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AND INTERNATIONAL DEVELOPMENT ASSOCIATION
AND INTERNATIONAL FINANCE CORPORATION**

**INTERIM STRATEGY NOTE
FOR THE WEST BANK AND GAZA 2012-2014**

March 13, 2012

**West Bank and Gaza Country Management Unit
Middle East and North Africa Region**

**Middle East and North Africa Strategy Unit
The International Finance Corporation**

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The last Interim Strategy for West Bank and Gaza was approved on April 22, 2008.

Currency Equivalents (As of February 29, 2012)

Currency Unit = New Israeli Shekel

US\$1.00 = 3.77 New Israeli Shekel

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Assistance	LGU	Local Government Unit
AFD	French Development Agency	MDP	Municipal Development Program
AHLC	Ad Hoc Liaison Committee	MIGA	Multilateral Investment Guarantee Agency
AS	Advisory Services	MNA	Middle East and North Africa
AusAid	Australian Agency for International Development	MoF	Ministry of Finance
BPA	Board of Professional Auditing	MoFA	Ministry of Foreign Affairs
BoP	Bank of Palestine	MoSA	Ministry of Social Affairs
CMWU	Coastal Municipalities Water Utility	NDP	National Development Plan
CPA	Certified Public Accountant	NGO	Non-Governmental Organization
CTA	Central Treasury Account		
CSO	Civil Society Organization	OCHA	UN's Office for Coordination of Humanitarian Affairs
DfID	Department for International Development	OQR	Office of Quartet Representative
DPG	Development Policy Grant	PA	Palestinian Authority
EC	European Commission	PCBS	Palestinian Central Bureau of Statistics
EIB	European Investment Bank	PEA	Palestinian Energy Authority
EU	European Union	PFM	Public Financial Management
FIRST	Financial Sector Reform and Strengthening	PIU	Project Implementation Unit
FY	Fiscal Year	PLC	Palestinian Legislative Council
GAC	Governance & Anti-Corruption	PMA	Palestinian Monetary Authority
GDP	Gross Domestic Product	PMA	Palestinian Monetary Authority
GEDCO	Gaza Electricity Distribution Company	PPP	Public Private Partnership
GOI	Government of Israel	PRDP	Palestinian Reform and Development Plan
GiZ	German Agency for International Cooperation	PWA	Palestinian Water Authority
IBRD	International Bank of Reconstruction and Development	SAACB	State Audit and Administrative Control Bureau
IDF	Institutional Development Fund	SG	Strategy Group
IEG	Independent Evaluation Group	SIDA	Swedish International Development Corporation Agency
IFC	International Finance Corporation	SME	Small and Medium Enterprises
ILO	International Labour Organization	SWG	Sector Working Group
IMF	International Monetary Fund	TF	Trust Fund
IS	Interim Strategy	TFGWB	Trust fund for Gaza and the West Bank
ISN	Interim Strategy Note	UNDP	United Nations Development Programme
KfW	Reconstruction Credit Institute	UNOPS	United Nations Office for Project Services
LDF	Local Development Forum	USAID	United States Agency for International Development
		WB & G	West Bank and Gaza

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I. INTRODUCTION

1. This Interim Strategy Note (ISN) lays out the Bank Group's strategy for assisting West Bank and Gaza (WB & G) during the remainder of FY 12 and through FY 14. It reports the portfolio's performance during the previous Interim Strategy period FY 08 -10 and the intervening period.

2. Grants for WB & G are financed from the Trust Fund for Gaza and the West Bank (TFGWB) established in 1993 and replenished from the IBRD surplus. A request for (the eleventh) replenishment, by \$55 million, of the TFGWB is being submitted to the Board simultaneously with this ISN's circulation. The replenishment request provides details of how the Trust Fund was established and its current arrangements.

II. POLITICAL AND ECONOMIC CONTEXT

A. Political Developments

3. **The Oslo Accords of 1993-95 were shortly followed by the establishment of the Palestinian Authority (PA)**, which would have responsibility for administration of the territory under its jurisdiction. This arrangement was anticipated to last for a five-year interim period. In the early years following the Oslo Accords, the economy experienced rapid growth as a result of the return of Palestinians and large inflows of public and private capital. On the eve of the *intifada* in 2000, economic growth was projected at 5% in real terms for 2000, while unemployment had fallen below 9%.

4. **The unofficial end of the *intifada* in 2004 marked the beginning of a prolonged process of recovery and reform for the PA.** After President Yasser Arafat's death in November 2004, Mahmoud Abbas was elected President on a platform of peaceful negotiations and governance reform. Soon after, in January 2006, the political party Hamas won a majority in the Palestinian Legislative Council (PLC) elections which resulted in the cessation of aid by much of the international community and the Government of Israel (GOI) ceased transfer of clearance revenues to the PA¹. An extended period of political uncertainty and economic hardship ensued. The formation of a Unity Government by Hamas and Fatah in March 2007 only marginally resolved the crisis.

5. **A Caretaker Government was established in June 2007, whose international recognition enabled fiscal stabilization.** After Hamas took control of government and security positions in Gaza, Palestinian President Abbas swore in a new Caretaker Government in June 2007, and declared the Hamas authority in Gaza illegal. Israel and the international community endorsed the Caretaker Government. Israel resumed the full transfer of Palestinian clearance revenues, and accrued interest.

6. **Diplomatic negotiations also resumed with the Annapolis Conference in November 2007.** Shortly thereafter, a major donor conference in Paris endorsed the PA's Palestinian Reform and Development Plan (PRDP) for 2008-10 with development partners pledging financial support. Negotiations of the peace process continued through most of 2008, but no agreement was concluded. Talks between Israeli and Palestinian presidents began in 2010 but stalled—because of disagreement about the continuation of Israeli settlement expansion.

7. **Major conflict occurred in Gaza during December 2008 and January 2009**, after which the GOI imposed an unprecedented blockade of Gaza, affecting 1.5 million people in one of the most densely populated areas of the world. An earlier blockade in 2007 by Egypt and Israel had included the closure of

¹ Clearance revenues are taxes that the GOI collects for the PA and remits to them monthly.

crossings, restrictions on imports, movement of cash to banks, suspension of exports and a general ban on the movement of people.

8. **There has been little progress on the Israeli / Palestinian political dialog since the Board's last discussion (April 26, 2011) on replenishment of the TFGWB.** GOI continues to control Area C², which covers about 60% of the West Bank, and access to Gaza. Most consumer goods and many intermediate inputs are allowed entry into Gaza, but construction material is restricted. In September 2011, the President of the Palestinian Authority made an application for the admission of Palestine as a full member of the United Nations, which has not come through. In January 2012, Palestinian and Israeli leaders met in Amman to determine whether there was a basis for a formal permanent status negotiating process, but progress has been limited

9. **Differences within Palestinian polity are not yet resolved.** In February 2011, the Palestinian Authority announced the resignation of the cabinet. However, a new government has not been formed and the Cabinet continues to date. In April 2011, a reconciliation deal was struck between Fatah and Hamas that was to have formed a technocratic cabinet and prepare for elections. Discussions between the two factions followed—in Cairo in November 2011 and in Qatar in February 2012—about the creation of a new caretaker government of technocrats and the scheduling of elections. However, differences between and within the parties have persisted and no firm decisions have been announced.

10. **The Arab Spring did not directly affect the West Bank and Gaza, but has added new variables to existing relations.** Revolutions in the region have signaled the risk of the *status quo* to both Palestinian and Israeli leaders—that people will not be waiting forever for leaders to make decisions for change. Events in Egypt placed uncertainty on the future of Arab states' relations with Israel, while events in Syria placed uncertainty on the support for Hamas. Moreover, the events in Egypt and Syria have affected political and security relations that further complicate the peace process.

B. The Situation in Gaza

11. **In June 2010 and again in February 2011, the GOI lifted some restrictions to movement and access and allowed more imports of basic items --** moving from a positive to a negative list. Restrictions on the transfer of cash to banks in Gaza have diminished although the flow of cash is still unpredictable. Access to fishing areas and farming land is still hampered by the deployment of Israeli Defense Forces units, and movement of Palestinians in and out of Gaza continues to be severely curtailed. The Rafah crossing, with Egypt, is open to movement of people but not of cargo.

12. **Some additional exports from Gaza were agreed by GOI in February 2011.** Starting April 2011, the GOI was to have permitted the export of textiles, furniture and agricultural products from Gaza to international markets -- but not to Israel or the West Bank. As of mid-March 2011, the GOI has permitted the export to EU markets of limited quantities of cherry tomatoes and sweet peppers, in addition to flowers and strawberries. The GOI's decision on allowing PA-approved Gaza producers to transfer textiles and furniture to pre-approved West Bank purchasers is pending³.

13. **Restriction on movement and access has demonstrated different effects on men and women.** With the shrinking of the market in Israel for Palestinian labor and contraction of the productive sectors

² The West Bank is divided per Oslo Accords into 3 areas: 2 areas are under Palestinian control and correspond to all major population centers (Area A) and most rural communities (Area B). The third area, Area C, is under Israeli control for both security and civilian affairs related to territory, including land administration and planning.

³ On March 6, two trucks carrying date bars is expected to leave Gaza for the West Bank as part of a World Food Program project that provides school meals to children.

of the Palestinian economy, men have retreated from the labor market leading many women to turn to a range of informal activities such as petty trading, grocery store, sewing, and livestock rearing. Because of the dramatic loss of Gaza’s main agricultural areas, women’s participation in agriculture has dropped by 20% since 2000. The World Bank’s 2010 assessment⁴ found that education for women is regarded as an investment. Unlike the West Bank, where the investment is seen primarily to improve the marriage prospects of daughters, families in Gaza are educating their daughters expressly so that they may gain employment and support their families. Young women university graduates in Gaza are more flexible and open to a variety of poorly paid and temporary work opportunities (especially within the aid economy) than are young men with higher education. While women’s entry into the public sphere increases employment and opportunities, their becoming bread earners have introduced stresses within families and psychological pressures. Despite these changes, women’s participation in the labor force remains very low.

C. Recent Economic Development and Prospects

14. **The Palestinian Authority faces an increasingly difficult fiscal situation.** The PA’s recurrent budget in 1999 had a small surplus allowing all external aid to be devoted to development expenditures. But by 2009, the recurrent budget deficit had risen to nearly \$1.6 billion. In 2011, the PA was able to hold expenditures below budget, but revenues were even lower so the recurrent deficit ended the year at about \$1.1 billion; nearly \$100 million above the budget target. However, adding expenditures that the PA has made on development raised the PA’s total need to about \$1.5 billion.

15. **The PA only received about \$980 million in external support in 2011, forcing it to increase borrowing from local banks and to substantially increase arrears.** Table 1 below presents recent external assistance to the recurrent budget. The PA’s tight fiscal position was exacerbated by the GOI’s decision to delay clearance revenues⁵ (accounting for nearly two-third of domestic revenue and around 40% of total recurrent expenditures) after the PA went to the UN. The PA was forced to delay salary payments and at one point make only half salary payments. Debt to the local banking sector is around \$1.1 billion and the banks cannot support much more borrowing, while arrears are putting a severe strain on local businesses and institutions.

Table 1. Estimate of External Assistance to the Recurrent Budget (in millions of \$)

Source	2008	2009	2010	2011
Arab Donors	447	462	234	288
European Union (PEGASE)	651	426	383	281
World Bank PRDP Multi-donor TF	243	80	216	164
World Bank Development Policy Grant	40	40	40	--
Other	381	341	271	81
Total	1,762	1,349	1,143	814

Source: IMF and World Bank staff estimates

16. **Consequently, the PA is making a concerted effort to reduce its budget deficit and need for external aid in 2012.** The budget has not yet been published, but the Prime Minister has made a number of proposals that include raising tax rates on the highest earners, and increasing some fees. These proposals have focused on reducing expenditure on wages and salaries (about 56% of spending) and transfers (mostly pension payments, 23% of spending) through an early retirement scheme for a large

⁴ World Bank. 2010. Checkpoints and Barriers: Searching for Livelihoods in the West Bank and Gaza Gender Dimensions of Economic Collapse.

⁵ As explained in paragraph 4, clearance revenues are taxes that the Government of Israel collects for the PA and remits to them monthly.

number of PA employees. However, these ideas have met with large-scale resistance and it is unclear what will finally be decided. The PA has continued to make progress on net lending reducing it by nearly 43% between 2010 and 2011⁶. Much of these savings has come from the PA's decision to stop providing fuel for the Gaza power plant and insisting that the utility pay for it from its revenues. In the West Bank, the PA is pushing ahead with its efforts to transfer electricity supply and distribution to commercially run companies, a process that should ultimately end net lending for electricity.

17. **Recent economic growth has been robust, but appears to be slowing.** The real growth rate in the first three quarters of 2011 is estimated to have reached 10.5% -- substantially more than the 9% growth forecast in the PA's budget. This was driven by a recovery in Gaza (attributed to a combination of large aid inflows, easing of restrictions on entry of goods from Israel and increased imports through tunnels from Egypt), where GDP is estimated to have expanded by more than 26% in the first three quarters but from a very low base. In the West Bank, growth was around 6%, down from 7.5% in 2010. Exports for the first 11 months of the year were about 35% higher than in the same period in 2010 and imports were nearly 16% higher. Previous growth forecasts by the Palestinian Authority and the IMF, projecting 10% growth in 2013 and 2014, were highly optimistic. They supposed that that growth would continue to increase and that the PA would achieve a fiscal consolidation. However, this does not seem likely and they are in the process of revising these projections. Real growth in WB & G in 2012 is now projected to be around 7%; 5% in the West Bank and 12% in Gaza.

18. **Unemployment remains high and labor force participation is low.** In the fourth quarter of 2011, the overall unemployment rate was 21%, with Gaza unemployment remaining high at 30%, and with significant youth unemployment (46.5% in Gaza, Table 2). The gap between the overall participation rates of males (69.5%) and females (18.7%) is large. Despite international price development, prices remained relatively stable during the first three quarters of 2011.

Table 2. Labor Force Statistics (at the end of 2011)

	WB & G	West Bank	Gaza
Unemployment Rate	21.0	16.6	30.3
Labor Force Participation	44.4	47.3	39.5
Underemployment	7.7	7.9	7.3
Youth Unemployment (Ages 15-29)	32.7	25.8	46.5
Youth Labor Force Participation	37.8	40.8	33.0

Source: PCBS Labor Survey

19. **The Palestinian banking sector is effectively regulated and well capitalized.** The Palestinian Monetary Authority continues to implement strong anti money laundering regulation. The PA has no currency and maintains no reserves. It has no access to external capital markets and all borrowing is short term borrowing from local banks. It issues no securities. Currently foreign debt is estimated at about US \$1.1 billion (accumulated in the early years of the PA, there has been no borrowing for almost 10 years now) of which about US \$300 million is owed to the World Bank.

20. **The outlook for the economic situation in WB&G reflects the uncertainties in the political situation.** PA reforms, which have helped inspire investor confidence, have slowed substantially in the face of political uncertainty. The GOI has not continued to reduce restrictions⁷. It maintains tight control

⁶ Net lending refers to subsidies provided to municipalities by the central government mostly for electricity bills that were not paid to the Israeli Electricity Company.

⁷ Israel Defense Forces have barriers throughout the West Bank for the purpose of enhancing the security of Israel and Israeli settlements

of most of the land and resources in the West Bank, preventing their development by Palestinians. It also continues to prevent exports and free movement of people from Gaza. Most importantly, donor assistance, which has propelled growth by supporting government spending, is steadily declining. Thus, growth in the WB&G may begin to slow. As mentioned in paragraph 17 above, real growth in WB&G in 2012 is now projected to be around 7%; 5% in the West Bank and 12% in Gaza. These estimates assume that the political situation continues to be relatively stable, the security situation does not deteriorate and that donor support remains strong. Growth in later years is expected to be similar, unless there is significant political progress. While this will help strengthen its fiscal position, the PA is expected to remain heavily dependent upon external budget support for the next five to ten years.

Table 3. Selected Economic Indicators 2008-2014

	2008	2009	2010	Projections			
				2011	2012	2013	2014
Output and prices							
	(Annual percentage change)						
Real GDP (2004 market prices)	7.1	7.4	9.3	7.0	7.0	10.0	10.0
West Bank	12.0	9.5	7.6	4.0	5.0	8.0	8.0
Gaza	-6.1	0.7	15.2	17.0	12.0	15.0	15.0
CPI inflation rate (end-of-period)	7.0	4.3	2.8	2.8	2.7	2.3	2.5
CPI inflation rate (period average)	9.9	2.8	3.7	2.9	3.1	2.3	2.4
Investment and saving							
	(In percent of GDP)						
Gross capital formation, <i>of which:</i>	19.3	18.9	16.5	16.9	19.0	25.8	29.9
Public	4.1	6.1	3.5	4.3	5.8	9.5	10.1
Private	15.2	12.8	12.9	12.7	13.2	16.3	19.9
Gross national savings, <i>of which:</i>	30.2	7.5	0.6	4.3	8.8	12.5	13.3
Public	3.9	9.4	4.0	0.1	5.7	9.3	10.0
Private	26.3	-2.0	-3.5	4.2	3.1	3.2	3.3
Saving-investment balance	10.9	-11.4	-15.9	-12.6	-10.2	-13.3	-16.6
Public Finances 1/							
	(In percent of GDP)						
Revenues	25.1	23.6	23.7	21.7	22.3	23.3	24.0
Recurrent expenditures and net lending	46.2	47.2	37.9	33.9	31.4	29.2	27.0
Wage expenditures	23.3	21.7	19.9	19.5	18.5	17.6	16.7
Nonwage expenditures	15.8	19.9	15.1	12.7	11.9	10.9	10.0
Net lending	7.2	5.5	2.9	1.7	0.9	0.7	0.3
Recurrent balance (commitment, before external support)	-21.1	-23.5	-14.1	-12.1	-9.1	-5.9	-3.0
Recurrent balance, cash (before external support)	-27.1	-20.3	-13.3	-11.5	-9.6	-6.3	-3.4
Development expenditures	3.4	5.9	3.4	4.1	5.7	9.3	10.0
(In millions of U.S. dollars)	215	400	275	400	600	1,095	1,295
Overall balance (before external support)	-24.5	-29.5	-17.5	-16.3	-14.7	-15.2	-13.0
External recurrent budgetary support (in billions of U.S. dollars)	1.8	1.4	1.1	0.7	1.0	0.7	0.4
Total external support, including for development expenditures	31.7	25.9	15.7	11.5	15.2	15.6	13.3
(In billions of U.S. dollars)	2.0	1.8	1.3	1.1	1.6	1.8	1.7
Financing gap (in billions of U.S. dollars)	...	...	...	0.3	...	...	...
Monetary sector 2/							
	(Annual percentage change)						
Credit to the private sector	-3.4	22.9	31.2	32.2	21.5	23.8	23.6
Private sector deposits	14.0	5.7	9.9	19.2	14.0	16.8	16.6
External sector							
	(In percent of GDP)						
Exports of good and nonfactor services	15.4	13.6	14.3	17.0	22.1	24.4	27.0
Import of goods and nonfactor services	65.4	64.5	62.5	63.5	69.5	75.0	78.4
Net factor income	10.2	8.1	7.4	6.9	6.7	6.4	6.1
Net current transfers							
Official transfers	50.8	31.4	24.9	26.9	30.5	31.0	28.7
Current account balance (excluding official transfers)	31.7	25.9	15.7	11.5	15.2	15.6	13.3
Current account balance (including official transfers)	-20.7	-37.3	-31.6	-24.2	-25.5	-28.9	-30.0
	10.9	-11.4	-15.9	-12.6	-10.2	-13.3	-16.6
Memorandum items:							
Nominal GDP (in millions of U.S. dollars)	6,247	6,764	8,124	9,686	10,608	11,751	13,001
Per capita nominal GDP (U.S. dollars)	1,633	1,719	2,007	2,323	2,471	2,658	2,857
Unemployment rate (average in percent of labor force)	27	25	24	21	18	15	13
Al Quds stock market index (annual percentage change)	-16.2	11.6	-0.7	...	...	...	...

Sources: Palestinian authorities and IMF staff estimates, ¹Commitment Basis, ²End-of-period; in U.S. dollar terms

D. Bank Arrangements for Assisting West Bank & Gaza

Trust Fund for Gaza and the West Bank

21. **The TFGWB, established in 1993, provides financial assistance to WB & G.** Not being a member of either the IMF or of the World Bank makes the West Bank and Gaza ineligible for the sources of financing normally available to member countries. The TFGWB has been replenished ten times in addition to the first transfer of 1993 mentioned above, for a total allocation of \$750 million. The previous replenishment was in June 2011. A request for replenishing the TF by \$55 million is being submitted for the Board concurrently with this ISN.

Mobilization of Donor Funding

22. **The Bank attracts development partners' complementary financing for investment projects that it funds --** in the form of co-financing or parallel financing. Annex 2 presents funds from Australia, Belgium, Canada, Denmark, the European Union (EU), Finland, France, Kuwait, Luxembourg, the Netherlands, Norway, Sweden, Switzerland and the UK that complement the current portfolio. The Islamic Development Bank has committed to providing \$20 million for Gaza infrastructure, to match the 2011 extraordinary replenishment of the TFGWB. Of this, \$8 million has been approved for parallel financing of the Bank's proposed Gaza Electricity Network Rehabilitation Project.

23. **The Bank plays an important role in leveraging donors' assistance and channeling funds to support the PA's reform program.** Since April 2008, the Bank has administered the multi-donor Palestinian Reform and Development Plan Trust Fund (PRDP TF), into which donors contribute. This multi-donor Trust Fund provides budgetary support to the Palestinian Authority for implementation of their national plan⁸. The Bank monitors the PA's progress against priority economic and institutional and policy actions that it jointly identifies with the PA for the purpose of the most recent Development Policy Grant (DPG). It makes regular disbursements, every quarter, upon assurance of satisfactory progress of the PA's reform agenda. Recent development policy grants have been of the amount of \$40 million. Because of the robust reform program that the DPGs support and the Bank's rigorous monitoring of policy actions, DPGs have leveraged much larger amounts of donor support through the PRDP TF. To date, the PRDP TF has received contributions from eight donors as described below in Table 4 and disbursed \$770.4 million. A Norwegian Trust Fund supports aid coordination activities in the Bank's program.

Table 4. PRDP TF: Contributions Received in millions of \$

Calendar Year	2012	2011	2010	2009	2008	Total
Australia		21.4	21	10.5	28.7	81.6
Canada		--	15.2	--	15.2	30.4
Finland		--	--	--	3.6	3.6
France		12.5	14.4	5.8	1.5	34.2
Kuwait		50	50	--	80	180
Norway	42	55.6	55.5	49	57.2	217.3
Poland		--	--	--	0.5	0.5
United Kingdom		47.9	76.7	49.1	57.2	230.9
Total	42	187.4	232.8	114.4	243.9	778.5

⁸ The current one for 2011-13 is called the National Development Plan.

24. **Since 1993, the Bank has functioned as the secretariat to the Ad Hoc Liaison Committee (AHLC) of donors to the Palestinian Authority.** Chaired by Norway, and with participation from the UN, IMF, GOI and many development partners, the AHLC serves as the principal policy-level coordination mechanism for development assistance to the Palestinian people. The Bank's reports on the progress of reforms, presented every six months to the AHLC, have helped the international community monitor developments in the Palestinian economy.

III. IMPLEMENTATION EXPERIENCE OF THE PORTFOLIO

A. Experience of the Previous Interim Strategy

25. **The previous (FY 08-10) Interim Strategy supported the implementation of the Palestinian Recovery and Development Plan (PRDP), predecessor of the National Development Plan that the proposed strategy would support.** It proved to be a flexible instrument which adequately responded to the political tensions, the insecurity, and the barriers to movement and access. The IS was structured along four pillars to: a) improve governance and support fiscal reform; (ii) support human development in health, education, and social safety nets; (iii) support economic and private sector development; and (iv) support public infrastructure development.

26. **Under Pillar 1, *Improve Governance and Support Fiscal Reform*, the Bank's work on strengthening the fiscal position of the PA was particularly important and was achieved through the administration of the PRDP TF and the DPG series.** The Bank's activities were demand-driven and well-received by the clients. Coordination with other donors involved in sector management played a crucial role, helping to leverage funding and maximize impact on the ground. Support for the PA's public financial management, civil service reform and anti-corruption initiatives were the main areas of focus at the apex level. At a local or municipal level, improved municipal financial performance and its public disclosure were key, along with the reduction of "net lending" by the PA to local government units.

27. **In Pillar 2, *Support Human Development in Health, Education, and Social Safety Nets*, the Bank was very active in the education sector, and instrumental in reforming the social safety net.** The Tertiary Education Project (approved in FY06 and extended until FY13) along with its Additional Financing (approved in FY09) were important vehicles for dialogue in the sector, and were complemented by a number of analytical pieces. The Bank's intervention was selective, as other donors focused on issues related to the curriculum and primary education. The teacher training program, having a high impact for a relatively small investment, was seen as particularly effective. The dialogue on the health sector was less advanced. One of the PA's most prominent achievements over the past two years has been the reform of the cash transfer programs, which is the main element of the Palestinian social safety net. In this, the Bank demonstrated its convening power and the crucial donor coordinating role it plays in WB & G. Social safety net and pension reform continued as focal areas of the Third Development Policy Grant.

28. **Under Pillar 3, *Support Economic and Private Sector Development*, the Bank's program concentrated on analytics.** Severely impacted by the Government of Israel's restrictions and a high level of uncertainty, work in this area assessed the impact of restrictions on the economic activity, which all stakeholders—including donors, the Office of the Quartet Representative and the PA—rely upon for better understanding of the challenges facing the PA. An analysis of trade corridors in the West Bank revealed possible alternative access routes to world markets. A separate analysis on Gaza featured the impact of the closures on private sector development. Another aspect of this work, the Fund for New Market Development, was established jointly by the Bank and DfID to encourage investment in WB & G, giving matching grants to help enterprises enter new markets or develop new operations. The Bank has

also focused on helping to modernize the financial sector and has provided significant support to the Palestinian Monetary Authority in its quest to become the central bank for a future state. IFC reengaged with new investments in 2008, after a hiatus of focusing primarily on portfolio management, and has since committed \$173 million in 6 companies—mainly in financial markets (including microfinance) and telecommunications sectors. IFC’s advisory services complemented its investment program and the Bank’s program by building capacity in local banks, advancing corporate governance, and developing the leasing, microfinance, bank risk management, and housing finance sub-sectors. All of these activities were conducted with a view to improving access to finance and strengthening the financial sector. IFC has been actively engaged in supporting growth of SMEs with export potential, in the first Olive Oil project. MIGA’s engagement in WB & G began in 1997 with the establishment of a West Bank and Gaza Investment Guarantee Trust Fund, sponsored by the Palestinian Authority, Government of Japan and the European Investment Bank. However, the fund only became active after July 2010, following both the extension of the fund to include local investors and with the establishment of staff based in Jerusalem.

29. **The Fourth pillar, *Support Public Infrastructure Development* was the most important in terms of the operational portfolio.** The Bank supported PA efforts to improve the provision of water and sanitation services, solid waste management, power and municipal service delivery through projects and analytical work. Motivated counterparts drove the success of operations in the solid waste management, electricity and municipal sectors. In the water sector, the Bank supported three main activities during the 2008 – 2010. These were the North Gaza Emergency Sewage Treatment Project, the Second Gaza Emergency Water Project, and the West Bank and Gaza Assessment of Restrictions on Water Sector Development. The Bank was active in supporting the development of the Palestinian electricity sector through engaging in policy dialogue, and the co-financing of the Electricity Utility Management Project financing the rehabilitation and expansion of the electricity networks. Solid waste management benefitted from World Bank interventions, and the southern West Bank Waste Management Project (approved in FY09) builds on the successes of the previous operation that constructed a sanitary landfill in the Jenin area, currently serving the entire northern West Bank. The Municipal Development Project and the Village and Neighborhood Development Project respectively supported the provision of infrastructure in municipalities, and vulnerable villages of the West Bank and neighborhoods in Gaza.

30. **The Bank’s AAA program was designed to support and provide policy advice in sectors prioritized by the PRDP, which the previous Interim Strategy supported.** A wide range of AAA was undertaken, from work on social inclusion and gender to trade facilitation and a financial sector review. The Bank, in collaboration with the PA, had selected a mix of policy notes, technical assistance and capacity building efforts. The demand-driven AAA were well received by the government, the donor community and other stakeholders. Some highlights of the analytical and advisory activities include:

- *Assessment of Restrictions on Palestinian Water Sector Development* that opened a debate within West Bank and Gaza and in Israel.
- An in-depth *Analysis of Pension Reform Options* followed-up to the civil service pensions reform study carried out in FY10 and presented options on how best to reform civil service pension systems, further analyzed these options, including cost estimates based on parametric and other reforms that the PA plans to undertake.
- *Checkpoints and Barriers in the West Bank and Gaza, Searching for Livelihoods and Gender Dimensions of Economic Collapse* (FY 10) described how women were coping with long term economic hardship and economic disruption.
- The *Municipal Finance Policy Note* (FY10) deepened understanding of the issues facing municipalities and the need to distinguish between services that require user charges and those that can be covered through local fees and taxes. It led to the formation of an Inter-ministerial Committee on Local Finance Reform.

- *Coping with Conflict? Poverty and Inclusion in the West Bank and Gaza* (FY11) provided a detailed analysis of poverty and inclusion
- *Institutional Capacity* (FY 11) provided an overview of the capacity of PA institutions, and formed the basis of the Bank's most recent report to the Ad Hoc Liaison Committee.
- *Improving Governance and Reducing Corruption* (FY11) provided a fuller understanding of progress on the tackling corruption issues in the WB & G, which the PA could use to develop anti-corruption initiatives.

31. **IFC delivered a range of Advisory Services (AS)** including conducting of a micro finance market study, helping develop the corporate governance code, and technical assistance to Al-Rafah Microfinance Bank to help develop its business and strategic plan. In the financial sector, IFC's AS focused on leasing, microfinance, bank risk management and housing finance. IFC helped develop the Secured Lending Law (approved by the Cabinet of Ministers and awaiting Presidential decree), and provided important Advisory in risk management to the Bank of Palestine as part of an integrated investment and AS engagement with the Bank of Palestine. Moreover, IFC's Olive Oil Export Development Advisory project has gained recognition for its high impact, including by IEG. This project supported a group of SMEs bottling and exporting olive oil in enhancing their quality assurance, marketing, and operational practices. The project resulted in a 35% increase in exports of olive oil from West Bank, and SMEs were supported in exporting to new destinations under a unified brand.

32. **During FY 11 and until the present in FY 12, the World Bank has continued operating within the framework outlined in the previous IS.** The third budget support operation, in the amount of \$40 million, was approved in September 2010 and focused on fiscal stability and transparent public financial management. A fourth budget support operation, having the same focus and of the same amount as the previous one, will be considered by the Board in early March. Whereas the portfolio was evenly divided between Gaza and the West Bank, there has been a slight shift in FY12 with approximately 60% of the funds allocated to operations in Gaza.

33. **In the challenging regional and global environment of FY 11, IFC continued operating in the West Bank and Gaza to support both existing and new clients in the private sector.** In FY11, IFC committed around \$22 million in: a loan to *Faten* (a microfinance institution, where women constitute 77% of the client base), equity in Wataniya Mobile Company, and in trade finance. IFC is also advancing the capacity of local olive oil growers to help promote exports of Palestinian olive oil and build on the successes of the first project. Three new advisory projects were committed in FY11 in the areas of housing finance training, SME banking capacity building, and business simplification. In FY12 to date, IFC has committed a total of \$6 million in trade finance and signed a mandate to support, jointly with the Bank, the public private partnership (PPP) for solid waste in Hebron and Bethlehem Governorates. Annexes 8 and 9 provide details of IFC's portfolio.

B. Lessons of Implementation Experience

34. **The Independent Evaluation Group's review of the World Bank Group's program in 2001-2009 found that, despite some progress, institutional development was uneven.** The evaluation concluded that the Bank's program was affected by factors outside of its control, and that this issue needed to be recognized for long-term effectiveness of its efforts. The IEG also recommended close monitoring and evaluation of the World Bank's portfolio performance. Continuing close coordination with other donors was encouraged. Supporting the PA to work on reducing aid dependence and identifying opportunities for Israeli-Palestinian cooperation on various aspects of development were other highlights.

35. **IFC's performance was well rated in the IEG evaluation** of the World Bank Group's engagement in the West Bank and Gaza, with all sectors of direct engagement rated "mostly satisfactory." These included the areas of access to finance (both investment and advisory), telecom and improving competition. IEG's report included success stories highlighted about IFC's Olive Oil advisory project (which IEG recommended be replicated in other sectors) and the Wataniya telecom project. IFC's Advisory Services program was also well reviewed in terms of its impact on capacity building, creating much needed legal and regulatory frameworks especially in the financial sector e.g., housing, corporate governance, banking sector, and trade finance. The review highlighted the continuation of the successful Bank Group-wide cooperation and the importance of continuing the IFC's advisory work. An important lesson for IFC in implementing its program over the last few years was the need to focus on investments where movement and access restrictions are not as constraining. The financial sector has thus far been one of these sectors, and as the restrictions continue to be eased, IFC expects to diversify its program with greater focus on services, manufacturing and infrastructure.

36. **The World Bank was successful in leveraging donor funding with relatively small amounts.** For example, the water and urban sectors have received multiple donor contributions on top of TFGWB resources: the Northern Gaza Emergency Sewage Treatment Project (\$26.8 million from TFGWB) has received funding from AFD, SIDA, Belgium, and EIB, totaling about \$75 million; and the Municipal Development Project (\$2 million from TFGWB) has received funding from Afd, KfW, SIDA, Denmark, Belgium, GiZ) totaling about \$83 million.

37. **The Bank Portfolio quality has been satisfactory.** This is due to the fact that a strong field presence was maintained throughout the previous strategy's period. Counterparts and staff of Project Implementation Units (PIUs) recorded a high level of satisfaction with the support provided by procurement and financial management staff. There were only two operations at risk in FY12, representing about 14% of total commitment. Action is being taken to upgrade project performance in a timely manner. Annexes 6 and 7 present detailed information about the portfolio's performance.

38. **Additional financing was used as an instrument of choice.** The Additional Financing tool lends the required flexibility to the portfolio, which is relevant in the constantly changing environment in the West Bank and, in particular, in Gaza. The preparation time for such projects being less than ones being designed *de novo*, the Bank's program is able respond quicker to emerging priorities.

39. **Selectivity in the World Bank portfolio remains a challenge but is deemed to be effective.** The World Bank has maintained a focus on water, sanitation, urban development and energy, with approximately 56% of grant funds currently dedicated to these sectors, while social protection received approximately 30% of the portfolio financing. The Bank is active in the education sector which enjoys 11% of the portfolio funds. European donors and UN agencies have been active in the health sector during the past 2-3 years. However, following a recent request for support from the PA, AAA activities focusing on health financing are now underway, building on previous analytical work. There was a lack of integration and coordination between project implementation entities and their respective Ministries, and going forward the World Bank will reinforce the crucial convening role between the two. The monitoring and evaluation system that is being piloted by the Ministry of Finance (MoF) in 2012 for all donor-supported projects will be applied to Bank-supported projects. The system will improve the PA's ability to oversee donor projects and will build ownership.

40. **Fiduciary arrangements in place, evaluated during the most recent Country Portfolio Performance Review in December 2011 were found to be sound -- although improvements will raise portfolio quality.** Most PIUs were of the opinion that the World Bank's procedures were well defined and easily applied even to projects financed by other donors. The mobility restrictions in Gaza have led

to a reduced capacity of contractors there to meet World Bank selection criteria. To address the issue, the World Bank's procurement teams will conduct a separate event to introduce the World Bank's procurement procedures to the Gaza Union of Contractors. BISAN, the accounting software recently rolled out by the PA, includes World Bank projects. Despite a few improvements that are still required to make the application of BISAN seamless, it is a good example of the gradual use of country systems in the World Bank portfolio. The review also revealed that the quality of external auditors hired by the MoF was inconsistent. Going forward, the World Bank's fiduciary teams will work with the MoF to create a more systematic way to select auditors.

C. Implementation of the Most Recent Replenishment of TFGWB

41. On June 8, 2011 the Board of Governors approved the replenishment of the TFGWB by \$75 million, comprising an ordinary replenishment of \$55 million and an extraordinary replenishment of \$20 million for rehabilitation of dilapidated Gaza infrastructure.

42. **The Ordinary Replenishment (\$55 million) is financing the following operations:**

- A development policy grant (the fourth in the series) for \$40 million was approved by the Board of Executive Directors on March 6, 2012. Disbursement of the DPG IV is linked to progress on the implementation of jointly identified priorities, specifically in the areas of fiscal strengthening and improved public financial management. The Bank's use of the Central Treasury Account is an important factor in encouraging other donors to use the PA's financial management systems and to also provide critical budget support.
- Additional Financing of the Municipal Development Program for \$2 million with the objective of improving municipal management practices was approved by the Board on March 6, 2012.
- The West Bank Wastewater Management Project for \$10 million is scheduled for Board approval in FY13. The operation, which is strongly supported by both the Government of Israel and the PA, will finance the construction of a regional wastewater treatment plant and associated trunk sewerage to manage the wastewater of Hebron City and neighboring municipalities.

43. **The Extraordinary Replenishment is financing the recovery of the dilapidated Gaza infrastructure.** Taking advantage of the easing of restrictions and increased opportunities in Gaza, three operations are planned in energy, water and solid waste management sectors.

- Gaza Electricity Network Rehabilitation for \$8 million, approved by the Board on March 6, 2012, seeks to rehabilitate the electricity distribution networks in Gaza, repair damage in the electricity network, restore operation of the network to acceptable safety standards and improve the reliability and operational management of the network while operating under stressed electricity supply conditions.
- Gaza Water Supply Rehabilitation & Expansion Project for \$10 million, scheduled for Board approval in May 2012, will provide water and sanitation services in Gaza through rehabilitation and expansion of water supply and waste water management facilities.
- Gaza Solid Waste Management Project in the amount of \$10 million, scheduled for Board submission in May 2012, will improve solid waste disposal services in the Gaza governorates through the provision of an efficient, socially acceptable and environmentally friendly mechanism. The operation builds on the experience of a recent successful preparation of a similar project in the Southern West Bank, which included support from Italy and Germany.

IV. THE PA'S PROGRAM AND DEVELOPMENT CHALLENGES

A. The National Development Plan 2011-2013

44. **The PA's National Development Plan (NDP), published in April 2011, lays out the development agenda for 2011-2013 and identifies priorities.** It seeks to consolidate gains from institution-building activities emphasized in the 2008-10 development plan (the Palestinian Reform and Development Plan). Equally, it recognizes that, going forward, creating more jobs from a growing private sector, modernizing the education system, and investing in infrastructure -- are all essential elements of accelerated socio-economic development for all citizens. The NDP draws upon 23 new sector strategies that were developed through the most extensive public consultation ever conducted: 240 consultations involved 2000 participants—including representatives of civil society, private sector, local government bodies and international organizations.

45. **This NDP is described in four major blocks: governance, social development, economy and infrastructure.**

- The NDP's "social" block describes strategies to improve citizens' access to basic public services; while the "governance" block outlines strategies for strengthening public institutions to deliver those services. The strategies described in these two blocks outline how the PA will *strengthen the institutions of a future state to efficiently manage public finances and ensure services to citizens*. Supporting this objective of the authority is a fundamental aspect of the Bank's interim strategy of assistance to West Bank and Gaza, and therefore comprises the first pillar of assistance.

- The "economy" block contains strategies for fostering a competitive economy through partnerships between the public sector and private sectors. Private sector growth will be spurred by reduction of input and transport costs, and the NDP's "infrastructure" block describes how that will be achieved. Together, the elements of "economy" and "infrastructure" blocks lay out the government's efforts to *create an enabling environment for private sector led growth*. This being of utmost importance to growing the Palestinian economy, the second pillar of the Bank's strategy is aligned to this objective of the authority.

46. **The NDP emphasizes:**

- The cross-cutting theme of public accountability – and the PA's determination to tackle corruption in both the public and private sectors by strengthening investigation and enforcement bodies, and encouraging greater engagement with civil society and non-governmental organizations in the fight against corruption.

- Commitment to building partnerships with the private sector and civil society – not only to enhance the state's capacity to deliver – but also to be more accountable to citizens and responsive to their needs.

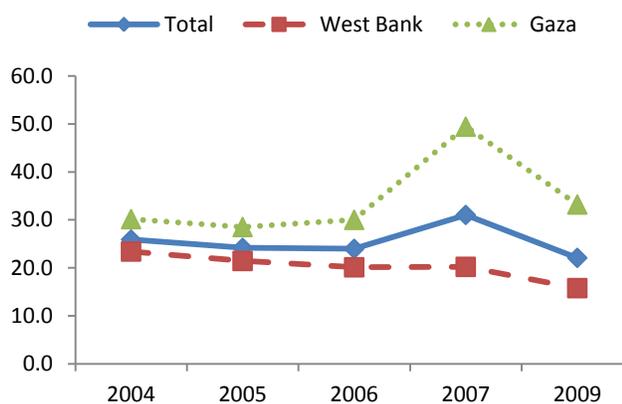
- Providing investors and companies with the confidence needed to do business – including reform of the legal and regulatory framework and reduction of 'red-tape.'

47. **The NDP has taken results orientation of the development agenda a step beyond what was in the PRDP.** The document is action-oriented and highlights in real, measureable terms the achievements of the past three years of the PRDP, as well as the targets for 2011-2013. For example, the goal is to reduce the percentage of households living below the poverty line from the current 22% to 13% by 2013, and to reduce the percentage of households that are food insecure from the current 33% to 27% by 2013. The NDP has listed key performance reports and dates when they will be released. A newly established Directorate of Monitoring and Evaluation is preparing an evaluation for the previous PRDP. In 2012 it will submit quarterly reports to the Council of Ministers providing an assessment of progress towards national and sector level targets.

B. Development Challenges

48. **The PA's poverty reduction targets are ambitious:** Although West Bank and Gaza have seen a 4 percent point reduction in poverty since 2004, the figure masks wide variation across time and territory. Poverty in the West Bank has been steadily declining, while in Gaza it has yet to return to its 2004 level. At 33.7%, poverty incidence in Gaza is twice as high as that in the West Bank. Also, poverty reduction has been driven by international aid. Beneficiaries of international assistance doubled between 2006 and 2009, and a staggering 71% of all Gazans were beneficiaries of at least one form of social assistance.

Figure 1. Poverty Incidence across West Bank and Gaza (as percentage of population)



49. **The Palestinian Authority has taken significant steps over the past decade to strengthen economic governance and combat corruption, but still needs to complete some unfinished reforms and begin to implement others.** The Bank's recent analysis found that the most successful reform efforts have come in the areas of public financial management, government equity holdings, and reform of the petroleum commission. Revenues have been consolidated in the treasury, with more robust and timely reporting of government finances. Reforms are underway in other areas. A new Procurement Law has been passed, and the PA has made progress with initiatives in public employment, regulation of the private sector, and establishing an institutional and legal framework for anti-corruption activities. The PA procurement procedures are reasonably organized, but there is no routine reporting yet of procurement activities, no independent policy body to oversee public procurement and no fair and transparent mechanism to investigate complaints by bidders on the procurement process. While reforms have generally decreased the scope for discretionary hiring in the public sector, more remains to be done. There are some important areas of economic governance where reform has either stalled or not yet been considered, and where the PA needs to increase activity. Three key areas in this respect are land management, transparency in licensing and other services managed by the PA, and access to public information as an element of the anti-corruption legal framework.

Box 1. Progress towards Millennium Development Goals

For each of the MDGs, the PA has assessed the likelihood of reaching the goal.

- (Unlikely) Eradicate extreme poverty and hunger. Data indicates that in 2009 22% of Palestinians lived below the poverty line: 33% in Gaza and 16% in the West Bank.

- (Likely) Achieve universal primary education

According to Ministry of Education statistics, net enrolment in basic education rose from 87.5% in 1994-95 to 95.6% for males and 98.7% for females in 2008-09. Enrolment is equitable with respect to gender. The proportion of pupils starting grade 1 who reach last grade reached 99.4%.

- (Likely) Promote gender equality and empower women

The ratio of girls to boys in basic education increased from 95% in 1995 to 98% in 2009. In secondary education, girls now outnumber boys: the ratio increased from 84% in 1998 to 114% in 2000. The share of women in wage employment in the non-agricultural sector has been increasing gradually from 15.6% in 1996 to 18% in 2008. The proportion of seats held by women in national parliament stood at 13%, more than doubling from a level of 5.7% after the 1996 elections. The proportion of seats held by women in local councils also increased from 2% to 18% between 2000 and 2005. Furthermore, almost 25% of members of the Council of Ministers are female.

- (Unlikely) Reduce child mortality

The under-five mortality rate dropped from 33.2 per 1000 live births during 1990-94 to 22 per 1000 in 2010. This corresponded to a 15% decrease compared with the target of 67%. Child mortality rates are significantly higher in Gaza compared to the West Bank. About 67% of infant deaths in both the West bank and Gaza are due to neonatal deaths. Movement and access restrictions reduce access to specialist health facilities. According to the MDG website, in 2010 under-5 mortality was 22 per 1000.

- (Potentially) Improve maternal health

The Ministry of Health has estimated the maternal mortality ratio at 38 per 100,000 in 2009, indicating a nearly 50% improvement from 70-80 per 100,000 estimated in 1995. Antenatal care coverage (at least one visit) increased from 95.6% in 2000 to 99% in 2006. Ante-natal care coverage (at least four visits) increased from 87% in 2000 to 88.8% in 2006.

- (Likely) Combat HIV/AIDS, malaria and other disease

The HIV/AIDS infection levels in Palestine are extremely low. Up to 2009, the Ministry of Health, reported only 66 cases of HIV/AIDS. Most infectious diseases have been virtually eliminated in Palestine, largely due to a series of successful immunization and early disclosure programs. There have been no reported cases of cholera, rabies, malaria and poliomyelitis in many years.

- (Unlikely) Ensure environmental sustainability

The proportion of land area covered by forest in 2006 was only 1.57%. The reserved land for biodiversity was less than 1% in 2007. Carbon dioxide emissions per capita per US dollar were 0.6944 kg in 2003, significantly below Israel and other developed nations. The proportion of the population using an improved water source increased from 79.7% in 1995 to 94.1% in 2008. This equates to a 71% reduction in the proportion of the population who do not have access to an improved water source. The proportion of population using an improved sanitation facility increased from 97.5% in 1995 to 99.2% in 2008. This equates to a 68% reduction in the proportion of the population who do not have access to an improved sanitation facility.

Source: Millennium Development Goals Report, Palestinian Authority, June 2010.

50. **The 2012 Doing Business indicators of the Bank do not reflect improvement of the business environment** – the WB & G's rank has declined by 3 places since 2011, from 128 to 131. The Ministry

of National Economy has taken steps which could improve scores in some areas, but the steps have not yet manifested in higher scores. The ministry expects that recently issued instructions will reduce the time of issuing membership certificates from chambers of commerce (requirement for starting a new business) from 18 to 2 days. The minimum capital requirement for newly registered companies is now on a graduated scale reflecting the size and nature of the company. A new business can now utilize the Ministry's internet portal to register a new business name and reserve it for 7 days. The registrar of companies will issue business registration certificates when all registration conditions have been met and not make issuance conditional on capital being deposited in a bank.

51. **The PA's commitment to building partnerships with the private sector and civil society** is consistent with the recommendations of the 2011 World Development Report about *Conflict, Security, and Development*, which emphasizes the need to build citizens' confidence. Civil society organizations (CSOs) have long had a strong presence in the West Bank and Gaza. Filling the vacuum of the absence of the state and complementing the public sector, CSOs have played a key role in service delivery – especially in the health sector—with some estimates placing 90% of social services in West Bank and Gaza being delivered by CSOs⁹. This has led some to argue that CSOs' focus on service delivery has been at the cost of their involvement in the political process and state building. While their role in social accountability needs to be further strengthened, Bank support to improving the internal governance of CSOs has contributed to a more conducive enabling environment for social accountability. How Palestinian civil society compares internationally is hard to assess as few international surveys of civil society organizations cover the West Bank and Gaza. The few available reports rate civil society in West Bank as strong, being governed by an NGOs' Code of Conduct, and with CSOs working on anti-corruption issues having the legal framework and freedom to operate¹⁰.

52. **Although women's participation in the economy is a priority of the PA and women have benefited from the PA's long-term investment in health and education, women's participation in the labor force (16%) is low even compared with the MNA average (26%).** Women's life expectancy has risen from 70 years in 1990 to 74 years in 2009; and the gender gap in primary and secondary school enrolment is almost closed. However, the fertility rate remains one of the highest in MNA (4.5 births per woman.) The low rates of labor force participation among women exist irrespective of location or age. This could be partly from concerns about women's safety at barriers and checkpoints. Unsurprisingly, the small size of the private sector and lack of jobs leaves 1 in 3 educated women unemployed, and 1 in 4 employed women working in the public sector.

53. **The Palestinian Authority has taken significant strides to employ women in the public sector,** mitigating, in part, the tendency of the private sector to under-employ women in proportion to their potential representation in the workforce. While women employees represent only 16% of the overall labor force, they are reported to be 30% of the public sector workforce. Five ministries are now headed by women, and women comprise 1 in 3 employees of the Ministry of National Economy. Women have made slower progress in the legal sector: women are only 20% of lawyers and 7% of judges in the West Bank.¹¹ In an attempt to increase gender sensitivity throughout the government, each Ministry now has a Gender Focal Person. While the move is a positive first step to ensure better representation of women's welfare and interests, several stakeholders report that until now, the position lacks resources and authority to be effective.

54. **Last, but not least, is the substantial uncertainty of funds flow for the NDP's development activities.** The PA's own revenues were able to fund 62% of the 2011 recurrent expenditures. External

⁹ See European Union. 2011. *Mapping Study of Civil Society Organizations in the occupied Palestinian Territory*.

¹⁰ See reports of 2008 and 2010 for the West Bank at www.globalintegrity.org

¹¹ Riyadh Consulting and Training. "Women's Economic Empowerment in the West Bank, Palestine."

budgetary support was almost 19% below projections, forcing the PA to accumulate additional arrears to the pension system and private sector suppliers. Although the budget called for development expenditures to be fully financed by donors, the PA has continued to finance development projects out of its own budget. Total development spending amounted to \$248 million, while development financing was only \$ 169 million.

V. DETAILS OF THE PROPOSED INTERIM STRATEGY (FY 12-14)

A. Guiding Principles

55. **The Bank Group exercises a technical mandate in an intensely political environment.** As it has since 1993, the Bank Group's program will continue to focus on laying the foundation for a future Palestinian state by relying on its comparative advantages -- grasp of longer term development issues, convening influence with development partners, and technical expertise in sectors. The Bank's apolitical stance helps while coordinating with the Government of Israel.

56. **This Interim Strategy is being prepared jointly with IFC at a time of protracted political uncertainty.** The formation of a government of politically independent technocrats has been discussed recently since May 2011 but the parties have not yet resolved their differences. The international community's reaction to the proposed "unity" government of technocrats remains to be seen. In 2006, following the Hamas majority in the Palestinian Legislative Council, many donors stopped aid; and the Bank's preparation of projects was temporarily put on hold.

57. **To respond to uncertainty, flexibility--along with a balance between short and medium term needs--will continue to drive the Bank Group's program.** It will comprise both financing and analytical advisory activities as the latter have helped set the agenda for overall development assistance in West Bank and Gaza. Both development policy and investment grants will support long term institution building. Project designs will be simple, with reliance on Additional Financing to scale up assistance to bolster successful components of interventions. Experience during 2000-2004, and again during 2006 to 2008, when international assistance to WB & G stalled, teaches that having only one channel of providing assistance is risky. Meanwhile, municipalities, some of which pre-date the creation of the Palestinian Authority, and NGOs have a historic role in delivering a range of services. The National Development Plan emphasizes partnerships with civil society, NGOs, and the private sector to ensure that social services are comprehensive, affordable and sustainable. So, in addition to the PA at the apex level, the Bank will continue to support municipalities and NGOs towards their institutional strengthening and improved service delivery. IFC plans a greater role in mobilizing private investments into the West Bank and Gaza, especially from Gulf investors. It will use a mix of debt, equity and guarantees as instruments of engagement on the investment side.

58. **The Bank's program will continue to remain selective in deploying technical expertise in sectors where the Bank has a history of engagement and has carved out expertise vis-à-vis other donor partners.** The series of budget support operations is centered on fiscal strengthening and public financial management, while investment projects are in higher education, local government, energy, water and sanitation, and solid waste management. The development policy grants can help reduce volatility of aid and maintain a level of resilience to shocks. The program will likely continue to be concentrated in these areas. IFC's investment program will continue to be fully integrated with complementary Advisory Services support.

59. **Job creation is a new area in the program, consistent with the MNA-wide emphasis on jobs.** A private sector development project under preparation and its linked program supported by a multi-donor trust fund will support the invigoration of the private sector. Another project will finance

interventions to facilitate the school-to-work transition, while AAA will explore how graduates of employment-oriented education programs are faring in the job market. The program will include analytical work that explores how the internet and new technology can be harnessed to create jobs, while projects underwritten by MIGA will add jobs.

60. **Staff continue to closely watch developments in those sectors identified by the 2011 World Development Report, *Conflict, Security and Development* as primarily in need of support in fragile environments** but lie beyond its remit (security) or has not been active for selectivity reasons (justice). Important progress has been made in these areas.

- Security was one of four national goals espoused by the 2008-10 PRDP. Security personnel in the West Bank have been extensively trained by US and other western government teams, and their capacity has been greatly strengthened. The improved security situation has led the GOI to reduce some of its internal security restrictions and is often cited by businesses as an important reason for the increasing economic activity. Ongoing donor assistance towards security in the West Bank amounts to \$28.6 million, is mostly for construction of community stations and training of police personnel, and provided by the European Commission, Denmark, Germany, Netherlands, Sweden, and the UK.

- The Palestinian justice sector has witnessed significant reforms during the last five to ten years. The Supreme Judicial Council, the Ministry of Justice, and the Attorney General Office have changed from person-centered bodies into real institutions with clear mandates, modus operandi, and strategic visions. The donor community's assistance to this sector notably increased following the establishment of the Caretaker Government in 2007. Multiple projects are aimed at supporting the Ministry of Justice, the Supreme Judicial Council, the Public Prosecution, the Palestinian Bar Association, and civil society organizations active in the field. Assistance of about \$140 million for the justice sector is being provided by the European Commission, Canada, US, Sweden, Germany, Denmark, UNOPS, UNDP, and ILO.

61. Within this framework, the two pillars of this interim strategy are:

- ***To strengthen the institutions of a future state to efficiently manage public finances and ensure services to citizens***, aligned to the governance and social blocks of the NDP
- ***To support the creation of an enabling environment for private sector led growth***, aligned to the economy and infrastructure blocks of the NDP.

62. **This proposed interim strategy is closely aligned with the principles of New Partnership for Inclusive Growth outlined by the World Bank Group and other multilateral development banks¹² in Deauville in May 2011.**

- The NDP's "governance" and "social" blocks, with which this strategy's first pillar is aligned, are very similar to the partnership plan's first and second elements -- of increasing governance, transparency, accountability, and citizen participation; and increasing social and economic inclusion in MNA region.

- The "economy" and "infrastructure" blocks of the NDP, with which this strategy's second pillar is aligned, corresponds closely with the partnership plan's third and fourth elements – of creating jobs and accelerating shared economic growth led by the private sector.

63. **The current Interim Strategy was delayed**, at first, to reflect the PA's new development plan that would determine the direction of this Interim Strategy. While that was released in April 2011, the new cabinet that was to have been formed after the dissolution of the previous one in February 2011 has not yet taken place.

¹² African Development Bank, European Bank for Reconstruction Development, European Investment Bank and the Islamic Development Bank

B. Proposed Program Described in Pillars

Pillar 1. Strengthen the institutions of a future state to efficiently manage public finances and ensure services to citizens.

64. The first pillar of the Bank’s program will directly support the PA’s priorities of reducing dependence on donor aid, and improving service delivery. Strong fiscal management is key to the PA’s reform program as it is heavily dependent on donor assistance for its recurrent and development expenditures. Faced with delays in disbursement of donor aid, or lower than anticipated amounts, it usually resorts to borrowing from domestic banks to close the financing gap. But protracted fiscal crisis jeopardizes institution-building and service delivery, a fundamental function of a future state. The Bank will support improvements to public services, including – helping to (i) strengthen the institutions responsible for delivering them, and (ii) stimulate the demand for services. The areas of engagement to achieve these outcomes are summarized below in Table 5. Institutional strengthening is a focus of ongoing and planned projects in water and waste water management, energy, and solid waste management sectors that are described in the second pillar of assistance below. Because it is inherent to the Bank’s program in all sectors, those areas of engagement have not been listed separately here in Pillar 1.

Table 5. Pillar 1 -- Outcomes and Areas of Engagement

Pillar 1. Strengthen the institutions of a future state to efficiently manage public finances and ensure services to citizens.			
ISN Outcomes	1.1 Greater economic stability and transparent public financial management	1.2 Reinforced public administration	1.3 Public services more responsive to users’ needs
Areas of Engagement	-- Revenue & expenditure management -- Public financial management (PFM) -- Public Procurement	-- Local Government Units’ management capacity -- Modernization of the Palestinian Land Authority -- Civil service reform	-- Targeting poverty assistance -- Social accountability in service provision and investments

Outcome 1.1: Greater economic stability and transparent public financial management.

65. **The Bank, in coordination with the IMF, will continue to contribute, through regular policy dialogue, annual development policy and investment operations and systematic AAA, to an improvement of the PA’s fiscal management and increased transparency in public financial management.** The ongoing series of development policy grants will maintain their focus on fiscal management and public financial management. The Bank will regularly monitor the reform agenda supported by the development policy grants, and support prioritization of activities in view of emerging developments. Analytical activities will include a study assessing sources of growth and an economic stock-taking. Through the ongoing investment project for Economic and Regulatory Institution-Building, the program will continue to help build the capacity of leading economic and regulatory institutions -- the Palestinian Central Bureau of Statistics, Palestinian Monetary Authority, and Palestinian Pension Authority. A grant from the Bank’s FIRST (Financial Sector Reform and Strengthening) Initiative will continue to support the reform of national payments systems.

66. **Following up on its 2007 exercise, the Bank will partner with the PA in conducting a comprehensive Public Expenditure and Financial Accountability assessment.** This will not only provide a view on the current state of the PFM system but also an opportunity to monitor the progress made in the past five years. The current timeline for issuing the draft financial statements and audited financial statements is 21 months, which the PA plans to shorten to 9 months. The IMF, UK, France, US

and EC are all providing technical assistance to the Ministry of Finance on PFM issues, with limited coordination from the PA. Development partners have agreed that the Bank will lead in convening and chairing informal quarterly donor meetings, with the aim of strengthening coherence in this fragmented sector.

67. **In the area of public procurement, the program will support robust implementation of the new Procurement Law.** It lays down the institutional and organizational set-up for public procurement, provides comprehensive provisions on procedural matters and sets out provisions on transparency and accountability. The enactment of a good procurement law is only a first step in the development of a sound procurement system. The Bank's program will support other critical components of the procurement system that need to be put into place e.g. including enacting the supporting regulations for the new law, establishing an independent public procurement policy body, implementing national standard bidding documents, establishing a training program of the procurement workforce, and taking additional measures necessary to make the law effective.

68. **Ongoing technical assistance will analyze health expenditures associated with payments to third party service providers.** Reduced reliance on donor assistance is a significant challenge facing the health sector as it tries to maintain public health outcomes. Therefore, the NDP prioritizes the development of a health insurance system to generate sustainable financing of the health sector, and the PA has recently asked for Bank assistance for drafting and eventual implementation of a health insurance law. The Bank's analytical work in 2008 provides a good background and several options, and the forthcoming analytics will build upon them.

69. The result of engaging in these areas will be more effective revenue and expenditure management, greater transparency in public financial management, and robust application of the new procurement law. These, along with indicators, are presented in Annex 1.

Outcome 1.2: Reinforced public administration.

70. **The NDP emphasizes that a high standard of professionalism and impartiality in the civil service is an essential element of improved service delivery** and talks about the revision of the civil service law. The PA asked the Bank suggestions to feed into the civil service reform strategy, and AAA will respond to pertinent ongoing issues.

71. **The PA plans targeted initiatives to upgrade service delivery systems and processes in areas where citizens are currently most affected by bureaucratic inefficiency -- land administration is one such area.** The NDP explicitly identifies completion of land registration and the upgrading of land management capacity as one of its priority policies under its administrative development strategy. Land management has historically suffered from a wide variety of weaknesses. Thus modernization of the Palestinian Land Authority is a key element of modernizing the public administration. This will be supported through a (second) project in support of land administration. To ensure women's participation in the land registration process and the dispute resolution system, the village and neighborhood land committees that will be established under the project will ensure that a 50% target rate set for female participation.

72. **Local government units (LGUs) have a key role in service delivery.** These include municipalities, village councils and joint service councils, which are home to 74% of the population and deliver six services (solid waste collection, street sweeping, water supply, street lighting, road maintenance, and school maintenance). However, they have modest capacity to generate and manage revenues. Non lending technical assistance will provide information allowing the PA and municipalities to adopt policies and practices that assist in improving revenue generation by municipalities, therefore

helping them towards achieving creditworthiness. An Additional Financing to the Municipal Development Project (in support of Phase 1 of the PA's Municipal Development Program) will help establish the allocation system of performance based grants, established under the original project. The Municipal Development Project 2 (in support of a Phase 2 of the PA's Municipal Development Program) currently under preparation for FY 13 will increasingly focus on improving municipal revenues so as to ensure that municipalities could provide better coverage and improved quality of services.

73. The result of engaging in these areas will be an improved management capacity of LGUs, a more capable Palestinian Land Authority, and an increased civil service orientation towards service delivery. These, along with indicators, are presented in Annex 1.

Outcome 1.3: Service delivery more responsive to users' needs.

74. **Apart from strengthening institutions that are responsible for delivering services, the program will support social accountability and the demand for good services.** The Ministry of Local Government has identified a lack of trust between citizens and LGUs as a key issue, and considers social accountability approaches as a means to achieving the necessary shift in mindset to build and strengthen that trust. The Bank will explore and analyze social accountability in local governance and municipal service provision, and the May 2011 National Policy on Public Participation. In the Bank's Municipal Development Project, selection of municipal subprojects is based on community participation and prioritization. All municipalities are encouraged to apply public disclosure methods (eg. disclosure of strategic development and investment plans, annual external audits, municipal budget, national performance rankings etc.). The second phase of the project will increase the focus on social accountability.

75. **The program's support for social accountability will not remain limited to local governments.** Building on its engagement with civil society and the recent series of four Bank projects to strengthen NGOs, analysis will provide insights and recommendations for enhanced partnerships between the PA and CSOs. In the water sector, staff will explore if utility performance could be enhanced through customer feedback for the Gaza and Hebron projects. For instance, citizen report cards could be initiated for the Gaza Water Supply Rehabilitation and Expansion project to measure and compare the quality of service and customer satisfaction between the Coastal Municipalities Water utility (CMWU) and municipal suppliers in Rafah and Khan Younis. Over the next couple of years, there is a need to monitor performance of the Palestinian Water Authority to assess its potential as a future ministry. This could be supported by setting customer satisfaction benchmarks that measure the implementation of reforms under the ongoing Water Sector Capacity Building project.

76. **Service delivery will improve through stimulating demand, but social assistance will remain a critical element of Palestinian policy until vibrant growth is able to generate employment.** The NDP explicitly promises to ensure effective and well-targeted assistance to those most in need. To support this effort, the World Bank is working with Ministry of Social Affairs (MoSA) and the Palestinian Central Bureau of Statistics to improve social assistance targeting that incorporates the revised poverty methodology and explores the scope for combining geographic and individual targeting. Technical assistance will enhance the next round of the expenditure and consumption surveys and develop prototype modules that can assess social assistance in the future.

77. The result of engaging in these areas will be a greater emphasis on social accountability throughout the program and especially in support to local governments; and social assistance will be better targeted. These, along with indicators, are summarized in Annex 1.

Pillar 2. Supporting the creation of an enabling environment for private sector led growth.

78. **The NDP commits to creating an environment that attracts investment, thus laying the foundation for sustainable growth.** The second Palestine Investment Conference, held in June 2010, was one of many PA steps in this direction. The NDP acknowledges having previously focused on employment generation programs to address rising unemployment and poverty. The new approach focuses on building a capable workforce with requisite skills and qualifications to drive the growth of a modern economy.

79. **Infrastructure development is necessary to encourage the private sector's growth, but needs to be economically sustainable.** In the past, municipal and village councils allowed large and rising arrears to accrue for bulk power purchases from the Israel Electric Corporation Ltd. These arrears were covered involuntarily by the PA's Ministry of Finance through deductions made by the Israeli government from the clearance revenues owed to the PA. The resulting "net lending" to the municipalities undermined the PA's own fiscal position as well as the sustainability of electricity services. Helping improve infrastructure services is a key strategic focus of IFC, especially through PPPs, in order to reduce the burden on the PA's budget through the efficient provision of infrastructure services in sectors like solid waste, wastewater treatment and potable water. In the telecommunications sector, IFC is exploring further support for the Wataniya mobile company in both the West Bank and Gaza.

80. **The NDP reminds that infrastructure will be maintained and developed with due regard to protecting natural resources.** For example, the over-drafting of the aquifer in Gaza to meet growing demand is causing a decline of the groundwater table, seawater intrusion, and deterioration of the aquifer water quality. Contamination of the aquifer from discharge of untreated wastewater has caused a high level of nitrates in the aquifer: only 7% of the operating water wells produce potable water according to WHO standards. The population has responded to water shortages with private well drilling, which undermines groundwater resource management efforts, and household desalination units for drinking water, which is often not accessible to the poorer parts of the population.

81. **IFC's current and planned investment and advisory program is aligned with the NDP's private sector development goals.** IFC's strategy is focused on investing in sectors that are not as severely constrained by the restrictions imposed on movement and access, and where IFC's development impact and financial sustainability are deemed high. To support private sector development, IFC will implement a program of investment and advisory services to: (i) help extend access to finance to micro, small, and medium enterprises (including women entrepreneurs), and to student and mortgage borrowers; (ii) improve infrastructure services, including through PPPs; and (iii) enhance the quality and access to social services to better meet the needs of the labor market. IFC will also work closely with the World Bank in helping improve the investment climate, and increase inclusion of women and youth primarily through its financial markets instruments, especially by increasing access to finance of MSMEs.

82. Thus, the Bank Group will support the PA's endeavor to create an environment that enables private sector growth. Program interventions, including regional projects that cover the West Bank and Gaza, will result in an invigorated labor market and raise sustainability of infrastructure in a way that protects the environment. The outcomes and areas of engagement are summarized below in Table 6. Because the WB & G is a small and open economy, its future development will depend upon increasing trade, particularly in exporting higher value added products. Given the lack of natural resources, but well educated and entrepreneurial population, it is likely that high value added services could play an important role in growth. Thus it will be important for the PA to decide what type of trade policy it expects a future state to adopt. In parallel, reform of the legal and regulatory environment –identified as a

priority in the National Development Plan—is critical to attracting the needed foreign and domestic investment.

Table 6. Pillar 2 -- Outcomes and Areas of Engagement

Pillar 2. Supporting the creation of an enabling environment for private sector led growth			
ISN Outcomes	2.1 Invigorated labor market	2.2 Increased sustainability of infrastructure networks	2.3 Environment protected
Areas of Engagement	--Partnerships between education institutions and business community	-- Performance of electricity networks and institutions	-- Solid waste disposal services
	--Using ICT to increase business opportunities	-- Rehabilitation of water supply networks, desalination plants and wells -- Institutional capacity building and PPP potential exploration in water supply and sanitation services	--Wastewater collection, treatment and reuse

Outcome 2.1 Invigorated labor market

83. **To increase the speed and quality of moving from higher education institutions to the workforce, the Bank’s education-to-work project will support youth with formalized partnerships between higher education institutions and the private sector**, and study programs that combine theoretical and professional information. Tertiary education institutions will partner with the business community to develop and implement apprenticeship schemes aimed at providing students with practical training, and improving the quality and relevance of the study programs and teaching practices. Despite Palestinian women constituting more than half of university students, women pursuing higher education tend to choose areas of study such as education and social and behavioral sciences, while IT, law, sciences and engineering see less than 3% women. The Education to Work Transition project will focus on encouraging tertiary education institutions to establish programs that provide young women opportunities to diversify their educational pursuits and to enhance their integration into the labor market.

84. **A Bank-supported business electronic services platform will be an information gathering website to make business-relevant information highly searchable and widely available.** Separately, analytical work in the program will scope the prospects of “microwork” (whereby large tasks for businesses is broken down into simple human intelligence tasks, and distributed to workers via the internet for greater cost efficiencies and job creation across geographic boundaries) as it could be a promising area for digital earning opportunities particularly for women and youth. Examples of microwork include data input, data verification, copywriting, graphic design, market research, and even software development. This could be particularly relevant to the West Bank and Gaza as microtasks can be performed anywhere through commonly available devices, and offers high flexibility in skills.

85. **An IDF grant will strengthen the audit profession** through continued support to the Board of Professional Auditing BPA and the Palestinian Association for CPAs—improving the system of accountancy training and education; enhancing the licensing process for external auditors and establishing a system of quality assurance and continuing professional development for auditors. A qualified audit profession and a strong financial architecture are key pillars of sound corporate governance, required to build investor confidence and support a strong business climate.

86. Close coordination between the World Bank’s, IFC’s and MIGA’s programs to help develop the Palestinian private sector will continue.

MIGA has enhanced its presence and is currently underwriting a few projects in the power, agribusiness and manufacturing sectors. It is seeking a replenishment of the West Bank and Gaza Investment Guarantee Trust Fund to cover the period of the ISN. IFC’s business simplification project, to be implemented with the Ministry of National Economy, will complement the Bank’s project to support market development. IFC’s assistance to the Capital Markets Authority to develop a corporate governance scorecard will help strengthen the gains from the Bank’s IDF grant for the audit profession. IFC’s PPP engagement with the Palestinian Authority will seek to attract private sector participation for the proposed Southern West Bank Solid Waste Management project, which is expected to improve sanitation services in the area (see Box 2).

Box 2. Complementary Engagements for Infrastructure Improvements

The construction of Al-Minya Landfill and related infrastructure will serve 780,000 people living in 33 municipalities in Hebron and Bethlehem, and dramatically improve much needed sanitation services in the area. While the landfill is being supported by the Bank through its Solid Waste Management Project for the Southern West Bank, IFC is supporting the Palestinian Authority and the Joint Services Council for Hebron and Bethlehem in attracting private sector participation for the landfill’s operation and maintenance—and possible recycling, composting and investing in future expansion.

87. The result will be stronger partnerships between education institutions and the business community, increased investor confidence, and increased ICT-based business services, technologies and skills. These along with indicators, are summarized in Annex 1.

Outcome 2.2 Increased sustainability of infrastructure networks

88. **The Bank Group will continue to support the development of the electricity sector institutions and improvement of the performance of electricity networks** to reduce the fiscal burden of the power sector and improve the security of power supply to meet growing demand. The completion of the transfer of electricity services from municipalities and village councils to power utilities in the West Bank will further improve the collection of electricity bills and improve billing efficiency which should therefore eliminate the arrears owed by power utilities and municipalities to the Israel Electricity Corporation. The Bank’s program will also consider support for efforts by the Palestinian Energy Authority to scale up development of domestic renewable resources and implementation of energy efficiency programs. IFC will explore opportunities for financing of the planned power generation station in the north of the West Bank.

89. **In Gaza, the program will also finance rehabilitation of the electricity distribution networks to improve the reliability of the electricity networks in Gaza** and will finance a major capacity building program in system operation and management to the Gaza Electricity Distribution Company (GEDCO) and part of the investment and operating needs of the Coastal Municipalities Water Utility to improve its operational efficiency in water supply and service provision. At the central level, the Bank will continue supporting institutional reforms for the water sector through a program of technical assistance for the Palestinian Water Authority.

90. The result will be improved performance of electricity networks and institutions, partially rehabilitated water supply networks, and strengthened institutions in water supply. These along with indicators, are summarized in Annex 1.

Outcome 2.3 Environment protected

91. **The West Bank and Gaza not only suffer from one of the lowest levels of per capita water availability in the region, water resources contamination by untreated sewage discharges and groundwater infiltration is also a systemic problem** that further affects the sustainability of already scarce water resources shared with Israel. The situation is particularly dire in Gaza. Existing landfills in Gaza are almost saturated, increasing risk to the very shallow and already threatened groundwater aquifers—the main water resource for the population. Safe disposal of solid waste is important to this. In Gaza, the Bank’s program will support solid waste disposal services in the middle and southern Gaza Strip. Because this is a critical element of protecting the environment, several donors, including the European Union, French Development Agency and Islamic Development Bank, have already expressed interest in co-financing this project.

92. **In the West Bank, the program will help install wastewater collection, treatment and reuse facilities in the Hebron governorate** and provide support for designing wastewater management systems and water supply rehabilitation in rural communities behind the proposed separation barrier in West Bethlehem. In Gaza, the program will help install wastewater treatment and reuse facilities for the northern governorate in Gaza, and help protect further deterioration of the groundwater aquifer.

93. The result will be improved disposal of solid waste and more efficient treatment of waste water. These results along with indicators, are summarized in Annex 1.

C. Regional Portfolio

94. **West Bank and Gaza is part of a Regional Global Environment Facility project for treated wastewater reuse** alongside Jordan, Morocco, Tunisia, and Algeria. In WB & G, the project will strengthen the PWA’s capacity in wastewater treatment and reuse, strengthen access to appropriate technologies, and improve cost recovery.

95. **It is also part of the University Governance Screening Card initiative developed by the World Bank Regional Program on Higher Education**, along with Tunisia, Morocco and Egypt,. The tool being developed will allow Palestinians universities to assess their quality assurance, student-learning outcomes, quality of teaching and research, and graduate employability; plan and monitor individual reforms and monitor their progress over time; and compare themselves with universities around the world.

96. **West Bank and Gaza is included in IFC regional projects to improve credit bureaus and secure transactions framework as well as work on financial literacy.** These MNA-wide programs are joint programs with the Arab Monetary Fund (AMF) across the region and seek to improve the financial infrastructure available to banks to improve access to finance for SMEs. West Bank and Gaza is also included in IFC regional projects on corporate governance. Currently the Palestinian Capital Markets Authority (PCMA) is being assisted in implementing a corporate governance scorecard for financial institutions, and IFC expects to continue to support corporate governance work through regional programs.

D. Portfolio Management

97. **The Bank coordinates its program closely with development partners and through the Local Development Forum (LDF).** The LDF includes representation from the PA as well as all donor and aid agencies, meets roughly once every three months, and has been chaired by the Palestinian Prime

Minister since October 2007. The Bank acts as co-chair of the Economic Strategy Group (together with the Ministry of Finance) as well as the Private Sector Development and Trade Sector Working Group (SWG), together with the Ministry of National Economy. Although the Economic Strategy Group is intended as an umbrella body that fosters cross-fertilization amongst the various SWGs that report to it, i.e. Private Sector Development and Trade, Agriculture, Micro and Small Finance, and Fiscal -- in practice, it has met often jointly with the Fiscal SWG since the PA's fiscal situation is an important issue for donors in that sector group. The Private Sector Development and Trade SWG have recently benefited from the Ministry of National Economy's increased interest in donor coordination and harmonization, resulting in meetings that have focused, for example, on the status of the private sector in Gaza. A summary of donor engagement in different sectors is attached in Annex 4.

98. **Supervision of the Bank's program, especially in Gaza, is challenging given the serious security constraints** and the Bank has a full time resident security advisor assigned to its program. Despite the complexity of the situation, the Bank, in collaboration with the Office of Quartet Representative (OQR) and other donors, has been coordinating with the authorities in Israel for project implementation. The program will maintain efforts on communications and coordination with Israel's Coordinator of Government Activities in the Territories (COGAT) that have improved in recent months, and helped implementation of projects in Gaza. Other Bank-financed projects, particularly in the education, social safety nets, and municipal service delivery projects have been less affected by Gaza's isolation and their implementation is progressing well.

99. **Implementation of the Bank's GAC agenda is key to program design.** Through priority policies in the development policy operations and technical assistance, the Bank has supported the PA's reform agenda in public financial management and public procurement. In the design and implementation of projects, task teams are systematically addressing GAC-related constraints and mainstreaming third party and community monitoring and evaluation.

100. **IFC's investment portfolio has increased significantly over recent years.** IFC's current portfolio is \$137 million in seven companies mostly in the financial sector (microfinance and student loans) and telecommunications, in comparison to only \$20 million in FY08 in four companies. Improvements in the investment climate and operating environment have helped IFC increase its investment program over the last few years. The portfolio is performing well. IFC has also made some progress in regards to its development reach. As of end-2010, IFC clients in the financial sector have been able to generate \$58 million micro, small, and medium enterprise finance loans. In the telecommunications sector, IFC's support to Wataniya Telecom has helped provide mobile connections to around 400,000 customers.

101. **Going forward, the programs will be sensitive to gender inclusion,** with special attention to implementing the recommendations of the most recent World Development Report *Gender Equality and Development*. The Education to Work Transition project places emphasis on programs that show additional commitment to enhance the employability prospects of young women. The analysis of prospects for micro-work is expected to show possibilities for women to earn an income while adhering to cultural sensitivities. To support women entrepreneurs and improve their access to finance, IFC plans to provide Advisory Services to develop small and medium enterprise banking for women. In the water sector, campaigns to improve tariff collection and for accepting higher rates to improve service quality and the financial viability of service providers could be targeted at women (this worked very well and in Indonesia in the 1990s). The ongoing Water Sector Capacity Building Project might be a vehicle for this, as well as the proposed Gaza Water Supply Rehabilitation and Expansion Project. Project achievements will be tracked, disaggregated by gender, wherever possible. Concept reviews of analytical activities and projects will pay attention to the gender dimension to ensure its mainstreaming across the program.

Box 3. Bank Partnership with NGOs

The World Bank and NGO Development Center celebrated the closing ceremony for the Third Palestinian NGO project (PNGO III) in a non-traditional way. Forty two NGOs from all over the West Bank (on June 22, 2011) and 24 NGOs from Gaza (on October 4, 2011) showcased how they fulfill their missions towards their local communities and the beneficiaries they serve in various sectors. The face to face interaction with the audience fostered dialogue and exchange of knowledge in a range of sectors: healthcare, education, environment, children and youth, culture, arts and craft, and agriculture. Since 1997, the Bank has invested \$33 million of its own money in the NGO sector through a series of projects and has succeeded in leveraging an additional \$36 million from other donors.

E. Communication and Outreach

102. **In West Bank and Gaza, the World Bank operates in a complex communications environment.** The Bank interacts with a wide range of constituents: Palestinians, Israelis, and development partners. The Bank's analyses are often undertaken in partnership with local universities and think-tanks. They examine complex problems through the economic development lens, and their discussions provide the opportunity of dialog with a wide audience. For example, the recent poverty report was presented in workshops, co-hosted with the Palestinian Central Bureau of Statistics and the Palestinian Economists Association, in Gaza and Jerusalem. The Bank reaches out to stakeholders for a better understanding of the

issues and to improve project design. Focus group discussions with business owners and principals, students and graduates of technical colleges and universities have informed the design of the Education – to Work Transition project. Embedded in the Municipal Development Program is an outreach program for citizens' appreciation of the ranking of their municipalities.

103. **During January 2012, discussions on this ISN's focus were conducted in separate meetings with the PA, donor partners and civil society.** There was much interest from civil society on the Bank's knowledge products, outreach of the recent products, and priorities for upcoming ones. The feedback from the meeting was that Bank knowledge products are useful and of high quality, and ways to follow up on the recommendations. Suggestions for future work analytical included: making Palestinian education relevant to the job market, while simultaneously examining industrial / labor policies; giving Palestinian youth the skills to integrate better in the regional markets (in addition to the domestic); and prospects of donors' engagement in Jerusalem and Area C.

VI. RISKS

104. **In West Bank and Gaza the Bank Group operates in an environment of high political and security ambiguity.** The uncertainty of the peace process and the isolation of Gaza in particular have a direct negative impact on the Bank Group's agenda and program implementation. Political instability leads to continued high turnover of technical staff in implementing agencies and reduced ownership of the reform program. If the security situation were to deteriorate, the Bank would have to consider alternate channels for providing support. In the IFC's case the focus would turn to advisory projects and the management of the existing investment portfolio to assist client companies in navigating the new challenges.

105. **The ISN mitigates the political and security risks by putting forward projects with simple design, flexibility in implementation arrangements and a high degree of adaptability to changing circumstances on the ground.** The program's Emergency Response and Business Continuity Plan is reviewed and updated frequently. The resident security advisor is in continuous contact with the UN's security system. The Bank's reliance on semi-autonomous implementing agencies shields the Bank's

projects from potential instability at the apex level and provides the much needed continuity to the portfolio.

106. **Despite the various mitigation measures and the adaptability of the Bank's program, the possibility of a significant downside political and security scenario remains.** Political and security developments are monitored routinely by the Bank so it can be alert to any situation that may require adjustment to the Bank program. In a downside scenario the Bank would assess its engagement to determine how and where support could be continued drawing on lessons of the WDR 2011 of the need to stay engaged, while being mindful of the need to mitigate any new risks that may emerge. The control measures within the Bank for monitoring flow of funds is further strengthened by the solid performance of the Palestinian Monetary Authority, which follows some of the strongest anti-money laundering laws in the region. Depending on the nature of any event, the Bank would conduct a careful review of operations and decide on the course of action.

107. **The PA's fiscal and economic management is in a precarious position, despite recent economic growth and reform efforts.** The PA is dependent on large donor inflows. Optimistic assumptions regarding future growth are linked to sustained private sector activity which is largely dependent on the Government of Israel further relaxing its closure regime and allowing Palestinian enterprises reliable access to markets. Israel's physical, administrative and regulatory restrictions in the West Bank and the blockade of Gaza with sporadic military interventions hamper the PA's ability to implement its national plans.

108. **The Bank mitigates the fiscal and economic risks by engaging the PA in a continuous dialogue about the budgetary reform process and advancing transparent PFM practices, and taking steps to support monitoring institutions.** Because of its important oversight role the Bank has promoted the development of the State Audit and Administrative Control Bureau (SAACB) in its development policy operations. The SAACB is supported by a €4 million technical assistance package from the EU. It has developed a strategic plan for 2012-2016, partly supported by EU, for strengthening the audit function. The Bank will coordinate with the EU and the PA to address the major remaining issues that need to be addressed for the SAACB to be fully operational in accordance with international standards: independence, staffing and administrative arrangements, and mandate and scope of work. In addition, to expand the use of country systems, the World Bank will consider reliance on the SAACB as a potential external auditor for Bank-financed projects. The donor community has also offered its assistance to the Anti Corruption Commission, which was established in 2010, and is moving rapidly to establish its presence. The local branch of Transparency International - AMAN - has also begun a budget transparency initiative that will help to monitor the use of resources and will partially address the gap created by the lack of a functioning parliament. The move by AMAN has been welcomed by the Palestinian Authority. The donor community has embraced the NDP, and supported a further three-year extension of the PRDP-TF for budget support, which will help to support the further development of country systems. The PA has recently passed a new public procurement law that will put in place further controls and fiduciary oversight and increase transparency, whereas the Bank is providing support through technical assistance.

109. **External budgetary support is provided through the Central Treasury Account (CTA) while project funds are mainly managed through designated accounts not linked to the CTA.** Funding from the DPGs and the PRDP TF have supported a wide ranging reform of the public financial management systems to improve the control of expenditures, and provided an incentive for the PA to ensure that the reforms were satisfactorily implemented. These reforms have been managed with on-going technical assistance from the World Bank, IMF and other donors. Substantive progress has been made with the controls on the central treasury account which handles the vast bulk of resources including all budget support. However the procedures for those accounts not linked with the CTA (almost

exclusively donor financed project accounts) are not as strongly established and will take more time to be fully effective. The Bank is working closely with the Ministry of Finance to strengthen the accounting and financial control of these designated accounts, but in the meantime has put in place additional oversight for Bank project accounts.

110. **While in recent years the Palestinian Authority has taken steps to improve its governance arrangements, more needs to be done and the governance and anti-corruption agenda continues to present risks for the interim strategy.** As mentioned in the Bank's recent AAA on Governance and Anti-corruption the reform path is progressing well in many areas such as public financial management and the oversight of government equity holdings. In other areas reforms have been initiated but the implementation is not complete and further steps are needed. These include the development of the procurement process, improvements in civil service arrangements, and the establishment of an effective anti-corruption commission. Finally the report identified a number of areas which should be on the future governance agenda and where the PA's response is awaited. Improving the governance environment is not a standalone activity but needs to be embedded in the way that the PA carries out its business. For this reason it is woven into all elements of the reform agenda being pursued with the PA through the ISN. In addition the MNA regional social accountability agenda will be integrated into the ISN to further mitigate the governance risks.

ANNEX 1. RESULTS TABLE

The purpose of this Results Framework is to monitor the ISN's implementation and draw lessons.

Outcomes influenced by the program	Results in each area of engagement	World Bank Group program
Pillar 1. Strengthen the institutions of a future state to efficiently manage public finances and ensure services to citizens		
PA's development goals in the National Development Plan, and (IS Outcomes that will support each goal) To attain financial independence and economic stability – (Outcome 1.1) To modernize and streamline public administration – (Outcome 1.2) To empower local government and bring public services closer to citizens – (Outcome 1.2 and 1.3) To support and empower the poor and other vulnerable citizens and their families – (Outcome 1.3)		
Outcome 1.1 Greater economic stability and transparent public financial management	Result: Strengthened Revenue & Expenditure Management Indicator: Percent of domestic tax revenue under Large Taxpayer Unit's management Baseline: 60 in FY12 Target: 70 in FY 14 Indicator: Public wage bill share in GDP Baseline: 18.5 in FY 12 Target: 16.7 in FY 14	<u>Ongoing projects:</u> --Capacity Building of Economic and Regulatory Institutions <u>Anticipated projects:</u> --Development Policy Grant IV --Development Policy Grant V <u>Anticipated AAA:</u> --Sources of Growth, --Economic Stocktaking --Sustainability of health insurance
	Result: Increased transparency and efficiency in public financial management Indicator: quarterly / monthly fiscal reports providing details of transfer expenditures by program for major project categories. Baseline: transfer expenditures are included as one line in fiscal reports in FY12 Target: monthly/quarterly reports include a breakdown of transfer expenditures in FY 14 Indicator: Timely audit of government's annual financial statements Baseline: (FY 12) 21 months to complete the audit of the 2009 financial statements in FY12 Target: (FY14) 9 months to complete the audit of the 2013 financial	<u>Anticipated projects:</u> --Development Policy Grant IV --Development Policy Grant V <u>Anticipated AAA:</u> --Public Expenditure and Financial Accountability Assessment

Outcomes influenced by the program	Results in each area of engagement	World Bank Group program
	<p>statements.</p> <p>Result: Application of new procurement law</p> <p>Indicator: Improved institutional arrangements promoting integrity and transparency</p> <p>Baseline: In FY12, no oversight body is in place to monitor and ensure compliance with public procurement law and regulations Target: In FY 14, Higher Council for Public Procurement Policies established with a mandate to oversee public procurement</p> <p>Indicator: National Standard Bidding Documents (SBDs) and Procurement Operations Manual developed and adopted</p> <p>Baseline: In FY12, no national SBDs or user guide, endorsed by the PA and used by all PA agencies, are available Target: In FY 14, standard procurement documents (SBDs and procurement manual) introduced and endorsed by the PA</p>	<p><u>Ongoing projects:</u> IDF Grant for Public Procurement Support Project</p> <p><u>Anticipated projects:</u> --Development Policy Grant IV --Development Policy Grant V</p> <p><u>Anticipated AAA:</u></p>
<p>Outcome 1.2 Reinforced public administration systems</p>	<p>Result: Improved municipal management practices for better transparency</p> <p>Indicator: Municipalities apply public disclosure methods Baseline: 50% in FY12 Target: 60% in FY 14</p> <p>Result: Replicable and cost effective system of land registration developed</p> <p>Indicator: Increase in amount of land registered by the Palestinian Land Authority using systematic method Baseline: (FY12) 0 dunums registered in FY12 Target: (FY14) 90, 000 dunums registered</p> <p>Result: Create the conditions for an increased public officials' orientation towards results</p> <p>Indicator: Civil Service Law 2005 revised to introduce incentives for officials'</p>	<p><u>Ongoing projects:</u> Municipal Development Program (Phase 1)</p> <p><u>Anticipated projects:</u> Municipal Development Program (Phase 1) AF Municipal Development Program (Phase 2)</p> <p><u>Anticipated AAA:</u> Municipal Revenues: Towards Policies</p> <p><u>OnGOIng projects:</u></p> <p><u>Anticipated projects:</u> Second Land Administration Project</p> <p><u>Anticipated AAA:</u> Ongoing AAA: Non Lending Technical Assistance</p> <p><u>Anticipated AAA:</u> Non Lending Technical Assistance in response to specific request from the</p>

Outcomes influenced by the program	Results in each area of engagement	World Bank Group program
	performance Baseline: Law unrevised in FY 12 Target: Revisions to the law have been consulted in FY 14	PA
Outcome 1.3 Public services able to respond better to users' needs	Result: Better targeted poverty assistance focused on the extremely poor, as defined by the Palestinian Central Bureau of Statistics Indicator: Number of extremely poor recipients receiving assistance Baseline: 74,000 in FY12 Target: 95,000 in FY 14	<u>Ongoing projects:</u> West Bank and Gaza Cash Transfer Project <u>Ongoing AAA:</u> --Social Assistance Targeting Technical Assistance --Assessment of Ministry of Social Affairs Targeting System under the Cash Transfer Project
	Result: Enhanced social accountability in service provision Indicator 1: NGOs implement accountability and transparency standards as defined in the NGO Code of Conduct Baseline: (FY12) 6% of selected NGOs implement the Code of Conduct Target: I(FY14) 45% of selected NGOs start implementing the Code of Conduct Indicator 2: Citizens actively participate in decision-making and monitoring of municipal plans Baseline: Number of communities implementing grassroots municipal plans in FY12 Targets: 10% increase in number of communities implementing grassroots municipal plans in FY14	<u>OnGOing projects:</u> --Municipal Development Program Phase 1 --Palestinian NGO IV --Water Sector Capacity Building project <u>Anticipated projects:</u> Municipal Development Program Phase 2 <u>Anticipated AAA:</u> --Municipal Finance III ESW --Social Accountability for Municipal Services
Pillar 2. Supporting the creation of an enabling environment for private sector led growth PA's development goals in the National Development Plan, and (IS Outcomes that will support each goal) To ensure a vibrant labor market and combat unemployment -- (Outcome 2.1) To secure the supply of energy and natural resources -- (Outcome 2.2) To protect the environment -- (Outcome 2.3)		
	Gender inclusion systematically mainstreamed across the program	Gender inclusion will be reviewed in concept note reviews and disaggregated project indicators will be tracked wherever feasible.
Outcome 2.1 Invigorated Labor Market	Result: Partnerships developed between education institutions and business community for better training of the youth Indicator: Tertiary education institutions and businesses jointly develop	<u>Ongoing projects:</u> Tertiary Education Project <u>Anticipated projects:</u> Education-to-Work Transition Project

Outcomes influenced by the program	Results in each area of engagement	World Bank Group program
	curriculum and teaching for education programs Baseline: 0 in FY12 Target: 4 in FY 14 Indicator: Internship programs launched for students at enterprises. Baseline: 0 Target: 3	<u>Anticipated AAA</u> --Non-lending Technical Assistance for Tracer Study of Graduates
	Result: Increased ICT-based business services, technologies and skills Indicator: Key government-to-business electronic services available for online use by entrepreneurs and businesses Baseline: 0 in FY12 Target: 2 in FY 14	<u>Anticipated projects:</u> Market Development Project <u>Ongoing AAA:</u> Identification study for microwork opportunities in West Bank and Gaza.
	Result: A streamlined process of LLC and sole proprietorship business registration Indicator: Average number of days to comply with the business regulation Baseline: 45 days Target: 15 days	Anticipated project – IFC’s West Bank & Gaza Business Registration Simplification Project
Outcome 2.2 Increased sustainability of infrastructure networks	Result: Improved network performance Indicator: Incremental increase in capacity of electricity networks in Gaza Baseline: in FY12: 0 Target: in FY 14: + 36 MVA Result: PA’s water sector reform priorities identified Indicator: Effective analytical underpinning of reforms in the water sector Baseline: (FY12) Water sector analysis ongoing (FY 12) Target: (FY14) Water sector analysis informs the PA’s sector reform program	<u>Ongoing projects:</u> Water Sector Capacity Building Project <u>Anticipated projects:</u> --Gaza Electricity Network Rehabilitation Project --Gaza WSS Rehabilitation and Expansion Project -- IFC investment support and mobilization for increased telecommunication services in Gaza <u>Anticipated AAA:</u> Enhancing Governance in Water Utility Management
Outcome 2.3 Environment protected	Result: Northern Gaza wastewater treatment plant operational Indicator: Wastewater treated to PWA standards Baseline: 15000M3/ day partially treated in FY12 Target: 35000M3/ day fully treated in FY14, and 5000M3/Day of treated effluent reused for irrigation	<u>Ongoing projects:</u> Northern Gaza Emergency Sewage Treatment Project <u>Anticipated projects:</u>
	Result: Rehabilitated water system for five villages in West Bethlehem	<u>Ongoing projects:</u>

Outcomes influenced by the program	Results in each area of engagement	World Bank Group program
	Indicator: Improved reliability of water supply Baseline: 50% unaccounted for water Target: less than 40% unaccounted for water in project area	West Bank Wastewater Management Project <u>Anticipated projects:</u> WSS Improvements for West Bethlehem Villages

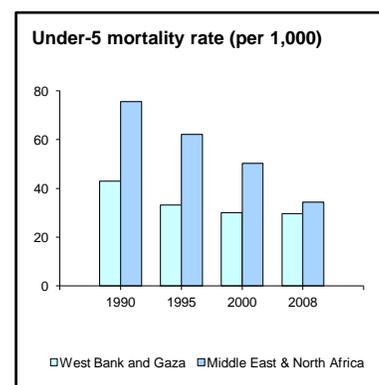
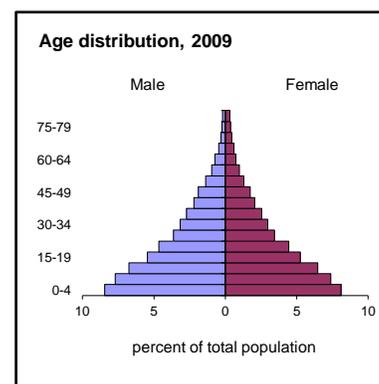
ANNEX 2. DONOR FUNDS THAT COMPLEMENT THE BANK'S GRANTS AND TECHNICAL ASSISTANCE

Note: does not include parallel financing

Project #	Project Name	Trust Fund #	Trust Fund Name	TF Status (Active or Closed)	Donor Name	Net Grant Amount (USD 000)
GRANTS						
		TF071607	Palestinian Reform and Development Multi-Donor Trust Fund	Active	AusAid, Finland-MoFA, Norway-MoFA, UK-DFID, France-MoFA, State of Kuwait (Canada-CIDA and Poland are former donors)	706,400 (disbursed to date)
P074595	North Gaza Emerg. Sewage Treatment	TF056186	Swedish Trust Fund for North Gaza Emergency Sewage Treatment	Active	Swedish International Development Cooperation Agency (SIDA)	5,904.95
		TF057109	Belgian Trust Fund for North Gaza Emergency Sewage Treatment	Active	Belgium - Directorate General for Development Cooperation (DGDC)	5,385.69
		TF057595	North Gaza Emergency Sewage Treatment	Active	EU-Commission of the European Communities	8,078.53
P111741	Municipal Development Program	TF096770	Municipal Development Project for the Support of Phase I of the Municipal Development Program	Active	Swedish International Development Cooperation Agency (SIDA), and Danish Ministry of Foreign Affairs (DANIDA)	13,477.04
P116860	Local Government Capacity Building	TF054521	WBG – Local Government Capacity Building – Recipient Executed	Active	Danish Ministry of Foreign Affairs (DANIDA)	10,037.40
TECHNICAL ASSISTANCE						
P123607	WB & G Governance Work	TF051695	West Bank and Gaza Aid Coordination	Active	Norway - Ministry of Foreign Affairs	2,783,092
		TF098443	Public Financial Mgmt and Anti-Corruption	Active	UK - Department for International Development	336,333
P115214	FIRST: WBG Pension Regulation	TF093302	FIRST: WBG Pension Regulatory Capacity	Active	Multi-Donor (Canada, UK, Swiss, Sweden, Netherlands, Luxembourg)	248,000
ECONOMIC AND SECTOR WORK						
P127305	Social Accountability for Municipal Service	TF096909	Implementing GAC in Projects - Demand for Good Governance Approaches to Strengthen the MNA Portfolio	Active	Multi-Donor (Norway, Netherlands, UK)	70,000

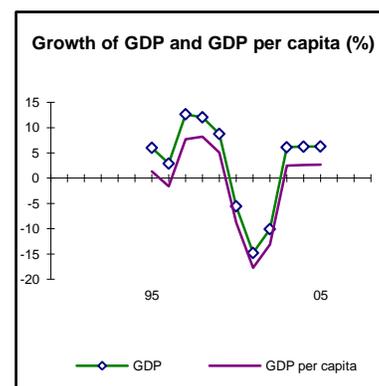
ANNEX 4. WEST BANK AND GAZA AT A GLANCE

Key Development Indicators	West Bank & Gaza	M. East & North Africa	Lower middle income
<i>(2010)</i>			
Population, mid-year (millions)	4.05	325	3,767
Surface area (thousand sq. km)	6.0	8,778	31,923
Population growth (%)	2.9	1.8	1.2
Urban population (% of total population)	74	57	40
GNI (Atlas method, US\$ billions)	..	1,078	7,682
GNI per capita (Atlas method, US\$)	..	3,315	2,039
GNI per capita (PPP, international \$)	..	7,759	4,502
GDP growth (%)	9.3	4.8	7.5
GDP per capita growth (%)	6.1	2.9	6.3
<i>(most recent estimate, 2003–2010)</i>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	..	4	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	..	17	..
Life expectancy at birth (years)	72	71	68
Infant mortality (per 1,000 live births)	25	29	44
Child malnutrition (% of children under 5)	11	12	25
Adult literacy, male (% of ages 15 and older)	98	82	87
Adult literacy, female (% of ages 15 and older)	92	65	73
Gross primary enrollment, male (% of age group)	93	106	109
Gross primary enrollment, female (% of age group)	96	104	105
Access to an improved water source (% of population)	94	87	86
Access to improved sanitation facilities (% of population)	99	84	50



Net Aid Flows	1980	1990	2000	2010
<i>(US\$ millions)</i>				
Net ODA and official aid	..	179	637	1,277
<i>Top 4 donors (in 2010):</i>				
PEGASE	..			375
The World Bank	..			285
Arab Donors	..			231
United States	..			223
Aid (% of GNI)	13.32	..
Aid per capita (US\$)	..	78.99	212.14	315

Long-Term Economic Trends	1980–90	1990–2000	2000–09
Consumer prices (annual % change)	1.58
GDP implicit deflator (annual % change)	2.89
Exchange rate (annual average, local per US\$)	4.08
Terms of trade index (2000 = 100)	100.00



1980–90 1990–2000 2000–09

					<i>(average annual growth %)</i>		
Population, mid-year (millions)	..	2.00	3.00	4.05	..	..	..
GDP (US\$ millions)	..	..	4113	5728	..	..	..
			<i>(% of GDP)</i>				
Agriculture	..	..	..	6.30	..	..	..
Industry	..	..	..	13.70	..	..	..
Manufacturing	..	..	..	9.90	..	..	..
Services	..	..	..	20.90	..	..	..
Household final consumption expenditure	..	..	95.49	..	..	..	..
General gov't final consumption expenditure	..	..	27.03	..	..	..	..
Gross capital formation	..	..	32.68	..	..	..	..
Exports of goods and services	..	..	15.99	10.00	..	..	..
Imports of goods and services	..	..	71.18	76.50	..	..	..
Gross savings	..	..	22.83	..			

ANNEX 5. SOCIAL INDICATORS

	Latest single year				Same region/income group	
	1980-85	1990-95	2003-09	2010	M. East & North Africa	Lower- middle- income
POPULATION						
Total population, mid-year (millions)	..	2.47	4.04	4.05	330.9	3,810.8
Growth rate (% annual average for period)	..	4.5	3.2	2.9	1.8	1.2
Urban population (% of population)	65.2	70.4	72.0	73.7	57.6	40.9
Total fertility rate (births per woman)	..	6.3	4.9	4.6	2.7	2.5
POVERTY						
<i>(% of population)</i>						
National headcount index	21.9	25.7	..	..
Urban headcount index
Rural headcount index
INCOME						
GNI per capita (US\$)	1,250	..	3,597	2,321
Consumer price index (2000=100)	124	130
Food price index (2000=100)
INCOME/CONSUMPTION DISTRIBUTION						
Gini index
Lowest quintile (% of income or consumption)
Highest quintile (% of income or consumption)
SOCIAL INDICATORS						
Public expenditure						
Health (% of GDP)	2.7	2.1
Education (% of GDP)	4.6	4.1
Net primary school enrollment rate						
<i>(% of age group)</i>						
Total	75	91	89	87
Male	75	89	91	88
Female	75	93	88	86
Access to an improved water source						
<i>(% of population)</i>						
Total	..	95	91	94	87	86
Urban	..	100	91	..	95	94
Rural	..	84	91	..	80	81
Immunization rate						
<i>(% of children ages 12-23 months)</i>						
Measles	98	87	79
DPT	88	79
Child malnutrition (% under 5 years)	2	..	7	24
Life expectancy at birth						
<i>(years)</i>						
Total	..	70	74	72	71	68

	<u>Latest single year</u>				<u>Same region/income group</u>	
	<u>1980-85</u>	<u>1990-95</u>	<u>2003-09</u>	<u>2010</u>	<u>M. East & North Africa</u>	<u>Lower- middle- income</u>
Male	..	69	72	71	69	66
Female	..	72	75	74	73	70
Mortality						
Infant (per 1,000 live births)	44	28	25	..	27	43
Under 5 (per 1,000)	54	33	30	..	33	57
Adult (15-59)				..		
Male (per 1,000 population)	..	..	125	..	155	201
Female (per 1,000 population)	..	..	90	..	104	136
Maternal (modeled, per 100,000 live births)	..	..	..	32	88	230
Births attended by skilled health staff (%)	..	..	99	99	80	66

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

**ANNEX 6. SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT
As of Date 1/6/2012**

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation ^a	11	13	15	14
Average Implementation Period (years) ^b	2.5	2.9	3.2	3.6
Percent of Problem Projects by Number ^{a, c}	0.0	0.0	6.7	7.1
Percent of Problem Projects by Amount ^{a, c}	0.0	0.0	4.7	5.0
Percent of Projects at Risk by Number ^{a, d}	18.2	46.2	6.7	7.1
Percent of Projects at Risk by Amount ^{a, d}	12.7	62.1	4.7	5.0
Disbursement Ratio (%) ^e	33.7	37.1	40.2	25.6
Portfolio Management				
CPPR during the year (yes/no)	Yes	Yes	Yes	Yes
Supervision Resources (total US\$)	\$608,555	\$793,794	\$1,138,974	\$1,048,000
Average Supervision (US\$/project)	\$55,323	\$61,061	\$75,931	\$74,857

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by IEG by Number	32	7
Proj Eval by IEG by Amt (US\$ millions)	595.0	130.0
% of IEG Projects Rated U or HU by Number	32.3	33.3
% of IEG Projects Rated U or HU by Amt	25.6	12.9

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year

ANNEX 7. BANK OPERATIONS PORTFOLIO

<u>Active Projects</u>	Project ID	Project Name	<u>Last ISR</u>		Fiscal Year of project approval	<u>Disbursements (US\$m)</u>			<u>Difference Between Expected and Actual Disbursement</u>	
			Supervision Rating			GRANT	Amt. of Grant Cancelled	Amt. Undisb.	Original Disb Estimate	Formally Revised Disb Estimate
			<u>Develop-ment Objectives</u>	<u>Implementa-tion Progress</u>						
	P108373	Emergency Services Support Project III	S	S	2008	18		0.2956	-7.70	-2.70
	P105404	Southern West Bank Solid Waste Mgt	S	S	2009	12		9.473443	1.04	
	P084461	Electric Utility Management	MS	S	2008	14.5		6.527832	3.19	2.52
	P065920	Gaza II Emergency Water	MS	MS	2005	31		1.298165	-9.70	0.61
	P111741	Municipal Development Program North Gaza Emergency Sewage Treatment	S	S	2010	23.4		1.896399	-4.25	
	P074595	Treatment	MS	MS	2005	26.8		12.88565	-6.11	1.78
	P117444	Palestinian PNGOIV	S	S	2011	2		0.904815	0.39	
	P081477	Social Safety Net Reform Project Village & Neighborhood Development	S	S	2004	28.4		0.041966	-18.36	0.04
	P104257	Development	MS	MU	2008	10.25	0.024	5.721861	5.16	
	P117443	Water Sector Capacity Building Econ/Regulatory Institution-Building	S	S	2011	3		2.68958	0.55	
	P118560	Teacher Education Improvement Project	MS	MS	2010	3.7		2.213015	-0.20	
	P111394	Project	S	S	2010	5		4.487535	0.93	
	P083767	WBG: Tertiary Education Project West Bank and Gaza Cash Transfer Project	S	S	2005	15		2.490539	-2.51	-0.08
	P119307	Local Government Capacity Building	MS	S	2011	10		6.460053	-0.77	
	P116860	Building	MS	MU	2005	10		2.246116	-62.50	12.36
	Overall Result					213.1	0.024	59.63257	-100.85	14.53

ANNEX 8. IFC INVESTMENT OPERATIONS PROGRAM

	2008	2009	2010	2011
<u>Commitments (US\$m)</u>				
Gross	16.1	46.2	83.6	21.6
Net**	16.1	46.2	83.6	21.6
<u>Net Commitments by Sector (%)</u>				
CIN	0	65	0	23
CGF	1	35	100	77
CHE	99	0	0	0
Total	100	100	100	100
<u>Net Commitments by Investment Instrument (%)</u>				
Equity	0	27	0	23
Guarantee	100	8	100	63
Loan	0	65	0	14
Quasi equity***	0	0	0	0
Total	100	100	100	100

* As of June 30, 2011

** IFC's Own Account only

*** Quasi Equity includes both loan and equity types

ANNEX 9. IFC COMMITTED AND DISBURSED OUTSTANDING INVESTMENT PORTFOLIO
(In US\$m)

<u>FY Approval</u>	<u>Company</u>	<u>Committed</u>					<u>-</u>	<u>Disbursed Outstanding</u>				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>
2010	AMAL	0	0	0	75.4	0		0	0	0	0	0
2012	BoP	0	11.44	0	19.09	0		0	11.4	0	3.09	0
2011	FATEN	2.81	0	0	0	0		2.81	0	0	0	0
2012	Rafah MF Bank	0	0	0	0.21	0		0	0	0	0.21	0
1998	SEF Arab Concret	0.8	0	0	0	0		0.8	0	0	0	0
1999	SEF JerichoMotel	0.23	0	0	0	0		0.23	0	0	0	0
2011	Wataniya WestBank	21.81	4.69	0	0	0		21.81	2.79	0	0	0
Total Portfolio:		25.65	16.13	0	94.7	0		25.65	14.19	0.0	3.3	0

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.