.

In response to the Gaza conflict in December 2008 and January 2009, the project received additional financing of US\$2.5 million on May 28, 2009.

Southern West Bank Solid Waste Management Project.

World Bank: US\$12 million

Approval Date: November 30, 2009
Closing Date: December 31, 2014
Task Team Leader: Ibrahim Dajani

The overall objective of the project is to improve solid waste disposal services for the communities and businesses of Palestinian municipalities and joint services councils in the Bethlehem and Hebron (JSC-H&B) governorates through provision of an efficient socially acceptable and environmentally friendly mechanism, including: (i) strengthening the joint services council administrative and technical capabilities for a cost-effective management of waste disposal services; (ii) improving the waste disposal services through provision of a sanitary landfill facility and related infrastructure; and (iii) carrying out a public awareness campaign for promoting waste minimization, resource recovery and cost recovery for financial viability.

Municipal Development Program
World Bank: US\$10 million

Approval Date: October 22, 2009
Closing Date: April 30, 2013
Task Team Leader: Soraya Goga

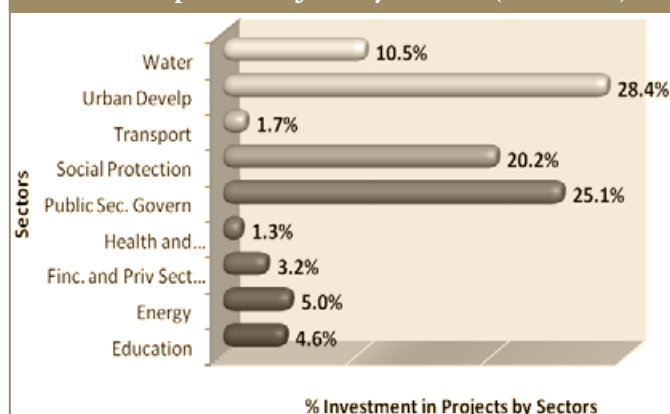
The development objective of this project is to improve municipal management practices for better transparency. There are four components to the project: (i) to provide grant allocations to municipalities for capital investment and services positions; (ii) to support municipal innovations and efficiency by promoting amalgamation, energy savings and responsiveness to citizens; (iii) to provide capacity building to municipalities and Municipal Development and Lending Fund (MDLF); and (iv) to manage, monitor and evaluate, audits and technical assistance to municipalities in implementing sub-projects.

West Bank and Gaza Portfolio

May 2010

Trust Fund for G&WB	Commit	Disb	Undb
Ongoing Projects	US\$ m		
Social Safety Net Project	28.4	18.0	10.4
North Gaza Emergency Sewage treatment	19.8	11.6	8.1
Electric Utility Management Project★	14.5	3.1	11.4
Tertiary Education Project★	15.0	8.8	6.2
Gaza Emergency Water Project	28.0	23.0	5.0
Palestinian NGO Project III★	13.0	9.3	3.7
Emergency Municipal Service Rehab Project II★	13.0	11.4	1.6
Southern West bank Solid Waste MGT	12.0	0.8	11.2
Municipal Development Program	10.0	0.0	10.0
Emergency Services Support Program III★	15.0	9.8	5.2
Village and Neighbourhood Development Project	10.3	1.3	8.9
Total ongoing project	179.0	97.1	81.7
Total completed Projects (1993–2010)	640.9	597.4	43.5
Total (Ongoing & Completed Projects)	819.9	694.5	125.2
Total Ongoing Projects and RE	721.9	594.5	127.3

Completed Projects by Sectors (1993–2010)



Reports and Studies

Energy Technical Assistance
Higher Education Student Loan Scheme
Municipal Finance Policy Note
Municipal Finance II
2 nd Pension Reform Findings & Next Steps
TA Telecommunications Reform & Institution Building Capacity
TA of Housing Finance
Governance Study

Ongoing Trust Funds by Donor – US\$ m	Contrib
Danish Ministry of Foreign Affairs(DANIDA)	10.00
EU-Commission of the European Communities	16.73
Germany - Bundesministerium fürWirtschaftliche Zusammenarbeit	0.77
Italy - Ministry of Foreign Affairs	1.68
Japan - Ministry of Finance	0.50
Netherlands Minister for Development Cooperation	0.48
Norway - Ministry of Foreign Affairs	2.50
Swedish International Development Cooperation Agency (SIDA)	13.32
United Kingdom - Department for International Development (DFID)	3.00
PRDP-TF	448.90
ESSP-MDTF	80.79
Total Ongoing Donor Funded TF	601.74
Total closed Trust Funds (Incl. Single and MDTFs)	924.25
Total Ongoing & Closed Trust Funds-TF	1,525.99

Ongoing Recipient Executed (RE:) Multi-Donor Trust Funds

RE: Trust Funds/Grants US\$ m	Commit	Disb.	Undisb.
Palestinian Reform Develop-ment Plan TF (PRDP-TF)	448.9	408.5	40.4
Emergency Services Support Program Multi-Donor TF	81.0	80.5	0.5
Local Govern. Capacity Build-ing	10.0	5.8	4.2
Avian Influenza Project TF	3.0	2.6	0.4
Total RE	542.9	497.4	45.6
Total (On-Going Projects & RE)	721.9	594.5	127.3

North Gaza Emergency Sewage Treatment Project Update

The North Gaza Emergency Sewage Treatment Project (NGEST) was launched in 2004 to respond to the critical environmental and human health risk caused by severe overloading of the outdated Beit Lahiya wastewater treatment plant. At that time, poorly treated wastewater was rapidly accumulating in artificial raised ponds surrounding the old treatment plant, presenting a severe threat to the health and safety of surrounding communities and a long term risk to groundwater quality. That threat became very real in 2008, when the ponds breached their banks, flooding the nearby neighborhoods of Beit Lahiya and Um Al Nasser and killing five residents.

Due to financing constraints, NGEST was designed in two phases. Part A was aimed at alleviating the immediate environmental and health threats by draining the Beit Lahiya effluent ponds. It involved rehabilitation of the Beit Lahiya pumping station, construction of a pipeline to the site for a new and expanded wastewater treatment plant, and construction of eight infiltration beds at the new site. Part B will achieve a sustainable long-term solution to the wastewater treatment needs of the people of Northern Gaza by constructing a modern wastewater treatment plant that will provide advanced secondary treatment (sufficient for water reuse for agriculture), environmental remediation at the Beit Lahiya site, establishment of a groundwater quality monitoring program, and development of a wastewater recovery and reuse program to irrigate surrounding fields with safely treated effluent.

Initially planned for implementation over a two-year period, Part A was completed in January 2010 after overcoming severe constraints caused by the Israeli blockade of Gaza. Entry of

goods, materials, and consultant support was severely restricted and implementation was delayed by more than three years. Damage resulting from Operation Cast Lead further delayed completion. Strong and sustained support from the donor community ultimately allowed Part A to be completed. Partially treated waste water is now being pumped from the Beit Lahiya treatment plant to the new infiltration ponds and the Beit Lahiya effluent ponds have been drained. The Beit Lahiya pumping station and the infiltration ponds are now operated and maintained by the Coastal Municipalities Water Utility.

The contract to construct the new wastewater treatment plant under Part B of NGEST, valued at US\$40 million, was signed on May 31, 2010. Construction will begin in the coming weeks and the plant is expected to be operating by 2013. The Israeli

Government has provided assurances that materials and equipment for construction of the plant will be allowed to enter Gaza in a timely manner. However, the volume of goods and materials that will need to be imported to Gaza through Israel will be much greater than under Part A. Construction of recovery wells surrounding the infiltration beds to extract and reuse treated wastewater for irrigation on adjacent agricultural land and rehabilitation of the Beit Lahiya ponds will also be completed under Part B.

In total, the NGEST Project is projected to cost approximately US\$75 million. The Project receives financial and technical support from the governments of Belgium, France, and Sweden, the European Commission, and the World Bank. In addition, the Office of the Quartet Representative and the US State Department have provided support to coordinate the entry to Gaza of goods and services for the Project.

