

Report No: 27094-GZ

WEST BANK AND GAZA

**THE TRUST FUND FOR GAZA AND WEST BANK:
STATUS,
STRATEGY,
AND
REQUEST FOR REPLENISHMENT**

DECEMBER 18, 2003

LIST OF ACRONYMS

| | |
|-------|--|
| AAA | Analytical and Advisory Activities |
| AHLC | Ad-Hoc Liaison Committee |
| CDP | Community Development Project |
| EC | European Commission |
| ESSP | Emergency Services Support Project |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GOI | Government of Israel |
| IDA | International Development Association |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| LACC | Local Aid Coordination Committee |
| MIGA | Multilateral Investment Guarantee Agency |
| MOF | Ministry of Finance |
| MOP | Ministry of Planning |
| NGO | Non-governmental Organization |
| OCHA | United Nations Office for the Coordination of Humanitarian Affairs |
| OED | Operation Evaluation Department |
| PA | Palestinian Authority |
| PLO | Palestinian Liberation Organization |
| PSESP | Palestinian Socio-Economic Stabilization Plan |
| QAG | Quality Assurance Group |
| QIIP | Quick Impact Intervention Program |
| TFGWB | Trust Fund for Gaza and West Bank |
| UNSCO | Office of the United Nations Special Coordinator in the Occupied Territories |
| USAID | United States Agency for International Development |
| US\$ | United States Dollar |
| WB&G | West Bank and Gaza |
| WBI | World Bank Institute |

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TRUST FUND FOR GAZA AND WEST BANK

STATUS, STRATEGY, AND REQUEST FOR REPLENISHMENT

1. INTRODUCTION

1. The Bank has played a key role in the West Bank and Gaza (WB&G) from the early 1990s to the present day¹. The Palestinian Authority (PA), the Government of Israel (GOI) and the donor community have relied extensively on the Bank's analysis, project design and implementation capacity, and convening role. From the initial period of economic recovery and reconstruction through the state-building focus of the late 1990s to current emergency management efforts, the Bank has helped the parties shape their economic responses to an unpredictable, evolving socio-political reality. An active Bank presence remains in high demand. This paper reviews the status of the Trust Fund for Gaza and West Bank (TFGWB) and proposes a Bank assistance strategy for the coming two years. Central to this strategy will be a replenishment of the TFGWB.

2. POLITICAL, ECONOMIC AND SOCIAL CONTEXT

2.1 THE *INTIFADA* AND THE PALESTINIAN ECONOMIC CRISIS

2. For illustrative purposes, the *intifada* can be separated into three economic phases. The first, from October 2000 to Summer 2001, was characterized by the shock of tight external closure, increased internal closure and the uncertainties created in the productive sectors by the reversal of previous expectations – leading to sharp declines in economic aggregates that bottomed out by mid-year. A second shock occurred in the period March through September 2002, under the impact of Operations Defensive Shield and Determined Path, and featured significant material destruction and much tighter internal closure in the West Bank. By the end of 2002, some signs of stabilization and recovery could be witnessed, but per capita real incomes have increased only marginally since then.

3. Since the outbreak of the *intifada* at the end of September 2000, 862 Israelis and 2,468 Palestinians have met violent deaths². As a result of the confrontation and related Israeli measures, all Palestinian economic and social indicators have deteriorated dramatically. The Bank estimates that real Gross National Income (GNI) declined by 35 percent between 1999 and 2002 (Table 1). After 27 months of the *intifada*, physical damage was estimated at US\$1.7 billion at replacement cost, capital stock had declined by about 20 percent, total investment had fallen from about US\$1.45 billion in 1999 to as

¹ See Box 1 for a chronology of the peace process.

² Source: *Closure/Curfew, Economic, and Social/Humanitarian Monitoring Indicators*, Report #8, October 15, 2003, World Bank.

little as US\$150 million in 2002, and overall GNI losses had reached some US\$5.2 billion – equal to almost one year of pre-*intifada* Palestinian national income³.

Box 1 – Chronology of the Peace Process

| | |
|-------------|---|
| 1991 | |
| October | Madrid Peace Conference |
| 1993 | |
| September | Israeli-Palestinian Declaration of Principles (Oslo Agreement) |
| October | Conference to Support Middle East Peace, Washington D.C. (first pledging conference) |
| November | First formal Ad Hoc Liaison Committee, Paris |
| 1994 | |
| April | Gaza-Jericho Agreement (“Oslo I”) |
| May | Paris Protocol on Economic Relations between the Government of Israel and the Palestinian Liberation Organization |
| Summer | Establishment of the Palestinian Authority |
| 1995 | |
| September | Israeli-Palestinian Interim Agreement (“Oslo II”) |
| November | Israeli Prime Minister Rabin assassinated |
| 1996 | |
| January | Elections for the Palestinian Legislative Council |
| 1998 | |
| October | Wye River Memorandum |
| 2000 | |
| July | Failure of Camp David Summit |
| September | Outbreak of the second <i>intifada</i> |
| 2001 | |
| January | Taba negotiations end inconclusively |
| September | First informal meeting of the “Quartet” |
| 2002 | |
| March/July | Israeli Defense Forces operations “Defensive Shield” and “Determined Path” |
| June | “100 Days Reform Plan” of the Palestinian Authority |
| June | President Bush’s speech on his vision for peace in the Middle East |
| July | Quartet launches Task Force on Palestinian Reform |
| August | UN Secretary General’s Special Envoy’s mission on the humanitarian situation |
| December | Quartet finalizes the “Road Map for Peace” |
| 2003 | |
| April | Mahmoud Abbas (“Abu Mazen”) appointed Prime Minister, new Cabinet formed |
| June | Aqaba Summit (President Bush, King Abdallah, Prime Ministers Sharon and Abu Mazen) |
| July | Cease-fire negotiated |
| September | Prime Minister Abbas resigns; cease-fire fails; Ahmed Qurei (“Abu Ala”) appointed Prime Minister |
| October | Palestinian emergency government formed |

³ “Twenty-Seven Months: *Intifada*, Closures and Palestinian Economic Crisis – An Economic Assessment” (May 2003); World Bank.

Table 1 – Summary of Macroeconomic Trends, 1999-2003

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|-------|-------|--------|--------|-------|
| <i>Real annual change</i> | | | | | |
| Gross Domestic Product (GDP) | 8.9% | -5.4% | -15.0% | -14.5% | 4.5% |
| Gross National Income (GNI) | 8.4% | -6.8% | -16.2% | -16.4% | 3.9% |
| GNI per capita, US\$ 1/ | 1,806 | 1,674 | 1,333 | 983 | 1,003 |
| <i>PA budget, US\$ million</i> | | | | | |
| Revenues | 942 | 939 | 273 | 287 | 700 |
| Current expenditure | 942 | 1,200 | 1,099 | 1,042 | 1,244 |
| Capital expenditure | 0 | 14 | 22 | 9 | 24 |
| Balance | -1 | -260 | -826 | -755 | -568 |
| <i>Other Items</i> | | | | | |
| Poverty rate | 20% | 31% | 46% | 59% | 61% |
| Population, mid-year (1,000) | 3,020 | 3,150 | 3,299 | 3,465 | 3,635 |
| New Israeli Shekel/US\$, annual average | 4.14 | 4.08 | 4.21 | 4.74 | 4.57 |
| Consumer price index, annual change | 5.5% | 2.8% | 1.2% | 5.7% | 1.0% |

1/ At current prices.

Sources: Ministry of Finance, IMF and World Bank Staff estimates.

4. With the Palestinian population growing at over 4 percent each year, per capita real incomes at the end of 2002 were only about a half of what they had been three years previously. The share of the population living in poverty – defined as those consuming less than US\$2.1 of goods and services per day⁴ – has tripled during the *intifada*, to about 60 percent of the population. The health status of the Palestinian population has declined, real per capita food consumption has dropped by up to a quarter when compared to 1998 levels, and a 2002 survey conducted by Johns Hopkins and Al Quds Universities found global acute malnutrition in 9.3 percent of the children across the West Bank and Gaza.

5. The proximate cause of Palestinian economic decline is the imposition of tight restrictions on the movement of Palestinian goods and people across borders and within the West Bank and Gaza. These “closures” are viewed as essential by the Government of Israel to protect its citizens from violence. Closures have led to unemployment and a consequent loss of demand. Unemployment has increased from 10 percent in September 2000 to over 30 percent of the Palestinian workforce today. In September 2000, some 128,000 Palestinians commuted daily to Israel and the Israeli settlements; by the first quarter of 2003, this figure had fallen to 49,000. At the same time, 143,000 domestic jobs (or 29 percent of pre-*intifada* domestic employment) have been lost. Communities directly affected by the ongoing construction of Israel’s Separation Barrier face particular difficulties, and have seen their access to landholdings, employment, health facilities and schools severely constrained. In the case of “Jerusalem Envelope”, the Barrier is dividing communities and families.

6. The Palestinian Authority’s finances are under great pressure. Tax revenues are directly linked to the level of economic activity, with more than 80 percent derived from

⁴ The US\$2.1 poverty line is based on what is considered to be the minimum acceptable level of expenditures (food and non-food) per capita in a benchmark household consisting of two adults and four children (National Commission for Poverty Alleviation, *Palestine Poverty Report 1998*).

taxes on consumption (VAT, import duties and excise) – almost two thirds of which are collected by Israel on the PA's behalf and were withheld by GOI between December 2000 and December 2002. The PA's fiscal situation eased slightly following GOI's decision in December 2002 to resume transfers of clearance revenue, but it remains precarious due to the recent decline in donor emergency budget support (this averaged US\$46 million per month between November 2000 and June 2002; in 2003, however, donors have disbursed less than a half of this each month). The unfunded PA budget gap in 2003 – when compared to the original budget – is expected to total some US\$300 million.

2.2 INTERNATIONAL RESPONSE IN THE 1990S AND TO THE INTIFADA

7. International donors have made an extraordinary financial effort in the West Bank and Gaza. Since 1994, approximately US\$6 billion have been disbursed, equivalent to about US\$200 per capita per year. This signifies both the importance to the world community of resolving the Israeli-Palestinian conflict, and a belief that peace-building requires a viable economic future for the Palestinian people.

8. Between 1994 and 2000, annual donor disbursements averaged some US\$420 million, or US\$150 per capita. Since the outbreak of the *intifada*, far from being deterred, donor tenacity has increased: disbursements effectively doubled in 2001 and 2002, averaging just under US\$1 billion each year, or US\$320 per person. This is thought to be the highest sustained rate of per capita disbursement to any aid recipient anywhere since the Second World War.⁵ Much of this is emergency and humanitarian assistance, with priorities shifting from development and state-building to preserving the institutional and human capital gains of the 1990s. As mentioned above, though, such exceptional transfers cannot be taken for granted: the evidence of donor fatigue in relation to budget support in 2003 attests to this.

3. THE TRUST FUND FOR GAZA AND WEST BANK

3.1 STATUS

9. Since the West Bank and Gaza is not a sovereign state, it cannot apply for membership of the IMF or the World Bank Group, and is therefore not eligible for the sources of financing normally available to member countries. To overcome these legal and practical obstacles, the Bank's Board of Governors on November 11, 1993 approved a US\$50 million grant to be transferred from surplus into a *Trust Fund for Gaza* (TFG, subsequently renamed the *Trust Fund for Gaza and West Bank*, TFGWB, and increased

⁵ Other recent high-profile post-conflict cases include Bosnia (US\$5.4 billion over 5 years, or roughly US\$215 per person per annum) and Timor-Leste (US\$350 million over 2 years, averaging US\$235 per person per year).

in permissible territorial scope as the area under the jurisdiction of the Palestinian Authority was enlarged)⁶.

10. To date, the TFGWB has been replenished four times for a total allocation of US\$380 million, most recently in September 1999 (Table 2). An additional US\$67.7 million have accrued to the TFGWB from investment income and from service and commitment fees on outstanding Credits, bringing the total resources of the TFGWB to US\$447.7 million. As of October 2003, US\$414.8 million of this had been committed to 28 projects, leaving an uncommitted balance of US\$32.4 million⁷. Total disbursements from the TFGWB amount to US\$316.4 million, or 76 percent of commitments.

Table 2 – Trust Fund for Gaza and West Bank Portfolio Summary

| Fiscal Year | Allocation from Bank Net Income/Surplus (US\$ million) | Accrued Investment Income and Service Charges (US\$ million) | No. of Projects Approved | No. of Active Projects | Net Commitments (US\$ million) | Disbursements (US\$ million) |
|--------------|--|--|--------------------------|------------------------|--------------------------------|------------------------------|
| FY94 | 50 | - | - | - | - | - |
| FY95 | - | 0.1 | 2 | 2 | 50.0 | 10.9 |
| FY96 | 90 | 1.0 | 2 | 4 | 60.0 | 19.9 |
| FY97 | 90 | 5.3 | 7 | 11 | 83.5 | 39.7 |
| FY98 | 90 | 7.1 | 2 | 13 | 20.0 | 50.2 |
| FY99 | - | 7.5 | 3 | 15 | 54.0 | 27.1 |
| FY00 | 60 | 11.7 | 3 | 16 | 30.4 | 34.4 |
| FY01 | - | 15.6 | 4 | 19 | 36.5 | 41.5 |
| FY02 | - | 10.7 | 2 | 20 | 30.5 | 26.4 |
| FY03 | - | 6.9 | 2 | 17 | 37.4 | 54.8 |
| FY04* | - | 1.8 | 1 | 17 | 12.5 | 11.5 |
| Total | 380 | 67.7 | 28 | | 414.8 | 316.4 |

* As of October 7, 2003.

Note: Canceled amounts under individual projects revert back to TFGWB for future use. They are included in the table as a negative commitment in the year of cancellation. For example, in FY03 the Board approved new commitments for a total of US\$45 million. As US\$7.6 million from the *Palestinian Housing Project* were canceled (see Box 2), net commitments were US\$37.4 million.

11. Under the Resolutions governing the TFGWB⁸, the Board approves the terms of assistance on a case-by-case basis. Before the *intifada* all WB&G projects were provided on IDA terms, with one exception⁹. Since then, as the PA's fiscal situation has

⁶ Formally, the Borrower under Trust Fund Credit Agreements (TFCA) is "the Palestinian Liberation Organization (PLO) for the benefit of the PA". This structure is in line with the Oslo Accords between Israel and the PLO. Under this arrangement the PLO makes the proceeds of TFGWB Credits available to the PA, and the PA undertakes to pay service charges and commitment fees, and to repay the principal.

⁷ Audit fees imply that there is a slight difference between total resources of the TFGWB and the resources available for disbursement.

⁸ Resolution Nos. 93-11 and IDA 93-7 as amended by Resolutions Nos. 95-6 and 96-11, and IDA 95-3 and 96-7.

⁹ The US\$10 million grant for the *Palestinian NGO Project* approved by the Board on July 11, 1997.

deteriorated and the Bank has reoriented its strategy more towards meeting emergency needs, the Board has approved five projects on grant terms¹⁰.

12. The PA has accumulated a total debt to IDA of US\$272.9 million¹¹. The 10-year grace period on IDA Credits means that the PA has not yet made any principal payments. The first, US\$300,000 on the US\$30 million Credit for the *Emergency Rehabilitation Project*, falls due on August 1, 2004. In 2005, principal payments to IDA will increase to US\$800,000. The PA's outstanding debt and projected debt service obligations are presented in Annex I.

3.2 BANK STRATEGY

13. The Bank's engagement in WB&G has been characterized by a need to adapt. Three phases of our involvement can be discerned (Table 3). During the first, from 1994-6, the Bank emphasized **establishing the Palestinian Authority** (for which the *Technical Assistance* and *Holst Trust Funds* (para. 22) were instrumental), and the **rehabilitation of basic physical infrastructure** (roads, schools, health clinics, water and wastewater networks) in order to provide immediate and tangible benefits to the population. In the second phase, from 1997-2000, as the PA's fiscal situation stabilized and the closures of 1995-6 were lifted, the Bank's program featured an increased focus on **institution building, private sector development, and regulatory and institutional reform**. Bank assistance during the *intifada*, from late 2000-the present, constitutes the third phase of Bank intervention and features a balance between **maintaining medium-term developmental activity where feasible** and providing **emergency assistance** designed to sustain Palestinian institutions and mitigate poverty.

14. As outlined in the most recent TFGWB Status Report¹², four of the Bank's eight post-September 2000 projects give significant emphasis to capacity building: the *Education Action Project* is enhancing the Ministry of Education & Higher Education's policy making, planning and budgeting operations; the *Second Palestinian NGO Project* is strengthening NGOs' ability to deliver sustainable services to the poor and developing cross-network organizational skills; the *Integrated Community Development Project (ICDP)* is increasing the management abilities of villages and small municipalities; and the *Emergency Municipal Services Rehabilitation Project* is supporting the PA's effort to establish a rational, transparent and predictable intergovernmental fiscal transfer system.

¹⁰ The *Emergency Response Program* (US\$12 million, December 2000); the *Second Palestinian NGO Project* (US\$8 million, February 2001); the *Second Emergency Services Support Project* (US\$25 million, December 2002); the *Emergency Municipal Services Rehabilitation Project* (US\$20 million, December 2002); and the *Emergency Water Project* (US\$12.5 million, July 2003). Of this total of US\$77.5 million, US\$41.0 million have been disbursed.

¹¹ The debt is defined as disbursed amounts under all existing Trust Fund Credits. The total amount of committed Credits equals US\$327.3 million.

¹² *Status Report to the Board on the Trust Fund for Gaza and West Bank and Strategic Outlook*, February 7, 2002, p. 19.

Table 3 – The Bank’s Intervention Strategy and TFGWB Portfolio

| Strategic Objective | Projects Launched | Commitment (US\$ million) | Status |
|--|---|---------------------------|-----------|
| <i>1994-1996:</i> | | | |
| <i>Rehabilitation of infrastructure</i> | - Emergency Rehabilitation Project I & II | 50.0 | Completed |
| | - Education and Health Rehabilitation Project | 20.0 | Completed |
| <i>1997-2000:</i> | | | |
| <i>Capacity building at national, local, and sectoral levels</i> | - Community Development Project I & II | 18.0 | Completed |
| | - Municipal Development Project I | 40.0 | Completed |
| | - Palestinian NGO Project I | 10.0 | Completed |
| | - Bethlehem 2000 Project | 25.0 | On-going |
| | - Legal Development Project | 2.8 | On-going |
| | - Municipal Development Project II | 7.5 | On-going |
| | - Health System Development Project | 7.9 | On-going |
| | - Palestinian Professional Expatriate Project | 3.0 | On-going |
| <i>Regulatory and institutional reform</i> | - Gaza Water and Sanitation Services Project | 31.0 | Completed |
| | - Solid Waste and Environmental Management Project | 9.5 | On-going |
| | - Electricity Sector Investment Management Project | 15.0 | On-going |
| | - Southern Area Water Project | 21.0 | On-going |
| <i>Private sector development</i> | - Micro-Enterprise Project | 2.2 | Completed |
| | - Gaza Industrial Estate Project | 10.0 | On-going |
| | - Palestinian Housing Project | 17.4 | On-going |
| | - Palestinian Investment Guarantee Fund | 10.0 | On-going |
| <i>2001-present</i> | | | |
| <i>Institution building</i> | - Education Action Program | 7.0 | On-going |
| | - Palestinian NGO Project II | 8.0 | On-going |
| | - Integrated Community Support Project | 10.0 | On-going |
| <i>Emergency Response: job creation and service delivery</i> | - Emergency Response Program | 12.0 | Completed |
| | - Emergency Services Support Project I | 20.0 | Completed |
| | - Emergency Services Support Project II | 25.0 | On-going |
| <i>Emergency Response and institution-building</i> | - Emergency Municipal Services Rehabilitation Project | 20.0 | On-going |
| | - Emergency Water Project | 12.5 | On-going |

Note: Time period refers to calendar years.

15. In response to economic hardship and fiscal crisis, the Bank has placed increasing emphasis on fast-disbursing operations, with US\$89.1 million committed to various emergency projects since the beginning of the *intifada*¹³. Initially, consistent with the Bank’s emergency support during periods of closure in the 1990s, priority was given to job creation (the *Emergency Response Program*, FY01). The scale of job losses rendered such efforts marginal in their overall impact, however, and from 2001 onwards the Bank’s emergency strategy shifted towards sustaining basic services, largely through

¹³ These are *Emergency Response Program (ERP)*, which financed over 200 labor-intensive micro-projects, two *Emergency Services Support Projects (ESSP I and II)*, which provide operating cost support to the main social service ministries (Education, Health, and Social Affairs), the *Emergency Municipal Services Rehabilitation Project (EMSRP)*, which helps municipalities sustain basic services (solid waste, electricity, water & sanitation) as well as strengthen budget and planning processes, and the *Emergency Water Project (EWP)*, which alleviates severe water shortage in the southern West Bank.

operating cost support¹⁴. An additional element in the Bank's emergency response was a reallocation of US\$10.3 million from six Credits into public infrastructure repair. The Board approved this reallocation in August 2002¹⁵.

3.3 PORTFOLIO PERFORMANCE AND MANAGEMENT

16. The performance of the WB&G portfolio has been good, particularly when the difficult operating environment is taken into account. At 23.3 percent in FY01, 18.9 percent in FY02, and 46.7 percent in FY03, WB&G disbursement ratios have generally exceeded regional and Bank averages during the last three years¹⁶. The exceptionally high disbursement ratio in FY03 is partly explained by fast-disbursing emergency interventions of simple design. A recent Country Portfolio Performance Review pointed to several factors that account for the good performance of the WB&G portfolio, including (i) strong commitment and ownership by the PA and the competence of the Bank's counterparts; (ii) outsourcing infrastructure project implementation to the private sector; and (iii) the hands-on approach to supervision by Bank task teams in the decentralized Country Office.

17. Lessons from previous experience in WB&G and elsewhere, as well as from OED and QAG evaluations, are carefully incorporated into new projects to enhance quality, relevance and impact. OED's 2001 evaluation of the WB&G program¹⁷ urged the Bank to pursue reforms in public sector management more vigorously, in particular in the areas of civil service reform, local government, and structural economic management. Since then we have initiated work on civil service reform in tandem with the Department for International Development (DFID), in the areas of civil service restructuring (where DFID is taking the lead) and pension reform (where the Bank is taking the lead). In the local government area, the Municipal Fund component of the *Emergency Municipal Services Rehabilitation Project* marks an important step in donor efforts to improve the functioning of local government systems. In economic management, Bank staff teams have throughout 2003 provided close support to the new Ministry of Planning (MOP), helping MOP produce the first coherent investment planning documents since the PA was created (para 21).

18. Although the overall quality of the portfolio remains satisfactory, several projects have been compromised during the *intifada*, largely because the bulk of the portfolio was designed for very different circumstances. While the restructuring of six projects noted above helped maintain portfolio performance, five of the 17 projects in the portfolio are

¹⁴ The Annex in *Twenty-Seven Months....* (op. cit.) features a comparison of welfare instruments -- food, cash schemes, job creation, budget support -- and concludes that budget support to the PA and municipalities has greater impact from the macro-economic and welfare perspectives than employment generation activities as implemented thus far.

¹⁵ The six projects being the *Municipal Infrastructure Development Projects I & II*, the *Education Action Project*, the *Bethlehem 2000 Project*, the *Gaza Industrial Estate Project* and the *Solid Waste and Environmental Management Project*.

¹⁶ Disbursements ratios for Middle East and North Africa Region were 14.6 percent in FY01 13.8 percent in FY02, and 16.9 percent in FY03. The Bank-wide averages were 20.5, 20.7, 20.7 percent, respectively.

¹⁷ *West Bank and Gaza: An Evaluation of Bank Assistance*, OED, July 2, 2001.

now rated unsatisfactory (Box 2). All of these will be closed or restructured by the end of March 2004. One feature of the management of the portfolio is the activist attitude of the whole country team towards restructuring. In the coming three months, moreover, the Country Management Unit will intensify its monitoring of the portfolio by introducing a new customized WB&G portfolio management system.

Box 2 – Projects Particularly Affected by the *Intifada*, and Mitigation Measures

Difficulties are notable among projects aiming to support private sector development. The main objective of the *Palestinian Housing Project* is to develop a secondary mortgage market. The project has not been able to reach anticipated levels of disbursement because demand for real estate financing is severely depressed. In 2002, the Bank and its counterparts agreed to cancel US\$7.6 million of the original US\$25 million credit, and any balances remaining at the closing date of March 31, 2004 will likewise be canceled. Similar, the *Gaza Industrial Estate Project*, which was established to spearhead private sector development in Gaza and to foster Palestinian/Israeli business links, has been unable to generate the expected numbers of investors or to create the anticipated level of employment. The project was restructured in August 2002 and is currently further scaling back as the business environment continues to discourage new investment and employment creation. Despite the difficulties these two projects have experienced, they have both fostered appreciable institutional development. For example, the Palestinian Mortgage and Housing Corporation, established under the *Palestinian Housing Projects* and owned in majority by private investors, remains economically viable and is currently preparing a bond issue¹⁸.

In addition to these two private sector development projects, the *Palestinian Expatriate Professional Project (PEPP)* and the *Solid Waste and Environment Management Project (SWEMP)* will not now achieve their original development objectives because of unforeseen constraints. In the case of the PEPP, the deterioration in living conditions in the WB&G has made it very difficult to recruit high-caliber Palestinian expatriates for key positions in PA ministries and agencies. To cater to immediate needs, the Bank agreed with the Ministry of Finance on shorter, emergency-oriented assignments. Under SWEMP, a major component is the construction of a regional landfill in Jenin district, where closure-related lack of access has made it impossible to proceed as planned. The fifth project rated as unlikely to meet its development objectives is the *Legal Development Project*, which is due mainly to a lack of commitment by the PA to legal reform. As a result, almost half of the Credit was canceled in December 2001, and the project will be closed in December 2003.

19. When assessing portfolio performance, it is important to emphasize that Bank activities are having tangible impact – even under conditions far from ideal for project implementation. One substantiating indicator is that only one of five projects completed during the *intifada* has been rated unsatisfactory by OED (Box 3).

¹⁸ This compares with the situation faced under the *Micro-Enterprise Project*, which closed on July 30, 2002 (Box 3). Due to the negative business environment, on-lending from commercial banks never reached anticipated levels, and the project was rated unsatisfactory upon completion. In both cases, however, low disbursements were an appropriate response to market conditions.

Box 3 – Impact of Bank Interventions

- *Emergency Response Program* (OED outcome rating: Satisfactory). ERP was launched in response to the sharp increase in unemployment in the early months of the *intifada*. The US\$12 million project generated some 250,000 person days of employment over eight months of implementation and served as a catalyst for similar donor interventions – including US\$25 million channeled through the Bank-administered PEACE facility. Local Government units and NGOs implemented a total of 242 sub-projects. Areas of particular focus were construction and rehabilitation of classrooms, water wells, sewerage pipes & local road networks, and land reclamation activity.
- *Micro-Enterprise Project* (OED outcome rating: Unsatisfactory). The objectives of project were to promote private sector development through commercially viable lending to micro-enterprises, and to build capacity in local commercial banks. The project's outcome was considered unsatisfactory because lending to micro-enterprises never reached the levels anticipated at appraisal – through limited lending was the appropriate commercial response to market conditions. This appropriateness of the response is reflected in OED rating the project's Institutional Development Impact as Substantial: "The banks have developed the internal skills required to extend micro-enterprise lending as soon as peace is reestablished in WB&G. Based on their good performance during project implementation, they are likely to keep these skills and build upon them".
- *Palestinian NGO Project* (OED outcome rating: Satisfactory). The project had three objectives: (i) to deliver services through NGOs to the poorest in Palestinian society; ii) to improve the institutional capacity of NGOs; and (iii) to strengthen the working relationship between the PA and the NGO sector. The project financed 305 sub-projects, reaching over 213,000 direct beneficiaries. According to a beneficiary assessment, 71 percent of beneficiaries were fully satisfied with the services provided, and only 13 percent were dissatisfied. A stakeholder workshop held during preparation for the Implementation Completion Report revealed the view that the project had significantly improved NGO professional capacities, including the ability to maintain adequate systems of financial accountability and to undertake participatory needs assessments. The project also supported the drafting of an NGO Law that is considered a model in the region.
- *Second Community Development Project* (OED outcome rating: Satisfactory). The objective of CDP II was to rehabilitate infrastructure in poor and marginalized communities. About 200 local infrastructure projects were implemented (partly financed by parallel contributions from the European Investment Bank and the OPEC Fund). Beneficiary impact assessments indicate a wide array of benefits to families and communities, including (i) improved access to schools, clinics and markets through road rehabilitation (families pointed to the importance of easier travel to school for girls' school attendance); (ii) improved hygiene from better water quality; and (iii) improving the work of local government units and their participation with local communities by providing better physical facilities. CDP II also responded to changed local priorities resulting from the economic crisis of the *intifada* – for example, the labor and local materials content of road rehabilitation projects were increased by replacing asphalt with locally-manufactured interlocking tiles.
- *Gaza Water and Sanitation Services Project* (OED outcome rating: Moderately Satisfactory). The main objective of GWSSP was to improve the quality, quantity and management of water and sanitation services in Gaza through the employment of a private sector operator. Water quality improved significantly as a result of GWSSP, and today 99.8 percent of piped water in Gaza is chlorinated, compared with only 50 percent at project inception. Reduced leakage increased water supply, and water consumption increased from 70 liters per capita per day (lcd) in 1996 to 100 lcd by 2000 before declining again to about 80 lcd. The management contract which governed the private operator's responsibilities is considered an example of best practice within the Bank, and has been successfully replicated elsewhere in the region.

3.4 ANALYTICAL AND POLICY WORK

20. The Bank's analytical and policy work has, from the outset, laid the basis for the institution's role in WB&G. The Bank's Analytical and Advisory Activities (AAA) are used by all parties – the PA, Israel and the donors – to interpret the state of the economy and to help define the key institutional, policy and financing challenges facing the Palestinians. During the *intifada* in particular, the Bank has played a major part in setting the parameters of the donor response. Our AAA work also identifies priority areas for Bank project intervention – see Box 6 and Annex II.

21. The Bank's analytical and policy work is of two main types – *monitoring* social and economic trends, and addressing *strategic policy issues* both at the sectoral and economy-wide level.

- The demand for timely monitoring and in-depth analysis of social and economic trends has increased in today's volatile environment, in which assumptions are under constant revaluation. During the three years of the *intifada*, the Bank has developed a variety of monitoring tools, described in Box 4.

Box 4 – The Socio-Economic Monitoring Program

The backbone of the Bank's monitoring work has for several years been the report on *Recent Economic Developments* published in the quarterly *West Bank and Gaza Update*. This report has been supplemented by several other analyses during the *intifada*.

The Bank's two *Economic Assessments* ("*Fifteen Months*", "*Twenty-Seven Months*") are the most comprehensive reviews of the economy in the *intifada* and have received wider circulation than any other report of the MNA Region during the period. A key objective of the *Economic Assessments* was to inform the discussion on Palestinian economic issues among donors, the PA and the Government of Israel, and on detailed specific actions that each of the three stakeholders would need to take to revive the failing Palestinian economy. The reports were prepared with wide participation, in the belief that such dialogue would enhance the potential commitment by all parties to the final recommendations in each report¹⁹.

At the explicit request of the donor community (both the Local Aid Coordination Committee and the Humanitarian and Emergency Policy Group), the Bank in February 2003 led an assessment of the "*Economic and Social Impact of the Separation Barrier*". This was published in May 2003. At the further request of the donors, the Bank has prepared two progress updates – in August (on the barrier north of Jenin) and in September (on the Jerusalem Envelope). The donors' request was sparked by concern about the effect that the barrier is having on Palestinian livelihoods, the viability of local economics and ongoing development projects. Further reports will be released periodically.

In addition, the Bank, with support from UNSCO and OCHA, has since the summer of 2003 provided *bi-weekly socio-economic updates* to those involved in monitoring the progress of the parties under the Roadmap process. In addition, *monthly polls on Palestinian views on the economy* are being conducted by the Palestinian Central Bureau of Statistics under Bank supervision. The Bank will shortly launch a series of *field-based, qualitative and quantitative microeconomic studies* to shed further light on how communities, households and firms are coping with the crisis. This dimension of economic knowledge is not currently available to the donor community, and is in high demand because of its direct relevance to the programming of donor assistance.

¹⁹ Drafts of both reports were shared with a special Technical Committee of PA officials, as well as with donors and the Government of Israel.

- A number of strategic papers have been prepared during the same period. These include (i) detailed reviews of emergency instruments: *Employment Generation Schemes* (September 2002), (ii) sector policy documents: *A Review of Palestinian Social Safety Nets* (December 2002); *A Palestinian Higher Education Financing Strategy* (January 2003), *Reform of the PA's Pension System* (February 2003), *An Information Technology Strategy* (October 2003); (iii) a forward-looking macro-policy perspective exercise: *Long Term Policy Options for the Palestinian Economy* (November 2002); and (iv) a review of donor coordination: *Aid Management and Coordination During the Intifada* (July 2003). Each of these exercises is described in Annex II.

3.5 PARTNERSHIPS

22. From the beginning, the Bank has helped shape donor efforts in WB&G. The publication “*Developing the Occupied Territories: An investment in Peace*” was issued to coincide with the signing of the Declaration of Principles in September 1993, and provided the blueprint for initial donor engagement. The Bank established two early multi-donor facilities, the *Technical Assistance Trust Fund*, which acted as the main conduit for capacity building funds in 1994-6, and the *Holst Fund*, through which donors channeled the bulk of their support for the Palestinian budget in 1995-7 and for emergency employment schemes in 1996-7. During the late 1990s, the Bank was at the forefront of efforts to reform the Palestinian Authority (PA), and in 2001-2 led the initial donor response to the PA's current Reform Program. Since the advent of the *intifada*, the Bank has steered the international community's emergency response through its strategic “*intifada*” reports series²⁰.

23. The Bank is Co-Chair of the Local Aid Coordination Committee (LACC), Secretariat of the Ad-Hoc Liaison Committee (AHLC), and a key member of the International Task Force on Palestinian Reform and the Humanitarian and Emergency Policy Group²¹. The Bank has also shown that it can convene donors around its analytical and policy findings, and works closely with the IMF (which takes prime donor responsibility for fiscal matters) and with UNSCO/OCHA (on humanitarian affairs).

24. As a financial contributor and administrator of other donors' funds, the Bank has played an important role. Disbursements of Bank/administered funds amount to US\$776 million since 1994, comprising US\$316.4 million from the TFGWB and US\$459.6

²⁰ *Fifteen Months: Intifada, Closures and Palestinian Economic Crisis – An Economic Assessment* (March 2002), and *Twenty-Seven Months: Intifada, Closures and Palestinian Economic Crisis – An Economic Assessment* (May 2003).

²¹ The International Task Force on Palestinian Reform was formed at the initiative of the United States in July 2002 as a multi-donor support group to the PA. The task force has a local counterpart, the Local Task Force on Palestinian Reform, chaired by Norway, and consisting of six Reform Support Groups. The Humanitarian and Emergency Policy Group was formed in September 2002 in response to the deteriorating humanitarian situation, and serves as an emergency policy steering group for the LACC. It is chaired by the European Union and has as members the Bank, the United States, Norway and UNSCO. OCHA serves as Secretariat.

million in joint co-financing or Bank-administered trust fund disbursements. This amounts to some 12 percent of total donor outlays. Thus, over the life of the program in WB&G, the Bank has attracted US\$1.3 in joint co-financing or administered trust fund resources for each US\$1 committed from the TFGWB.

25. The Bank also coordinated very closely with IFC and MIGA prior to the *intifada*. Three projects have been jointly financed with IFC – the *Micro-enterprise Project*, the *Gaza Industrial Estate Project* and the *Palestinian Housing Project*²² – while in FY98 MIGA initiated its Palestinian Investment Guarantee Fund with a contribution of US\$10 million from the TFGWB. As noted in para. 18 and Box 2, however, all of these projects have been compromised by the current crisis. The WB&G program has also on a number of occasions drawn upon WBI's resources to enhance the effectiveness of our capacity building activities – for instance in health sector reform, gender mainstreaming, and urban and municipal management.

4. PLANNING AND PRIORITIES OF THE PALESTINIAN AUTHORITY

26. Over the past year, the PA has launched several initiatives which, taken together, provide a coherent strategic vision – arguably for the first time in the last ten years. The most important of these is the *Palestinian Reform Program*, launched in June 2002 in response to calls from within Palestinian society and from the international community. The stated goal of the Reform Program is to make the PA “more efficient and effective in the service of the national good²³”. Considerable progress has been achieved in some reform domains, although progress in others has been modest or poor (Box 5).

27. The launch of the Reform Program was followed by the timely submission and approval of a responsible *PA Budget for 2003* – the first time that the PA budget timetable specified in the Basic Law had been adhered to. In July 2003 after the formation of the Abu Mazen cabinet, the Ministry of Planning presented donors with the *Quick Impact Intervention Program* (QIIP), designed to build on the Roadmap momentum and secure additional funding from donors to cover residual 2003 financing gaps. The QIIP is notable for its clear strategy, and the consistency between the strategy and the projects/activities submitted for financing. However, donor response to the QIIP has been constrained by the faltering political situation and by the mid-cycle timing of the appeal. By early October 2003, around US\$257 million had been committed against a requested amount of US\$417 million to be *disbursed* by end-2003.

²² In the case of GIE US\$10 million from the TFGWB, US\$9 million in equity and loans from the IFC, and US\$65 million from the United States Agency for International Development (USAID), the European Investment Bank, the PA and private investors. The *Palestinian Housing Project* is financed by US\$17.4 million from the TFGWB, and up to US\$4 million in equity and US\$15 million in loans from IFC. The *Micro-enterprise Project* was co-financed with US\$7.5 million from IFC.

²³ Source: The PA's 100 Days Reform Plan; www.jmcc.org.

Box 5 – The Status of the PA's Reform Program

Progress has been most notable in the area of *Financial Accountability*. Achievements include the consolidation of all PA revenues into a Single Treasury Account under the clear control of the Minister of Finance, the consolidation of all PA commercial activities into a properly monitored Palestinian Investment Fund, the gradual elimination of cash-based transactions in favor of payments through the banking system, the posting of monthly fiscal results on the Ministry of Finance website within days of the end of each month and the rationalization of the management of the Petroleum Corporation – resulting in a revenue increase of \$2.4 million in September (an increase of 30 percent) compared to the January-August monthly average. Other noteworthy development include the drafting of an income tax law which, if passed, would be one of the most modern in the region, and the launching of training for internal auditors at the Ministry of Finance.

In the *Public Administration & Civil Service Reform* domain, a pilot restructuring exercise covering five ministries has been launched with assistance from DFID. The Ministries of Finance and National Economy have managed to incorporate, or bring in line, the formerly independent institutions and agencies in their area of responsibility; however, other institutions still remain to be addressed. In addition, pension reform options are under consideration. Regarding the *Elections* domain, while good progress has been made in the preparation of elections and a Constitution is being drafted, the Palestinian Legislative Council has not yet passed an election law. Under *Judiciary and Rule of Law*, delineation of the responsibilities of the Supreme Judicial Council and the Ministry of Justice remain a stumbling block, and the “abolished” state security courts have continued to operate. Lack of financial and human resources at the Ministry of Justice remains an important obstacle to improve the functioning of the courts. In the *Market Economy* domain, the Office of Land Authority has been legally established as an independent office. For *Local Government*, UNDP has prepared a draft diagnostic study of the sector as the basis for a significant program of professional upgrading.

Uncertainty surrounding the current Emergency Government has slowed the reform process. The Bank has been involved in the Public Administration and Civil Service Reform Support Group (RSG) and, since October 2003, in the Local Government and the Market Economy RSGs.

28. This Fall the PA will present to the Palestinian Legislative Council an integrated recurrent and capital budget for 2004. The Bank, with support from the IMF, the European Commission (EC) and UNSCO, has assisted the Ministries of Finance, Planning and National Economy to prepare an economic management strategy for 2004-5 as the basis for this submission (the *Palestinian Socio-Economic Stabilization Plan*, or PSESP). The two key priorities under the PSESP are (i) to finance the PA's external budget deficit and thereby ensure the functionality of the PA and the delivery of basic public services; and (ii) to sustain a minimum level of humanitarian services. In addition, the PSESP contains a prioritized menu of capacity building, rehabilitation and development projects that can realistically be implemented in today's harsh operating environment.

29. The PSESP will be presented to an Ad Hoc Liaison Committee donor meeting on November 19. This will mark the first time that a submission to donors for financial support is congruent with donor annual funding cycles and with the PA's own planning process. Equally encouraging is the harmonization of the PSESP with the Consolidated Appeals Process (CAP) by the United Nations system under the leadership of OCHA. An important number of projects in the CAP are integrated into the PSESP, increasing the

clarity of the overall resource mobilization effort. The CAP will be launched on the same day as the AHLC meeting.

30. The PSESP is based on three economic scenarios modeled by the Bank and the Fund for 2004-5 (table 4).

- *Scenario A: political stagnation.* The positive impact on domestic activity and incomes in 2003 of fewer curfews and marginally improved access to the Israeli labor market, as well as the resumption of tax transfers by GOI, is projected to subside in 2004-5. As a result, GDP growth rates would decelerate and poverty remains close to 2003 levels, with the absolute number of the poor growing in line with population increases.
- *Scenario B: political progress.* The economic situation would improve more rapidly, fuelled by larger worker remittances and lower restrictions on the movements of people and goods. GDP growth would accelerate in 2004, but poverty rates would remain relatively unaffected in 2004, and would decline slightly in 2005. Budgetary revenues would increase in line with GDP growth, but the PA's financing gap would remain significant.
- *Scenario C: political deterioration.* The Palestinian economy would lapse back into recession in 2004, illustrating once again the asymmetric effects of closures (rapid economic decline when imposed, gradual recovery when lifted). Under this scenario, GDP would fall in 2004, reaching a new low-level equilibrium in 2005. Poverty would increase. Revenues would fall significantly, widening the PA's fiscal gap.

31. The need for budget support and humanitarian assistance would remain considerable under all three scenarios, with fiscal recovery a more distant prospect and poverty persisting at high levels. Projected budget support needs in 2004 range between US\$621-705 million. The need for humanitarian assistance is estimated to exceed US\$200 million under all three scenarios²⁴.

²⁴ Financial requirements for humanitarian assistance are derived from disbursed assistance in 2002 amounts (US\$215 million for cash and food assistance, job creation programs and the support to emergency appeals of the United Nations Relief and Works Agency for Palestinian Refugees—UNRWA), adjusted for the change in the number of poor under the three scenarios.

Table 4 – Economic Scenarios, 2004-5

| Scenario | 2003 | A- Stagnation | | B- Progress | | C- Deterioration | |
|---|--------|---------------|-----------|-------------|--------|------------------|-----------|
| | | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| <i>Real annual change</i> | | | | | | | |
| GDP | 4.5% | 3.5% | 3.5% | 9.3% | 8.3% | -5.3% | 2.1% |
| GNI | 3.9% | 0.9% | 3.1% | 10.0% | 8.9% | -8.2% | 2.0% |
| GDP per capita | -0.4% | -1.0% | -0.7% | 4.6% | 3.9% | -9.4% | -2.0% |
| GNI per capita | -1.0% | -3.4% | -1.1% | 5.3% | 4.5% | -12.2% | -2.1% |
| <i>PA budget, US\$ million 1/</i> | | | | | | | |
| Revenue | 700 | 741 | 782 | 747 | 824 | 666 | 691 |
| Current expenditures ^{2/} | 1,244 | 1,349 | 1,285 | 1,342 | 1,317 | 1,349 | 1,285 |
| Capital expenditures | 24 | 24 | 24 | 26 | 28 | 22 | 23 |
| Balance | -568 | -633 | -528 | -621 | -521 | -705 | -617 |
| Withheld revenue released by GOI | 294 | 180 | 0 | 180 | 0 | 180 | 0 |
| Net accumulation of arrears | -233 | -180 | 0 | -180 | 0 | -180 | 0 |
| Financing gap (before budget support) | 507 | 633 | 528 | 621 | 521 | 705 | 617 |
| <i>Closure policy</i> | | | | | | | |
| Workers in Israel/settlements ^{3/} | 50,000 | 50,000 | 50,000 | 65,000 | 75,000 | 33,000 | 33,000 |
| Movement restrictions | | unchanged | unchanged | eased | eased | increased | increased |
| <i>Poverty rate</i> | 61% | 61% | 62% | 60% | 58% | 67% | 69% |

1/ At current exchange rates.

2/ Include payments deducted at source by the Government of Israel from disbursements of withheld clearance revenue for bills owed by Palestinian municipalities.

3/ Includes Jerusalem Palestinians who do not require permits to work in Israel.

5. STRATEGIC OPTIONS FOR MOVING FORWARD

5.1 BANK STRATEGY AND PROPOSED PROGRAM

32. In the coming two years, the objective of the Bank's strategy and program would be to balance efforts to manage the emergency with a continued focus on a medium-term development agenda. This objective builds on the bi-focal strategy espoused in the Bank's two *Economic Assessments*, which is now reflected in the QIIP and the PSESP. In pursuit of this, the Bank would concentrate on the following strategy elements:

- **Monitoring and analyzing emerging socio-economic developments and donor interventions** – thereby continuing to serve as an interpreter of economic developments and their strategic implications for the PA and the donors as they try to manage the emergency, and to balance short-term and longer-term needs (*main instruments* – the socio-economic monitoring program, co-chairmanship of the LACC and serving as Secretariat of the AHLIC);
- **Supporting the development of sound economic strategies, policies and institutions** – thereby helping lay the groundwork for institutional sustainability

and future statehood (*main instruments* – macro-economic and sector policy studies, participation in the International and Local Task Forces on Palestinian Reform and TFGWB projects);

- **Strengthening capacities for and financing the delivery of basic services to the poor** – through the development of efficient and transparent institutions in five key Palestinian “institutional domains” – the PA ministries, the municipalities, the universities, NGOs and private sector representative bodies (*main instrument* – TFGWB projects);
- **Convening Palestinian and Israeli economic interest groups**, on the basis of the Bank’s reputation as a technically sound, non-political actor – as circumstances permit, and with a particular focus on academic institutions and the private sector (*main instruments* – colloquia, other Bank trust funds).

33. In pursuit of these elements we plan to deliver a program of analytical and policy work and a pipeline of TFGWB projects in areas in which the Bank has demonstrated a comparative advantages, and with due attention to other donors’ efforts.

A) ANALYTICAL AND POLICY WORK

34. The major Bank-initiated studies underway or planned for FY04-05 are described below. All of these seek to inform PA policy at the macro or sectoral level, and to guide donor strategic and financial responses.

- Continuation of the *socio-economic monitoring program* described above (Box 4)
- The PA’s *Socio-Economic Stabilization Plan for 2004-5* (FY04), and work in FY05 on *Palestinian Public Expenditures* – we anticipate continuing to provide close staff support to the PA planning process in FY05.
- A *Rapid Environmental Survey* – restricted access, physical damage and shortages of public funds are leading to serious issues of land degradation and water pollution. The review will be conducted with local Palestinian environmental partners and will identify “hotspots” needing urgent intervention. This review will be completed in FY04 and would be shared with the GOI.
- An *Infrastructure Assessment* – this will review PA infrastructure policy, including private participation in the provision and management of infrastructure services in today’s climate of limited investment, inadequate provision for operations and maintenance and physical destruction. No such global review exists, and the PA and donors alike will benefit from guidance on policy and investment priorities. The study is due for completion in FY04. It is proposed to keep the Israeli Ministry of Infrastructure informed of the

progress of the study owing to joint Palestinian/Israeli involvement in certain aspects of infrastructure planning and provision.

- Completing needed core diagnostics work in FY04 through a *Country Financial Accountability Assessment* (CFAA) and a *Country Procurement Assessment Review* (CPAR). The CFAA and CPAR will both strengthen fiduciary standards and provide the PA and donors with an independent assessment of progress achieved under the *Palestinian Reform Program* in the areas of financial transparency/accountability.
- A *Human Development and Social Protection Study* – this major exercise, to be completed in FY05, will convene all stakeholders (PA ministries, municipalities, donors, NGOs) around a common strategy to sustain essential social services in today's decaying fiscal and service environment, and to look beyond the emergency towards a program of social reconstruction²⁵. This work will be complemented by a situation analysis of *Vulnerable Children and Youth*.
- An *NGO Review* – no detailed mapping of the local NGO sector in the West Bank and Gaza exists, although NGOs are a key vehicle of service provision and an institutional basis for Palestinian identity. The review will assess the economic contribution of NGOs and the quality and efficiency of their work, as well as exploring issues of governance and transparency. The review will be facilitated by respected international experts and will feature an interactive process of dialogue with NGOs, the PA and donors. It is due for completion by early FY05.
- A *Water and Wastewater Study* – this FY05 study will take a medium-term perspective on wastewater treatment, with the aim of increasing the reuse of water in a situation of increasing demand and shrinking access to water resources. GOI would be consulted during this exercise, due to its shared interest in the issue
- A *Trade Facilitation Study* – this study will build on the *Long Term Policy Options for the Palestinian Economy* carried out in 2002 (see Annex II), and will look into practical ways in which the PA and donors can assist Palestinian businesses to access international markets. The study will review customs procedures, quality standards and current gaps in trade infrastructure²⁶. The study will be completed in FY05.

B) LENDING AND PORTFOLIO COMPOSITION

35. The proposed pipeline emphasizes building the capacity of key public and non-governmental institutions to deliver basic services, with a sectoral focus on education,

²⁵ This work will draw on an EC-sponsored Health Sector Review, to which Bank staff are contributing.

²⁶ The Trade Facilitation Study will employ a Bank-developed tool kit that has successfully been used in a number of other countries.

health, water/environment, and urban services. The program described in Box 6 was established through careful selection. Determining factors were (i) the Bank's demonstrated ability to design catalytic projects with sector-wide implications; (ii) the priorities indicated by the PA during regular dialogue and in the course of preparing the PSESP for 2004-5; and (iii) existing or planned interventions by other donors. By design, the program is valid under all three economic scenarios (see para. 30). However, the proposed projects are subject to adaptation in design, scope and sequencing as conditions require.

36. Under current and projected economic circumstances, it is not deemed appropriate that the PA be asked to contract additional debt to IDA. Accordingly, and in line with recent practice, **it is proposed to process all projects under this strategy as TFGWB grants.**

Box 6 – Proposed Pipeline Projects

FY04

- **Emergency Service Support Project II Supplemental Grant** (US\$15 million) – submitted for Board approval on December 2, 2003.
- **Social Safety Nets Reform** (US\$10 million) – based on the Bank's *Social Safety Net Study* (Annex II), this project seeks to halt the further erosion of living standards and human capital among the poorest segments of the Palestinian population, and will provide targeted support to enable children to remain in school and to receive regular health care. The project also aims to lay the foundation for an effective public welfare system in WB&G.
- **Gaza Water and Sanitation Services Project II** (GWSSP II, US\$15 million) – the project would sustain the achievements of GWSSP I, under which a private management contract resulted in significant improvements in the management and operation of the Gaza water network. The envisaged privatization of the network remains a longer-term goal.
- **Budget Support** (US\$20 million) would complement a multi-donor Budget Support Facility (BSF) to be established by the Bank. BSF resources would be disbursed to the Single Treasury Account of the Ministry of Finance against a commonly agreed set of reform indicators that build on the existing reform agenda. BSF procedures would ensure that funds are used for the purposes intended.

FY05/06

- **Pension Reform Project** (US\$5 million) – following the Bank's Report on *Reform of the Pensions System* (Annex II), this project would provide the technical support required to engineer a fundamental restructuring of the pension system in the WB&G, providing the institutional backbone for a major program of donor finance. The funding needs during the transitional period are significant, in part because the PA has accumulated considerable pension arrears during the *intifada*, and total costs are likely to exceed US\$350 million over several years. Several donors have expressed willingness to provide financing if the system can be reformed and placed on a viable financial footing.
- **Higher Education Project** (US\$10 million) – guided by the recommendations of the *Higher Education Financing Strategy* (Annex II), the project would aim to put in place a sustainable financing structure for institutions of higher education as well as to initiate a process of curriculum reform which aligns tertiary education better with market needs. The project would also aim to reform the management of higher education institutions.
- **Health Sector Development Project II** (HSDP II, US\$10 million) – HSDP II would build on the findings of the *Human Development and Social Protection Study* (para. 34) as well as expand

continued

Proposed Pipeline Projects continued

- successful pilot projects initiated under HSDP I (for instance, the clinic management information system). HSDP II would also serve as a mechanism to contribute to systemic reforms in health sector institutions and policies, particularly at the tertiary level.
- **Municipal Finance and Land Titling Project** (US\$10 million) – this project would further contribute to the development of a sustainable municipal financial system, building on the development of a Municipal Fund under the ongoing *Emergency Municipal Services Support Project*. It would also tie in with complementary sector reform work in the *Southern Area Water, Gaza Water and Sanitation Services* and *Electricity Sector Investment and Management* projects. In addition, the project would finance a land registration program (a longstanding constraint to collateralization), thereby providing a basis for local property taxes while creating the opportunity to expand commercial credit, particularly to small-scale borrowers in the WB&G.
- **The NGO Capacity Building Project** (NGO III, US\$7 million) – the first two successful NGO projects represent the only donor initiative that devolves sub-grant-making decisions to Palestinian NGOs. The project would build on these projects and on the findings of the *NGO Review* (para. 34) to enhance system-wide standards of professionalism and to promote networking and shared capacity-building activities.
- **Wastewater Reuse and Environmental Management** (US\$10 million) – building on the results of the *Rapid Environmental Survey* and the *Water and Wastewater Study* (para. 34), the project would aim to serve as a magnet for donor financing intended to improve environmental management and promote better water use and reuse.

5.2 THE CASE FOR REPLENISHING THE TFGWB

37. Currently, only US\$32.4 million of the TFGWB remain uncommitted, and US\$130.8 million undisbursed. New commitments in the three years FY01-03 averaged US\$39.2 million per annum, and disbursements US\$40.9 million²⁷. In addition to the *ESSP II Supplemental* (US\$15 million) submitted for Board approval in parallel with this replenishment request, two projects valued at US\$25 million are planned for Board submission later this FY. Without replenishing the TFGWB, however, this will not be possible. A replenishment would, thus, be used to fund the implementation of the Bank's proposed strategy (para. 32).

38. The TFG (later TFGWB) was devised as a means to hold and administer funds "for the benefit of the member countries of the Association", by providing financial assistance "to Gaza and for such areas, sectors and activities in the West Bank which are or will be under the jurisdiction of the Palestinian Authority pursuant to the relevant Israeli-Palestinian agreements, consistent with the Association's purposes.....in accordance with the applicable provisions of the Articles of Agreement of the Association"²⁸. The 1996 Report of the Executive Directors which recommended the transfer of US\$90 million from Bank surplus, moreover, argued that the TFGWB should be replenished "in view of.....ongoing efforts toward establishing peace in the Middle East, the possible

²⁷ FY01 – US\$36.5 committed, US\$41.5 million disbursed; FY02 – US\$36 million committed, US\$26.4 million disbursed; FY03 – US\$45 million committed, US\$54.8 million disbursed.

²⁸ IBRD/IDA Resolution Nos. 93-11/IDA 93-7 as amended by Resolution Nos. 95-6/IDA 95-3 of August 1, 1995.

effects of such a peace on regional and international economic cooperation and growth, and in order to promote the purposes of the Bank in these circumstances”.

39. Given the unforeseen turn in political events since the last replenishment in FY00, it is important to reconfirm that the use of the proceeds of the TFGWB continues to meet basic criteria – i.e. (i) that TFGWB resources are benefiting the Bank’s membership; (ii) that they are being used in areas over which the Palestinian Authority has jurisdiction as defined by valid agreements between the PLO and the State of Israel; and (iii) that TFGWB funds are being managed in accordance with the Articles of Agreement.

40. On the first point, the Board has since the beginning of the *intifada* frequently voiced strong support for the Bank’s activities in WB&G, as a review of Board discussions on the WB&G over the past three years attests. Board members have made it clear that they believe the Bank’s financial assistance contributes materially to Palestinian economic welfare and to the search for peace in the Middle East²⁹. Thus TFGWB activities today are seen as congruent with the interests of the Bank’s membership. Second, the TFGWB continues to finance activities in areas in which the PA has jurisdiction over civilian matters according to the terms of the Oslo Agreement of 1995, which is legally still in force. Third, the Bank applies all its normal procedures and safeguards in administering the proceeds of the TFGWB, and does so whether a project is Credit- or Grant-financed. Thus the criteria applicable to the administration of the TFGWB continue to be met.

41. With the Bank a relatively modest financial player in WB&G today³⁰, continued TFGWB contributions need to be justified by their catalytic effect, thereby enhancing the impact of other members’ funds. This the Bank achieves in a number of ways.

- *Bank lending helps mold overall donor assistance strategy.* TFGWB projects derive from and “materialize” the strategic analysis that the Bank carries out on the donors’ behalf (and at their request) in our periodic *Economic Assessments*, and latterly through intense staff involvement in the preparation of the PA’s QIIP and PSESP (paras. 27f.).

The first three Bank emergency operations all helped create important trends in emergency support: the *Emergency Response Program* (FY01) stimulated donor funding for emergency job creation programs, while the *Emergency Service Support Projects I and II* (FY02, FY03) created a facility through which donors could provide non-salary budget support to the PA. Commitments of US\$57 million from the TFGWB have evinced joint financing commitments of US\$91.8 million thus far from 9 donors³¹, and parallel co-financing estimated at a further

²⁹ Also, in September 2003, at an extraordinary session on WB&G at the Bank/Fund Annual Meetings in Dubai, the G-7 Finance Ministers in principle endorsed the PA’s request for US\$1.2 billion in donor support in 2004 even though prospects for rapid political progress appear slim.

³⁰ Disbursements from the TFGWB and from joint (administered) co-financing amounted to only 4% of total donor disbursements in FY02, rising to 9% in FY03 (US\$34.7 million and US\$93.8 million respectively).

³¹ The EC, the Islamic Development Bank, Italy, the UK, Canada, Finland, Denmark, the Netherlands and Sweden.

US\$81 million, for a total of US\$229.8 million altogether³². The latest two TFGWB emergency projects, the *Emergency Municipal Services Rehabilitation Project* (FY03) and the *Emergency Water Project* (FY04) have created models of assistance combining emergency operating cost support with institutional development and infrastructure intended to meet medium-term needs; TFGWB commitments of US\$32.5 million have so far evinced US\$99.5 million in parallel co-financing.

It is essential for the Bank's standing among donors that we participate meaningfully in the types of projects we are advocating, and that we are seen as capable of designing and supervising them successfully. It is this "street credibility" that empowers analytical work like the extended discussion of welfare instruments (job creation, food aid, budget support and cash provision) in the Bank's 2003 *Economic Assessment*.

- *TFGWB resources enable the Bank to make a material contribution to collective efforts to support the Palestinian Reform Program.* The ongoing *Emergency Municipal Services Rehabilitation Project* is serving as a vehicle for improved financial accountability at the local government level. The proposed *Social Safety Nets Reform Project* (FY04) would lay the foundations of a more effective public welfare scheme, while the *Higher Education Project* (FY05) would promote a process of financial, managerial and curriculum reform in Palestinian tertiary education institutions. The proposed *Pensions Reform Project* (FY05) would form the cornerstone of a thorough and urgently-needed reform of the Palestinian public pension system, which is no longer affordable without major restructuring.
- *TFGWB projects work.* In spite of the *intifada*, the WB&G portfolio is performing well, and only one completed TFGWB project has been rated "unsatisfactory" by OED. Design lessons from Bank projects have proven valuable to other donors, and show that difficult operating conditions need not vitiate the potential impact of donor interventions.

6. RISK AND MITIGATION MEASURES

42. The Bank's engagement in the WB&G was always understood to be high-risk. It is an engagement dependent on a political process which has in the last three years gone badly wrong, and which remains highly unpredictable. Short of a collapse of the PA or a loss of PA jurisdiction in the WB&G, we believe that experience shows the Bank is capable of adapting to unpredictable circumstances and continuing to deliver. The Bank's program remains relevant, operational risk is being managed, and the Bank's credibility has been maintained. While the Bank is not directly engaged in the political process, our socio-economic activism serves as an important signal to other donors.

³² The Bank does not provide general emergency budget support. If one excludes this (dominant) form of emergency assistance, US\$229.8 million represent approximately one-third of donor emergency financing commitments since the beginning of the *intifada*.

43. Closures, movement restrictions and periodic violence have impeded the implementation of donor-financed operations in the WB&G during the *intifada*, and have substantially increased project-specific risks. Project implementation has been affected by price rises, shortages of goods and materials, and increased commercial risk (discouraging private investment and cross-border partnership). It has become increasingly difficult to attract international consultants to the WB&G³³, limiting our ability to implement more complex project activities. Bank staff need to take careful security precautions and are subject to various forms of movement restriction and search, all of which complicate our work.

44. The Country Team has taken a number steps to cope with project risks:

- Project implementation has been progressively **decentralized**, and an increasing number of tasks are now managed by the Country Office³⁴.
- New projects are scrutinized carefully for **simplicity of design** and potential **flexibility**. The Country Director and Sector Directors ensure that projects are fully ready for implementation by the time they are presented to the Board, with no substantive conditions of effectiveness left outstanding.
- A Country Portfolio Performance Review was carried out in 2003 and will be repeated annually, with semi-annual in-country portfolio reviews to be carried out with the Ministry of Planning. The principal objective of these reviews is to formalize a process of **continuous project adjustment**. As a result of the recent Country Portfolio Performance Review, several pre-*intifada* projects have been slated for major restructuring or closure by end-March 2004³⁵ (see also para. 18 and Box 2). As mentioned above, the Country Management Unit will shortly introduce a new customized WB&G portfolio management system.
- The Bank has stepped up its **operational dialogue with the GOI** – in particular through the Task Force for Project Implementation (TFPI), a multi-donor committee in which we interface on a daily basis with the Israeli Defense Forces on issues of access and damage to donor-financed infrastructure.
- There is a long tradition of careful Bank fiduciary management in WB&G going back to the *Holst Fund* (under which the Bank managed early donor contributions to the PA's budget in a manner widely seen as exemplary, and which served as a model for later Bank post-conflict programs). Our projects frequently feature a higher level of fiduciary control than required under Bank operational guidelines, such as bi-annual audits and mandatory physical verifications of expenditures.

³³ This is due to a combination of reasons that include soaring insurance premia, the insecure working environment, and visa restrictions.

³⁴ For example, our entire Economic and Social Monitoring Program, the proposed Human Development and Social Protection Study, and the NGO study are all managed in the field. In addition, most of our emergency operations are supervised on a day-to-day basis by field-based staff.

³⁵ The seven projects are: *Gaza Industrial Estate, Legal Development, Palestinian Professional Expatriate Program, Palestinian Housing, Southern Area Water, Electricity Sector Investment and Management, and Solid Waste and Environmental Management*.

The CFAA and CPAR, once completed, will be used to update the Bank's control systems in WB&G.

53. One cannot rule out the possibility of a demise of the PA. In today's world this might occur for one of two reasons: (i) Should donors fail to provide reasonable levels of budget support, the Treasury will be unable to pay full salaries and to finance operating costs, and the PA's ability to deliver basic services may in time melt away. This risk of this is less than the recent decline in donor budget support might suggest, since it is understood that the PA represents the donors' main conduit for support to the Palestinian people. Sustained brinksmanship seems more likely than a catastrophic withdrawal of budget support. (ii) The political echelon of the PA could cease to function – either for reasons related to internal Palestinian politics, or through *force majeure*. Management does not presume to predict such events, but merely to note that if they occurred, then TFGWB operations as currently constituted would not be feasible: the TFGWB Resolutions make it clear that Trust Fund proceeds are to be used in areas “under the jurisdiction of the Palestinian Authority pursuant to the relevant Israeli-Palestinian agreements.”

Annex I

PA's Debt Repayment Profile

| | Disb. Amounts | Undisb. Balance | Principal Repayment | Outstand. Principal | Service Charges | Commitment Fees | Total Repayment |
|---------|------------------|--------------------|------------------------|------------------------|--------------------|--------------------|--------------------|
| 10/2003 | | | | 272.9 | | | |
| 2004 | 38.9 | 52.9 | 0.3 | 311.5 | 2.3 | 0.1 | 2.7 |
| 2005 | 12.7 | 10.1 | 0.8 | 323.4 | 2.4 | 0 | 3.2 |
| 2006 | 2.8 | 0 | 1.9 | 324.3 | 2.4 | 0 | 4.3 |
| 2007 | 0 | 0 | 3.3 | 321.0 | 2.4 | 0 | 5.7 |
| 2008 | 0 | 0 | 4.1 | 316.9 | 2.4 | 0 | 6.5 |
| 2009 | 0 | 0 | 4.9 | 312.0 | 2.4 | 0 | 7.3 |
| 2010 | 0 | 0 | 5.6 | 306.5 | 2.3 | 0 | 7.9 |
| 2011 | 0 | 0 | 5.9 | 300.6 | 2.3 | 0 | 8.2 |
| 2012 | 0 | 0 | 6.2 | 294.4 | 2.2 | 0 | 8.4 |
| 2013 | 0 | 0 | 6.5 | 287.8 | 2.2 | 0 | 8.7 |
| 2014 | 0 | 0 | 6.8 | 281.0 | 2.1 | 0 | 8.9 |
| 2015 | 0 | 0 | 7.3 | 273.6 | 2.1 | 0 | 9.4 |
| 2016 | 0 | 0 | 8.5 | 265.2 | 2.0 | 0 | 10.5 |
| 2017 | 0 | 0 | 9.8 | 255.3 | 1.9 | 0 | 11.7 |
| 2018 | 0 | 0 | 10.6 | 244.7 | 1.9 | 0 | 12.5 |
| 2019 | 0 | 0 | 11.4 | 233.3 | 1.8 | 0 | 13.2 |
| 2020 | 0 | 0 | 12.1 | 221.2 | 1.7 | 0 | 13.8 |
| 2021 | 0 | 0 | 12.4 | 208.8 | 1.6 | 0 | 14.0 |
| 2022 | 0 | 0 | 12.8 | 196.0 | 1.5 | 0 | 14.3 |
| 2023 | 0 | 0 | 13.1 | 182.9 | 1.4 | 0 | 14.5 |
| 2024 | 0 | 0 | 13.1 | 169.8 | 1.3 | 0 | 14.4 |
| 2025 | 0 | 0 | 13.1 | 156.7 | 1.2 | 0 | 14.3 |
| 2026 | 0 | 0 | 13.1 | 143.6 | 1.1 | 0 | 14.2 |
| 2027 | 0 | 0 | 13.1 | 130.5 | 1.0 | 0 | 14.1 |
| 2028 | 0 | 0 | 13.1 | 117.4 | 0.9 | 0 | 14.0 |
| 2029 | 0 | 0 | 13.1 | 104.3 | 0.8 | 0 | 13.9 |
| 2030 | 0 | 0 | 13.1 | 91.2 | 0.7 | 0 | 13.8 |
| 2031 | 0 | 0 | 13.1 | 78.1 | 0.6 | 0 | 13.7 |
| 2032 | 0 | 0 | 13.1 | 65.1 | 0.5 | 0 | 13.6 |
| 2033 | 0 | 0 | 13.1 | 52.0 | 0.4 | 0 | 13.5 |
| 2034 | 0 | 0 | 12.5 | 39.5 | 0.3 | 0 | 12.8 |
| 2035 | 0 | 0 | 11.5 | 28.0 | 0.2 | 0 | 11.7 |
| 2036 | 0 | 0 | 9.3 | 18.7 | 0.2 | 0 | 9.5 |
| 2037 | 0 | 0 | 6.5 | 12.2 | 0.1 | 0 | 6.6 |
| 2038 | 0 | 0 | 4.9 | 7.3 | 0.1 | 0 | 5.0 |
| 2039 | 0 | 0 | 3.4 | 3.9 | 0 | 0 | 3.4 |
| 2040 | 0 | 0 | 2.0 | 1.9 | 0 | 0 | 2.0 |
| 2041 | 0 | 0 | 1.3 | 0.6 | 0 | 0 | 1.3 |
| 2042 | 0 | 0 | 0.6 | 0.0 | 0 | 0 | 0.6 |
| Total | | | 327.3 | | 50.7 | 0.1 | 378.1 |

Annex II

Completed Economic and Sector Work³⁶

- *A Review of Employment Generation Schemes* (September 2002). The report was prepared by the Bank under the auspices of the Sector Working Group³⁷ on Job Creation. The Report analyzed the behavior and actions taken by implementing agencies, contractors and beneficiaries of employment generation programs financed by a wide range of donors, and provided recommendations on the use of appropriate labor-based design and technologies for future programs. The Bank is currently testing some of the report's recommendations in the employment generation component of the *Emergency Municipal Services and Rehabilitation Project*.
- *Long Term Policy Options for the Palestinian Economy* (November 2002). This report examines Palestinian trade, labor, and growth outcomes during the last three decades. It compares alternative models of economic relations between the WB&G and Israel, and assesses the technical merits of each in the context of a Final Status Agreement. The *Long Term Options Report* has generated a healthy and open-minded debate on Palestinian past growth outcomes and possible trajectories for the future. The report will be one of the main reference documents at an Israeli/Palestinian economic conference which the Bank is planning to co-sponsor with the Bank of Israel in the Spring of 2004.
- *A Social Safety Net Report* (December 2002). The report focuses on the role and capacity of the Ministry of Social Affairs in the context of the *intifada*. Among the report's recommendations is that the existing Special Hardship Program (SHP) be fully funded since it efficiently targets the poorest and most vulnerable families in Palestinian society. The report also recommends that the SHP be reformed to address lowering school attendance and worsening health outcomes occurring as poverty in the WB&G deepens. This recommendation has led to a proposed project in support of the reform of the formal social safety net system.
- *Palestinian Higher Education Financing Strategy* (January 2003). At the request of the PA, the Bank assisted the Ministry of Education and Higher Education (MOEHE) develop a financing and reform strategy for the higher education sector. This strategy is now serving as a blueprint for MOEHE's efforts to modernize university education in WB&G and to attract donor financing to the sector (which the proposed *Higher Education Project* is expected to do).
- *Reform of the PA's Pension System* (February 2003). During the last one and a half years the Bank has been working intensively with the Ministry of Finance

³⁶ September 2002 – July 2003, excluding socio-economic monitoring.

³⁷ A total of 12 Sector Working Groups (SWG) were established as part of the original donor coordination structure created at the beginning of the Oslo process. As priorities have shifted during the *intifada* towards emergency interventions, a number of SWGs have ceased functioning, while a few – like the Job Creation SWG – have regained prominence.

and the Gaza-based Pensions and Insurance Corporation to identify a pensions reform program. The interim result was this report, which pinpointed the main deficiencies in the current systems – two separate systems (one in Gaza and another in the West Bank), financial non-sustainability, inadequate governance structures and substantial PA arrears – and suggested a remedial strategy. Although pension reform in the WB&G is politically sensitive, the PA has asked the Bank to initiate preparation of a *Pensions Reform Project* to correct key deficiencies and serve as catalyst for other donor financing.

- An analysis of *Aid Management and Coordination During the Intifada* (July 2003). As a co-chair of the Local Aid Coordination Committee, the Bank initiated a study to assess the strengths and weaknesses of the donor response during the *intifada*, and the responsiveness, relevance and quality of the leadership provided by the PA and the co-chairs. The report points to several positive aspects of aid management and coordination, including the functioning of the Reform Support Groups and the enhanced role played by the Task Force for Project Implementation. The report also identifies deficiencies, including the existing system's over-complexity, the gradual diminution of the PA's role in and management of the aid system, and the need to improve operational coordination and the harmonization of donor procedures. The report's emphasis on PA leadership has guided the support by the Bank and others to the preparation of the fully owned Quick Impact Intervention Program and Palestinian Socio-Economic Stabilization Plan 2004-5.

Annex III

West Bank and Gaza Portfolio
October 7, 2003

| | Trust Fund for Gaza and the West Bank | | | | Co-financing | | | |
|--|---------------------------------------|--------------|-------------|----------------------|---------------------------|--------------|-------------|------------------------|
| | Committed US\$ Million | Disbursed | Undisbursed | Disbursed Percent | Committed US\$ Million | Disbursed | Undisbursed | Disbursed Percent * |
| CURRENT PROJECTS | | | | | | | | |
| 97 Palestinian Housing Project | 17.4 | 6.3 | 11.1 | 36% | | | | |
| 97 Legal Development Program | 2.8 | 2.5 | 0.3 | 89% | 15.0 | 0.0 | 15.0 | 0% |
| 97 Palestinian Expatriate Professional Program | 3.0 | 1.8 | 1.2 | 60% | 0.3 | 0.3 | 0.0 | 100% |
| 98 Gaza Industrial Estate | 10.0 | 4.7 | 5.3 | 47% | | | | |
| 99 Bethlehem 2000 | 25.0 | 24.4 | 0.6 | 98% | 3.6 | 3.4 | 0.2 | 95% |
| 99 Southern Area Water and Sanitation Project | 21.0 | 15.6 | 5.4 | 74% | | | | |
| 00 Electricity Sector Management Project | 15.0 | 10.6 | 4.4 | 71% | | | | |
| 00 Health System Development Project | 7.9 | 6.2 | 1.7 | 78% | | | | |
| 00 Municipal Infrastructure and Development Project II | 7.5 | 3.4 | 4.1 | 46% | 5.0 | 0.0 | 5.0 | 0% |
| 01 Solid Waste and Environmental Management Project | 9.5 | 2.8 | 6.7 | 29% | | | | |
| 01 Education Action Project | 7.0 | 2.3 | 4.7 | 33% | | | | |
| 01 Palestinian NGO II Project | 8.0 | 2.9 | 5.1 | 36% | 11.6 | 4.3 | 7.3 | 37% |
| 02 Emergency Services Support Project | 20.0 | 20.0 | 0.0 | 100% | 36.9 | 25.2 | 11.6 | 68% |
| 02 Integrated Community Development Project | 10.0 | 1.3 | 8.7 | 13% | | | | |
| 03 Emergency Services Support Project II | 25.0 | 16.1 | 8.9 | 64% | 27.3 | 5.0 | 22.3 | 18% |
| 03 Emergency Municipal Services Rehabilitation Project | 20.0 | 2.3 | 17.7 | 11% | | | | |
| 04 Emergency Water Project | 12.5 | 0.0 | 12.5 | 0% | | | | |
| Total | 221.6 | 123.2 | 98.3 | 56% | 99.8 | 38.3 | 61.5 | 38% |
| COMPLETED PROJECTS | | | | | | | | |
| 96 Municipal Infrastructure and Development Project | 40.0 | 40.0 | 0.0 | 100% | 5.4 | 5.4 | 0.0 | 101% |
| 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% |
| TOTAL (Current & Completed) | 414.8 | 316.4 | 98.3 | 76% | 209.1 | 147.7 | 61.4 | 71% |
| DONOR FUNDED TRUST FUNDS | | | | | | | | |
| The Holst Fund (closed) | | | | | 285.7 | 285.7 | 0.0 | 100% |
| Technical Assistance Trust Fund (closed) | | | | | 22.8 | 23.6 | 0.0 | 104% |
| PEACE Facility | | | | | 25.0 | 15.4 | 9.5 | 62% |
| TOTAL DONOR FUNDED TRUST FUNDS | | | | | 333.5 | 324.8 | 9.5 | 97% |
| GRAND TOTAL | 414.8 | 316.4 | 98.3 | 76% | 542.6 | 472.4 | 71.0 | 87% |

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

2/ Year approved by World Bank Board of Executive Directors

3/ The Bank's \$12 million grant to the ERP came from accrued investment income and was channeled through the Holst Fund

ANNEX IV

International Finance Corporation
Statement of IFC's Held and Disbursed Portfolio
 Amounts in US Dollar Millions

Country: West Bank & Gaza

| FY | Approval | Institution Name | Loan IFC Held | Equity IFC Held | Quasi IFC Held | All Part Held | Loan IFC Disb | Equity IFC Disb | Quasi IFC Disb | All Part Disb |
|-------------------|----------|------------------|------------------|--------------------|-------------------|------------------|------------------|--------------------|-------------------|------------------|
| 1994 | | APIB | 0 | 3.73 | 0 | 0.00 | 0 | 3.73 | 0 | 0.00 |
| 1997 | | Arab Bank | 0 | 0 | 0.15 | 0.00 | 0 | 0 | 0.15 | 0.00 |
| 1997 | | ComBank P | 0 | 0 | 0.15 | 0.00 | 0 | 0 | 0.15 | 0.00 |
| 1997 | | Jordan Natl | 0 | 0 | 0.90 | 0.00 | 0 | 0 | 0.90 | 0.00 |
| 1997 | | PIEDCO | 8.00 | 1.00 | 0 | 0.00 | 1.00 | 1.00 | 0 | 0.00 |
| 1999 | | PMHC | 0 | 3.00 | 0 | 0.00 | 0 | 2.23 | 0 | 0.00 |
| 1998 | | PTF | 0 | 12.60 | 0 | 0.00 | 0 | 4.55 | 0 | 0.00 |
| 1998 | | PTF-Mgt Co | 0 | 0.20 | 0 | 0.00 | 0 | 0.04 | 0 | 0.00 |
| 1999 | | PTIC | 5.80 | 1.35 | 0 | 0.00 | 5.80 | 1.35 | 0 | 0.00 |
| 1997 | | SEF Arab C | 0.80 | 0 | 0 | 0.00 | 0.80 | 0 | 0 | 0.00 |
| 1999 | | SEF Cold St | 0.10 | 0 | 0 | 0.00 | 0.10 | 0 | 0 | 0.00 |
| 1999 | | SEF Jericho | 1.10 | 0 | 0 | 0.00 | 1.10 | 0 | 0 | 0.00 |
| Total | | | 15.80 | 21.88 | 1.20 | 0.00 | 8.80 | 12.91 | 1.20 | 0.00 |
| Portfolio: | | | | | | | | | | |

MIGA - Guarantee Investment Fund

| Subscriptions | Amount US\$ | Guarantees Issued | |
|---|----------------|--|-----------|
| | | Project | Date |
| Credit from Trust Fund for Gaza and the West Bank | 10 million | Solomons' Pools (US\$5 million) Contract has been cancelled | 30-Jun-99 |
| European Investment Bank | 6.3 million | | |
| Japan | 5.1 million | | |

West Bank and Gaza at a glance

POVERTY and SOCIAL

2002

| | | | |
|-------------------------------------|-------|-------|-------|
| Population, mid-year (millions) | 3.2 | 306 | 2,411 |
| GNI per capita (Atlas method, US\$) | 1,110 | 2,070 | 1,390 |
| GNI (Atlas method, US\$ billions) | 3.6 | 670 | 3,352 |

Average annual growth, 1996-02

| | | | |
|-----------------|-----|-----|-----|
| Population (%) | 4.2 | 1.9 | 1.0 |
| Labor force (%) | .. | 2.9 | 1.2 |

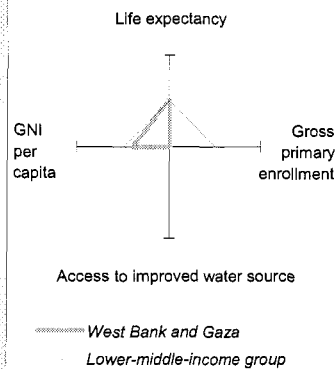
Most recent estimate (latest year available, 1996-02)

| | | | |
|---|----|----|-----|
| Poverty (% of population below national poverty line) | 59 | .. | .. |
| Urban population (% of total population) | .. | 58 | 49 |
| Life expectancy at birth (years) | 71 | 69 | 69 |
| Infant mortality (per 1,000 live births) | 20 | 37 | 30 |
| Child malnutrition (% of children under 5) | .. | .. | 11 |
| Access to an improved water source (% of population) | .. | 88 | 81 |
| Illiteracy (% of population age 15+) | .. | 35 | 13 |
| Gross primary enrollment (% of school-age population) | .. | 95 | 111 |
| Male | .. | 98 | 111 |
| Female | .. | 90 | 110 |

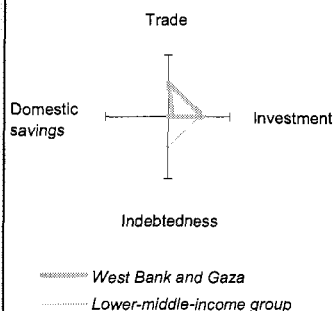
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

| | 1982 | 1992 | 2001 | 2002 | |
|-----------------------------------|---------|---------|-------|-------|---------|
| GDP (US\$ billions) | .. | .. | 4.0 | 3.4 | |
| Gross domestic investment/GDP | .. | .. | 5.7 | 3.5 | |
| Exports of goods and services/GDP | .. | .. | 14.6 | 12.3 | |
| Gross domestic savings/GDP | .. | .. | -28.0 | -30.7 | |
| Gross national savings/GDP | .. | .. | -4.9 | -6.7 | |
| Current account balance/GDP | .. | .. | -10.5 | -10.3 | |
| Interest payments/GDP | .. | .. | .. | .. | |
| Total debt/GDP | .. | .. | .. | .. | |
| Total debt service/exports | .. | .. | .. | .. | |
| Present value of debt/GDP | .. | .. | .. | .. | |
| Present value of debt/exports | .. | .. | .. | .. | |
| | 1982-92 | 1992-02 | 2001 | 2002 | 2002-06 |
| (average annual growth) | | | | | |
| GDP | .. | -0.8 | -16.0 | -19.1 | 5.0 |
| GDP per capita | .. | -5.0 | -19.5 | -22.5 | 0.6 |
| Exports of goods and services | .. | -3.2 | -13.4 | -24.3 | 7.9 |

Development diamond*



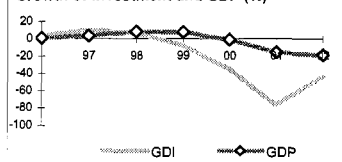
Economic ratios*



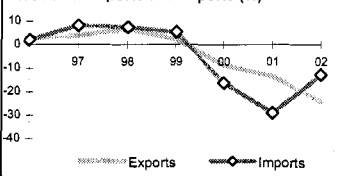
STRUCTURE of the ECONOMY

| (% of GDP) | 1982 | 1992 | 2001 | 2002 |
|--------------------------------|---------|---------|-------|-------|
| Agriculture | .. | .. | 7.3 | 6.3 |
| Industry | .. | .. | 16.4 | 13.3 |
| Manufacturing | .. | .. | 13.1 | 10.7 |
| Services | .. | .. | 76.3 | 80.4 |
| Private consumption | .. | .. | 83.2 | 79.0 |
| General government consumption | .. | .. | 44.9 | 51.7 |
| Imports of goods and services | .. | .. | 48.3 | 46.6 |
| (average annual growth) | 1982-92 | 1992-02 | 2001 | 2002 |
| Agriculture | .. | -4.2 | -5.5 | -19.8 |
| Industry | .. | -6.7 | -29.1 | -24.8 |
| Manufacturing | .. | -0.5 | -12.3 | -24.2 |
| Services | .. | 2.4 | -6.1 | -16.7 |
| Private consumption | .. | -2.3 | -15.5 | -21.3 |
| General government consumption | .. | 13.6 | -2.1 | -0.6 |
| Gross domestic investment | .. | -22.7 | -76.9 | -44.0 |
| Imports of goods and services | .. | -4.2 | -29.0 | -12.9 |

Growth of investment and GDP (%)



Growth of exports and imports (%)

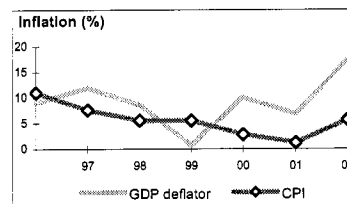


Note: 2002 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

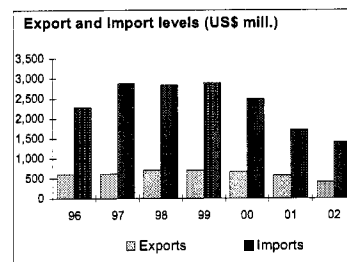
PRICES and GOVERNMENT FINANCE

| | 1982 | 1992 | 2001 | 2002 |
|-------------------------------------|------|------|------|------|
| Domestic prices | | | | |
| (% change) | | | | |
| Consumer prices | .. | .. | 1.2 | 5.7 |
| Implicit GDP deflator | .. | .. | 6.9 | 17.2 |
| Government finance | | | | |
| (% of GDP, includes current grants) | | | | |
| Current revenue | .. | .. | 19.9 | 23.8 |
| Current budget balance | .. | .. | -7.1 | -5.0 |
| Overall surplus/deficit | .. | .. | -7.7 | -5.1 |



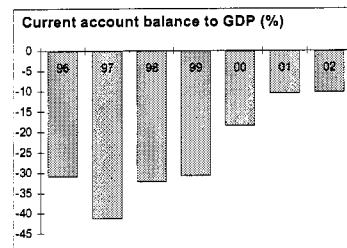
TRADE

| | 1982 | 1992 | 2001 | 2002 |
|-------------------------------|------|-------|-------|-------|
| (US\$ millions) | | | | |
| Total exports (fob) | 391 | 299 | 577 | 410 |
| Commodity 1 | .. | .. | .. | .. |
| Commodity 2 | .. | .. | .. | .. |
| Manufactures | .. | .. | .. | .. |
| Total imports (cif) | 729 | 1,232 | 1,731 | 1,406 |
| Food | .. | .. | .. | .. |
| Fuel and energy | .. | .. | .. | .. |
| Capital goods | .. | .. | .. | .. |
| Export price index (1995=100) | .. | .. | 153 | 162 |
| Import price index (1995=100) | .. | .. | 168 | 177 |
| Terms of trade (1995=100) | .. | .. | 91 | 92 |



BALANCE of PAYMENTS

| | 1982 | 1992 | 2001 | 2002 |
|---|------|------|--------|--------|
| (US\$ millions) | | | | |
| Exports of goods and services | .. | .. | 588 | 418 |
| Imports of goods and services | .. | .. | 1,947 | 1,581 |
| Resource balance | .. | .. | -1,359 | -1,164 |
| Net income | .. | .. | 492 | 372 |
| Net current transfers | .. | .. | 443 | 443 |
| Current account balance | .. | .. | -424 | -348 |
| Financing items (net) | .. | .. | .. | .. |
| Changes in net reserves | .. | .. | .. | .. |
| Memo: | | | | |
| Reserves including gold (US\$ millions) | .. | .. | .. | .. |
| Conversion rate (DEC, local/US\$) | .. | .. | 4.2 | 4.7 |



EXTERNAL DEBT and RESOURCE FLOWS

| | 1982 | 1992 | 2001 | 2002 |
|--------------------------------------|------|------|------|------|
| (US\$ millions) | | | | |
| Total debt outstanding and disbursed | .. | .. | .. | .. |
| IBRD | .. | .. | .. | .. |
| IDA | .. | .. | .. | .. |
| Total debt service | .. | .. | .. | .. |
| IBRD | .. | .. | 0 | 0 |
| IDA | .. | .. | 0 | 0 |
| Composition of net resource flows | | | | |
| Official grants | .. | .. | .. | .. |
| Official creditors | .. | .. | .. | .. |
| Private creditors | .. | .. | 0 | 0 |
| Foreign direct investment | .. | .. | .. | .. |
| Portfolio equity | .. | .. | .. | .. |
| World Bank program | | | | |
| Commitments | .. | .. | 0 | 0 |
| Disbursements | .. | .. | 0 | 0 |
| Principal repayments | .. | .. | 0 | 0 |
| Net flows | .. | .. | 0 | 0 |
| Interest payments | .. | .. | 0 | 0 |
| Net transfers | .. | .. | 0 | 0 |

