

Report No. 23820

# West Bank and Gaza An Evaluation of Bank Assistance

March 7, 2002

Operations Evaluation Department



## Abbreviations and Acronyms

AAA	Analytic and Advisory Activities
AHLC	Ad Hoc Liaison Committee
BP	Bank Procedures
CDF	Comprehensive Development Framework
CG	Consultative Group
DOP	Declaration of Principles
EAP	Emergency Assistance Program for the Occupied Territories
FIAS	Foreign Investment Advisory Service
ICR	Implementation Completion Report
IFC	International Finance Company
JLC	Joint Liaison Committee
LACC	Local Aid Coordination Committee
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
OP	Operational Policies
PA	Palestinian Authority
PECDAR	Palestinian Economic Council for Development and Reconstruction
PSD	Private Sector Development
SWG	Sector Working Groups
TATF	Technical Assistance Trust Fund
TFGWB	Trust Fund for Gaza and the West Bank
UNRWA	United Nations Relief and Works Agency
UNSCO	United Nations Special Coordinator's Office
WB&G	West Bank and Gaza
WHO	World Health Organization

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## **MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT**

### **West Bank and Gaza: An Evaluation of Bank Assistance**

Following the Oslo Accord signed between the Palestinian Liberation Organization and Israel in September 1993, the international donor community pledged considerable amounts of assistance to the Palestinians in West Bank and Gaza (WB&G). The main objective was to provide tangible benefits through improvements in standards of living and increased incomes, which it was hoped in turn would provide an environment conducive to the peace process. The World Bank, having just produced a comprehensive analysis of the development needs of the WB&G, was at the center of this effort.

Since 1994, the Bank has been active in WB&G in a number of important donor assisted initiatives aimed at laying the foundations of long term development. The Bank has administered, on behalf of other donors, the Holst Fund (\$270 million), which has financed recurrent and start up costs of the Palestinian Authority (PA) as well as an emergency employment program to assist during economic crisis. It also administered the donor financed Technical Assistance Trust Fund (\$23 million), which supported a wide array of institution building and feasibility studies for investment projects. From its own resources, the Bank established a Trust Fund for Gaza and the West Bank (TFGWB – to date \$390 million allocated), out of which it has financed about 22 projects totaling \$326 million and mobilized considerable donor financing as well. Finally, the Bank has been a major player in aid coordination.

In the earlier years (1994-95), the Bank focused on upgrading and expanding infrastructure. In 1996, following outbreaks of violence, Israel imposed strict border closures which prevented movement of goods and people and resulted in economic crisis conditions in WB&G. The Bank responded quickly by shifting support to employment-creating activities. As the economic conditions improved in 1998 and 1999, the Bank began to develop longer-term strategies, to create an enabling environment for private sector development, to support institutional development and public sector management, and to strengthen the NGO sector for service delivery. With the renewed violence, border closures, and economic crisis in WB&G in late 2000, the Bank again provided emergency economic assistance. The overall outcome, sustainability, and institutional development impact of Bank assistance must be seen in the context of an unstable political environment and severe periodic economic crises resulting from border closures.

Even within this difficult context, the Bank's assistance has had a positive impact on the living standards of Palestinians in WB&G and this may have contributed to the relative calm during most of the 1993-2000 period. The Bank has been a major player in developing greater access to road networks; better quality of schools; and improved access to safe water. Emergency assistance for employment creation as well as successful community development efforts have most likely contributed to the reduction in poverty measured at the end of the 1990s. More disappointing has been the lack of development of the private sector, in spite of Bank efforts to improve the climate for private investors: private investment fell as a percentage of GDP between 1994 and 1998, and the private sector accounts for a smaller share of employment than it did several years ago. The main factors discouraging private sector investment have been restrictions on the movement of goods and people and the uncertain political climate; these have also been major factors in the outcomes of Bank efforts at improving public sector management, governance, and institutional development (next paragraph). Overall, OED rates the outcome of Bank assistance as satisfactory.

Institutional development impact has been mixed. The Bank, through its administration of the Holst Fund, enabled the start up and functioning of the PA; in addition, the Bank provided a considerable range of technical assistance and training to many PA agencies and ministries through both lending and non-lending services, with a concentration of effort and some success in strengthening local (municipal) governments. The Bank has also helped improve the dialogue between the PA and the NGOs and been innovative in the provision of direct assistance to the NGO community. Finally, the Bank provided analysis on the unsustainability of the level of public employment and lack of transparency of the public sector. In spite of the Bank's concerted efforts in a range of important issues, such as the need for civil service reform, improving public sector management, the unsustainable level of public sector employment, and the need for further legal and judicial reforms, progress has been mixed. These are politically charged, difficult, long-term issues, and they remain challenges. Overall, institutional development impact is considered modest.

Sustainability is the likelihood that the benefits of the assistance to WB&G will be resilient to risks. In WB&G, the risks include the abilities of the PA, their agencies, the municipalities, villages, and NGOs to operate and maintain the physical infrastructure and to maintain or continue to improve service delivery. In view of the fiscal issues facing the PA and the need for reforms in intergovernmental and municipal finance, providing the necessary resources for operations, maintenance, and service delivery in the future may be difficult for the PA and municipalities. The agencies (water and electricity in particular), villages, and NGOs may be in a better financial position to maintain their investments. An equally significant risk to overall sustainability of all benefits is the political uncertainty and potential for further border closures, which will have a profound impact on the ability of the PA, agencies, and other levels of government to carry on business as usual. At this time, given the political situation and the PA's difficulties in providing operation and maintenance on a long-term basis, OED considers sustainability uncertain.

The Bank's performance has been timely and relevant. The Bank has been required to play many roles in a complex and highly politicized context, and in general, it played them well. There are many examples of innovation and good practice: the Bank became involved in WB&G even before the Oslo Accord; the WB&G program was the first in the Bank to be decentralized in 1994, it focused early on infrastructure and providing tangible benefits to the population; it has made a major effort at donor coordination and has been instrumental in setting up mechanisms at all levels to achieve this. All of these approaches were incorporated into the 1997 policy framework paper on the Role of the World Bank in Post-Conflict Reconstruction, based among other things on the positive experience of the Bank in WB&G. In addition, a number of the projects supported by the Bank's trust fund have been heralded in the Bank as best practice, and in 2000, out of 29 projects across the Bank cited by QAG for excellence in supervision, three were in WB&G. Finally, the Bank has made concerted efforts at institution building through many activities (lending and non-lending) and across a range of issues (para. 5). Thus, in most respects, the Bank's performance has been excellent and should serve as a model for other post-conflict situations.

An important constraint on the Bank's assistance, however, has been the highly politically charged nature of a post-conflict situation, exacerbated in WB&G by periodic economic crises. The Bank responded to the crises by shifting some resources to shorter term relief measures. On longer term issues such as improving public sector management, it has been extremely difficult for the Bank to use leverage such as conditionality or timing or amounts of lending to engage the PA in addressing problems; in many post-conflict situations, pressures on the Bank are considerable to focus on short term emergency relief, to avoid using leverage (such as amounts and timing of lending; conditionality) to bring about reforms, and, in general, to operate in ways that are not always consistent with the Bank's longer term development role. The experience in WB&G is no exception.

For the future, assistance in WB&G that goes beyond the immediate issue of emergency employment should be more selective, focusing on a few key areas such as: (i) targeting infrastructure delivery and services to poorer segments of the population; and (ii) public sector management issues such as civil service reform and economic policy reform, with continued efforts at strengthening local governments. Other areas for focus may emerge as a result of the CDF process and once the political situation stabilizes. More generally in post-conflict situations, it is critical that the Bank maintain its focus on ensuring a competent, transparent, fiscally sound governing structure, especially if other donors focus on relief efforts and shorter-term measures. In addition, the Holst Fund that provided critical recurrent cost support should be used as a model in other post-conflict situations, while a fund that supports technical assistance should start out with modest commitments, remain somewhat flexible in design, and be very closely supervised.

Robert Picciotto  
by Gregory K. Ingram



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## **Preface**

This report examines World Bank assistance to West Bank and Gaza (WB&G) during the period 1993 to end 2000. Initially, there was considerable optimism in the international community that the process of establishing a final peace agreement would proceed uninterrupted, and that assistance was needed during the five year transitional period to provide tangible benefits, help raise incomes, and contribute to building a climate of optimism which would provide a positive environment for peace discussions. The period 1993-95 witnessed some decline in economic activity and incomes, but the start-up of rebuilding infrastructure. In 1995 and 96, however, violence led to border closures, in which movement of goods and people into and out of WB&G was halted, resulting in economic crisis within WB&G during 1996. Several years of relative calm and renewed optimism then followed. The peace process resumed, although at a slower pace than initially expected, employment opportunities slowly re-emerged, the economy of WB&G began to recover, and assistance from the World Bank as well as large flows from the international community began to have a tangible and positive impact. The economic recovery came to an abrupt halt in September 2000, when violence and fighting became widespread, severe movement restrictions were imposed, and the economy of WB&G spiraled downward again.

In addition to interviewing a wide array of Bank staff involved with WB&G from the beginning and reviewing the files, documents, and reports on WB&G both within and outside the Bank, OED also interviewed Palestinian and Israeli officials, and project staff, donors, non-governmental organizations in WB&G. A list of people met and the questionnaires used as a basis for discussion are in Annex III of the report. The OED mission also held a participatory round-up meeting with Palestinian Authority officials, project managers, and Resident Mission staff to review preliminary findings. References in the report to the views of “informed” observers are the result of these many meetings and interviews.

The report was sent to the Palestinian Authority; their written comments are found in Attachment 3. In addition, the Regional Management of the Bank also provided comments on the report, which are in Attachment 4. OED response to the Region’s comments are in Attachment 5.



## 1. BACKGROUND

1.1 In September 1993, the Declaration of Principles (Oslo Accord) was signed between the Palestinian Liberation Organization and Israel, setting the framework for the gradual transfer of territory and administrative authority to Palestinian control. The historic agreement was quickly followed by a meeting of the international donor community: within weeks of the famous White House handshake, over 40 donors met to pledge US\$2.4 billion over the next five years for Palestinians in West Bank and Gaza (WB&G), to provide support in what was considered a post-conflict setting.<sup>1</sup> At that time, it was an unprecedented amount of funding. In fact, before the five year period was over, donors had pledged an additional US\$1.2 billion. The focus of the assistance was on providing immediate and visible benefits to the population (estimated at about 2 million), through emergency rehabilitation works, and on laying the basis for sustained, long term development.

### **Economic developments**

1.2 Following the 1967 war, the economy became increasingly integrated with that of Israel; most exports were oriented to the Israeli markets and all other exports were shipped via Israeli facilities; and employment of Palestinians in Israel became an important source of income. Between 1970 and 1987, growth rates were over 10 percent per year, and real per capita GNP more than doubled, reaching over \$2,000 in 1999 terms. Starting in 1987, economic growth halted, partly as a result of the *Intifada*, during which strikes and violence were common; real per capita income (GNP) declined between 1987 and 1991 by about 9%.<sup>2</sup> Between 1991 and 1993, growth was uneven – many Palestinians lost employment in Gulf countries in 1991, after the Gulf war; but economic activity rebounded in 1992, perhaps in the expectations of peace; then turned down again in 1993 as a result of partial closure by Israel, during which movement of goods and labor was sharply restricted or stopped; and per capita incomes stagnated. At the time of the 1993 Oslo Accord, the economy of WB&G was highly vulnerable to relations with Israel, through its dependence on worker remittances<sup>3</sup> and trading arrangements.

1.3 By 1991, health and other social indicators of the population had improved markedly and were good compared to lower-middle income countries and to other countries in the Region (Annex I, Tables 3 and 4). The state of infrastructure, however, was poor and public services were in disarray. Decades of lack of maintenance and under-investments under previous occupying governments had led to over-crowded and dilapidated facilities and poor transport, water, and power systems.

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<sup>1</sup> Donors used a five year time horizon because according to the DOP, final status negotiations were to be completed within about five years, or by May 1999.

<sup>2</sup> No reliable, consistent time series exists on growth rates of GNP and GDP over the entire period; per capita income estimates are even more problematic, because population estimates vary widely.

<sup>3</sup> In 1991, for example, about 100,000 workers, mostly unskilled and representing about one-third of the labor force, worked in Israel, and some 40,000 workers, mostly skilled, worked in other countries, particularly Jordan and the Gulf States; 25% of GNP came from remittances from Israel. Prior to the 1991 Gulf war, roughly 10% of GNP came from remittances from other countries.

1.4 Many Palestinians in WB&G expected that they would reap a peace dividend following the Oslo Accord, in the form of a surge in private investments, particularly from the estimated 4.5 million Palestinians living outside of WB&G, and renewed economic growth and increased employment.<sup>4</sup> Instead, employment opportunities slowed as periodic border closures by Israel increased in frequency and duration over 1994-96; unemployment spiked sharply, reaching as high as 50% in Gaza, as workers were unable to reach workplaces in Israel. Closures meant that no goods could move between WB&G and Israel and at times, between West Bank and Gaza, and within West Bank and within Gaza; this disrupted domestic production and public investments, slowed exports from WB&G to and through Israel, and discouraged potential private investments. Between 1994 and 1998, real GDP in WB&G is estimated to have increased by about 2% per year, well below the population growth rate; per capita income is estimated to have decreased by some 15% over this period, to about \$1,600; in Gaza, it is estimated to be one half to two thirds that of the West Bank.<sup>5</sup> As closures decreased in 1998 and 1999, employment opportunities picked up again and economic growth resumed (Table 1.1).

**Table 1.1 Selected economic indicators, WB&G, 1994-99**

	1994	1995	1996	1997	1998	1999
			(in percent)			
Real GDP growth	8.5	-2.4	-3.2	4.8	7.0	6.0
Real GNI per capita growth	-4.9	-9.6	-9.0	3.5	7.7	3.5
Unemployment	15.0	18.1	24.2	19.6	14.5	11.8
			(in percent of GDP)			
Fiscal, recurrent balance	-0.9	-1.9	-4.0	-1.0	2.5	1.3
Fiscal, overall balance	-6.8	-11.1	-10.7	-8.0	-5.4	-3.9
BOP, current account balance	4.6	-10.8	-21.9	-28.3	-32.0	-32.2

*Source:* Economic Policy Framework, Progress Report, May 2000, PA and IMF

1.5 The period after the Oslo accord has been characterized by intermittent economic crises brought on by closures, high and fluctuating unemployment, limited private investment, and a rapid expansion of the public sector (para. 1.10).

### **Unfinished agenda: huge challenges**

1.6 The economy continues to be extremely vulnerable; as it has in the recent past, the economy can quickly spiral downward. Progress in peace talks has been central to the economic development of WB&G, but has proved elusive. Permanent status negotiations were not completed by May 1999, as had been hoped, and many issues remained unresolved even before the violent clashes starting in September/October 2000.

1.7 West Bank and Gaza are two geographically separate areas. In addition, the territory of the West Bank is a patchwork of non-contiguous areas A (completely under Palestinian control), B (under Israeli-Palestinian control) and C (under Israeli control).<sup>6</sup>

<sup>4</sup> Opinion polls carried out in WB&G in September 1993 showed that about two thirds of the population expected that implementation of the DOP would improve economic conditions for Palestinians.

<sup>5</sup> Because of the high degree of integration with the Israeli economy, the price level in WB&G is close to that of a high-income country; an estimate of per capita income in Purchasing Power Parity terms, which takes the price level into account, would place WB&G in the low income group, with countries such as Ghana, Nicaragua, or Vietnam.

<sup>6</sup> A map of the areas under PA control is frequently described as looking like "the holes in Swiss cheese."

The land areas in each category change periodically as negotiated agreements are implemented. Planning and implementation of road construction, power distribution systems, and other infrastructure are thus complicated.

1.8 The natural population growth rate, at about 4% per year, is one of the highest in the world, and about half the population is under 15 years old. The demographic structure and growth will put pressure on the demand for social services, particularly education. The Palestinian Authority (PA), established only in 1993, is confronted with a huge task of rehabilitation, renovation, and expansion to meet current and future needs. In addition, UNRWA has been providing social services to refugees, estimated at 40% of the WB&G population; if UNRWA phases out, these services may have to be assumed by the PA. NGOs have historically played a large role in supplying social services, particularly in health and education,<sup>7</sup> but since 1992 their funding from external sources has dropped sharply as donors have begun supporting the PA. The PA has increased its use of NGO services to deliver health and education services, but there is scope for further cooperation between the PA and NGOs.

1.9 The economic prospects of WB&G are mixed. There is a young and well-educated population; and WB&G has an improved physical and institutional infrastructure and increased capacity for implementing public investments, relative to five years ago. At the same time, however, the rapid increase in population puts enormous pressure on the economy for employment creation; between 1993 and 1998, the labor force increased by an estimated 34%, or almost 140,000 people. Even recent growth rates of 4-4.5% per year are insufficient to absorb the expected increase in the labor force.<sup>8</sup> WB&G needs to improve the business and legal environment to attract more productive private investments (in other than housing). By far the most important factor, however, is progress on political agreements, which is a prerequisite for the political stability needed to attract private investors.

1.10 Governance remains at the heart of the challenges for WB&G. In the early phase, the PA needed to expand quickly to take on its new responsibilities for delivering public services and establishing security forces. But expansion continued rapidly thereafter, with employment more than doubling since the end of 1994, motivated by pressure to absorb the increase in the labor force and mitigate the shock of decreased employment opportunities. The continued growth both in the civil service and security forces severely undermines fiscal sustainability.<sup>9</sup> In addition, there are 36 ministries, and because of the difficulties of passage between the West Bank and the Gaza Strip, they have developed two separate, parallel administrative structures, one in each area.

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<sup>7</sup> An estimated 700-1,000 NGOs provide social services; in spite of decreased funding since the early 1990s, NGOs still run all pre-schools and about 10% of the schools, and provide some 40% of health clinic and hospital services.

<sup>8</sup> Source: West Bank and Gaza Strip: Economic Development in the Five Years Since Oslo, IMF, 1999.

<sup>9</sup> Employment in civilian central government as a proportion of the labor force and of the population is higher than in most MNA countries; the share of the central government payroll in current expenditures has been 55-60%, compared to 45% in MNA countries and 16% in OECD countries. The Ministry of Finance has no control over the payroll in Gaza.

## 2. THE ROLE OF AID IN WEST BANK AND GAZA

### Large flows, planned versus actual use

2.1 The unprecedented levels of pledges by the donor community were followed, with some delay, by disbursements, mostly grants. In the five years following the Oslo Accord, WB&G received an enormous amount of donor assistance, averaging over \$200 per capita per year, many times the level of official assistance to lower middle income

**Table 2.1 Average annual per capita official assistance for post-conflict and other countries, 1993/94-97**

	US\$
MNA countries	35
Lower middle income countries	36
Cambodia	41
Eritrea	42
Lebanon	44
El Salvador	59
Rwanda*	75
<b>West Bank and Gaza</b>	<b>214</b>
Bosnia and Herzegovina	311

\*Underestimate, because considerable assistance channeled to refugees outside Rwanda.

Source: World Bank, SMIMA and WDI

countries or to other countries in the Region. Even for post-conflict situations, only Bosnia has received more assistance on a sustained basis (Table 2.1).

2.2 The initial framework for assistance to WB&G was articulated in the Emergency Assistance Program for the Occupied Territories (EAP), formulated by the World Bank, working with the Palestinian leadership and many other donors, in late 1993. It was based on substantial prior economic work by the Bank.

2.3 The EAP anticipated that for the first three years (1994-96) about 75% of assistance would be for investment projects; a little less than one-fifth, or US\$225 million, would be for start up and recurrent expenditures; and the remainder for technical assistance and training. In fact, between 1994 and 1996, well over US\$600 million, or almost 50% of total assistance, was for short term support; only a little more than half of the EAP target for investments was disbursed. In more recent years, as closures subsided and as the PA was able to balance its recurrent budget, donor assistance for short-term support dropped off and in 1998 and 1999 represented less than 10% of total assistance.

2.4 Much has been written about the unanticipated shift to short-term support at the expense of longer term development objectives.<sup>10</sup> One reason was that the international community overestimated the speed at which tax revenues came on stream, which in turn lagged behind the unexpected speed of the transfer of territory to PA control; short-term budgetary support was required for longer than expected to bridge fiscal gaps. The international community was also overly optimistic about how quickly the PA would establish capacity to implement long-term projects, and disbursements on these projects were therefore slower than expected.

2.5 The most important assumption, however, was that the political process would be smooth and would not interfere with economic development. The border closures that became frequent and severe in 1996 had a devastating impact on the economy of WB&G. Out of concern that the deteriorating economic conditions could lead to a derailment of

<sup>10</sup> See, for example, Balaj, Diwan, and Philippe (1995), World Bank (1997), Hooper (1999)

the peace process, donor support was redirected to finance both continued budgetary shortfalls and emergency employment creation. Thus, although donor assistance fell short on support to longer-term development efforts, its reorientation was consistent with trying to sustain a positive environment for the peace process.

### **Aid Coordination: A Daunting Task**

2.6 Aid coordination in WB&G does not lend itself to business-as-usual approaches: over 40 official donors are active; aid flows are high; and the environment is volatile. International assistance has been closely tied to the peace process, is delivered in the absence of a sovereign state, and critical political, economic, and security issues are unresolved. Delivery pressures on both the donors and the PA are intense. The PA is highly dependent on foreign aid but has had limited capacity to manage it. Donors have strong (and often competing) commercial, strategic, or economic interests and bilateralism is pervasive. In these circumstances, political issues invariably become aid coordination issues and vice-versa; aid coordination is thus a daunting task.

2.7 Emergence of the Aid Coordination Structure. Soon after the Oslo accord and the pledges of assistance, the architecture for aid coordination began to take shape. In addition to the usual consultative group (CG) chaired by the Bank, an Ad Hoc Liaison Committee (AHLC) was set up by the steering group of the multilateral talks as the principal policy body for the WB&G development effort. It is comprised of major donors,<sup>11</sup> operates by consensus, and deals with high level political and economic matters. The Bank serves as secretariat.

2.8 Local aid groups complement the international bodies; the Joint Liaison Committee (JLC) is the local counterpart to the AHLC, and provides a forum for key donors, the PA, and Israel to address policy questions and donor-PA issues. The Local Aid Coordination Committee (LACC), chaired jointly by the Bank and UNSCO, is an all-donor body which provides regular coordination at the operational level. Under it are sector working groups whose purpose is to direct donor assistance towards PA priorities and foster information exchange.

2.9 The Ownership Challenge. Studies on aid coordination, including one by OED,<sup>12</sup> stress the fundamental importance of ownership. This is particularly daunting in WB&G where donors finance the PA's entire investment program and due to the initial absence of PA counterparts on the ground in the early years, coordination was entirely donor-led. Once the numerous ministries were established logistical problems emerged for coordination. Donor/PA disagreements and inter-ministerial competition and rivalries within the PA complicate the task.

2.10 In addition, donors support numerous NGOs active in service delivery and several quasi-autonomous implementing agencies. With the lack of effective central coordination, huge volumes of aid, and intense delivery pressures, donors can easily find

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<sup>11</sup> Members included Canada, the EU, Japan, Norway, the United States, Saudi Arabia, Russia and Norway. Associated members include the PLO, Israel, Egypt, Jordan, Tunisia and the UN.

<sup>12</sup> Review of Aid Coordination and the Role of the World Bank, November 1999

an agency, ministry, or NGO to implement their projects, while the ministries in turn have many funding sources to pursue. The PA has noted, with some frustration, its inability to set development priorities in the face of donor preferences and lack of coordination within the PA: both donors and PA ministries and agencies select projects that coincide with their own priorities, sometimes leaving the PA's "top of the list" unfunded.

### 3. THE ROLE OF THE WORLD BANK IN WB&G

#### **WB&G: the model for Bank guidelines on post-conflict reconstruction**

3.1 Drawing heavily on the experience of the Bank in WB&G, and in recognition of the unique nature of post-conflict situations, the role of the Bank, and the risks involved, a policy framework paper on the Role of the World Bank in post-conflict reconstruction was endorsed by the Bank's Board of Directors in 1997; this was followed in January 2001 by Operational Policy (OP) and Bank Procedures (BP) 2.30 on Development Cooperation and Conflict. It is interesting to note the parallels between the timing, scale, and approach of Bank assistance to WB&G with the subsequent guidelines.<sup>13</sup>

3.2 Recommendations that emerged in the 1997 framework paper included: establishing a field presence; using partnerships with UN and other donor agencies and international NGOs; closing the gap between relief and development support; and for aid coordination, early agreement on respective roles of each donor and to the extent feasible, agreement on cohesive multi-donor funding strategies. Each of these recommendations reflect the experience of Bank assistance to WB&G, as discussed below.

#### **Early involvement**

3.3 Even before the Oslo Accord in September 1993, the Bank was involved in WB&G. In 1992 the organizers of the Middle East Peace talks had asked the Bank to study the economic prospects and development challenges of what was referred to as the Occupied Territories. Although this early involvement has now become an integral part of the Bank's guidelines, at the time the Bank's role was unusual.

3.4 *Assessment.* The resulting six volume report<sup>14</sup> was published within two weeks of the Oslo Accord, and it placed the Bank in a unique position within the donor community. The Bank's report was the most comprehensive and definitive report available on the long-term development needs of the area. Moreover, the process of producing it had demonstrated to all sides that the Bank was both technically competent and politically neutral. In addition, the wide consultative process involved in producing the report was an important vehicle for establishing dialogue with the many organizations and neighboring governments that had strong interests in the territory.

3.5 The recently issued OP 2.30 suggests that for areas affected by conflict, the Bank "may initiate a watching brief ...to develop an understanding of the context, dynamics,

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<sup>13</sup> The 1997 paper also drew on a draft OED report, "World Bank Experience with Post-Conflict Reconstruction," (issued in final in 1998, Report no. 17769), which examined, inter alia, the Bank's experience in WB&G.

<sup>14</sup> Developing the Occupied Territories, An Investment in Peace, September 1993 (Report no. 12360)



needs, and institutions of the area to position the Bank to support an appropriate investment portfolio when conditions permit.” (para. 7). If the time is right for developing a program of assistance, the OP also recommends preparing a transitional support strategy that covers the short to medium term (paras. 8-10). These were precisely the activities (called by other names) the Bank undertook in WB&G.

### **Early agreement on aid coordination; evolving Bank strategies**

3.6 The Bank was asked to play a central role in coordinating donor efforts and channeling donor funds, within the context of sustaining the peace process and supporting development during the transitional period. Although this presented an opportunity in a highly visible and important process, it was also an unusual situation for the Bank: WB&G was not a sovereign state, nor a member country, nor a territory for which another member country had expressed interest in acting as guarantor.<sup>15</sup> Neither IBRD nor IDA could lend to WB&G. The Bank was, however, able to act as administrator for trust funds financed by other donors and IBRD, and has done so since 1993.<sup>16</sup>

3.7 In late 1993, the Bank developed a framework for overall donor assistance – the EAP – in which the Bank was to play a central role. The four main pillars of a three year, US\$1.2 billion program of assistance were: (i) start up and recurrent expenditures for building administrative capacity; and (ii) technical assistance to prepare and implement investment activities and develop policies and institutions; (iii) support for public investments in infrastructure (water and wastewater, power, municipalities, education, and transport comprised about 75% of proposed public investments), with the primary goal of providing tangible benefits quickly and efficiently; and (iv) promotion of private sector investment. The EAP included sector strategy matrices in 13 areas and a detailed blue-print for the technical assistance program (102 activities were listed).

3.8 Subsequent Bank strategy was set forth in requests for Trust Fund replenishments every fifteen months or so. Although the strategy continued to be framed by the areas defined above, it shifted focus in response to changing circumstances. By mid-95 it was clear that establishing a competent and operationally transparent administration was more difficult than expected; and prospects for sustainable long term growth were not materializing as hoped. The Bank’s emphasis shifted to sustaining financial viability of the Palestinian administration and improving the enabling environment for private sector investment, which remained dormant.

3.9 By late 1996, crisis management had become an integral part of the strategy, including employment creation to cope with border closures and continued support to the PA. The strategy also emphasized improving economic policy making, increased transparency in economic management, and poverty alleviation. Even as the situation stabilized somewhat, the later strategies (April 1998 and July 1999) continued to

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<sup>15</sup> As countries have done in the past. For example, when the Bank made a loan in 1955 to the East Africa High Commission for the benefit of Tanganyika, Kenya, and Uganda, the loan was guaranteed by the United Kingdom.

<sup>16</sup> For a discussion of the legal basis for this arrangement, see “Legal Aspects of the World Bank’s Assistance to the West Bank and the Gaza Strip” by I. Shihata, H. Abushakra, and H. Gruss in The Palestine Yearbook of International Law, Vol. II (1992/94). Such involvement is now recognized as appropriate in the context of the Bank’s post-conflict policy framework, based in part on this experience.

emphasize the importance of improving public sector management and institution building, promoting the private sector, and human resource development and poverty alleviation. Throughout the entire period, the role of the Bank in donor coordination figured prominently as part of the Bank's strategy.

3.10 *Assessment.* The Bank has appropriately adapted its strategies to the changing circumstances in WB&G. The three phases of the FY94-00 period can be broadly described as: an initial focus on infrastructure development; a shift to emergency support for employment creation in response to the 1996 economic crisis; and, as the situation seemed to stabilize, a shift to medium term institutional development. The Bank's strategy has been highly relevant and timely, reacting to the most urgent needs of WB&G, and when the time seemed right, orienting its assistance to longer term objectives. One area of weakness, however, has been the difficulty of implementing a strategic approach to institution building (see paras. 3.27-3.28, 4.12).

### **Transitional support and reconstruction: the Bank's products and services**

3.11 Consistent with its strategy, by early 1994 the Bank was active in four areas:

- (a) as administrator for a special fund (Holst Fund)<sup>17</sup> supported by other donors to finance the start up and initial recurrent costs of the newly established PA;
- (b) as administrator of a trust fund (Technical Assistance Trust Fund, TATF) supported by other donors for technical assistance to strengthen skills, help establish policies, and provide feasibility studies for longer-term investments;
- (c) as administrator of a trust fund (Trust Fund for Gaza and West Bank, TFGWB) financed from the Bank's own resources to support longer-term development;
- (d) as Chair or Secretariat for the various aid coordination mechanisms at the international and local levels.

**Table 3.1 Funds administered or financed by the World Bank in WB&G: US\$ millions**

<i>Fiscal Year</i>	<i>94</i>	<i>95</i>	<i>96</i>	<i>97</i>	<i>98</i>	<i>99</i>	<i>00</i>	<i>Total</i>
Holst Fund								
Committed								269
Disbursed	8	110.5	67.8	49.9	11.9	6.4	5.0	260
TATF								
Committed								23
Disbursed	1	2	5.2	3.5	2.1	2.6	3.1	20
TFGWB								
Committed	30	20	60	83.5	20	54	30.4	298
Disbursed	-	10.9	19.9	39.7	50.2	27.1	34.8	183
<b>Total disbursed</b>	<b>9</b>	<b>123.4</b>	<b>92.9</b>	<b>93.1</b>	<b>64.2</b>	<b>36.1</b>	<b>42.9</b>	<b>463</b>

3.12 A summary of funds committed and disbursed under each of the first three categories is in Table 3.1 above. For the period FY94-98, total net flows from Bank

<sup>17</sup> Named after Johan Joergen Holst, the late Minister of Foreign Affairs of Norway who had been instrumental in negotiations leading to the Oslo accord.

administered or financed funds were about US\$380 million, or some 15% of total donor disbursements over the same period. The role of the Bank, however, cannot be measured by these flows alone, for a number of reasons. First, the Bank succeeded in leveraging its funds to a high degree (para. 3.19); second, it has provided informal and formal advisory services to the nascent PA across a range of issues (para. 3.32-3.40); and third, it played a major role in donor coordination.

3.13 The Holst Fund. Based on the initiative of the United States, the Holst Fund was established in January 1994 under the administration of the Bank. It was an innovative response to a clear need, although the donor community had never done anything quite like this: finance relatively large start up and recurrent costs for the establishment of an administration. Donors were nervous about providing this sort of funding, and in response the Bank set up a tight monitoring system, employing an international accounting firm to supervise procurement, check and approve withdrawal applications, and carry out periodic evaluations of expenditures. This was critical for providing comfort to donors that the monies were used for the purposes intended; it was likely a necessary but not sufficient condition for further commitments to the fund.

3.14 The fund was initially supposed to provide support to the PA from February 1994 through December 1995, but by mid-1995, it was clear that the donor community had over-estimated when the PA would reach self-sufficiency in its recurrent budget. The Holst Fund was extended into 1996. Between June 1994 and April 1996, a little over \$200 million were disbursed for start up and recurrent expenditures of the PA, which represented a significant proportion of total recurrent revenues. Together with other donors' direct contributions to recurrent expenditures and transfers of taxes by Israel, the current budget deficit was less than 3% of GDP during this period.

3.15 In 1996, in response to increasing unemployment rates, the Bank re-oriented the use of the Holst Fund to the Emergency Employment Generation Program. It mobilized and used additional funds from the donor community initially for very short term employment (such as painting buildings and cleaning streets), and then for small infrastructure works. The Holst Fund will have disbursed a total of \$269 million, plus an additional \$12 million from the Trust Fund for Gaza and the West Bank (para.3.21), of which about \$57 million will have been for emergency job creation.

3.16 Assessment. In spite of criticisms and shortcomings of the use of the Fund that are discussed in the Addendum, OED finds that it was a creative and appropriate response to the situation. It is entirely consistent with the early reconstruction activities envisaged for support under the current guidelines and was used flexibly in response to urgent needs. At the same time, the use of funds was carefully monitored to ensure that they were used for the purposes intended. It is a useful model for other post-conflict situations.

3.17 Technical Assistance Trust Fund (TATF). Established in October 1993, the TATF was financed by twelve bilateral donors, providing about \$23 million to finance pre-feasibility and feasibility studies and institution building activities. Toward the end of 1993 a large Bank team went to WB&G to determine with Palestinian counterparts the priority needs for use of the TATF and its design was carefully set out in considerable detail. Although initially slow to gain momentum, to date over 80 sub-projects have been

financed with the funds (listed in Annex II, Table 1). Extended by more than three years from its original closing date in June 1997, it is due to close in FY01.

3.18 *Assessment.* Although OED did not evaluate the outcome of the many activities financed under TATF, it found that the relevance of the overarching objective was high, but the design and scale of the fund were too ambitious. The Bank was over-optimistic about the speed and efficiency with which so many activities could be undertaken. Experience in other countries has shown that the use of a more flexible approach to sub-project selection, with broadly defined criteria, can be successful in many situations and might have been more appropriate here. Instead, a blueprint approach was used, wherein over 70 activities in 15 different sectors were identified. A more detailed assessment of the design and implementation of the TATF is in the Addendum to this report.

3.19 Trust Fund for Gaza and West Bank (TFGWB). Established in October 1993 as the Trust Fund for Gaza and later expanded to the West Bank, the TFGWB has received a total of \$380 million, transferred by the Bank from surplus in four replenishments.<sup>18</sup> By end-May 2001, \$326 million had been committed for 22 projects, which mobilized an additional \$541 million in parallel and co-financing (figures in Table 3.1 are through FY00). The funds have been lent, with one exception, on IDA terms and will be repaid to IDA. The list of projects financed under the TFGWB with current status is in Annex I, Table 8. The Bank has also worked with IFC and MIGA on several projects (Box 3.1).

**Box 3.1 IFC, MIGA, and FIAS in West Bank and Gaza**

IFC's strategy in WB&G is focused on: (i) creating private sector employment; (ii) investing in projects that generate foreign exchange; (iii) institution building, particularly in the financial sector; and (iv) stimulating private sector development through improvements to the legal and regulatory framework. IFC works closely with the Bank, including co-financing and managing the PSD section of the Comprehensive Development Framework.

In addition to the three projects co-financed by the Bank and IFC (the Housing Project, Microenterprise Project, Gaza Industrial Estate Project), IFC has a relatively active portfolio, which currently includes some US\$81 million approved for loans, equity, and quasi-equity investments, including participation in a Small Enterprise Fund. IFC has been most active in the financial sector, where it has, among other activities, launched a venture capital fund with Israeli and Palestinian investors. IFC also oversees considerable technical assistance (US\$5.5 million), including work on the tax law, securities law, insurance law, housing laws, competition law, and mutual fund legislation.

MIGA has one operation in WB&G: it administers a special trust fund which is sponsored by EIB, Japan, and the PA (whose contribution comes from the Bank's TFGWB). To date the fund has issued one guarantee.

FIAS has carried out three studies: one on the policy and legal environment for foreign direct investments and two on the investment law. The reports were followed by workshops; dissemination was good.

<sup>18</sup> The first transfer of US\$50 million was approved in November 1993; three transfers of US\$90 million each were approved in October 1995, February 1997, and April 1998. The most recent transfer of US\$60 million was approved in July 1999.

3.20 The first two projects were consistent with the early objective of improving living conditions of the Palestinians: the Emergency Rehabilitation Project (ERP, FY94) and the Education and Health Rehabilitation Project (FY95) concentrated on education, wastewater, sanitation, roads, and health facilities. Together the two projects accounted for the full amount (\$50 million) transferred to the Trust Fund in 1993. After replenishment in October 1995, three more infrastructure projects were approved, with increased attention to institutional strengthening (particularly in the Municipal Infrastructure Development Project, FY96, and Gaza Water and Sanitation Investment Project, FY97).

3.21 By end-1995, the economy of WB&G was in crisis and unemployment was escalating due to border closures. Although the Bank's major vehicle for responding to the situation was the Holst Fund's Emergency Employment Generation Program, the crisis also affected the selection of projects for financing under the TFGWB. The second Emergency Rehabilitation Project (FY96) was designed in response to the need to generate employment; and building on the positive response of people to the employment creation activities financed by the Holst Fund, the Bank developed the Community Development Project (FY97). In later years, a second Community Development Project (FY99) was approved, with increased targeting on the poorer areas, including refugee camps. Most recently in December 2000, the Bank approved \$12 million grant from interest accrued on the TFGWB for an Emergency Response Program, to be administered through the Holst Fund; the program is aimed at creating employment to counteract the economic crisis following recent border closures in response to security related concerns.

3.22 As private investments failed to materialize, the Bank placed greater emphasis on creating an enabling environment. A wide range of projects was approved to provide financing and remove regulatory obstacles to the private sector, including: housing finance, micro-enterprise finance, an industrial estate in Gaza, and finance for PA's contribution to the MIGA guarantee fund. The Bank provided support to institutional development, broadly defined, including improvements to the legal framework, financing qualified Palestinian expatriates to improve public sector management, and strengthening the NGO sector in service delivery.

3.23 The TFGWB also continued to finance infrastructure: a second Municipal Infrastructure Development Project; Bethlehem 2000; a second water project, in the West Bank; and an electric sector management project. Including both Community Development Projects but excluding the Education and Health Rehabilitation project (considered a social sector project, although most of the funding was for rehabilitation) about 67% of the portfolio financed by the TFGWB has been for infrastructure.

3.24 The average amount of financing per project in the first few years was about US\$27 million; in more recent years it has been less than half that amount. On the other hand, parallel and co-financing has increased; the Board gave explicit instructions in later years to use the TFGWB as a catalyst for other donors' funds, and the Bank made a deliberate and successful effort to do so.

3.25 *Assessment.* Lending has been consistent with the evolving strategy of the Bank. Four projects have closed (with credits totaling \$70 million), three of which emphasized

infrastructure. Implementation Completion Reports are available for three of them. The outcomes of both the ERP (FY94) and the Community Development Project (CDP, FY97) were rated by OED as highly satisfactory, with substantial institutional development impact; the outcome of the Second ERP was rated as satisfactory, with modest institutional development impact.

3.26 In all three projects, sustainability was rated by OED as likely. For the two emergency rehabilitation projects, however, sustainability will rely to a significant extent on the ability and willingness of the PA and local governments to allocate adequate budgetary and human resources to maintenance of the infrastructure. A recent review of the PA's fiscal situation notes that operations and maintenance have to date received inadequate attention,<sup>19</sup> and the Aid Effectiveness study questions the ability of the PA to maintain significant new investments without substantial reforms.<sup>20</sup> A review of intergovernmental and municipal finances echoes similar doubts about the ability of the municipalities to maintain investments under their jurisdiction.<sup>21</sup> These considerations related to overall investment and development efforts, but OED sees no reason that investments financed by the Bank would not be subject to the same concerns. In addition, restrictions on movement and goods during periodic border closures render on-going maintenance of investment even more difficult. Finally, some of the infrastructure repaired with Bank funds has been badly damaged, such as the main road from Ramallah to Birzeit to the north. Although at the time these projects closed, OED rated sustainability as likely, under current circumstances and for the reasons listed above, OED cannot attach a clear probability of sustainability in either direction and thinks the sustainability of these investments is now uncertain. Under the CDP, by contrast, villages and peri-urban communities participated in selecting, implementing, and maintaining investments; from a fiscal point of view, their sustainability is more likely than investments under the jurisdictions of the PA and municipalities. In addition, because most of the materials and labor involved in maintenance come from local sources, these small, local projects are not so affected by border closures. Thus the sustainability of CDP remains likely.

3.27 In the later years, 1997 to the present, the Bank's strategy was articulated in broad terms; as a result, most projects could be justified under one of its objectives. Thus support for developing a mortgage market under the Housing Project fits into private sector development, but was approved before the institutional and regulatory framework was ready. The Palestinian Expatriate Professional Program fits into strengthening public sector management and responds to a clear felt need by the Palestinians in WB&G for

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<sup>19</sup> "To date, almost all capital investment has been financed by donors, and operating and maintenance needs have been broadly overlooked by both donors and the recipient government..." Strengthening Public Sector Management, October 1999, p. 22

<sup>20</sup> "*Continued growth of public sector employment presents a serious threat to the sustainability of development efforts*" and "*In brief, the PA is presently unable to sustain the level of capital expenditure required simply to maintain the developmental status quo, let alone invest for the future*" Aid Effectiveness in the West Bank and Gaza, June 2000, pages x and xi, respectively, italics in original.

<sup>21</sup> "Donor financing of infrastructure investments will result in ongoing requirement for operations and maintenance that cannot be met without a reform of the IGF [intergovernmental fiscal] and municipal finance system." Intergovernmental and Municipal Finance (November 2000), page 7.

expertise provided by people who understand the context, but with very broad definitions of priority areas.

3.28 The on-going projects may yet attain their objectives,<sup>22</sup> but given the relatively small amounts of financing provided by the Trust Fund, the overall lending program might have benefited from more strategic focus on which areas in: (i) private sector development the Bank could most usefully address; (ii) public/private partnerships are the most promising for nurturing; (iii) public sector management, governance, and institutional development the Bank and the PA agree are the most important; and (iv) targeted poverty alleviation where the Bank is likely to have the most success.<sup>23</sup>

3.29 Based on the experience in WB&G, the early focus on small-scale infrastructure is now seen as a standard part of the Bank's early intervention in post-conflict situations. In addition, the Bank established a field presence from the beginning of its assistance and, in recognition of the importance of responding quickly and decisively to the changing situation, devolved decision-making to the field. At the time (end-1994), it was the only decentralized office in the Bank. In addition, the Bank worked closely with UN agencies in the field, which in the early years proved to be an effective partnership. This, too, has become an integral part of the Bank's guidelines on operating in post-conflict situations.

3.30 On the other hand, operating in WB&G has been characterized by certain pressures and constraints typical of post-conflict situations. In a highly politically charged situation, compounded by the economic crisis, the Bank found itself operating in ways that were inconsistent with its more traditional role of supporting long-term economic and social development. For example, the Bank administered the financing of recurrent budgetary expenditures over a number of years, something it has never done before; and developed a program for emergency employment creation, which initially involved non-productive activities (like street-sweeping), although this was quickly converted to support for more productive activities, like maintaining and upgrading infrastructure. Most important, the Bank has been unable to use leverage (conditionality; delayed program/project funding; and overall levels of funding) in support of the implementation of important reforms, particularly in public sector management and in sound economic policies; political pressures of other stakeholders and the fragility of the whole situation were simply too great to allow the Bank to operate as it would have in a more "normal" setting.

3.31 The pressure to focus on short-term, relief measures at the expense of longer-term development is discussed in the 1997 Framework document on post-conflict reconstruction. The Bank is supposed to take responsibility for helping to close the gap between relief assistance and longer term development assistance. The Bank did this in many instances in WB&G, for example by converting the short-term emergency

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<sup>22</sup> In spite of operating in a highly uncertain and disruptive environment, disbursement ratios for FY99 and FY00 were high relative to the Region and the Bank and, somewhat surprisingly, no projects are considered at risk (Annex I, Table 9); QAG gave good marks on quality at entry of several projects; and out of 29 projects across the Bank cited by QAG for excellence in supervision in 2000, three were from WB&G.

<sup>23</sup> The Region has noted that in a post-conflict context, with constantly evolving and unpredictable circumstances both for the powers and functions of the PA and for day-to-day working conditions, it was extremely difficult to implement a coherent strategy.

assistance programs into the Community Development Projects, which used the concept of supporting small-scale, labor intensive works, but involved communities more proactively in the selection and implementation of the projects; and by maintaining its focus in other areas on longer-term objectives. But it was less able to embed its concerns over fiscal sustainability and transparency into conditionality, although it did provide clear and consistent analysis and recommendations to the PA and donor community.

3.32 The Bank's non-lending services (Analytic and Advisory Activities – AAA). The first major economic piece by the Bank was the six volume study, “Developing the Occupied Territories: An Investment in Peace” (1993),<sup>24</sup> which provided a framework for the large donor pledges, was the basis of the subsequent EAP which helped channel donor pledges into specific project support, and put the Bank at the center of the aid coordination effort. Many observers thought that this report was professional, politically neutral, and of considerable practical use.

3.33 Other formal economic work includes “The West Bank and Gaza: The Next Two Years and Beyond” (1994) which focused on the problems of employment creation and poverty alleviation in the short term and policies for alleviating poverty in the medium term; and the book, Development Under Adversity: The Palestinian Economy in Transition (1999), which analyzed challenges and policies needed for long term growth. These included constraints to private investments; pros and cons of different trade regimes with Israel and other potential trading partners; financial sector constraints; fiscal management issues; and challenges for the education and health systems. Many observers in WB&G had high compliments for the quality of the Bank's analytic work.

3.34 A health study (FY98) looked at fiscal sustainability, efficiency improvements, and quality of services and drew attention to the importance of tailoring public investments to their affordability and sustainability. The message has not yet had an obvious impact, however, on public investments, although this is likely because of political pressures on the PA and willingness of donors to provide more health facilities. The report did lay the groundwork for a subsequent credit from the TFGWB aimed at improving the health system management.

3.35 The sector work on governance (FY00), Strengthening Public Sector Management, dealt with sensitive issues that had been the subject of many discussions among donors and the PA: improving the management of public sector employment and the public budget, and the need to foster more involvement of NGOs and the private sector in service delivery. The analysis also focused on better management of local government and utilities. The findings have been widely disseminated among the PA ministries and presented at CG meetings. Partly as a result of the analysis in the report, the PA is addressing several of the issues raised (consolidating accounts, trying to shift full control over the payroll to the Ministry of Finance). Related to this work was a Bank report on Intergovernmental and Municipal Finance (FY01), which focused on the unusually central role of municipalities in the WB&G context (where they functioned for decades before the creation of the PA), identified a number of important governance

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<sup>24</sup> The contents and wording of all six volumes were extensively reviewed and essentially negotiated separately with Palestinians, Israelis, and Jordanians.



issues, and made practical recommendations for addressing them. The analytic work was discussed at well-attended workshops, where there was broad agreement on the strategy emerging from the analysis.

3.36 Also in FY00, the Bank produced Aid Effectiveness in the West Bank and Gaza (funded by Japan), which was a thorough examination of the impact of the overall aid effort since 1993; this present report draws heavily on the findings for assessing development effectiveness in Chapter 4. The report was widely discussed among donors and with the PA and provides a balanced view of the strengths and weaknesses of both the aid effort, the results, and the remaining challenges.

3.37 The Bank also produced an analysis of poverty in WB&G in FY01, which has been widely disseminated: it is available on the Bank's external website; in early 2001 was the subject of two widely attended workshops, one in Gaza and one in West Bank; and an expanded executive summary has been translated into Arabic. The report provides a detailed mapping of the incidence of poverty, an analysis of the current social safety net, and recommendations for improving assistance to the poor.

3.38 Informal sector work includes support to the PA through conferences, papers, and workshops in the context of project preparation. For example, the Bank produced sectoral strategy papers (private sector support strategy in 1994; water management study and financial sector strategy paper in 1997) and in 1998 organized a conference on financial sector issues during its preparation of the Financial Sector Development Project. The Bank provided assistance for drawing up public investment plans and organized conferences and workshops to review policy options, such as the conference in Washington in 1999 on trade issues with both Israelis and Palestinians. A listing of formal and informal AAA is in Annex I, Table 11.

3.39 In the context of aid coordination, the Bank serves as chair of the CG and as secretariat for the AHLC, the high level body that deals with economic and policy matters, and is active in the local aid coordination bodies (the LACC and SWG) in WB&G. It has been responsible for, inter alia, tracking the Tripartite Action Plans (See Addendum) among the PA, Israel, and the donors.

3.40 The Bank and Japan carried out an assessment of the aid coordination effort on behalf of the AHLC.<sup>25</sup> Its main conclusions were that: (i) the overall aid coordination structure is unique; it is also heavy, complicated, time consuming, inefficient but indispensable and somewhat effective; (ii) the PA's performance in aid coordination has improved considerably, although there is room for further improvement; and (iii) existing coordination structures provide a strong platform for future work. Donors also noted that the coordination structures, flawed as they were, often played an important role in dispelling tensions among donors and between donors and the PA; the system also allowed donors to take up issues collectively that they couldn't raise alone.

3.41 In the past, sector working groups (SWG) were the weakest links in the structure. They were of variable quality, with education considered the best. The SWG neither

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<sup>25</sup> Improvement of Aid Coordination for West Bank and Gaza, Sept 30, 1999 .

reduced duplication nor built consensus on sectoral policy, but participants attended SWG meetings in the absence of good alternatives for coordination. Some donors formed informal sector groups, which suggested limited effectiveness of the formal structures. Subsequent to the start up of the Comprehensive Development Framework, the SWG structure was streamlined into four main groups, and some SWG became more active.

3.42 *Assessment.* Overall, the quality of the AAA has been good, according to observers. The extent to which it has had an impact on policies and institutions is hard to gauge, but is probably modest. The focus by the Bank on economic and fiscal implications of different approaches is appreciated by PA officials and there are indications that when the Bank has been persistent in its analysis, as in the case of the work on public sector management, it has had an impact on decisions.

3.43 A more detailed assessment of the Bank's role in aid coordination is found in the Addendum to this report. OED finds that, in spite of over-optimism by the Bank (and other donors) and some discomfort at playing a central role in such a highly politicized environment, the Bank has risen to the challenge of aid coordination in a difficult context. The central role played by the Bank proved to be important at a political level (reaching agreements among Israel, WB&G, and the donors through the Tripartite Action Plans) as well as at the working level.

### **Using the Comprehensive Development Framework (CDF)**

3.44 Arguably, the Bank has from the outset followed several CDF principles. Efforts at partnership and putting the PA in control of development planning have been a major element of Bank assistance to WB&G even before the CDF was formally introduced. The Bank began in 1999 to focus on developing sectoral plans with the relevant ministries and donors; the OED mission in early 2000 was told that the CDF process has re-energized what were lackluster sector working groups and become the main agenda item in many meetings.

#### **Box 3.2 Assessment of progress on the CDF in WB&G**

WB&G is the only post-conflict client among CDF pilots. In a post-conflict situation, CDF principles are particularly challenging, such as developing a long-term vision. Given the on-going peace negotiations in WB&G, articulating such a vision could pre-empt delicate and difficult discussions between the Israelis and the Palestinians, although it may be more feasible at a sectoral level. Second, enhancing country ownership when institutions are embryonic or non-existent is also particularly challenging. Finally, achieving partnerships among stakeholders, where pressures to lend money and provide visible assistance are so strong, is a daunting task.

OED does not agree with the assessment of progress in WB&G presented by the Bank's CDF Secretariat in September 2000. OED thinks that effective in-country fora for partner coordination have been "largely developed" in WB&G, with extensive donor coordination mechanisms at the local and international level. Although not all are equally effective, the AHLC, JLC, LACC, and SWG have served as springboards for partnership building over the last several years. This would improve the score given by the CDF Secretariat to a 4 (out of a possible 5).

Second, OED considers that the PA is "taking actions" to lead the coordination of development partners (rather than just "elements exist"). Although the PA still has a relatively weak role in aid coordination, it has been improving. The PA has gradually assumed responsibility for preparing aid databases and tracking all aid flows, as well as for preparing projects and development plans. Finally, the PA serves as co-chair of the sector working groups.

3.45 The process received good reviews from observers in WB&G, with some important caveats. Dissemination has been good: most people interviewed were aware of the CDF initiative and all thought it was a good idea in principle. Many observers were enthusiastic about the potential impact of the effort, both because of its emphasis on the role of the PA and because of the hope that it would help to organize donor efforts and improve sectoral strategies. However, the key to the CDF is its ownership by the PA, particularly the aid coordination mechanisms and the development plan. Although some PA ministries have taken charge of elaborating development strategies in consultation with donors, it is still not clear how much the PA has ownership of the program. It is also unclear how inclusive the CDF will be in terms of consulting with civil society, particularly NGOs active in service delivery, in view of the difficult political situation.

### **Assessing Efficiency**

3.46 As expected in the post-conflict policy framework, the WB&G assistance program is costly relative to the size of the resource transfer. This is due to the unique nature of the assistance, rather than to costs attached to lending, supervision, or AAA. Average costs of lending, for example, are close to or even a bit below MNA and Bankwide averages (see Annex I, Table 12). Supervision costs, by contrast, were higher in the early years, when there were high start up costs and the portfolio consisted of only a few projects, but have since come down to comparable or even lower levels than Regional and Bankwide averages. But large costs have been incurred for aid coordination, technical assistance, and other activities.

3.47 In FY94, for example, when lending was just starting up, 72% of the \$2.0 million budgetary cost for the WB&G program was for aid coordination and technical assistance. This dropped to just under 50% of the total in FY95 and continued to decline, but in FY99 still represented over 20% of the cost of the assistance program to WB&G.

3.48 As a result, total costs of the program are high compared to non post-conflict countries. In FY00, for example, the total cost of the WB&G assistance program was \$4.4 million. This was 50% more than the cost of the program in Jordan, with a portfolio of 12 projects (roughly the same as in WB&G), but annual lending some 3 times that of WB&G.<sup>26</sup> Thus, the WB&G assistance program bears out what the Bank's policy framework expected, that costs of dealing with post-conflict situations will be higher than in more "normal" situations. Conditions may be unstable and the political dimension extremely important; many partners may have an active interest and donor coordination may be more complicated; and start up costs of lending to a new borrower will be high.

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<sup>26</sup> The Region believes that looking at program costs in relation to Bank dollars lent is not a useful yardstick. Rather, a more comprehensive method should be used that takes into account the extraordinary amount of co-financing and parallel financing channeled through the Bank in WBG and the revenues generated in terms of fee income. Once these factors are taken into consideration, the Region believes that the net cost in terms of development impact and responsiveness to client needs is very favorable.

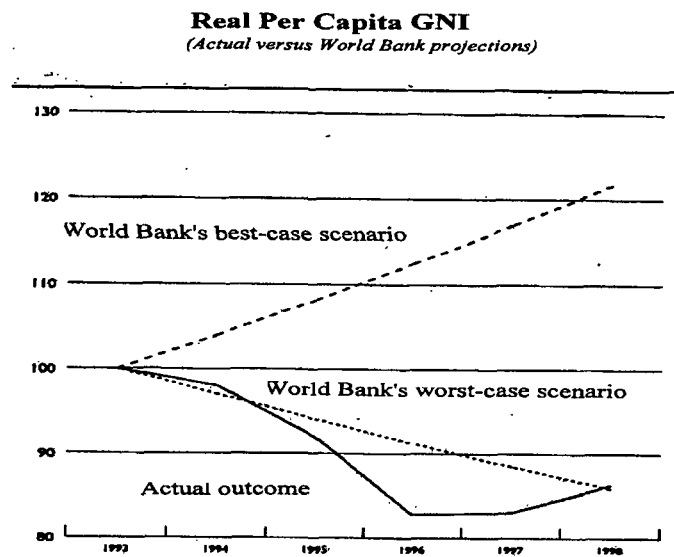
## 4. ASSESSING DEVELOPMENT EFFECTIVENESS: RESULTS AND ATTRIBUTION

### Economic performance

4.1 In spite of renewed growth in 1998 and 1999, economic performance of the WB&G has been poor; unemployment grew dramatically and per capita income and consumption declined (Box 4.1). The most important factors in this outcome have been the impacts of border closures and work permit policies, which affected the number of workers in Israel and the level of worker remittances, the movement of goods, external trade, and domestic production. The Bank estimated the total cost to the WB&G economy of border closures and stricter enforcement after 1993 of permit policies at about US\$2.5 billion over the 1994-96 period, or some 20-25% of GNP (Development Under Adversity, Chapter 4).

#### Box 4.1 Outcomes versus Bank projections

In its 1993 report, the Bank had developed a range of possible medium term economic outcomes, which depended on assumptions on policies, fiscal and institutional management, capital inflows, and employment in Israel. The most optimistic of six possible scenarios projected real per capita income growing at an annual rate of 4% in the medium term (1994-98) and the most pessimistic, declining at about 3% per year. All scenarios assumed some decrease in employment opportunities in Israel from their 1992 level. In fact, actual per capita incomes were below the worst-case scenario projected by the Bank. See Figure below.



4.2 During these same years (1994-96), donor disbursements amounted to some US\$1.7 billion; the Bank administered or directly funded roughly 13% of this amount. Although the longer-term macroeconomic impact of donor disbursements depends on how much goes for productive investment as opposed to recurrent expenditures, they nevertheless served to offset in part the impact of closures on the economy. The study on

aid effectiveness estimated that GDP growth was 1-2% higher per year in 1994-98 than it would have been without the aid.

### **Standards of living (infrastructure, access to health and education)**

4.3 One of the four main pillars of the Bank's strategy has been to provide immediate, tangible benefits to the population through infrastructure upgrading. The relatively intense support for infrastructure had widespread benefits in both Gaza and the West Bank. Although it is difficult to separate out the impact of the funding by the Bank's TFGWB from that of other donors, data on rehabilitated and improved infrastructure point to an overall positive impact. In transport, for example, over 1,000 km of roads have been constructed or rehabilitated, representing a significant upgrading of the road network that existed before (estimated at a total of roughly 1,600 km of paved roads); the Bank's two Emergency Rehabilitation Projects (ERPs) financed some 40% of this effort.

4.4 In education, in spite of a large increase in the number of students enrolled (36% between 1994 and 1999, with a higher increase for girls than boys), student/teacher ratios and classroom availability have improved slightly, with the increase in female or coed classrooms much higher than the increase in male classrooms; the Bank was a major player through its first three projects (the ERPs and the Education and Health Rehabilitation Project).

4.5 In the water and sanitation sector, there is improved access,<sup>27</sup> better quality, and reduced losses (in Gaza, losses are estimated to have decreased from about 50% to about 29%). The Bank has been one of the major contributors in this sector through the two ERPs, which focused on increasing connections (financing almost one-third of the 1,700 km of new water connections; new reservoirs; new sewage connections; new pumping stations) and through the Gaza Water and Sanitation Services Project, which focused on improving management, quality of service, and revenues.

#### **Box 4.2 Palestinian views on changes in their standard of living**

Based on several large public opinion surveys of Palestinians in August 1999, the aid effectiveness study reported that most Palestinians think the overall economic situation has declined, but that educational facilities and quality have improved, and roads, solid waste, health facilities, and the quality of health care are all better than they were five years ago. In addition, donors got more favorable ratings on their performance in supporting economic development (60% rated it as good or very good) than either the PA or NGOs (comparable ratings were 40% and 49%, respectively).

4.6 Although much remains to be done to continue to improve the quality of water and sanitation, the road network, and the education system, the standard of living of a large part of the population has been improved through the investments in infrastructure, in spite of the decreases in per capita income over the same period. The Bank was an integral part of these efforts.

<sup>27</sup> The percent of households connected to public water increased from 81 to 86% between 1995 and 1997; the percent connected to public sewage increased from 25% to about 38% between 1992 and 1999.

## Poverty alleviation

4.7 In spite of the disappointing economic performance, there is some evidence that poverty may have decreased over the 1996-98 period, as measured by household surveys, decreasing from 27 percent of the population in 1996 to 23 percent by 1998, and was estimated at about 21 percent by the end of 1999.<sup>28</sup> This trend, being highly dependent on employment opportunities in Israel, was most likely reversed by the end of 2000, but figures are not yet available. The Bank played an important role in cushioning the impact of worsening economic conditions through its support for employment generation. Specifically, the Holst Fund's 1996 employment program, along with similar programs supported by other donors, provided short term employment to those who had worked in Israel. Employment creation was significant, amounting at its peak to 20,000 jobs/month.<sup>29</sup> Although this fell short of the goal of creating 50,000 jobs/month, it made a substantial contribution to the goal of providing a safety net. Equally important, the job creation program (which received considerable local press coverage) signaled to the local population that the international community was involved and anxious to help.

4.8 The Bank's longer-term approach to poverty alleviation focused on economic growth, to be fueled by the private sector, considered in the next paragraph. But one area related to poverty alleviation that did not receive much attention was population growth, which in WB&G has been very high and which underlies the pressures on services and the need for employment generation.<sup>30</sup> To the extent that other donors are focusing substantial efforts in this area, the Bank may not need to make population growth a focus of future strategies. It should be acknowledged, however, as an important issue.

## Private sector development

4.9 A third major theme of the Bank's strategy was support for private sector development. In this regard, the Bank (as well as IFC and FIAS) and other donors have provided assistance on a wide variety of measures, including legal and regulatory changes, risk insurance funds, guarantees, development of an industrial zone, improvements in housing finance, support for microfinance, as well as support for basic infrastructure and laying the groundwork for future participation by the private sector in the provision of water and energy. The legal legacy in Gaza is influenced more by Egypt, while in West Bank it has been influenced more by Jordan, and both have elements from Great Britain and the Ottoman Empire; as a result, much remained to be done even to

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<sup>28</sup> The poverty rate is high by regional standards, but this is due to the fact that price levels in WB&G are close to those in Israel, a high income country; when GDP per capita is measured in purchase power parity (PPP) terms, which takes into account the price level, the poverty rate in WB&G lies in the expected range of countries with similar per capita income expressed in PPP terms.

<sup>29</sup> In 1992, roughly 115,000 Palestinians from WB&G were working in Israel; in 1996, at the peak of the border closures, the number had dropped to about 30,000; between Sept. 95 and May 96, unemployment in WB&G increased by 57,000 (source: *Development Under Adversity: the Palestinian Economy in Transition*, edited by Ishac Diwan and Radwan Shaban, 1999).

<sup>30</sup> The Region argues that "First, the client was not ready to deal with this and therefore programs were likely to have limited impact. Second, other donors addressed this issue....The Bank was deliberately selective and decided not to be involved in line with the CDF concept of selectivity". That said, OED believes that the Bank in its presentations (to the Board, to the CG) on long-term issues in WB&G could have acknowledged more forcefully the importance of high population growth and the need for family planning policies to address it.

harmonize the legal and regulatory environment. A recent report by the Council on Foreign Relations (“Strengthening Palestinian Institutions”, 1999) noted considerable progress on modernizing a wide range of laws, covering the monetary authority; investment promotion; commercial and financial transactions; accounting and auditing; pensions; and intellectual property. Although initially slow to get started, both the industrial estate and MIGA’s Palestinian Investment Guarantee Fund (both supported by TFGWB) have attracted some private investors.

4.10 Nevertheless, overall private investment has decreased as a percentage of GDP, from about 20% in 1994 to only 14% of GDP in 1998, and some 80-90% of this investment was in housing construction. Although the single most important source of employment is the private sector in WB&G, between 1995 and 1998 its importance decreased in terms of job creation.<sup>31</sup> WB&G has been unable to harness the potential investment it had hoped from the Palestinian diaspora, in spite of efforts by the Bank and other donors to help the PA create the enabling environment. The main constraints to attracting private investors have been political uncertainties, closures, very high transaction costs in clearing Israeli security procedures (reflected in responses to a business survey carried out in 1999 in WB&G), as well as the need to foster a more transparent and predictable legal, regulatory, and commercial environment. The Bank’s efforts to promote an enabling environment for private sector development have not been able to overcome these constraints.

### **Institutional development**

4.11 Finally, the fourth area of focus can broadly be considered institutional development: Bank assistance in support of the start up and establishment of a fully functioning Palestinian administration. Without the Holst Fund, administered and monitored by the Bank, the PA would not have been able to start up or survive the initial years. Although the funds were slow to start flowing (see para. 3 in Addendum for discussion), they nevertheless provided room for the PA to develop revenue capacity. The Holst Fund is a useful model for other post-conflict situations.

4.12 In addition, activities financed under the TFGWB, the TATF, non-lending services, Institutional Development Funds, and the Post Conflict Fund have involved a wide array of institution building activities. It has not been possible to evaluate in detail the outcome of these instruments, most of which are still on-going, but they have provided timely assistance to many institutions and agencies at various levels of government. For example, the formal sector work on health and on public sector management and informal sector work such as conferences on trade issues may have had a positive impact on the capacity of the PA to address policy issues. The Bank has helped to support the development of NGOs, partly by convincing the PA that NGOs had a useful role to play in providing services and the PA in providing regulatory functions and partly by supporting the development of NGOs through a direct grant. One important area of concentration has been in strengthening local governments and local service delivery through assistance directly to municipalities (under the two Municipal

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<sup>31</sup> Over the 1995-98 period, employment in the private sector in WB&G grew by only 11 percent, compared to 47 percent in the public sector and 72 percent in Israel.

Infrastructure Development Projects); sector work analyzing intergovernmental and municipal finance; associated projects dealing with infrastructure/utilities (Gaza Water and Sanitation project; Southern Area Water and Sanitation Services project and others); and numerous workshops on these topics, some of which were organized with WBI. The Bank's multi-faceted approach to institutional development might have benefited, however, from greater focus. For example, an opportunity may have been missed at the time of designing the Palestinian Expatriate Professional Program to agree with the PA on a few priority areas for strengthening public sector management and limiting the use of the funds to those areas. As it is designed, it is demand driven, and spread thinly over many ministries and agencies and many types of positions.

4.13 In spite of progress in some areas, important issues of institutional development remain. The Bank as well as other donors have been vocal in their concerns over the build up of public sector employment, which has reached unsustainable levels (para. 1.10). Although the Bank seriously considered adding conditionality to its assistance related to this and other issues, the situation in WB&G was considered too fragile and political pressures too great to allow the Bank to use its leverage to push for greater reforms. This highlights the constraints faced by the Bank in other post-conflict situations (see paras. 3.30-31).

**Using a Project Implementation Unit (PECDAR): the controversy.**

4.14 The Bank was instrumental in helping to establish PECDAR, which has served, and for the most part served very well, as an implementing agency for Bank and other donor funds. Most observers thought PECDAR was efficient, competent, and transparent in its use of funds.

4.15 When the Bank approved financing for the first investment project in 1994, no existing structure or agency in WB&G could implement projects in a number of sectors and throughout the territory. The establishment of PECDAR was critical to project implementation. From the beginning it was envisaged as transitional, until the PA could establish technical ministries capable of taking over. Seven years later, PECDAR is still implementing donor-funded investment projects and its role has become increasingly contested by line ministries. The problem for the Bank, other donors, and the PA is that PECDAR is a competent and reliable agency, while many ministries have limited capacity for implementing investment projects.

4.16 This situation is not unique to WB&G. The dilemma exists wherever the Bank has relied on autonomous or semi-autonomous project implementation units (PIUs), with specialized skills, a higher salary scale and often better facilities (offices, vehicles, equipment) than government. The short-term benefit of good project implementation has a direct trade-off with long-term institutional development of line ministries. Sometimes the existence of a PIU creates tensions and jealousies among government officials.

4.17 Although ultimately the appropriate role for PECDAR will be decided by the PA, the Bank has taken the position that PECDAR should become more of a service agency to the Ministries in such activities as procurement, financial management, competitive bidding processes, and design work; some donors continue to use PECDAR, however, as



an implementation unit. If PECDAR can change successfully into an agency that hires its services to Ministries, the PA would still be gaining from PECDAR's competency in project implementation, while line ministries could develop appropriate skills in the oversight of investments.

## 5. CONCLUSIONS, RATINGS, AND RECOMMENDATIONS

### Conclusions and ratings

5.1 Some counterfactuals. Notable improvements have been made since 1993 in infrastructure and the quality of many services, almost entirely donor funded; the Bank has been a major player in this area. In employment generation and poverty alleviation, the Bank deserves credit for responding quickly and effectively to cushion the economic shocks to WB&G economy in both 1996 and again in 2000. The case can be made that without such donor assistance in which the Bank has played a central role, the disappointments emerging from a failure to reap peace dividends might well have resulted in more violence, earlier. The relative calm and limited progress toward more permanent peace during the seven years between 1993 and 2000 can be attributed in some part to the effective efforts of the donor community and of the Bank. In addition, neighboring countries have benefited from the relative stability and calm in WB&G; this regional aspect is part of the rationale for the Bank's involvement in WB&G in the first place (para. 3.6).

5.2 OED finds that in spite of the poor economic performance in WB&G, it would have been worse in the absence of donor, and in particular, Bank assistance. The rigor with which the Bank supervised the use of the Holst Funds gave confidence to donors to contribute; without it, the PA would have taken much longer and had a much greater struggle to become established. Without various forms of technical assistance, both lending and non-lending, the PA would be a weaker administration than it is today.

5.3 Finally, although aid coordination remains problematic in some areas and many donors are still supply-driven, without the Bank's intellectual and technical guidance to the process, monitoring of overall aid flows and dissemination of information, there probably would have been more duplication of effort and larger gaps in donor assistance.

5.4 Ratings. Although exogenous shocks have negatively affected developments in WB&G, as the discussion above on the counterfactual indicates, OED considers that The Bank has made a positive contribution to developments in WB&G (access to infrastructure; employment generation and poverty alleviation; the ability of the PA to start up its operations; and successes in aid coordination). *The outcome of the Bank's assistance should therefore be considered satisfactory* (Ratings Glossary, Attachment 1).

5.5 *Institutional development* has been one of the most challenging aspects of that assistance, particularly given the post-conflict nature of the situation and the enormous challenges that this has entailed. Specific efforts have had positive impacts on the PA, agencies, ministries, municipalities, and NGOs. Nevertheless, the context has been

difficult, the issues are highly sensitive and in some cases political, and progress has been affected by periodic crises. Impact has been limited in key areas of civil service reform, public sector management, and fiscal sustainability. *Overall institutional development impact is rated as modest.*

5.6 *The question of sustainability* hinges on the likelihood that the benefits of Bank assistance will be resilient to risks. Most of the tangible benefits of Bank assistance have been in increased access to infrastructure and, to a lesser degree, in institution building. A substantial risk for the future is the ability of the PA and its agencies, municipalities, and local villages to allocate adequate financial and human resources for operations and maintenance of the infrastructure and for continued service delivery. Without substantial reforms in the PA's fiscal management and in intergovernmental and municipal finances, operations and maintenance of the investments is unlikely to be adequate. On the other hand, agencies may be in a better fiscal position to maintain their investments. At the village and local community levels, because of the extent of participation from the outset in the selection and implementation of infrastructure and the use of local materials and labor, sustainability is more likely. On top of these considerations, however, the resilience of most benefits, even on the institutional side, would depend on the political situation and the frequency and severity of border closures. If the current crisis conditions continue, sustainability of the benefits of the assistance is unlikely, because normal movement of people and goods is impossible. If, on the other hand, peace is restored and normal movement of good and people is resumed, and if the PA and other agencies and municipalities are able to introduce the necessary reforms, improve fiscal management, and allocate sufficient resources for operations and maintenance, then sustainability of benefits would be likely. Given the many uncertainties facing WB&G at this time, it is unclear whether the benefits of the Bank's assistance will be resilient to the considerable risks facing WB&G. *Sustainability is rated as uncertain.*

5.7 On Bank performance, OED finds that overall the Bank's strategy and assistance, including the administration of the donor-financed funds, has been timely and relevant. The Bank responded quickly to the evolving situation, was innovative and client oriented, had a positive impact on donor coordination, provided high-quality intellectual leadership, and set many examples of good practice (see Box 5.1). Although Bank performance has been criticized by observers on a number of counts (the shift to short-term emergency assistance at the expense of focusing on longer-term needs; applying insufficient pressure on issues of public management; see Addendum for discussion), OED thinks the many positive features of Bank performance outweigh these criticisms.

5.8 Given the difficult initial and on-going conditions, Borrower performance has been mixed. The PA didn't exist in early 1994, and assistance was delivered in the absence of any administrative capacity. On the positive side, PECDAR served initially as the main implementing body on behalf of the administration and has proved to be very competent. In addition, the PA made progress in establishing relevant ministries and operational capacity to plan and execute the responsibilities of an administration, including both the recurrent and development functions; progress has been made in improving transparency in budgetary controls and in disclosure. Some agencies and ministries, such as education, are also quite competent. A number of municipalities have improved their planning capacities. On the negative side, however, the PA has not been

able to contain the size of the public bureaucracy and suffers from problems of duplication, and important issues of civil service reform, legal and judicial reform, and improved public sector management remain.

**Box 5.1 Innovation and good practice: many examples**

The Bank's program in WB&G is noteworthy for the large number of examples of innovation and good practice, in lending and in non-lending activities. In the early years, *the Holst Fund stands out as an example to be followed* in other emergency and/or post-conflict situations, both in its earliest rationale, in support of start up of a fledgling administration and its later use for emergency employment creation.

*WB&G was the first program to be decentralized to the field*, in 1994, before the practice was mainstreamed throughout the Bank. It provided a model for transferring decision-making and accountability to the field.

*The establishment of PECDAR* in the early years, although its role has become controversial (see discussion above), was nevertheless the right thing to do and a model that should be followed in other similar situations. PECDAR's establishment was modeled after a similar arrangement in Lebanon.

*The Water and Sanitation Services Project in Gaza* (FY97) has been widely heralded as a best practice: a management contract was funded for a private, internationally recognized water operator, and the early signs of improved availability of water, vastly reduced losses, and increased revenues suggests that this has had excellent results.

In recognition of the important role of NGOs in service delivery, particularly in health and education, the Bank approved the *Palestinian Non Governmental Organization Project* (FY98) which is the first of its kind to provide direct grant financing to a consortium of NGOs. Although the Bank has channeled financial support to NGOs in many countries, this is the first time the Bank has done so directly, without lending to or having the guarantee of a government or administration.

The Bank has made a *considerable effort at self-evaluation*: it carried out beneficiary impact assessments for the emergency employment generation activities financed by the Holst Fund and for the Community Development Project; it is one of the few donors to do this in an effort to improve design of future interventions. It carried out an effectiveness audit of the TATF. And with funding from Japan, the Bank, as Secretariat of the AHLC, undertook a substantial Aid Effectiveness Study and an Assessment of Aid Coordination. Finally, it financed the first service delivery survey in WB&G to examine the delivery of health and basic education services.

The Regional office has been publishing for more than three years, on a quarterly basis, *the West Bank and Gaza Update*. Each issue has slightly different coverage, but typically it contains information about the on-going TFGWB-funded operations; IFC operations and joint-funded projects; future projects in the pipeline; recent economic developments in WB&G; and other topical subjects, such as recent findings from sector work; and a presentation of the CDF. It is printed in English and Arabic and widely disseminated within WB&G.

## **Lessons and Recommendations**

5.9 OED finds lessons from the Bank's experience in WB&G that are relevant for other post-conflict situations as well as for the WB&G program in particular. First, although the Bank did become involved in a situation that was not truly "post" conflict, OED thinks that the Bank took an appropriate risk in assuming the roles of administering donor and IBRD funds to WB&G. Had the Bank waited until a final peace agreement was reached, the peace process might have been derailed much sooner.

5.10 Second, the focus on shorter-term, visible developments such as in infrastructure was justified in this context, but it is equally if not more important to ensure longer-term institution building. Although less visible, ensuring a competent, transparent, fiscally sound governing structure is at the heart of the sustainability of whatever improvements are made in the standards of living and the economic environment. In other post-conflict situations, either the Bank or other donors should try to ensure that institution building is a high priority for development assistance.

5.11 Third, in spite of the delay in start up, the Holst Fund should serve as a model for other post-conflict situations. Its success would depend, of course, both on the willingness and speed of Bank staff in drawing on the experience of those initially involved in designing such a fund as well as on the willingness of the donor community to participate. The flexibility of the instrument means, however, that the quality and judgment of the staff responsible for managing it are even more important than in more "normal" situations.

5.12 Fourth, the Technical Assistance Trust Fund in WB&G had sound objectives of institution building and project preparation, but was too ambitious and too detailed in its design. In a post-conflict setting, in particular, where there is considerable uncertainty, it is preferable to take a flexible approach to providing technical assistance, start with modest amounts of funding and be prepared, as it was in the case of WB&G, to commit large resources to close supervision.

5.13 For future assistance to WB&G, it is important to become more selective. In OED's view, the Bank should concentrate on targeting infrastructure delivery and services to poorer segments of the population and public sector management (civil service reform, economic policy reforms). This would have several advantages: it would avoid dispersal of Bank efforts; increase the efficiency of Bank operations; reduce risks of duplication with other donors; and allow for follow-up operations in selected areas.

5.14 The experience with CDF in WB&G highlights difficulties of using this process in a post-conflict setting, where the counterpart government is likely to be weak and where delivery pressures on donors are likely to be strong. For the future, the Bank will need to focus on a few key areas and sectors and provide support to the PA to set priorities for assistance to those areas.

**ADDENDUM: Evaluation of individual instruments**

Evaluation of the Holst Fund. The Holst Fund was a creative, innovative, and appropriate response to an unusual situation. The Fund mobilized considerable amounts of resources from 26 donors and was able to disburse them relatively efficiently. Serious efforts were made to ensure that the funds were used for the purposes intended; there is no indication that funds were diverted or improperly used. Although it was an unusual use of donor funds and Bank assistance, it has to be seen in the context of the overarching objective of providing economic benefits to sustain the peace process. The implicit counterfactual is that without such assistance and, equally important, without the highly visible show of support for the WB&G at this time (the employment creation was widely reported in local newspapers), the social fabric of Gaza, in particular, might have been severely strained, with a resulting derailment of internal stability, and disruption to the peace process. The fact that the peace process has been disrupted, however, does not mean that the impact of the Fund has not been positive.

Furthermore, the Holst Fund has been cited as a model that should be used elsewhere under certain emergency situations. It should be considered the ultimate in donor coordination with minimal transaction costs for the recipient: one fund administered by one agency used for purposes which all parties, donors and recipients, agree are priorities.

Two criticisms have been voiced that bear further examination: the Holst Fund took too long for the funds to start disbursing (roughly six months, in what was considered an emergency situation); and it indirectly encouraged the enormous build up of the PA civil service and security forces beyond what is affordable or sustainable.

On the first issue, the six month delay was due to a combination of factors, not all of which are attributable to bureaucratic slowness. It is true that the Bank was initially reluctant to administer such a fund. It had never done this before and was uncomfortable with the purely recurrent nature of the support, with the potential for mismanagement and reputational risk involved. But in addition, in spite of strong international interest in providing assistance to WB&G, donors still took some convincing to provide resources to a fund which blended all donor moneys into one pool, and for funding civil servants' salaries; this was definitely not "business as usual". And third, appropriate systems and mechanisms had to be set up on the Palestinian side to ensure adequate transparency and accountability in the use of the funds.

On the second criticism, the Holst Fund provided recurrent cost support to the PA only until April 1996, at which time PA employees numbered roughly 65,000 (a threefold expansion over the roughly 23,000 employees at the end of 1993). The increase up to this point can arguably be justified as a response to the transfer of administrative and security responsibilities from Israel to the PA. But employment continued to increase dramatically beyond mid-1996. By the end of 1999, employment numbered over 103,000, well beyond the limits that the PA had tried to set at the beginning of the year. There is evidence that these increases are not related to increasing responsibilities of the PA. Thus, it is difficult to argue that the funding provided by the Holst Fund per se

encouraged the PA to expand to its currently unsustainable level. The question nevertheless remains as to why the Bank didn't take a stronger stand against the build up of the PA. The answer has to do with the unique political pressures that existed in this post-conflict context, discussed in the main body of the text (paras. 3.32-3.33).

The Bank has proposed to the donors a follow up to the Holst Fund, for slightly different purposes, including project preparation. In what is clearly not a stable, predictable, post-conflict situation, the Bank thinks that such a fund would be useful for meeting further contingencies. The formula has proved to be an excellent vehicle for harnessing donor resources and providing flexible support to meet unexpected emergencies.

Evaluation of the TATF. OED did not evaluate the outcome of the TATF, but it did review design and implementation issues with a number of people involved in the past as well as currently. It also drew on an Effectiveness Audit Report of the TATF from February 1998.

The TATF was, from the outset, ambitious in scope and size; its design was established without the benefit of a counterpart government in place to assess implementation/absorptive capacity, although activities were planned in about 15 sectors. In the event, it was over-optimistic regarding the speed and efficiency with which the identified projects could be carried out. PECDAR was established in October 1993 to serve as facilitator of the TATF and other donor funds, but for a number of reasons that had to do with tensions among PECDAR, the PA ministries, and the Bank, the TATF was particularly slow to start up and extraordinarily expensive to administer – between 1994 and 1996, 500 staffweeks of Bank time alone (estimated \$2 million) were spent.

The TATF continues to be costly to administer, and a number of Palestinians involved with implementation complained about the slowness of Bank response on some projects and confusion about disbursements; this reinforces findings in other OED work that “umbrella” style technical assistance funds, even in countries with otherwise excellent implementation records, are extraordinarily expensive and cumbersome to supervise adequately.<sup>32</sup> In WB&G, border closures have also been cited as a factor slowing implementation.

On the positive side, a number of the implemented projects have been useful, for example, feasibility studies that have led to donor-funded projects; in this respect the TATF has helped mobilize donor funds which might not otherwise have been available, or only with significant delays. A number of TATF funded training and institution-building activities appear to be having a positive impact, while others have more questionable relevance or outcome.

Experience elsewhere shows that technical assistance funds can be useful instruments for delivering a range of activities designed to support institutional change and development, especially for relatively new borrowers. More successful examples of

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<sup>32</sup> See, for example, Performance Audit Report on technical assistance projects in China (Report 16803, OED, 1997).

the use of this instrument indicate, however, that a flexible design is preferable to a more detailed, blueprint approach. The Technical Cooperation Program (TCP) to the former Soviet Union, for example, used four broad priorities to define activities and is considered to have generally successfully implemented (although it, too, had problems and was costly to supervise). Other new borrowers, including Georgia, Albania, and Armenia, had free-standing technical assistance credits, all of which were found to be satisfactory or marginally so; in all of them the flexibility of the instruments and attention to supervision were cited as factors contributing to their success.

In post-conflict situations, the challenges of delivering effective technical assistance may be even greater. In Eritrea and Cambodia, for example, delivering effective technical assistance has been plagued with difficulties. These findings reinforce the conclusions from experience with technical assistance projects in more “normal” settings: (a) within broadly defined priorities, *flexibility should be built into technical assistance provided in post-conflict or highly unstable situations* (which was not the case in the TATF in WB&G); (b) the Bank should make particular effort to *ensure adequate resources and staff continuity for supervision* (as it has in the case of WB&G).

Evaluation of the Bank’s role in aid coordination. From the outset the Bank was asked to assume a broader leadership role in aid coordination than it traditionally plays as convener of CGs.<sup>33</sup> Accustomed to taking a long-term perspective and focusing primarily on economic issues, the Bank found itself operating in a crisis environment where it had to seek consensus on issues of great political sensitivity. The fast-moving situation in WB&G required the Bank to respond quickly and flexibly to events, and to play the role of neutral broker and mediator as well as technical advisor. As one staff member put it “suddenly, we were doing things we had never done before in a highly fluid and politicized environment”.

The Bank has, in the main, risen to the challenge. The decision to delegate responsibility to the field, the first in the Bank, allowed for faster, more flexible responses. The Bank was instrumental in shifting donor support to priority areas in response to the economic crisis and has played a prominent role within WB&G in aid coordination efforts.

As secretariat to the AHLC, the Bank got good marks from most informed observers, who appreciated the technical and analytic rigor the Bank brings to the table and thought there would be even more overlap and disorganization among donors if the Bank were not involved. On the other hand, the Bank has been criticized for a perceived failure to exert stronger political management. OED does not agree with these criticisms.

For example, in September 1994, the CG meetings collapsed for political reasons – a Palestinian-Israeli dispute over proposed investments by Palestinians in Jerusalem. Some have argued that the Bank should have pre-empted the dispute at the meetings by reviewing the documents to be presented by the PA at the CG, to ensure that the documents: were consistent with existing agreements; did not pre-empt any final status

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<sup>33</sup> Normally national structures and/or the UN would have taken a stronger coordination role, but in this case the PA has little capacity to coordinate and the US and Israel were resistant to a strong UN role.

issues; and were shared with all interested parties, particularly the Israelis, Palestinians, and other donors before the formal conference. The Bank argues, however, that the Bank cannot control presentations made by the PA at these meetings.

What emerged from the CG collapse was a Tripartite Action Plan, brokered by the AHLC with the Bank serving as secretariat, in which the Palestinians, Israel, and the donors all agreed to specific actions within a given timeframe. The first Tripartite Action Plan, for example, committed donor funds for a specified period in return for Israeli and Palestinian actions to address the tax situation and expenditure controls. The Tripartite Action Plan was on-going at the time the peace process halted in 2000, and was monitored regularly by the AHLC/Bank. Although the Tripartite Action Plans lacked enforceability, it was a process that provided more transparency and accountability for all the parties involved, and the Bank had a major role in maintaining it.

In spite of this mechanism, however, the CG meetings were almost aborted a second time, in early 1999, again because of a Palestinian-Israeli dispute, although the meetings did continue and finished their agenda. Although again there was criticism of the Bank for not pre-empting the disruption, many of those present at the meeting praised the Bank for its handling of a politically delicate and highly charged situation. These events highlight the challenge to the Bank of playing several roles, while maintaining political neutrality; some of the roles called for by operations in post-conflict situations demand more than the technical and economic professionalism with which Bank staff have historically been more comfortable.

The Bank was politically naïve and overly-optimistic, along with other donors, in the early years: the entire donor community expected that both economic development and the political process would proceed smoothly. The main lesson that emerges from this experience is that post-conflict situations are usually unstable and that political setbacks that derail progress toward economic development should be expected and prepared for in the assistance strategy. The Bank has become much more conscious of these risks than before in WB&G, but it is not clear whether the experience there has translated to other situations.

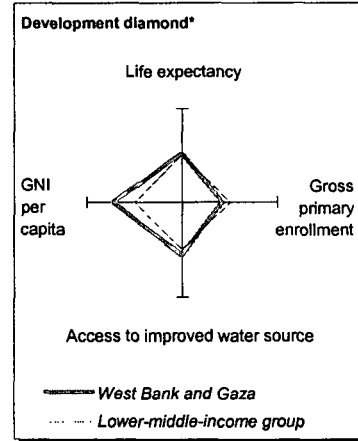
With respect to encouraging PA ownership, the Bank and other donors have made considerable efforts to build PA capacity. In 1997, the PA assumed responsibility for preparing projects and, more important, preparing their own development plans. The Bank also handed over responsibility for managing donor databases to the PA. All of these activities have been supported with considerable technical assistance support from donors. Although it took several years for the PA to assume responsibility for these tasks, it is unlikely that the PA would have been prepared to take over any earlier.



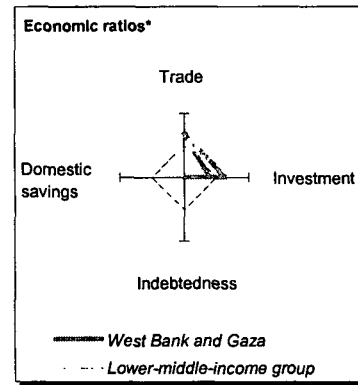
# West Bank and Gaza at a glance

9/17/01

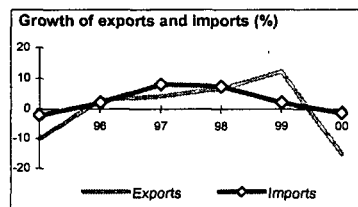
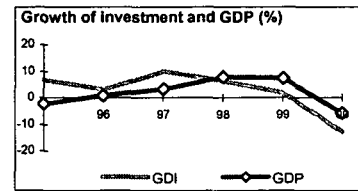
POVERTY and SOCIAL	West Bank & Gaza	M. East & North Africa	Lower-middle-income
<b>2000</b>			
Population, mid-year (millions)	3.0	296	2,046
GNI per capita (Atlas method, US\$)	1,650	2,040	1,140
GNI (Atlas method, US\$ billions)	4.9	602	2,327
<b>Average annual growth, 1994-00</b>			
Population (%)	4.5	2.0	1.0
Labor force (%)	4.7	2.8	1.3
<b>Most recent estimate (latest year available, 1994-00)</b>			
Poverty (% of population below national poverty line)	23	..	..
Urban population (% of total population)	54	59	42
Life expectancy at birth (years)	72	68	69
Infant mortality (per 1,000 live births)	15	44	32
Child malnutrition (% of children under 5)	..	..	11
Access to an improved water source (% of population)	90	89	80
Illiteracy (% of population age 15+)	14	35	15
Gross primary enrollment (% of school-age population)	97	95	114
Male	97	102	116
Female	96	88	114



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1980	1990	1999	2000
GDP (US\$ billions)	..	..	4.3	4.3
Gross domestic investment/GDP	..	..	38.1	34.1
Exports of goods and services/GDP	..	..	15.7	13.7
Gross domestic savings/GDP	..	..	-19.0	-24.9
Gross national savings/GDP	..	..	8.4	1.9
Current account balance/GDP	..	..	-29.7	-32.7
Interest payments/GDP	..	..	..	..
Total debt/GDP	..	..	7.2	9.0
Total debt service/exports	..	..	..	..
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..
<b>(average annual growth)</b>				
GDP	..	..	7.4	-5.9
GDP per capita	..	..	3.3	-9.9
Exports of goods and services	..	..	12.3	-15.1



STRUCTURE of the ECONOMY	1980	1990	1999	2000
<b>(% of GDP)</b>				
Agriculture	..	..	8.4	7.7
Industry	..	..	28.9	27.1
Manufacturing	..	..	18.4	15.1
Services	..	..	62.6	65.2
Private consumption	..	..	94.1	93.1
General government consumption	..	..	25.0	31.8
Imports of goods and services	..	..	72.9	72.7
<b>(average annual growth)</b>				
Agriculture	..	..	6.0	-11.7
Industry	..	..	11.2	-11.9
Manufacturing	..	..	10.2	-12.8
Services	..	..	7.6	-3.7
Private consumption	..	..	4.3	-3.6
General government consumption	..	..	9.7	15.5
Gross domestic investment	..	..	1.9	-12.9
Imports of goods and services	..	..	2.0	-1.4



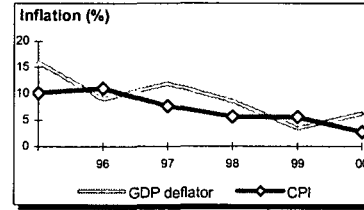
Note: 2000 data are preliminary estimates.

\* 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.

## West Bank and Gaza

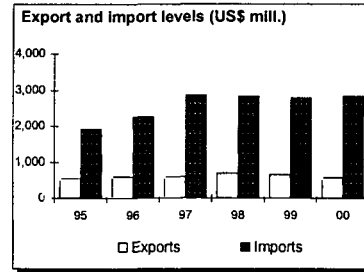
## PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
<b>Domestic prices</b>				
(% change)				
Consumer prices	..	..	5.5	2.7
Implicit GDP deflator	..	..	3.5	6.3
<b>Government finance</b>				
(% of GDP, includes current grants)				
Current revenue	..	..	27.8	28.0
Current budget balance	..	..	1.0	-5.0
Overall surplus/deficit	..	..	0.9	-4.6



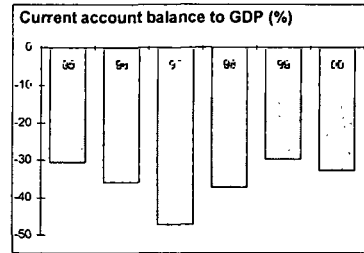
## TRADE

	1980	1990	1999	2000
<b>TRADE</b>				
(US\$ millions)				
Total exports (fob)	..	..	667	591
n.a.	..	..	..	..
n.a.	..	..	..	..
Manufactures	..	..	..	..
Total imports (cif)	..	..	2,798	2,837
Food	..	..	..	..
Fuel and energy	..	..	..	..
Capital goods	..	..	..	..
Export price index (1995=100)	..	..	..	..
Import price index (1995=100)	..	..	..	..
Terms of trade (1995=100)	..	..	..	..



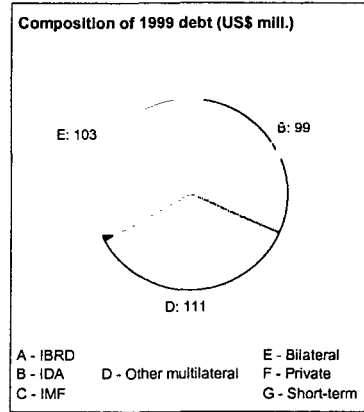
## BALANCE of PAYMENTS

	1980	1990	1999	2000
<b>BALANCE of PAYMENTS</b>				
(US\$ millions)				
Exports of goods and services	..	..	679	602
Imports of goods and services	..	..	3,146	3,190
Resource balance	..	..	-2,467	-2,588
Net income	..	..	802	729
Net current transfers	..	..	379	443
Current account balance	..	..	-1,286	-1,416
Financing items (net)	..	..	..	..
Changes in net reserves	..	..	..	..
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	..	..	..
Conversion rate (DEC, local/US\$)	..	..	4.1	4.1



## EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
<b>EXTERNAL DEBT and RESOURCE FLOWS</b>				
(US\$ millions)				
Total debt outstanding and disbursed	..	..	313	391
IBRD	..	..	0	0
IDA	..	..	99	129
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	..	..	52	29
Disbursements	..	..	33	30
Principal repayments	..	..	0	0
Net flows	..	..	33	30
Interest payments	..	..	0	0
Net transfers	..	..	33	30



**Table 2: Key Economic Indicators, 1994-99**

	1994	1995	1996	1997	1998	1999
<b>Income and employment:</b>						
Real GDP growth (in percent)	8.2	-2.4	-3.2	4.8	7.0	6.0
Real GDP per capita growth (in percent)	1.8	-7.7	-7.6	0.8	3.1	2.1
Real private per capita consumption growth (in percent)	-3.0	-6.4	-4.8	0.6	2.5	
Unemployment (in percent)	15.0	18.1	24.2	19.6	14.5	11.8
Total employment (in thousands)	395	407	397	441	494	537
In West Bank Gaza	324	342	342	364	387	415
In Israel and the settlements	71	66	55	77	107	122
<b>Investment (in percent of GDP)</b>						
Gross capital formation	29.2	36.3	32.7	39.4	35.0	32.9
Private	23.2	25.4	23.1	29.5	26.1	26.1
Public 1/	6.0	9.2	6.7	6.8	6.0	5.0
Change in inventories	0.0	1.6	2.9	3.1	2.9	1.8
<b>Fiscal operations (in percent of GDP)</b>						
Revenue 2/	7.9	11.8	18.9	21.6	22.0	23.4
Current expenditure 3/	8.8	13.6	22.9	22.7	21.4	22.3
Total expenditure 3/	14.7	22.9	29.6	29.5	27.5	27.3
Recurrent balance 3/	-0.9	-1.9	-4.0	-1.1	0.6	1.1
Recurrent balance 4/	-0.9	-1.9	-4.0	-1.0	2.5	1.3
Overall balance 3/	-6.8	-11.1	-10.7	-8.0	-5.4	-3.9
<b>Balance of Payments (US\$ millions)5/</b>						
Exports of goods and services	456	611	653	661	730	740
Imports of goods and services	1,433	2,089	2,509	2,735	3,169	3,398
Net factor income	575	535	469	606	828	914
Current transfers 5/	559	553	594	385	354	385
Current account balance 5/	157	-390	-793	-1,083	-1,256	-1,358
Donor financing 6/	665	795	735	716	549	594
<i>Of which:</i> development plan 6/	497	615	539	489	382	416
Donor financing (in percent of GDP) 6/	19.6	22.1	20.3	18.7	14.0	14.1

Sources: West Bank and Gaza Strip – Palestinian Central Bureau of Statistics (PCBS); Ministry of Finance; Ministry of Planning and International Cooperation (MOPIC); and IMF staff estimates.

1/ Includes investment through UNRWA and NGOs where the financing is recorded by MOPIC.

2/ Includes revenue transferred to accounts outside the control of the Ministry of Finance

3/ On a commitment basis

4/ On a cash basis

5/ Balance of payments data are particularly weak.

6/ Total donor financing includes disbursements through the development plan plus donor support for UNRWA's operational budget and to NGOs outside of the development plan. The development plan refers to all aid recorded by MOPIC.

**Table 3: Social Indicators: WB&G, 1970 and 1996**

	1970	1996
Life expectancy (years)	56	72
Total Fertility		6.2
Natural pop growth rate (%) <sup>1/</sup>	2.5	4.0 <sup>2/</sup>
Maternal Mortality		70-80
Infant Mortality	95	40-45
Child Mortality (age 1-5)	73 <sup>3/</sup>	36
Gross primary enrollment (%)		96
Gross secondary enrollment (%)		52
Illiteracy (%)		16
Households with electricity (%)	30	
Households with safe water (%)	15	80
Access to public sewer		29
Percent of pop. in poverty		17-20 <sup>4/</sup>

Sources: (Unless otherwise indicated)

1970: World Bank, An Investment in Peace, Volume 1, page 5;

1996: World Bank, Development Under Adversity, 1999

1/ Excluding net immigration

2/ IMF Economic Developments, 1999

3/ Development under Adversity, figure is for 1980

4/ World Bank, Health System Development Project (1999), PAD, figure is for 1997

**Table 4: Comparative social indicators: W B&G, middle income countries in MNA Region and low middle-income countries (LMIC) 1996 or most recent year**

	WB&G	MNA countries (middle income)	LMIC
Life expectancy	72	69	68
Fertility rate	6.2	3.3	3.0
Infant mortality rate	42	36	34
Immunization rate, DPT	96	93	88
Mortality rate, under 5	36	43	44
Population growth rate	4.0	2.0	1.5
Illiteracy rate, adult	16	32	16
Gross primary school enrollment	96	103	102
Gross secondary school enrollment	52	63	64

Source: WDI

**Table 5: Gender disparity: WB&G and Low middle income countries, 1996 or most recent year available**

	<i>WB&amp;G</i>		<i>LMIC</i>	
	<i>Females</i>	<i>Males</i>	<i>Females</i>	<i>Males</i>
Life expectancy	73.5	70	70.8	65.5
Gross primary school en.	99	94	98	103
Gross secondary school	51	53.7	65	64
Illiteracy	23	8.5	20	12

Sources: For WB&G, IMF, Economic developments, 1999, p. 63  
For LMIC, WDI

**Table 6: Infrastructure services in WB&G and other countries: 1992-94**

	<i>Per capita income (US\$)</i>	<i>Electric supply (kW per 100 people)</i>	<i>Electric power system losses (%)</i>	<i>Households with sanitation (%)</i>	<i>No. of phones (per 100 people)</i>	<i>Paved roads (meters per 100 people)</i>
WB&G	1,450	13.0	30.0	25	3.1	80
Egypt	650	21.0	14.0	50	4.3	59
Jordan	1,120	25.0	19.0	100	7.0	170
Lebanon	2,500	32.0	Na	na	9.3	na
Syria	2,800	30.0	Na	63	4.1	180
LMICs*	1,620	21.5	12.4	na	7.9	na

\* Lower middle income countries

Source: Development Under Adversity: The Palestinian Economy in Transition, ed. Diwan and Shaban, 1999

Table 7: External Assistance: net receipts of ODA to WB&amp;G, 1993-98

Year	1993	1994	1995	1996	1997	1998
Donor						
AUSTRALIA	-	0.12	1.28	1.78	1.59	1.19
AUSTRIA	3.02	1.85	2.06	1.61	5.28	4.83
BELGIUM	-	-	5.6	1.56	2.65	4.59
CANADA	1.19	0.79	0.64	3.7	5.78	0.27
DENMARK	-	2.34	3.53	7.79	5.13	5.36
FINLAND	0.7	-	0.87	2.9	1.05	2.37
FRANCE	-	15.13	5.67	9.59	12.77	16.71
GERMANY	-	11.36	20.86	24.61	35.63	30.58
IRELAND	-	-	1.27	2.42	1.71	1.43
ITALY	1.54	9.02	7.74	6.14	8.58	5.61
JAPAN	-	-	3.7	7.51	53.76	46.3
LUXEMBOURG	-	-	0.19	1.13	0.75	1.31
NETHERLANDS	-	2.55	24.69	58.75	25.28	30.83
NEW ZEALAND	-	0.01	-	0.02	-	-
NORWAY	0.32	12.72	40.14	50.35	40.96	40.13
PORTUGAL	-	-	-	-	0	0.19
SPAIN	2.4	12.39	28.26	17.13	21.49	41.74
SWEDEN	6.45	9.38	17.44	27.64	20.8	15.97
SWITZERLAND	2.03	13.12	12.48	9.48	6.05	6.87
UNITED KINGDOM	2.59	9.62	6.76	5.41	10.16	9.7
UNITED STATES	19	64	-	27	70	77
DAC DONORS	39.24	164.4	183.18	266.52	329.42	342.98
EC	56.52	89.13	75.41	132.04	117.17	81.5
IFC	-	-	-	-	0.95	2.25
OTHER UN	-	0.15	0.29	1.39	-	-
UNFPA	-	0	0.06	0.74	1.8	-
UNICEF	-	2.56	4.18	2.98	1.82	1.87
UNRWA	82.25	179.45	180.2	118.22	125.04	154
UNTA	0.29	0.33	0.85	0.44	0.51	-
WFP	0.29	-	1.75	1.46	1.1	4.05
Arab Agencies	-	9.65	0.15	0.5	0.61	2.4
TOTAL MULTILATERAL	139.35	281.27	262.89	257.77	249	246.07
Arab Countries	0.12	26.96	52.34	27.88	26.58	21.89
EC + EU Members	73.22	162.77	200.35	298.72	268.45	252.72
TOTAL DONORS	178.71	472.63	498.41	552.17	605	610.94

Source: OECD, Development Assistance Committee, Geographical Distribution of Financial Flows to Aid Recipients, 2000

**Table 8: Portfolio of Projects Financed Under the TFGWB**

<i>Name of project</i>	<i>FY</i>	<i>Commitment (US\$ m)</i>	<i>Status</i>	<i>Joint financing (US\$m)</i>
Emergency Rehabilitation Project	94	30.0	Closed	86.2
Education and Health Rehabilitation Project	95	20.0		31.1
Municipal Infrastructure Development Project	96	40.0		5.4
Emergency Rehabilitation Project II	96	20.0	Closed	3.5
Gaza Water and Sanitation Services	97	25.0		50.0
Microenterprise Project*	97	5.0		18.0
Community Development Project	97	10.0	Closed	14.8
Housing Project*	97	25.0		19.0
MIGA Investment Guarantee Fund	97	10.0	Closed	
Legal Development Project	97	5.5		16.0
Palestinian Expatriate Professional Project	97	3.0		3.3
Palestinian NGO Project	98	10.0		4.6
Gaza Industrial Estate*	98	10.0		74
Bethlehem 2000	99	25.0		77.9
Community Development Project II	99	8.0		18.0
Southern Area Water and Sanitation Project	99	21.0		38.0
Electric Sector Management	00	15.0		76.0
Health System Development	00	7.9		
Second Municipal Infrastructure Development	01	7.5		5.0
Emergency Response Program	01	12.0		
Solid Waste and Environmental Management Project	01	9.5		
Education Action Project	01	7.0		
<b>Total</b>		<b>326.4</b>		<b>541</b>

\*With IFC

Table 9: QAG findings on Portfolio at Risk and OED findings on Closed Projects

Country	Projects (#)	Net Commit(\$m)	Projects at Risk (%)	Commit at Risk (%)	Realism(%)	Proactivity(%)
West Bank and Gaza	15	221	0	0	100	100.0

## OED findings

Project description	Commitment	Closing date	Outcome	IDI	Sustainability
First emergency rehabilitation project	30	12/31/98	Highly Satisfactory	Substantial	Likely
Second emergency rehabilitation project	20	6/30/99	Satisfactory	Modest	Likely
Community Development Project	10	12/31/00	Highly Satisfactory	Substantial	Likely



Table 10: West Bank and Gaza: IFC Projects as of January 31, 2001

	Loan	Equity	Q-Equity	Tot. Approved	Loan	Equity	Q-Equity	Tot. Committed	Loan	Equity	Q-Equity	Tot. Disbursed	Project cost
Arab Concrete-SEF	0.80			0.80	0.80			0.80	0.80			0.80	2.50
Nabahin-SEF	0.50			0.50	0.50			0.50	0.50			0.50	1.20
Pharmacare I-SEF	0.45			0.45	0.45			0.45	0.45			0.45	4.50
Al-Ayyam-SEF	1.80			1.80	1.80			1.80	1.80			1.80	5.20
Jericho Motel-SEF	1.17			1.17	1.17			1.17	1.17			1.17	8.00
Cold Storage-SEF	0.20			0.20	0.20			0.20	0.20			0.20	6.00
Arab Bank			3.00	3.00			3.00	3.00			0.90	0.90	8.00
Commercial Bank			1.50	1.50			1.50	1.50			0.58	0.58	4.00
Jordan National Bank			3.00	3.00			3.00	3.00			2.00	2.00	8.00
PMHC	15.00	4.00		19.00		2.98		2.98		2.23		2.23	72.00
Arab Palestinian Investment Bank		3.73		3.73		3.73		3.73		3.73		3.73	15.00
PIEDCO (Gaza Industrial Estate) *	15.00	1.00		16.00	8.00	1.00		9.00	1.00	1.00		2.00	39.00
Peace Technology Fund		20.00		20.00		12.60		12.60		4.55		4.55	60.00
PTF Management Co.		0.20		0.20		0.20		0.20		0.04		0.04	1.00
Bethlehem JP Hotel	8.00	1.35		9.35	8.00	1.35		9.35	8.00	1.35		9.35	49.00
<b>Total</b>	<b>42.92</b>	<b>30.28</b>	<b>7.50</b>	<b>80.70</b>	<b>20.92</b>	<b>21.86</b>	<b>7.50</b>	<b>50.28</b>	<b>13.92</b>	<b>12.90</b>	<b>3.48</b>	<b>30.30</b>	<b>283.40</b>

	Apprd	Commted	Disbrd	Project Cost
total main stream	75.78	45.36	25.38	256.00
total SEF	4.92	4.92	4.92	27.40
<b>TOTAL</b>	<b>80.70</b>	<b>50.28</b>	<b>30.30</b>	<b>283.40</b>

**Table 11 List of Analytic and Advisory Services, FY94-00**

<i>Title</i>	<i>Date</i>	<i>Report no.</i>
<u>Economic and Sector Reports</u>		
Developing the Occupied Territories: An Investment in Peace (6 volumes)	9/93	12360
Emergency Assistance Program for the Occupied Territories	4/94	Publication
West Bank and Gaza: The Next Two Years and Beyond	8/94	
Medium Term Development Strategy and Public Financing Priorities for the Health Sector	12/97	17053
Training Policy Development in the West Bank and Gaza Strip	10/98	19786
Post-Conflict Aid Coordination and Program Review of the West Bank and Gaza: Leading the Way Toward Innovation	2/99	Working paper
Development Under Adversity: The Palestinian Economy in Transition	3/99	Book
Strengthening Public Sector Management	10/99	Publication
Aid Effectiveness in the West Bank and Gaza	06/00	
Intergovernmental and Municipal Finance	11/00	
Poverty in West Bank and Gaza	01/01	
<u>CAS-type documents</u>		
World Bank Assistance to West Bank and Gaza Strip	9/93	R93-163
Further World Bank Assistance to West Bank and Gaza	7/95	R95-144
Replenishing the Trust Fund for Gaza and West Bank	12/96	R96-251
A World Bank Strategy for West Bank and Gaza and a Request for Replenishment of the Trust Fund for Gaza and West Bank	4/98	R98-96
Trust Fund for Gaza and the West Bank: Status Report and Requirement for Additional Funds	7/99	R99-143
<u>Ad-hoc policy studies and other informal support to PA</u>		
Private Sector Support Strategy	1994	
An Outlook for Public Investment and Associated Financing Needs	1995	
New Visions for the Economic and Social Development of the West Bank and Gaza (summary of conference)	1995	
Project Concept Notes as a Basis of the Core Investment Program	95/96	
Study of Water Management in West Bank and Gaza	1997	
Financial Sector Strategy Paper	1997	
Palestinian Public Investment Programme and Funding Needs for 1997	1997	
Identification of joint management structures for shared aquifers: a cooperative Palestinian-Israeli effort	11/98	WTP 415
<u>FIAS reports</u>		
Creating a Framework for Foreign Direct Investment	6/95	
Notes on the Law on the Encouragement of Investment	4/96	

**Table 12a: Total Cost of West Bank & Gaza program**

	1993	1994	1995	1996	1997	1998	1999	2000*
<b>Grand Total</b>	<b>65</b>	<b>1,955</b>	<b>3,363</b>	<b>3,854</b>	<b>3,466</b>	<b>3,032</b>	<b>2,700</b>	
Lending		387	686	1,519	1,563	1,124	934	1,006
Supervision		16	524	342	572	929	795	1,407
ESW	65	135	262	338	289	183	295	969
OPL/CAS		-	123	129	18	24	1	57
TA		1,092	1,165	880	369	275	168	-
ADC		325	329	245	351	286	222	443
KM		-	-	-	-	-	-	238
Others		-	5	13	-	16	171	287
Overhead		-	270	390	305	195	-	-
<b>Total without overhead</b>	<b>65</b>	<b>1,955</b>	<b>3,093</b>	<b>3,464</b>	<b>3,161</b>	<b>2,837</b>	<b>2,584</b>	<b>4,408</b>

\* SAP costs includes 25% overhead; figures are not directly comparable to pre-00 levels.

**Table 12b : Average Costs**

Costs		Indicator	BFY94	BFY95	BFY96	BFY97	BFY98	BFY99
West Bank and Gaza	ESW	Average Completion Cost (\$ '000)	-	-	5.5	-	285.7	242.9
Middle East And North Africa	ESW	Average Completion Cost (\$ '000)	190.3	188.9	169.2	196.6	160.2	182.7
Bank wide	ESW	Average Completion Cost (\$ '000)	190.5	171.5	180.2	196.7	177.1	157.1
West Bank and Gaza	Lending	Average Completion Cost (\$ '000)	-	393.1	133.9	193.9	443.9	219.2
Middle East And North Africa	Lending	Average Completion Cost (\$ '000)	367.5	343.8	348.9	364.3	322.8	380.3
Bank wide	Lending	Average Completion Cost (\$ '000)	365.7	353.5	368.3	329.3	363.8	329.8
West Bank and Gaza 1/	Unsched ESW	Average Completion Cost (\$ '000)	-	-	-	-	145.5	38
Middle East And North Africa	Unsched ESW	Average Completion Cost (\$ '000)	167.6	61	80.1	90.3	80.8	91.6
Bank wide	Unsched ESW	Average Completion Cost (\$ '000)	72.8	71	69.6	62.5	81.5	89.5
West Bank and Gaza	Supervision	Average supervision costs (\$ '000)	-	240.6	73.8	62	69.6	52.6
Middle East And North Africa	Supervision	Average supervision costs (\$ '000)	43.2	49.7	53.7	57.3	61.8	63.8
Bank wide	Supervision	Average supervision costs (\$ '000)	54.6	61.2	63.8	68.3	69.4	65.2

1/ OED estimate based on data provided by Region

**Table 13: List of Managers Responsible for WB&G**

<b>Calendar year</b>	<b>Regional VP</b>	<b>Director*</b>	<b>COD Chief</b>	<b>Resident Representative</b>	<b>Country Officer</b>
1993	Caio Koch-Weser	Ram Chopra	Spiros Voyadzis	Prem Garg	Nigel Roberts
1994	Caio Koch-Weser	Ram Chopra	Spiros Voyadzis	P. Garg/O. Knudsen	Nigel Roberts
1995	Caio Koch-Weser	Inder Sud		Odin Knudsen	Nigel Roberts
1996	Kemal Dervis	Odin Knudsen			Nigel Roberts
1997	Kemal Dervis	O. Knudsen/J. Saba			Nigel Roberts
1998	Kemal Dervis	Joe Saba			Nick Krafft
1999	Kemal Dervis	Joe Saba			Nick Krafft
2000	Dervis/Sarbib	Joe Saba			Nick Krafft

\*In November 1995, Country Director responsibilities were transferred to Resident Mission.



**Annex II: Table 1: List of sub-projects financed by TATF**TATF Projects  
Balance Sheet

No.	Items	Total Value \$
1	Design & Supervision	734,711.00
2	Technical Assistance Projects	19,538,001.67
3	Training	3,151,004.29
	Total Value	23,423,716.96

### 1. Design & Supervision

<b>Project Title</b>	<b>Total Value \$</b>
Urban Roads & Water	11,250.00
Urban Roads & Water	68,000.00
Urban Roads & Water	26,499.00
Urban Roads & Water	18,100.00
Urban Roads & Water	17,812.00
Urban Roads & Water	21,520.00
Urban Roads & Water	17,295.00
Urban Roads & Water	30,490.00
Urban Roads & Water	6,450.00
SALAH EDIN II (Road)	150,000.00
School Rehabilitation Project	64,000.00
School Rehabilitation Project	60,705.00
School Rehabilitation Project	12,900.00
School Rehabilitation Project	38,930.00
Salah Edin Road Interurban Road Project	64,400.00
Engineering	126,360.00

### 2. Technical Assistance

<b>Project Title</b>	<b>Total Value \$</b>
Electric Power Rehabilitation	1,336,735.90
Wastewater Treatment & Reuse Strategy	67,554.00
Telecomm. Inst. & Sec	446,101.00
National Health Insurance	1,654,191.00
MAS Organization Support	200,000.00
MAS Economic Studies	600,000.00
Legal Data Base	294,799.00
Legal Framework for Industrial Zone	25,514.00
Establishment of Industrial Zone	14,545.00
Cons. For Muncp.	1,725.00
Agriculture Policy Study	201,111.00



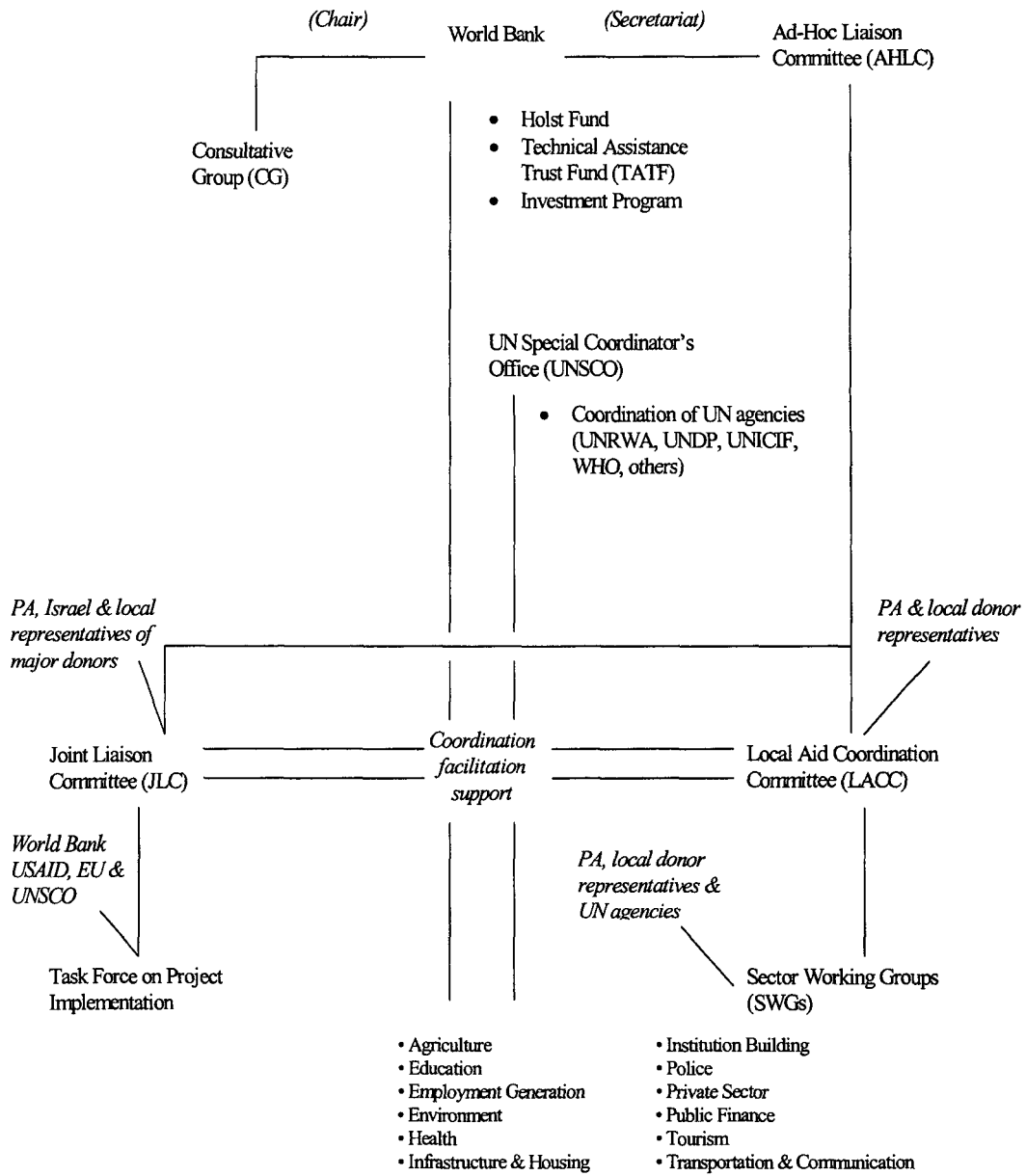
<b>Uniform Accounting For Municipalities</b>	297,695.00
<b>Pilot Urban Planning</b>	765,963.77
<b>Wastewater Treatment for Abu Dis and Ezaria</b>	316,850.00
<b>Municipal Financial Management Information System (MFMIS)</b>	170,000.00
<b>Agriculture. Export Supp</b>	6,905.00
<b>Power Sector Policy</b>	534,331.00
<b>TSM – Ramallah - Al-Bireh &amp; Bethlehem</b>	443,696.00
<b>Housing Finance Policy</b>	8,500.00
<b>Contract Preparation - Management</b>	15,750.00
<b>Bechtel Management</b>	3,378,395.00
<b>Youth Sport Program</b>	39,695.00
<b>Central Road Administration</b>	1,357,638.00
<b>Tourism Sector Strategy &amp; Development Project</b>	1,150,000.00
<b>Contract Consultant</b>	147,601.00
<b>Government Financial Management Inf. Sys. (GFMIS)</b>	787,759.00
<b>TSM – Gaza</b>	344,094.00
<b>TSM – Nablus</b>	217,373.00
<b>Assist. Estab. PMA</b>	192,721.00
<b>Legal Frame Work</b>	40,365.00
<b>Registration System</b>	23,118.00
<b>PMA Law</b>	15,000.00
<b>Institutional Specialist</b>	21,236.00
<b>Water Sector Strategic Planning Study</b>	998,996.00
<b>Archaeological Survey</b>	36,900.00
<b>Industrial Zones</b>	90,890.00
<b>Contract Administration</b>	150,819.00
<b>Ministry of Local Government Institution Building</b>	200,000.00
<b>Assistance to Palestinian Census</b>	150,000.00
<b>Insurance Sector Advisory Project</b>	97,435.00
<b>Condominium Registration</b>	14,000.00
<b>Cultural Resources Management Project</b>	750,000.00

<b>Meteorological Services Development</b>	100,000.00
<b>Geographic Information System</b>	430,000.00
<b>Publication of Technical Studies</b>	100,000.00
<b>Municipal Solid Waste Management</b>	400,000.00
<b>PA Project Preparation Facility</b>	200,000.00
<b>National Health Insurance</b>	207,000.00
<b>National Trade Dialogue</b>	150,000.00
<b>Tourism Economic Study</b>	30,000.00
<b>MOT Licensing</b>	200,000.00
<b>Youth Summer Camp Institutional Capacity Building</b>	100,000.00

### 3. Training

<b>Project Title</b>	<b>Total Value</b>
<b>PA Capacity Building Training</b>	200,000.00
<b>Financial Intermediation Training</b>	235,000.00
<b>Information Communication Technology Training</b>	2,106,000.00
<b>Employees Training</b>	13,160.00
<b>Internal Procurement</b>	1,562.50
<b>Telecommunications Training</b>	23,000.00
<b>T.Telec. Bell Sygma</b>	356,495.00
<b>Telecom. Gaza</b>	10,500.00
<b>Project Management Seminar</b>	11,007.00
<b>Procurement Mgt.</b>	24,209.00
<b>English Language</b>	4,680.00
<b>IMF Course – Gaza</b>	15,499.79
<b>Public Administration</b>	61,277.00
<b>Investment In Infrastructure</b>	26,000.00
<b>Telec. Oper/Tech.</b>	23,024.00
<b>PA Capacity Building Seminar</b>	39,590.00

**Chart I: Organizational Structure of Aid Coordination**



Source: Adapted from *The (very) Political Economy of the West Bank and Gaza*, Rex Brynen.



## Questionnaire for PA and PECDAR

### Country Assistance Evaluation: West Bank and Gaza

Operations Evaluation Department (OED) is an independent unit of the World Bank whose task it is to assess the relevance, effectiveness, and efficiency of World Bank operations. OED is carrying out an assessment of the role of the World Bank in West Bank and Gaza since 1992.

Ms. Laurie Effron and Laura Kullenberg, both staff from OED, will be West Bank and Gaza between January 25 and February 3, 2000 to discuss the views of a range of people – Government officials, donor agencies, academics, NGOs, and other informed observers on the World Bank in West Bank and Gaza.

Listed below are questions, which we are sending in advance to provide a framework for discussion. **No written answers are expected.**

1. How important has the World Bank been in channeling assistance, both in terms of funds (Holst Fund, Technical Assistance Trust Fund, the Trust Fund for West Bank and Gaza) and in terms of technical assistance and advice (sectoral analysis, workshops, seminars, other informal advice, donor coordination), to the Palestinian Authority?
2. What do you think have been the best aspects of World Bank assistance?
3. With the benefit of hindsight, could or should the Bank have done things differently? Should it have focused efforts in other areas/sectors/issues, or conversely, should it have avoided involvement in certain areas?
4. The Holst Fund was used in part to support recurrent expenditures, particularly salary payments, of the Palestinian Authority. Opinions differ on whether this was an optimal way to support the PA: some argue that it was absolutely essential, while others have suggested that it encouraged the creation of an overextended civil service. What is your view?
5. If you are familiar with the Technical Assistance Trust Fund (TATF) that has been used to finance feasibility studies and other consultancy services for the past five years, what are views of this Fund: do you think it was well designed? well implemented? Do you think that the TATF has been an effective instrument for providing needed consultancy services?
6. If you are familiar with projects financed directly by the World Bank from the Trust Fund for West Bank and Gaza (on-going projects are listed in Attachment 1), what are your views on the quality of these projects: are they well designed; are they consistent with implementation capacity in the territories? Do you think they will have a positive impact on the economic growth and quality of life here?
7. Do you think the Bank should be focusing its lending in other areas? If so, which ones?
8. Do you think the Bank's coordination and cooperation with other donors are adequate? Could the Bank have done/be doing something differently to improve aid coordination?
9. For the future, where do you think the Bank could most usefully play a role and where should it concentrate its resources?

**Attachment 1****West Bank and Gaza: Current Bank Portfolio**

<i>Name</i>	<i>Net Commitment (US\$M)</i>	<i>FY Board Approval</i>
Education and Health Rehabilitation Project	20	95
Municipal Infrastructure Development Project	40	96
Water and Sanitation Services Project in Gaza	25	97
Micro-enterprise Project	5	97
Community Development Project	10	97
Housing Project	25	97
MIGA Investment Guarantee Fund	10	97
Legal Development Project	5.5	97
Palestinian Expatriate Professional Program	3	97
Palestinian NGO Project	10	98
Gaza Industrial Estate Project	10	98
Bethlehem 2000	25	99
Community Development II Project	8	99
Southern Area Water and Sanitation Improvement Project	21	00
Electric Sector Investment and Management Project	15	00
Health System Development Project	7.9	00

## Questionnaire for donors

### Country Assistance Evaluation: West Bank and Gaza

Operations Evaluation Department (OED) is an independent unit of the World Bank whose task it is to assess the relevance, effectiveness, and efficiency of World Bank operations. OED is carrying out an assessment of the role of the World Bank in West Bank and Gaza since 1992.

Ms. Laurie Effron and Laura Kullenberg, both OED staff, will be West Bank and Gaza between January 25 and February 3, 2000 to discuss the views of a range of people – Government officials, donor agencies, academics, NGOs, and other informed observers on the World Bank in West Bank and Gaza.

Listed below are questions, which we are sending in advance to provide a framework for discussion. **No written answers are expected.**

1. How important do you think the Bank was in aid coordination?
2. How do you view the effectiveness of the Bank aid coordination efforts in which you were involved? What were the main results/achievements in areas such as
  - coherence of donor strategies
  - public expenditure planning
  - donor selectivity, avoiding duplication, mitigating bi-lateralism
3. How did the Bank's role come about? Was it appreciated/supported by all donors, PA, NGOs?
4. How would you rate Bank performance in aid coordination? If performance is viewed as satisfactory or better, to what do you attribute this? What could the Bank have done better? What do you think would have happened if the Bank had not been involved in donor coordination?
5. What role did the PA play with respect to aid coordination? Did this change over time? What was the overall effectiveness of the PA in this area, its strengths and weaknesses?  
How substantively and systematically did the Bank/donors attempt to involve Palestinian counterparts in aid coordination?
6. What were/are the prospects for moving to greater country ownership? What are the continuing constraints? What attempts did the Bank make to build institutional capacity to manage external assistance. What could it have been done differently?
7. Did the Bank take an appropriate approach to aid coordination? How do you view the *sustainability* of aid coordination efforts, especially those at the in-country level?
8. Was there a difference in the quality of aid coordination between the AHLC and the sectoral working group level? Examples of successfully and unsuccessful joint government-donor initiatives to design and implement integrated sectoral programs? To what do you attribute performance?
9. How do you view Bank performance with respect to the informal dimension of aid coordination, such as timing and size of visiting missions, or negotiation and consensus building outside of formal meetings?
10. How do you characterize the Bank's working relationships (regarding aid coordination matters) with UN Special Coordinator and UNDP who also have coordination functions? With other major donors? PA? To what do you ascribe the quality (or lack thereof) of these relationships?
11. To what degree did the conflict/post-conflict context determine the Bank's performance?

**People Met on Mission, January 25-February 3, 2000****Palestinian National Authority****Ministry of Finance**

H. E. Mohammed Z. Nashashibi  
Minister

Aziz Abu-Dugga  
Director  
Office of the Minister

Mazen S. Jadallah  
Assistant General Director  
Development Projects

**Ministry of Planning and International Cooperation**

Samir El Ayed  
Assistant Deputy Minister for Planning

**Ministry of Economy and Trade**

H. E. Maher Masri  
Minister

Jafar Hdaib  
General Director  
General Directorate of Investment  
Coordinator of the Palestinian Investment Promotion Agency

**Ministry of Education**

Khalil Mahshi  
Director General  
International and Public Relations

**Palestinian Water Authority**

Nabil El-Sherif  
Head of PWA

Dr. Khairy H. Al-Jamal  
Manager of PWA – Gaza Service Improvement Project (World Bank Project)



**Palestinian Central Bureau of Statistics**

Dr. Hasan Abu-Libdeh  
President

**Municipalities**

Aziz Amro  
Governor of Hebron

Adnan O. Derhalli  
Deputy Mayor of Nablus

Abdul Haleem Swaiseh  
Chief Accountant  
Nablus Municipality

Waleed M. Abu Mwais  
Mayor of Jenin

**Palestinian Economic Council for Development and Reconstruction (PEC DAR)**

Dr. Mohammed Shtayyeh  
Managing Director

Dr. Mohammed S. Dajani  
Director  
Technical Assistance and Training Directorate

Mr. Abu Awad  
Director of Finance and Administration

Dr. Hisham Shkoukani  
Deputy Director  
Projects Monitoring Office

Yousef Abdul Fattah  
Chief Accountant

**Non-governmental organizations****Palestine Trade Center**

Dr. Samir Abdullah  
General Manager

HDIP (health) and Union of Palestinian Medical Relief

Dr. Mustafa Barghouti  
Head

Kali Assi  
Assistant to Mr. Barghouti

Palestine Economic Policy Research Institute

Dr. Ghania Malhis  
Director

**Donors**

International Monetary Fund (IMF): Salam K. Fayyad, Resident Representative

European Union: Gavin Evans, Resident Representative

U.S. Agency for International Development (USAID): Larry Garber, Director; and Jack Thomas, Health Advisor

Norway: NORAD: Terge Larsen; Carloyn Munkebye-Aarnes

Italy: Office of Development Cooperation: Dr. Aldo Sicignano, Director

Austria: Austrian Development Cooperation: Wolfgang Lapuh, Resident Representative; and Maher Daoudi

Germany: Horst Freitag, Resident Representative

British Council: Jim Buttery, Project Manager, Health

Israel: Ministry of Foreign Affairs: Miriam Ziv, Head of Middle East Economic Affairs Department

United Nations: UNSCO: Rick Hooper, Assistant to Special Coordinator for Middle East

United Nations: UNDP: Tim Rothermel, Resident Representative; Willi Scholl, Deputy Special Representative

**World Bank and IMF staff interviewed****World Bank**

Hedi Abushakra  
Zadok Alon  
Barbara Balaj  
Josie Bassinette  
Anders Bjorgung  
Abdallah Bouhabib  
Ibrahim Dajani  
Ishac Diwan  
Fitz Ford  
Prem Garg  
Hans Gruss  
Nagy Hanna  
Steve Karam  
Ali Khadr  
Nick Krafft  
Odin Knudsen  
Andrew Macoun  
Akiko Maeda  
Robert Mertz  
Judith Press  
Nigel Roberts  
Eluned Roberts-Schweitzer  
Joe Saba  
Jamal Saghir  
David Sewell  
Richard Sexton  
Radwan Shaban  
Kanthan Shankar  
Rama Skelton  
Inder Sud

**IMF**

Thomas Baunsgaard  
Samir El-Khouri  
Salam Fayyad  
Ulrich Erikson von Allmen  
Rosa Valdivieso

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## Ratings Glossary and Definitions

OED's rating methodology is constantly evolving to take account of changes in evaluation methods and operational policies. This attachment summarizes the rating scales currently used in country assistance evaluations.

Ratings for Country Assistance Performance (Outcome): Currently, OED utilizes six rating categories for outcome, ranging from highly satisfactory to highly unsatisfactory. The three higher ratings are gradations of satisfactory, while the bottom three are gradations of unsatisfactory.

6. Highly Satisfactory
5. Satisfactory
4. Moderately or Partially Satisfactory
3. Marginally Unsatisfactory
2. Unsatisfactory
1. Highly Unsatisfactory

Rating for Institutional Development. The institutional development impact can be rated as: (4) high, (3) substantial, (2) modest and (1) negligible. Ratings are based on an assessment of the Bank's assistance impact on strengthening the client's capacity to manage, among others, the following areas:

- a. economic management,
- b. the structure of the Public Sector, and in particular the Civil Service,
- c. the institutional soundness of the financial sector,
- d. legal, regulatory and judicial systems,
- e. monitoring and evaluation systems,
- f. aid coordination,
- f. financial accountability.

Rating for Sustainability. Sustainability measures the likelihood that the development benefits of the country assistance program will be maintained. Sustainability can be rated as (3) likely, (2) uncertain, and (1) unlikely. It is OED's intention over the coming months to increase to four the number of possible ratings.

## WEST BANK ANDGAZA: MANAGEMENT ACTION RECORD

<i>Major monitorable OED recommendations requiring a response</i>	<i>Management response</i>
<p>Once the assistance to WB&amp;G shifted to longer-term institutional development, it was insufficiently focused. Any future assistance should:</p> <ul style="list-style-type: none"> <li>• <i>Concentrate on few key areas, such as: (i) targeting infrastructure delivery and services to poorer segments of the population; and (ii) public sector management issues such as civil service reform and economic policy reforms, with continued efforts at strengthening local governments.</i></li> </ul> <p>The Bank's efforts in WB&amp;G contain lessons for other post-conflict setting. Although the Bank was initially hesitant to administer donor funds to a territory that was neither a sovereign state nor a member country in a highly visible and politicized context, OED finds that the Bank took an appropriate</p>	<p>As discussed in the Management's Memorandum to OED, one key aspect, and we believe strength, of the Bank program to date has been its flexibility and ability to respond to the political and economic events as they change. With the crisis of the last nine months, the Bank has again had to shift its focus to respond to the sharp increase in unemployment and poverty through the preparation of an Emergency Response Project which complements our existing and planned poverty targeted NGO and Community Development Projects. These efforts have been informed and refined by recent Bank analytical work (Poverty Report, February 2001) which has identified pockets of poverty to improve targeting of beneficiaries. We will therefore continue to strive to reach a balance between support that is focused more on the short-and medium-term with targeted and selective work that deals with longer-term issues and which fully takes into account the work of our partners.</p> <p>In this context and following publication of the Bank's "Strengthening Public Sector Management" study in 1999, in which a number of public sector and economic policy reforms were outlined, the Bank has pursued, in its country dialogue with the PA, avenues for implementing some of these measures. We agree with OED that civil service and pension reform is key to a slimmed-down and efficient public service and to getting control of the public payroll. The Country Team and Senior Management have raised this numerous times at the highest levels within the PA and we have been promised a letter to request Bank support in this area. Despite numerous discussions, we still await a formal request from the PA to initiate a civil service and pension reform activity. Final agreement to proceed with this work, however, will depend on client ownership, for which the success of this type of activity is dependent.</p> <p>Management fully endorses this OED recommendation. The Country Unit has tried to share its post-conflict experiences with all interested parties. For example, it has provided analyses and program/project briefings via its external website (WBG Country Website), through</p>

<i>Major monitorable OED recommendations requiring a response</i>	<i>Management response</i>
<p>risk, given the importance of sustaining the peace process to achieve any development effectiveness. In other post-conflict settings, the Bank should:</p> <ul style="list-style-type: none"> <li data-bbox="244 644 806 853">• <i>Ensure that any immediate focus on delivering short-term visible results are not at the expense of focusing on longer-term institutional issues. The Bank or other donors should try to ensure a competent, transparent, fiscally sound governing structure which will be at the heart of the sustainability of the development effort.</i></li> <li data-bbox="244 1283 750 1368">• <i>Examine the scope for using an instrument modeled after the Holst Fund for delivering multi-donor assistance.</i></li> <li data-bbox="290 1438 761 1523">• <i>Design technical assistance in a flexible instrument and initially on a relatively modest scale.</i></li> </ul>	<p>its Aid Effectiveness Study (2000), and through the production and circulation of relevant project/program documents and briefing papers to interested parties. As a successor to the highly successful multi-donor Holst Fund, the Bank has established the PEACE Facility, which enables the mobilization of additional donor assistance and enhanced partnerships between the Bank and other donors involved in WBG. Offering yet another illustration of the innovative and partnership-building approaches the Bank is pioneering in WBG.</p> <p>Management feels that flexibility has been key to the relative success of the program in WBG to date. For example, since the outbreak of the Al-Aqsa Intafada in September 2000, we have re-emphasized employment creation programs and, in addition to the Emergency Response Project, will be representing to the Board projects that support the NGO sector and Community Development. While these projects will contribute to sustained, long-term institutional development, their focus will largely be on short-and medium-term development. We will balance this with projects that address longer-term sustainable issues in education and health. The question of balance between the short-and long-term is always a difficult one; responsiveness and relevance to the client's immediate needs is imperative. The IMF, the EU and the Bank are actively engaged in dialogue with the PA on issues of fiscal sustainability and good governance.</p> <p>The PEACE Facility is modeled after the Holst Fund (information on both is available on the external website and can be used in helping design similar programs in other countries).</p> <p>The TATF was designed to be flexible so that new programs could be added as circumstances warranted. It was perhaps larger than was absolutely necessary but, we believe, has and is having a significant, positive impact. The CMU is in the process of preparing completion reports on both the Holst Fund and the TATF which will, amongst other things, address lessons learnt. The report will be available on the website for wider dissemination.</p>

**COMMENTS FROM THE PALESTINIAN NATIONAL AUTHORITY**

**Ministry of Finance, Office of the Minister**

**May 29, 2001**

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**Palestinian National Authority  
Ministry of Finance  
Office of the Minister**

: ٧٦  
سنة

المسلطة الوطنية الفلسطينية  
وزارة المالية  
مكتب الوزير

No. ....

الرقم MF/335/2001

Date .....

.. May 29, 2001: التاريخ

Mr. Gregory K. Ingram  
Director  
Operations Evaluation Department  
World Bank  
Washington D.C. 20433  
U.S.A.

Thank you for your letter of April 18, 2001 and for seeking our comments on the draft evaluation report attached thereto.

Let me first say that we are in full agreement with the report's key conclusion, namely, that the World Bank "has made a positive contribution to developments in the West Bank and Gaza...". Indeed, it is hard to imagine how we could have achieved what we did toward laying a sound foundation for sustainable economic development without the Bank's exemplary backing and support. For that, we shall always be grateful to the Bank's Board, Management, and Staff.

We are also in full agreement with another key finding of the report, namely, that economic performance in the West Bank and Gaza over the period under review has been disappointing, both by historical standards and, most certainly, relative to the high expectations that prevailed in the early 1990s. But, that, as the report rightly emphasizes, has predominantly reflected the adverse impact of the border closure regime and associated restrictions and obstacles which acted to depress economic activity, undermine confidence in the prospects of the economy, and vastly hamper our institution-building effort. Taken together, these factors have also impeded project implementation and reduced the prospects of sustaining the benefits associated with the assistance provided by the World Bank and other donors.

However, if the prospects of sustainability have been weakened, that should not be an argument against the rationale underlying the Bank's past or future involvement in the West Bank and Gaza. In our view, that rationale was valid in 1993 and it remains equally valid today. What needs to be addressed is the root cause of the difficulties that we have encountered, namely, the failure of the peace process to proceed in line with the principles and international resolutions on the basis of which it was launched.



In the meantime, it is certainly our hope that the Bank will continue to support our capacity building effort and our drive to have in place the needed physical infrastructure.

With the leadership role it has in the international donor community, we believe the World Bank is uniquely placed to help us attain an important objective which we set out to accomplish when we started to put together the elements of a functioning financial administration, namely, the channeling of donor financial assistance through the Ministry of Finance. We have been ready to assume this responsibility for some time now, and we hope that the Bank will soon begin to channel its assistance in this fashion. Apart from the enormous boost which such action will give to our institution-building effort, it will greatly enhance our joint capacity to follow up on project implementation, and it will lead to a meaningful integration of development spending in budget preparation and implementation.


An important contributor to the World Bank's positive performance in the West Bank and Gaza over the past few years has been the Bank's flexibility and its ability to adapt to changing circumstances. The introduction of the Community Development Program is a clear case in point. One way in which this very helpful program could be usefully adapted further is by taking a wholistic approach to especially rural, but also urban, community needs. Of course, the role of local governments in this endeavor is critically important. But, Central Government involvement is also essential to ensure accountability, proper planning, and consistency of various projects and initiatives with our overall national objectives.

One area where we need to do more with the Bank on in the period ahead is in the follow-up on proposals and ideas that come up in the context of workshops and discussions that we have with Bank officials. It is with this in mind that I hope we will be working closely with Bank staff on putting the findings of this evaluation exercise, as well as future evaluation exercises at the project level, to a most effective use.

In closing, I wish to express to you our deep appreciation for the most constructive role which the World Bank has been playing, and I look forward to continued close cooperation with the Bank in the years to come.

Sincerely,

*With best personal regards*

  
Mohammad Z. Nashashibi  
Minister of Finance


THE WORLD BANK/IFC/M.I.G.A.

## OFFICE MEMORANDUM

Attachment 4

DATE: June 7, 2001

TO: Mr. Robert Picciotto, Director General, DGO

FROM: Jean-Louis Sarbib, MNAV 

EXTENSION: 34946

SUBJECT: **West Bank and Gaza – An Evaluation of Bank Assistance**

1. OED's evaluation of the West Bank and Gaza program was undertaken at a time of extreme difficulty for the Palestinian economy and, indeed, was finalized at a time of unprecedented crisis in the peace process. Nevertheless, the report highlights a number of notable successes:

- Despite the climate of political uncertainty throughout the period, OED found that the Bank's assistance had a positive impact on the living standards of Palestinians in WBG, which contributed to the relative calm during most of the 1993-2000 period.
- The Bank's emergency assistance for employment creation, as well as successful community development efforts, contributed to the reduction in poverty measured at the end of the 1990s.
- The Bank's performance has been timely and relevant. It has been required to play many roles in a complex and highly politicized context, and in general, was found to have played these well.
- There are many examples of innovation and good practice and the WBG program should serve as a model for other post-conflict situations. Box 5.1 of the report highlights a number of specific projects and programs.

2. In other areas, while emphasizing that the post-conflict environment and the series of serious economic shocks over the period made substantial progress extremely difficult, OED has found the Bank's role, although satisfactory, not as highly positive as we believe is warranted. In particular, the report highlights difficulties in advancing private sector development and institution building. The report also raises questions about the long-term sustainability of some aspects of the program. While MNA Management is appreciative of OED's effort to evaluate this complex and unorthodox program, we feel that its essentially conventional approach, with the application of standard yardsticks, is inappropriate for an entity (WBG is not a "country") that is in conflict. In short, while progress is being made towards understanding the special development needs of post-conflict countries (see OP 2.30 on Development Cooperation and Conflict), we believe that OED lacks the tools and the appropriate benchmarks for meaningful evaluation in a situation such as this.

### **Special Case of Post and In-Conflict**

3. WBG, like many "post conflict" settings, is still very much in the midst of violence and instability. Indeed, its situation can best be described as "in-", rather than "post-" conflict. Certainly the events since September 2000 have confirmed this; but even prior to this, extended periods of severe closure (when borders were essentially sealed and the movement of goods and services effectively blocked) and crisis have rocked the Palestinian economy and the evolution of the process towards a lasting peace. What makes these crises fundamentally different from exogenous shocks experienced in a non-conflict situation, is that the Government, even with the greatest intentions and skill, in many instances did not have the political latitude or mechanisms available to it to respond.

4. In the case of WBG, where the PA has no control over its borders, and little control over the movement of people and goods, the collection of most tax revenues, planning for and the building of infrastructure including roads and other transport, water, sanitation, and power generation, it is enormously difficult to evaluate its performance according to standard or conventional criteria. Moreover, the WBG program, more than any other program in the Bank, is strongly driven by political events and sensitivities. We therefore question some of the "satisfactory" ratings and recommendations contained in the OED report (which should be assessed against what was achievable, not against some perfect, non-conflict standard). We believe that the OED report understates the flexibility and responsiveness that the Bank has shown and fails to accurately sketch the extent to which the Bank became a reliable and relied upon partner in a myriad of ways that fall outside its traditional brief. We take up four key issues below.

### **Strategy and Selectivity**

5. The report states that the Bank (and the rest of the international community) suffered from "naiveté and over-optimism" following the signing of the Oslo accords. It therefore questions whether the Bank's strategy was too broad and should have focused more selectively on infrastructure delivery and services to the poorest Palestinians and public sector management (para. 5.13). While we would not argue with OED's findings that some aspects of the program were less successful than others (we agree, for example, that strengthening the private sector has been very difficult), it does not follow that the outcome would have been better if the Bank had been more narrowly focused in delivering its assistance. Nor does it follow that the Bank, as a client-driven institution, could simply assume this approach.

6. It needs to be borne in mind that at the time of Oslo, there was no Government: no Ministry of Finance, no Ministry of Education, no Ministry of Health. Virtually everything had to be started from scratch. Donor programs were slow to materialize except in terms of general support (e.g. to the Holst Fund). There were thus huge gaps, as noted in the six volume study (Developing the Occupied Territories: an Investment in Peace), that our Palestinian counterparts and the donor community sought the Bank to fill. The donors constantly relied on the Bank for intellectual leadership, its upstream work and analysis that enabled them to provide assistance at the sectoral level. The electric sector, discussed below, is a good illustration of this. Frequently at AHLC (and other donor) meetings, the Bank was asked by the principal donors to advise on strategy and provide coordination and leadership in addressing both development and emergency concerns in times of crisis. A good example of this was the emergency employment creation programs started by the

Bank under the Holst Fund in 1996 in response to sudden border closures and a consequent massive rise in unemployment.

7. As the OED report itself notes, the Bank's involvement has served as an important catalyst for other donors as demonstrated by the success of the Bank-administered Holst Fund, the level of co-financing and parallel financing leveraged by the Bank's program, and the position of intellectual leadership accorded to the Bank. The Bank has demonstrated selectivity by working with partners in every one of its operations in WBG; in many cases, as the "junior partner". Management has remained quite consistent in expressing its strategy (outlined in annual reports to the Board and in periodic strategy papers) and in sharing this with its development partners. This strategy was precisely to adjust quickly as the situation changed around us. We believe that the Bank has shown remarkable speed and agility in moving resources from long-term development to short-term emergency assistance and back again as the need arose, always bearing in mind that the latter was aimed at the short-term and largely to preserve the longer-term development gains during such times of crisis. In sum, we believe that the instability caused by the constantly changing political landscape did not allow the Bank much room for real selectivity until about September 1999 – a situation that lasted exactly one year before we had again to reverse direction. It is this political, in-conflict context that, we believe, OED has failed to capture.

8. While readily admitting that not all projects have had similar degrees of success, it is necessary in judging the Bank's strategy to look at the counterfactual. For example, how much progress would have been made in developing a suitable policy framework in the energy sector that leveraged \$75 million in donor cofinancing were it not for the Bank's policy dialogue and investment in this sector? Or in the water sector, where water rights and allocation issues have not been resolved yet politically, how the Bank's focus on improving the management of existing water resources resulted in a reduction of network losses from 50% to 32%. One must constantly recall, as well, the highly politicized nature of this particular conflict and the demands that this places on the Bank in choosing its areas of strategic involvement.

9. We would argue that the Bank, as with the rest of the development community, showed more "real politik" than naiveté in the breadth of its program. It was well understood that the best chance of success for a peace which would benefit not only the Palestinian and Israeli people, but the region as a whole, was the quick and tangible delivery of a "peace dividend". There could have been little chance of this if the Bank, as a leading member of the development effort, had played a more narrowly circumscribed role, as recommended in the OED report. It would have been enormously damaging to any hope of progress if the Bank had held back on the assumption that private sector investments would suffer if restrictions continued to be placed on the movement of people and goods, or that future conflict would undo some of the transport links developed with international assistance.

### **Institutional Development**

10. While acknowledging a number of successes, the OED report notes difficulties in institutional development and provides an overall rating of *modest*. While not arguing with the Government's shortcomings highlighted by OED, we do question whether such a rating is appropriate for a nascent administration in a conflict situation. One has to wonder whether the establishment of ministries, a well-functioning implementation unit,<sup>1</sup> improved municipal governments, and steps towards better fiscal control and management, is "modest" considering that (a) there was no autonomous Palestinian administration when the process began, and (b) there were numerous course changes as a result of exogenously determined border closures and restrictions on the movement of goods and people. Undoubtedly, the Palestinian public sector could have been better managed, but one also has to ask whether it is useful to use this conventional rating yardstick to judge the performance of a government whose power of political and economic redress is so severely circumscribed. For example, with closures and consequent induced unemployment soaring, could the PA realistically have taken steps to improve government efficiency by shrinking the size of the civil service? Can the Bank effect better fiscal management when the bulk of tax revenue is withheld from the PA during times of increased political tension?

11. We believe that the Report also concentrates too narrowly on the impact of a relatively few projects (in particular the TATF which was an early and experimental approach for providing multidonor assistance) and therefore overlooks some of the other important sector-specific institutional development efforts, such as projects that promoted private sector participation to improve the delivery of services, such as the Gaza and Southern Area Water and Sanitation Projects, the Electric Sector Investment and Management Project, and the new Solid Waste and Environmental Management Project. The Municipal Infrastructure Development Project also made substantial contributions to the institutional arrangements for provision of services at the municipal level and to addressing inter-related municipal and intergovernmental finance and governance issues. Work in the health and education and NGO sectors has opened up critical debate on the way essential services are delivered.

### **Sustainability**

12. Judging sustainability in WBG is particularly difficult. In approaching this subject, the OED report itself illustrates the inherent conflicts – although OED rated the sustainability of all three completed projects (the latest being in 2000) as *likely*, it has said in this report that the sustainability of these investments is "now *uncertain*". While not disagreeing with the report's reticence in looking at the long-term prospects, we again question the usefulness of this particular yardstick in WBG. Some of the infrastructure supported by Bank and other donor financing has already been badly damaged and more schools, roads, sewerage works, etc. will suffer if violence continues and escalates. It also becomes increasingly difficult and unlikely that municipalities and the central government will be able to maintain investments. But this is only stating the obvious: long-term sustainability is impossible to predict in a conflict situation and when events are so clearly out of the Government's control. It therefore is not particularly useful at this juncture to judge the successes or shortcomings of the WBG program, nor to judge the appropriateness of the overall strategy, on the basis of today's prognosis for sustainability.

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<sup>1</sup> The OED report rightly points out that, while not without controversy, PECDAR has done very well in managing implementation and has earned high marks for its project and financial management.

### Aid Coordination, Analytic and Advisory Services

13. Management is grateful to OED for its efforts in looking at the complex and extensive aid coordination and advisory services that are a hallmark of the WBG program. Indeed, the Government of Japan, UNDP and the Bank collaborated in a major study of aid effectiveness in June 2000.<sup>2</sup> Although the OED report goes into some detail, Management believes that a full-fledged assessment of the Bank's role is lacking.<sup>3</sup> In our opinion, the WBG program, although challenged by the inevitable disagreements and duplications among donors, has been delivered with unprecedented levels of consultation and partnership among the donor community and between the donors and the PA.<sup>4</sup> We know of few countries, if any, where donor coordination is stronger. Coordination cannot be seen as an adjunct to the "regular" (i.e. lending) program, but rather as an essential element of the Bank's strategy. The Bank has been relied upon to provide policy guidance and assistance in developing the framework to facilitate the assistance effort of all donors. Within such a political maelstrom, the activity and endurance of these collaborative structures and programs, however imperfect some may be, has to be viewed as an area of notable success.

### Summary

14. As OED points out, the WBG program has been ground-breaking in a number of areas, has worked outside of the Bank's normal experience, and has set important precedents for the Bank's role in post-conflict situations. Moreover, this work has taken place against a backdrop of economic shocks inspired by periodic crises in the peace process. Over the past 9 months, the Bank has delivered its program in a situation best described as "in" rather than "post" conflict. Because of these factors, we believe that the evaluation "toolkit" falls short in capturing the full impact of Bank assistance in WBG and that some of the resulting ratings could, and should have been more positive than they currently are. We would recommend that OED reexamine, for the future, the way it evaluates this type of program, moving away from conventional yardsticks towards something that better captures the special nature and goals of post and in-conflict assistance and development.

Attachment: Management Action Record of OED Recommendations and Management Responses

CC: Messrs./Mmes : Al-Saad (EDS11); Delvoie (MNCO1); Saba (MNC02); Ayub (MNC03); MacGregor (MNCA3); Baudouy (MNSHD); Forestier (MNSIF); Koehn (MNSRE); Nabli (MNSD); El-Rifai, Bouhia (MNAV); Okonjo-Iweala (MNACS); Roberts, Robotham (MNC04); Krafft, Karam (MNCA4); Wam (SDVPC), Hollifield (OPCVP); Files.

<sup>2</sup> Aid Effectiveness in the West Bank and Gaza, June 2000.

<sup>3</sup> It is disappointing that OED did not speak to many of the major Gulf cofinanciers or to any representative of the AHLIC Chair for whom we work as Secretariat.

<sup>4</sup> It has also delivered a program that is highly integrated internally including close cooperation and coordination among the member of the Bank Group.

## OED RESPONSE TO REGIONAL MANAGEMENT

At the outset, it is important to stress that, given exogenous factors and the critical role of borrowers and other partners, the quality of the Bank's efforts with respect to an assistance program is not the same as the outcomes and sustainability of the program. The Region's reaction to the OED evaluation of the Bank's assistance program to West Bank and Gaza (WB&G) suggests that this methodological distinction has not been fully internalized within MENA. As a result, the Region's perceptions of the OED report were colored by the extraordinary efforts management and staff deployed under extremely difficult and complex circumstances.

The Region contends that OED "understates the flexibility and responsiveness that the Bank has shown and fails to accurately sketch the extent to which the Bank became a reliable and relied upon partner in a myriad of ways that fall outside its traditional brief". Yet, the evaluation gives full credit to the Region for the way it met the difficult challenges. The West Bank and Gaza experience helped to shape the Bank's operational guidelines for post-conflict activities. OED cites a number of good practices that deserve to be emulated in similar circumstances. Finally, the evaluation takes a positive view of the outcome of Bank assistance, although not as positive as its assessment of the Bank's performance.

With respect to issues of strategy and selectivity, the citation from paragraph 5.13 quoted by the Region does not imply that the Bank should have focused more selectively in the past. Rather it recommends a more narrow focus *for future assistance to WB&G*. On the other hand, OED highlights the Bank's diffuse approach to institution building, e.g. with respect to the Palestinian Expatriate Professional Program. This program is spread thinly over many ministries, agencies, and types of positions without a clear focus on areas critical for improving public sector management.

On a related point, the Region asserts that the OED institutional development rating of modest is too low given the enormous challenges which the Region faced, e.g., the need to start up an entire administration; to build capacity under extremely difficult circumstances; and the exogenous shocks that the Palestinian Authority and agencies suffered. The Region also suggests that OED overlooked the institutional development impact of a number of projects. In fact, OED did look at some of these projects (the Gaza Water project; Municipal Infrastructure projects; and NGO project), and the evaluation recognizes their positive contribution to institutional development. But others mentioned by the Region were approved within the last two years, and it is far too early to assess outcomes. Without denying the considerable efforts and specific successes of Bank assistance, the overall institutional development impact cannot be considered substantial, precisely because the tough challenges noted by the Region prevented better results.

The Region suggests that a full-fledged assessment of the Bank's role on aid coordination is lacking. OED provides a separate assessment of this aspect in an addendum to the report, which drew on the Region's self assessment, on an external review, and on comments of a number of other donors, including five members of AHLC, of whom one had served as AHLC Chair. In any event, OED largely concurs with the overall positive assessment of the Bank's role in aid coordination.

The Region questions the usefulness of examining sustainability at this time, and suggests that it may not be a relevant yardstick in post-conflict situations. This is a problematic argument. It is precisely the Bank's responsibility, even in post-conflict situations, to be

concerned with the longer term, to provide assistance that is likely to have durable outcomes, and to aim to deliver benefits that will be resilient to risks. The exceptional challenges and pressures, political as well as economic and social, presented by post-conflict situations make this task especially difficult – but no less important.

In fact, the issue of sustainability has been raised by the Region itself a number of times. In a self-evaluation carried out in 1999 and finalized in June 2000<sup>34</sup>, before the more recent conflicts, the Bank concluded that sustainability was uncertain if not unlikely (quoted in OED report, footnote 20). In Bank analytical pieces from 1999 and 2000, issues of inadequate operation and maintenance and unsustainably high levels of employment in the Palestinian Authority were raised a number of times in different contexts. Thus, the Region also concluded, even prior to the recent violence, that unless major changes take place in the way the PA operates, sustainability of investments is unlikely.

Finally, it is not accurate to state that OED lacks the tools for evaluating Bank assistance in post-conflict or in-conflict situations. In fact, OED produced a five volume report on the topic based on nine case studies. This assessment informed OED's work on the assistance program in the West Bank and Gaza. OED agrees, however, that it has not carried out evaluations of assistance to in-conflict situations, which is the nature of the assistance at present to WB&G.

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<sup>34</sup> Aid Effectiveness in the West Bank and Gaza, June 2000.