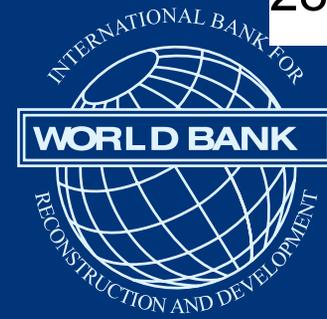
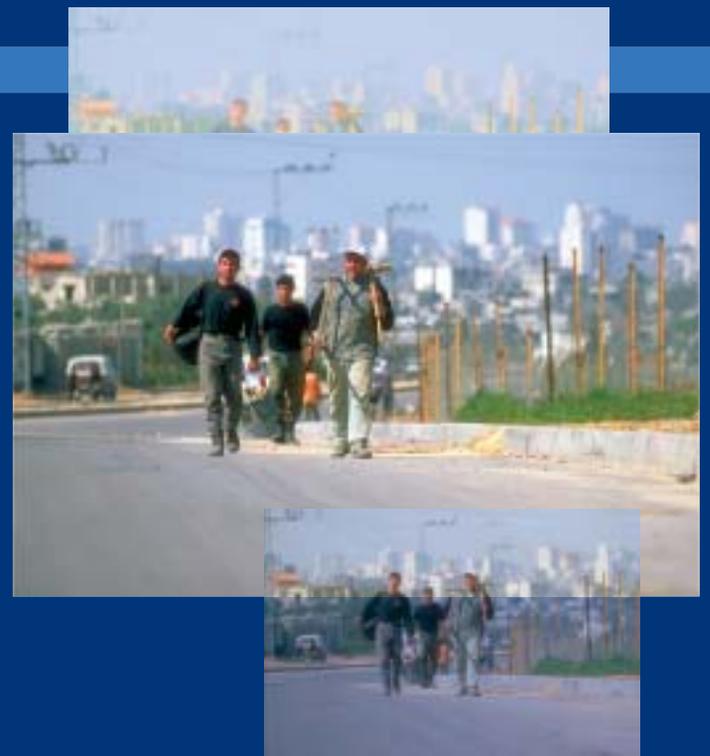


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The World Bank Group

WEST BANK AND GAZA UPDATE



March 2004

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Special thanks to Karim Nashashibi (IMF), John Wetter, Sima Kanaan, Karolina Ordon, Claus Pram Astrup and Hege Hope Wade for their contributions to this issue of the Update.

Palestinian Perceptions of their Quality of Life and of the Current Economic Environment

Impact of Movement Restrictions Assessed

Surveys of Palestinian Households and Business Establishments Show Little Change Over the Past Six Months and Only Slight Optimism Regarding the Possibility of Improvement in the Short-Term or Medium-Term

Starting in October 2003, the Palestinian Central Bureau of Statistics (PCBS) has conducted a series of monthly surveys¹ commissioned by the World Bank and financed by the Government of Norway in order to measure Palestinian attitudes and expectations concerning a number of subjects related to their economic situation. Surveys show that over the course of the past four months virtually no improvement in households' "quality of life" or ability to access schools, universities, health facilities, job sites, or agricultural lands has been perceived. Nor do Palestinians expect improvements in their mobility or overall situation in either the short-term (one month) or medium-term (six months). Expectations regarding future employment among the currently unemployed are also low.

Similarly, Palestinian business owners and managers continue to report difficulties arising from internal closure that hamper their ability to receive necessary inputs and to market finished goods. Other causes of business suffering relate to an inability to secure necessary finance. Looking forward, businesses see little chance for increased employment or sales over the short-to-medium term. Nor do they foresee any increases in current capital investment spending. Consequently,

prospects for a robust economic recovery remain stymied.

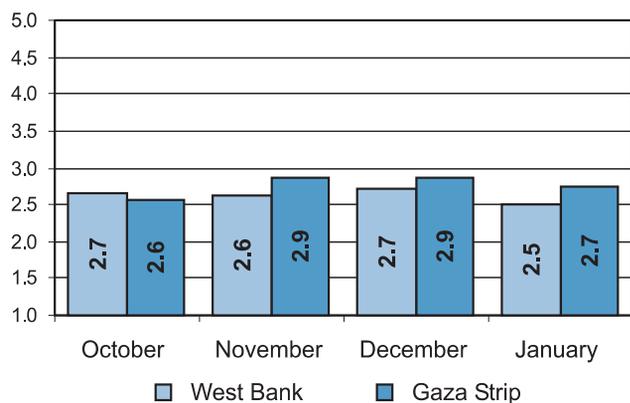
Households were also surveyed as to their family's most pressing need and the most important social and infrastructure needs of their community. At the household level, food has been the most consistently expressed need, followed by financial assistance and employment. At the community level, job creation and public infrastructure surpass food assistance as most needed; in terms of infrastructure, sewage disposal and roads receive top priority. Households express only modest levels of awareness of donor projects in these areas, and among those aware, satisfaction with donor interventions is moderate.

¹ Surveys were conducted September 27-October 4 (sample size, 1182 households; 545 businesses); November 1-6 (1295 households; 508 businesses); December 1-10 (1303 households; 508 businesses); and January 3-26 (1233 households; 508 businesses).

Quality of Life

Palestinian households have consistently, on balance, viewed their overall situation – their “quality of life” – as having worsened in the previous month, with West Bank residents generally taking a slightly more negative view than residents of the Gaza Strip (Figure 1).

Figure 1. Households' Assessment of Current Quality of Life Compared to Situation One Month Ago

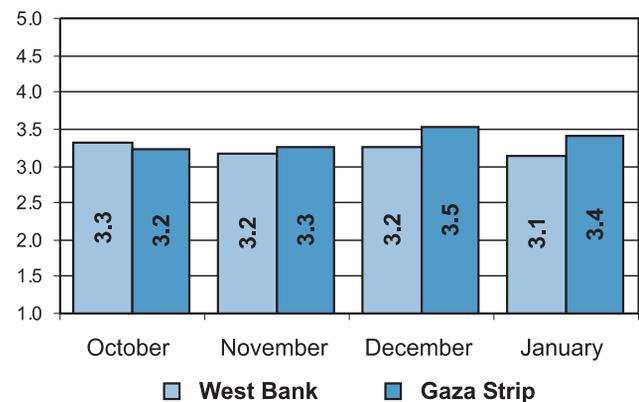


- 5 = Today is Significantly Better
- 4 = Today is Somewhat Better
- 3 = Unchanged / About the Same
- 2 = Today is Somewhat Worse
- 1 = Today is Significantly Worse

Looking forward one month, expectations have consistently been for a slight improvement (Figure 2). Whereas households have consistently perceived a worsening situation relative to the previous month, expectations for the future have always been more positive, with the average falling between “somewhat better” and “about the same” – even though in the event these positive expectations have not been realized. (Compare, for example, January in Figure 1 with December in Figure 2). Moving the horizon out from one month to six months leads to only a very slight (if any) increase in optimism (Figure 3). Over both timeframes, Gazans are again slightly more optimistic than are West Bank residents.

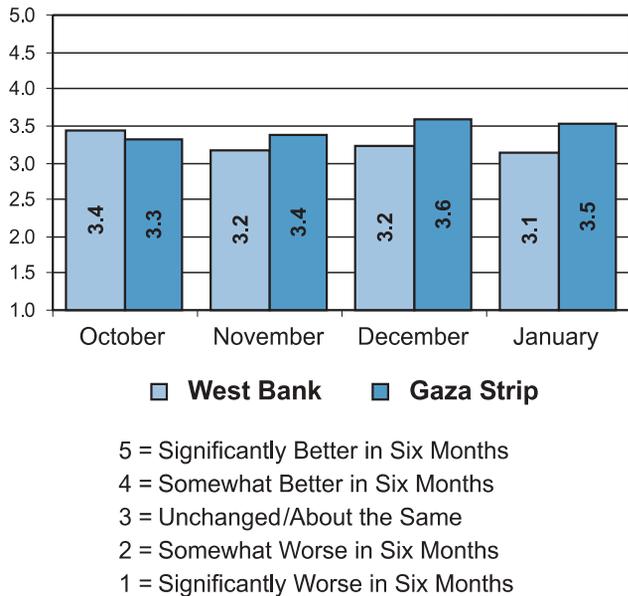
By governorate, Jerusalem residents (particularly those outside East Jerusalem) are the most negative in assessing their current situation relative to the previous month and also the most pessimistic in expectations of future improvements. Elsewhere in the West Bank, current assessments appear to vary by governorate in accordance with the degree of Israeli military intervention during the period. In January’s survey, Tulkarm, Nablus, and Bethlehem (in addition to Jerusalem) absolute majorities described the situation as having deteriorated relative to the previous month. In Nablus (and Jerusalem) this was also reflected in their expectations of continued deterioration. October’s survey, by contrast, Jenin and Qalqiliya residents perceived the greatest worsening relative to the previous month and also held the most pessimistic expectations (again, along with Jerusalem) regarding the future. In Gaza, October’s survey found Khan Yunis and Rafah to be the governorates perceiving the greatest deterioration and with the most pessimistic expectations; in January’ survey, Deir al Balah was most negative in its current assessment and most pessimistic towards the future.

Figure 2. Households' Expectation of Quality of Life One Month From Now Compared to Current Situation



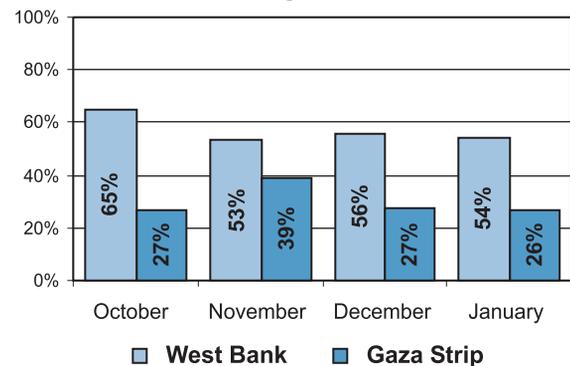
- 5 = Next Month will be Significantly Better
- 4 = Next Month will be Somewhat Better
- 3 = Unchanged / About the Same
- 2 = Next Month will be Somewhat Worse
- 1 = Next Month will be Significantly Worse

Figure 3. Households' Expectation of Quality of Life Six Months From Now Compared to Current Situation



percentage of respondents reporting their mobility was greatly affected remains about half the level of the West Bank, and the share reporting “no impact” has averaged just under 50 percent – even in November.

Figure 4. Percentage of Households Saying Movement Restrictions Affected Mobility "A Lot" During Previous Month



Movement Restrictions

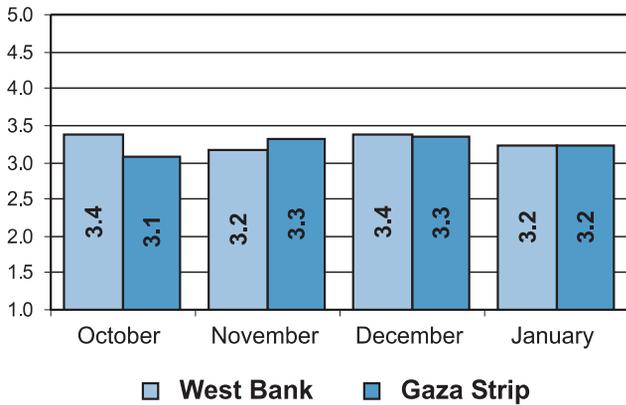
One obvious possible explanation for the pessimism of Jerusalem residents – both East Jerusalem (J1) and West Bank residents of Jerusalem governorate (J2) is the potential impact of the “Jerusalem Envelope” section of Israel’s Separation Barrier. In addition to the Barrier, there exist within the West Bank and Gaza a network of checkpoints, roadblocks, and other physical barriers preventing the free movement of Palestinians – the system known as “internal closure”. Surveys asked households a number of questions relating to their ability to access their places of employments, agricultural fields, and social services.

In response to the general question regarding the extent their household was affected by such restrictions, West Bankers noticed an improvement in the fall but no change subsequently. Each month a majority of West Bank households reported that their mobility was restricted “a lot” (Figure 4); in each survey less than 20 percent said they were affected “not at all.” In Gaza, the “re-division” of the Strip in October (reflected in November’s survey is apparent). Nevertheless, the

This difference between Gaza and West Bank – reflecting the smaller size and shorter distances traveled – can be seen in each of the specific areas explored (*below*).

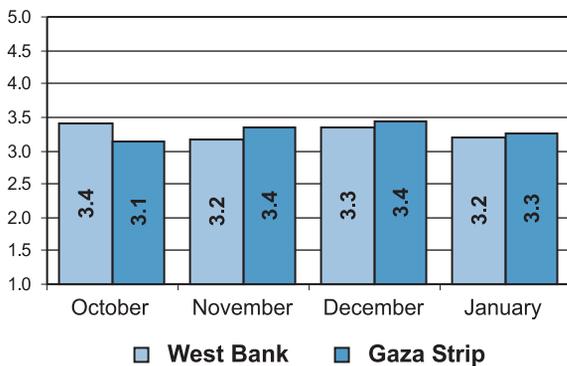
Similar to expectations regarding improvements in their overall quality of life, Palestinian households – both West Bank and Gaza are, at best, modestly optimistic in anticipating an improvement in their mobility, either within the next month (*Figure 5*) or the next six months (*Figure 6*).

Figure 5. Households' Expectations on Impact of Movement Restrictions Next Month Compared to Present Situation



5 = Significantly Easier Next Month
 4 = Somewhat Easier Next Month
 3 = Unchanged/ About the Same
 2 = Somewhat Harder Next Month
 1 = Significantly Harder Next Month

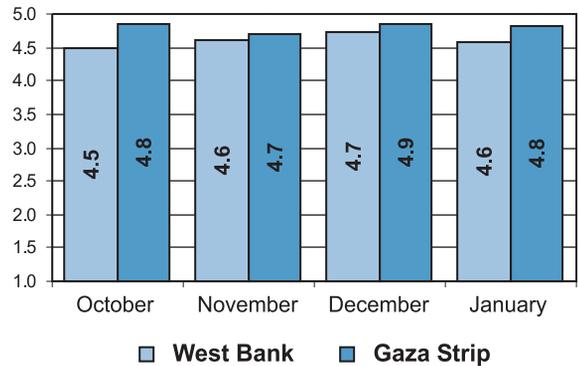
Figure 6. Households' Expectations on Impact of Movement Restrictions Six Months From Now Compared to Present



5 = Significantly Easier Six Months from Now
 4 = Somewhat Easier Six Months from Now
 3 = Unchanged/ About the Same
 2 = Somewhat Harder Six Months from Now
 1 = Significantly Harder Six Months from Now

reach school either in the past month (Figure 7) or past six months. Even in the worst impacted West Bank governorates in January – Tulkarm and Nablus, with scores of 4.3 and 4.1 respectively – the average response was between “few problems” and “no problem at all.” Breakdowns by locality type – urban, village, refugee camp – in January revealed that West Bank refugee camp residents had the lowest score (4.1, nevertheless still reporting few problems) and not surprisingly, urban residents the highest score (4.7) in the West Bank. January’s survey did not reveal any differences by locality type in Gaza.

Figure 7. Impact of Mobility Restrictions on Attending School During Previous Month



5 = No Problem at All to Attend School
 4 = Few Problems to Attend School
 3 = Difficult to Attend School
 2 = Very Difficult to Attend School
 1 = Impossible to Attend School

Movement Restrictions – Access to Schools

Approximately 70 percent of West Bank households and 75 percent of Gaza households have children in school. For almost all households in Gaza and the West Bank, movement restrictions have not appreciably impacted their children’s ability to

Movement Restrictions – Access to Colleges and Universities

Unlike elementary and secondary schools, generally located within the community, university attendance – particularly in the West Bank – can involve greater travel (or maintaining a second residence). Approximately 25 of the West Bank households reported having a student in college as did nearly 40 percent of Gaza households. In both cases the percentages reporting access difficulties due to movement restrictions increases compared to children’s education.

In Gaza, the November survey highlighted a worsening situation the previous month but recently few problems have been encountered. In the West Bank problems were particularly evidenced at the beginning of the academic year; more recently the average falls between “few problems” and “difficult” (Figure 8). In January, college students from Qalqiliya were most impacted; their score of 2.4 falls between “difficult” and “very difficult”. Jenin, Jerusalem, and Nablus (scores of 3.0, 3.1, and 3.2, respectively) found access “difficult”.

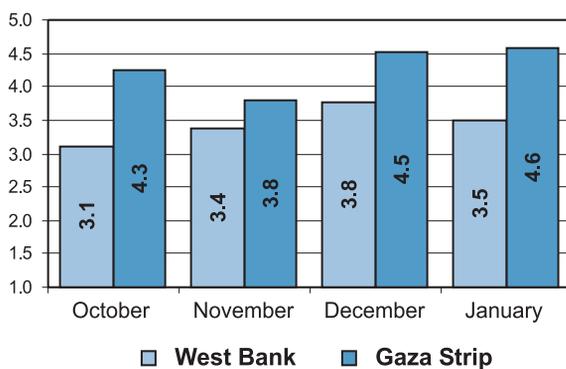
By locality type, in the West Bank refugee camp households had the lowest proportion of children enrolled in higher education (14%) and the most difficulty in accessing their university; their score of 2.6 falls between “difficult” and “very difficult”. Again, within the West Bank, urban households had the fewest problems, with a January score of 3.8. Likewise in Gaza, urban households with university students reported the least problems (score, 4.8); village households in Gaza the most difficulties, but the score of 4.1 nevertheless shows few problems in attending university due to mobility restrictions.

Movement Restrictions – Access to Medical Care

In Gaza, for the approximately 70 percent of households reporting a need for medical attention during the preceding month, access to that care posed, on average, “few problems” (Figure 9) – although January’s survey revealed that Gaza governorate residents found it more difficult (score, 3.5) than did the residents of other southern governorates or than they did in the past.

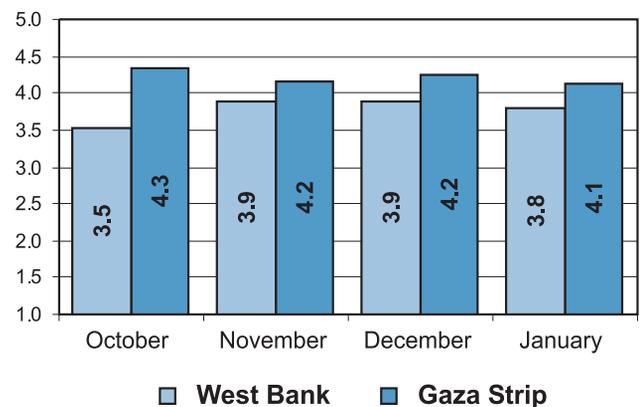
In the West Bank, where two-thirds of households reported a need for medical care, access was, on balance, slightly more problematic. Hebron residents reported the most difficulties in the January survey (score 3.0). West Bank village residents, with a score 3.6 in January, had most difficult access; West Bank refugee camp residents the least problems, with a score of 4.1 – perhaps due to the existence of UNRWA clinics serving this target population. Little differentiation by locality type was noted in Gaza in January.

Figure 8. Impact of Mobility Restrictions on Attending University During Previous Month



- 5 = No Problem at All to Attend University
- 4 = Few Problems to Attend University
- 3 = Difficult to Attend University
- 2 = Very Difficult to Attend University
- 1 = Impossible to Attend University

Figure 9. Impact of Mobility Restrictions on Access to Medical Care During Previous Month



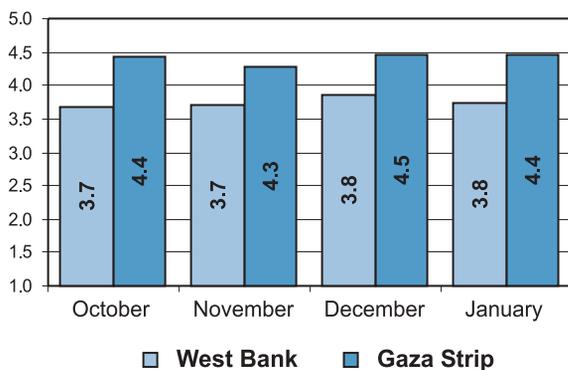
- 5 = No Problem at All to Access Medical Care
- 4 = Few Problems to Access Medical Care
- 3 = Difficult to Access Medical Care
- 2 = Very Difficult to Access Medical Care
- 1 = Impossible to Access Medical Care

Movement Restrictions – Access to Employment

Similar to the survey results concerning other access implications, Gazan households reported that on balance they had between “few” and “no” problems in accessing their place of employment, while West Bank residents faced greater difficulties, with the average falling between “few problems” and “difficult” (Figure 10).

Nablus, with a score of 3.1, was the governorate reporting most problems in the January survey. There, fully 35 percent of those employed found it described it as “very difficult” or “impossible”; one-third of Hebron governorate households with employed persons similarly said reaching their job sites was “impossible” or “very difficult”. (Bethlehem governorate had the greatest share of persons – 10 percent – stating that it was impossible to reach their place of employment the previous month.) Little differentiation was noted in January by locality type, either in the West Bank or in the Gaza Strip.

Figure 10. Impact of Mobility Restrictions on Reaching Place of Employment During Previous Month

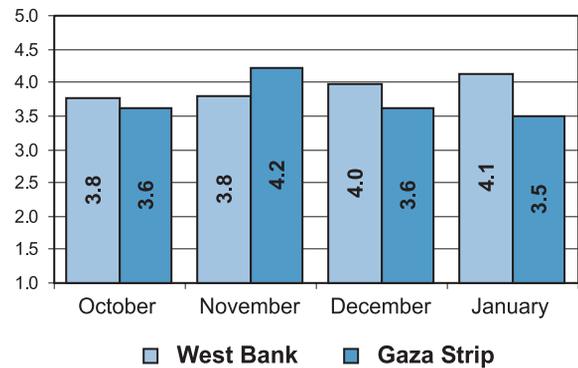


5 = No Problem at All to Reach Job Site
 4 = Few Problems to Reach Job Site
 3 = Difficult to Reach Job Site
 2 = Very Difficult to Reach Job Site
 1 = Impossible to Reach Job Site

Movement Restrictions – Access to Agricultural Land

Roughly one-third of the households in the West Bank and 15 percent in Gaza have agricultural land that they cultivate. Whereas in the West Bank surveys have shown a slightly increasing trend and on balance few problems in accessing that land, in Gaza the trend has been negative, such that by January’s survey the average fell halfway between “few problems” and “difficult” (Figure 11).

Figure 11. Impact of Mobility Restrictions on Ability to Cultivate Agricultural Land During Previous Month



5 = No Problem at All to Cultivate Land
 4 = Few Problems to Cultivate Land
 3 = Difficult to Cultivate Land
 2 = Very Difficult to Cultivate Land
 1 = Impossible to Cultivate Land

Expectations of Finding Employment

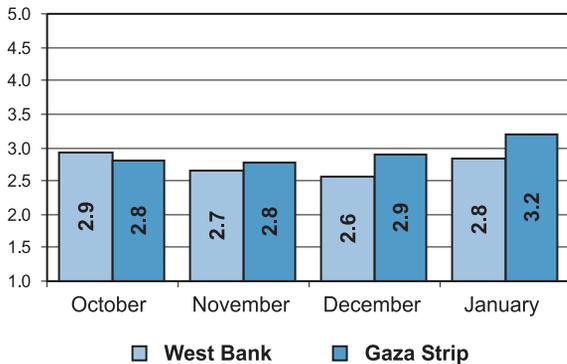
As much as movement restrictions and the difficulties that they impose on accessing needed services impact on a household’s “quality of life”, so does the employment status of the household’s adult members – perhaps, more so.

In January’s survey, 26 percent of West Bank households had no employed members (working either full-time or part-time) during the previous week; in Gaza, 28 percent of households were

without an employed member. (At the same time, 57 percent of West Bank households, and 60 percent of Gaza households, had no family member that was unemployed.)

The unemployed – those actively searching for work – were asked their expectation regarding their prospects for finding work, both within the next month and over the next six months. West Bank unemployed were, on balance moderately pessimistic about finding employment over the coming month in each of the four surveys. Gazan unemployed were generally slightly more positive about their prospects than were West Bankers; in January the balance actually turned to the optimistic side (Figure 12). Little variation by governorate was registered among West Bank governorates (Bethlehem and Tulkarm, with scores of 2.6 were most pessimistic) or in Gaza.

Figure 12. Expectations of Currently Unemployed That They Will Find Employment During Coming Month



5 = Very Optimistic / Very Likely
 4 = Somewhat Optimistic / Somewhat Likely
 3 = Neither Optimistic nor Pessimistic
 2 = Somewhat Pessimistic / Somewhat Unlikely
 1 = Very Pessimistic / Very Unlikely

By extending the time horizon to six months, the likelihood of finding employment does not appreciably increase in the minds of the currently unemployed.

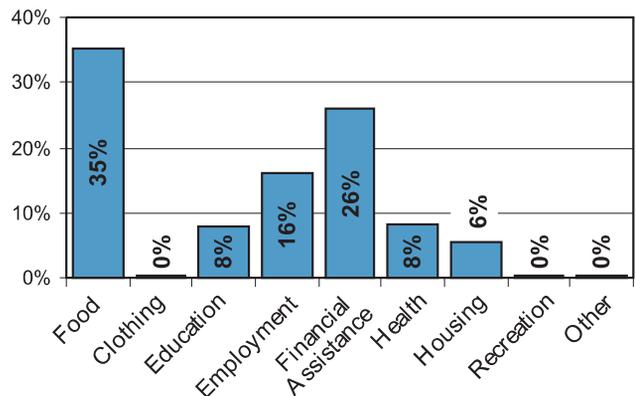
Household and Community Needs

Throughout the Intifada, the international donor community has struggled with the question of the most appropriate “humanitarian” response to household and community needs. The debate has generally been reduced to the question of which instrument (or combination of interventions) – food assistance, employment creation, financial assistance to households, budgetary support for the Palestinian Authority, or more traditional development and infrastructure projects – was most effective in maintaining living standards in the face of increased unemployment and poverty while, at the same time, not neglecting the longer-term development requirements.

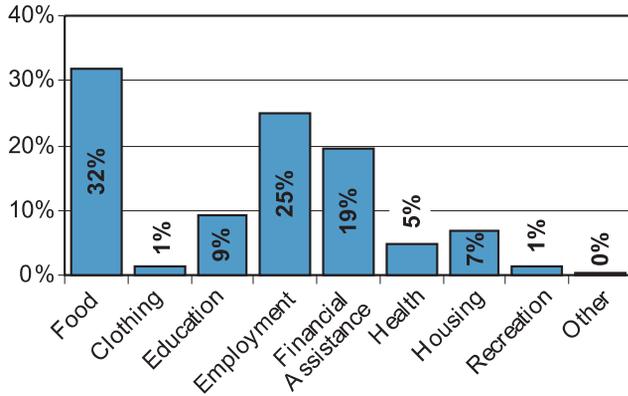
Several survey questions relate to this choice of instrument: From a list of choices, households were asked to rank their household’s needs in order of priority as well as their community’s needs, both infrastructure and non-infrastructure.

At the household level, food assistance was the need most often selected – it was both the number one ranked need (selected by approximately one-third of households each month) as well as the need most included among households’ ranking of the top five (by 82 percent of households in the West Bank and 76 percent of Gaza households in January).

Figure 13. Households' Number One Need West Bank - January Survey



**Figure 14. Households' Number One Need
Gaza Strip- January Survey**



As indicated in Figures 13 and 14 (showing the responses for the West Bank and Gaza, respectively), while food assistance was selected by pluralities in both areas, employment takes on a higher priority in Gaza, reflective of the greater levels of unemployment there. (A strong correlation is noticed in Gaza between number of unemployed members in a household and the selection of employment over food assistance.)

Within the West Bank and within Gaza, there is little differentiation in the number one ranking on the basis of locality type (urban, village, refugee camp). There is, however, some variation by governorate. In the West Bank, pluralities in Jenin, Nablus, Salfit, and Jerusalem preferred financial assistance; Hebron selected employment; while Tulkarm, Qalqiliya, Ramallah, Jericho, and Bethlehem, like the West Bank overall, indicated food assistance as their number one priority need. In the Gaza Strip, the two most southern governorates – Rafah and Khan Yunis – identified employment; North Gaza indicated financial assistance; food was first ranked in Gaza and Deir al Balah.

Households' Perceptions of their Community's Needs

While food assistance is the number one response at the individual household level, when asked to identify their community's number one need the percentage selecting food assistance falls dramatically – even below the percentage stating

that “there is no need”. Job creation clearly emerges as the most perceived need at the community level, selected by a large plurality in the West Bank and an absolute majority in the Gaza Strip (*Figures 15 and 16*). Public infrastructure is indicated as the number one need by approximately one fourth of the households in both the West Bank and Gaza.

The rankings and shares of community needs have remained consistent over the course of the four monthly surveys. There is little difference between locality type (although in the West Bank, refugee camp residents were even more emphatic about the importance of job creation, with 70 percent in January selecting that need compared to 45 percent in the West Bank overall.) At the governorate level, job creation was surpassed by public infrastructure requirements by households in Jenin and Qalqiliya.

**Figure 15. Households' Identification of the
Number One Need in Their Community
West Bank - January Survey**

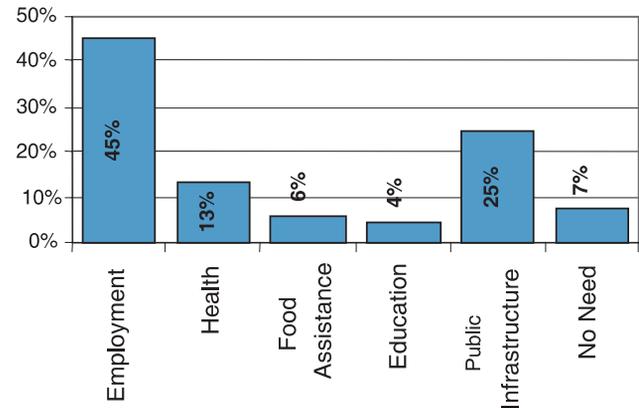


Figure 16. Households' Identification of the Number One Need in Their Community Gaza Strip - January Survey

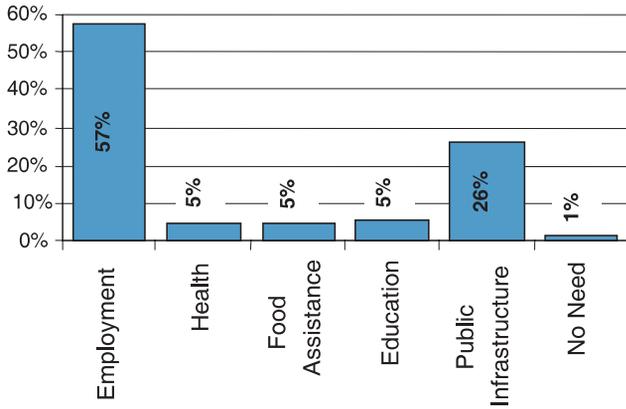
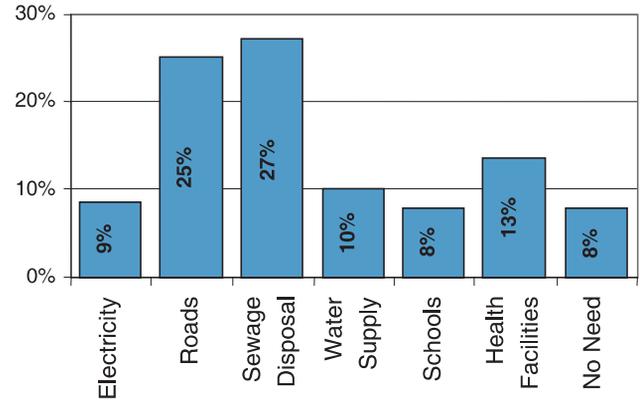


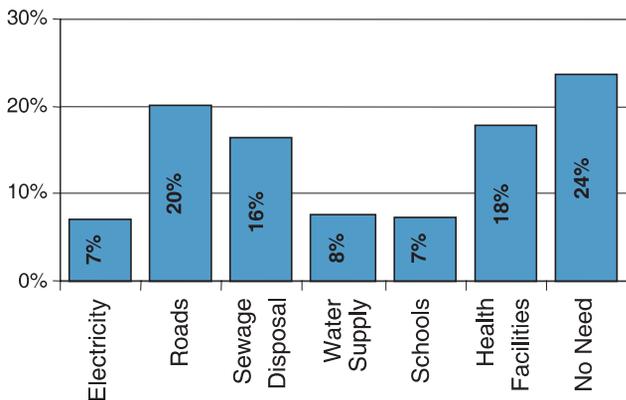
Figure 18. Households' Identification of the Number One Infrastructure Need Gaza Strip - January Survey



Households Perceptions of their Community's Infrastructure Needs

Approximately 25 percent of West Bank and Gaza residents identified public infrastructure as the most pressing community need, second to job creation (*Figures 15 and 16, above*). Asked about the type of infrastructure project their community most needed, Gaza residents chose sewage/wastewater disposal as their number one need, with roads second. The plurality of West Bank residents, on the other hand, believed no infrastructure was required; among those that felt otherwise roads, health facilities, and sewage/wastewater disposal were selected in roughly equivalent proportions (*Figures 17 and 18*).

Figure 17. Households' Identification of the Number One Infrastructure Need West Bank - January Survey



The strong selection of “no need” by West Bank households does not hold across all locality types. While 59 percent of West Bank refugee camp households and 31 percent of West Bank urban households did not indicate a specific infrastructure requirement, this number falls to 10 percent among West Bank village residents. Among West Bank villagers, 23 percent selected health facilities as their most needed infrastructure, and 20 percent selected roads. (In Gaza, sewage disposal and roads were the top two selections across locality type).

Breakdowns by governorate show how priorities vary in accordance with local conditions. In the Gaza Strip, the reason sewage disposal emerged as the number one infrastructure priority was its overwhelming endorsement (77 percent) by residents of Khan Yunis. All other Gaza Strip governorates indicated that roads was their top infrastructure concern; sewage disposal number two in North Gaza; water supply the number two requirement in Gaza and Rafah; and health clinics number two in Deir al Balah.

In the West Bank, in half the governorates a specific infrastructure requirement was selected by a plurality of respondents: electricity in Jenin; sewage disposal in Nablus and Jerusalem; health clinics in Qalqiliya; roads in Hebron and Jericho.

PNGOII

(Palestinian Non-Governmental Organisation Project II)

New Approaches to Supporting Palestinian NGOs

In June 2001, the World Bank approved a new grant of US\$8 million to finance a Second Phase Project to support Palestinian NGOs by enhancing their capacity to deliver social services to Palestinian communities. The Bank's contribution was supplemented with an additional US\$11.62 million from the Italian Government and the Department for International Development (the Government of the UK), bringing the total project budget to US\$19.6 million.

History of Bank Involvement in Supporting Palestinian NGOs

The Bank initiated its first program of support to Palestinian NGOs in 1997 when it provided funding for a facility that awarded grants to NGOs for their social service delivery programs. The Project was managed by a consortium of NGOs, the *Welfare Association Consortium (WAC)*, and it provided grants based on a competitive basis.

In addition to establishing transparent systems of appraisal, reporting and monitoring, PNGO I introduced a program that allowed larger Palestinian NGOs to manage some of the Project's funds providing themselves the grants to smaller NGOs through what was called the *Block Grants Program*. PNGO I also introduced a governance structure that allowed the Palestinian Networks and the Palestinian Authority to be involved in monitoring the implementation of the project through what was established at the time as the "*Governance Committee*". The Governance Committee had the authority to review any files pertaining to the granting cycle and had the right to question the decision of the Supervisory Board

on the awarding of grants which was based on the technical review and recommendations of the WAC.

A New Design Based on Participatory Consultation

As PNGO I was nearing completion, the Bank started a consultative process to elaborate the vision and design of a Phase II project. The decision to have a second-phase project was justified by the realization that the important role played by NGOs in providing basic services was likely to be sustained. At the time, one out of five Palestinians continued to suffer from poverty and the formal social protection systems were not yet sufficiently developed to cover their needs.

As part of its preparation for the new project, and with a view to build on the lessons learnt, the World Bank commissioned five studies that assessed various aspects of the PNGO I's implementation.¹ These studies critically informed the design of PNGO II and provided the inputs for a consultative process that engaged Palestinian NGOs in the design of the new Project. This

consultative process was formalized through the establishment of a *Local Consultative Working Group (LCWG)* that had as its members representatives from Palestinian networks, the PA and other experts working in the field. The LCWG met a number of times and was consulted on all aspects of the new design, which gave an important sense of ownership by the NGOs themselves of the upcoming Project.

Quality, Impact, and Sustainability

Quality, impact and sustainability were the main guiding principles for the design of PNGO II, reflecting an evolution in the Bank's approach to supporting NGOs that shifted away from the simple awarding of grants to increase the emphasis on building capacity as a basis for delivering higher-quality services with greater impact and sustainability. The Project was thus designed to limit grants to fewer NGOs adopting a more sectoral approach rather than continue supporting individual NGOs alone.

Through this program, the Bank sought to improve the exchange of information among NGOs and to empower them to play a more strategic role as service providers and as development partners to the PA in policy making. Drawing on the experience of PNGO I, the new Project introduced streamlined procedures and improved monitoring systems with a greater output/impact focus.

1 i) Feasibility Study for an NGO Resource Centre; ii) The Development of a Monitorable Project Impact Assessment System; iii) a Review of the Grant Application Procedures and Administration; iv) A Review of the Governance Committee; v) An assessment Study for Identifying Capacity Building Needs for the NGO Sector in the West Bank and Gaza; and, vi) Assessment of the Block Grants Management Scheme (all not published)

PNGO I (1997-2001)

- Total Funds: 15 million (World Bank, Saudi Arabia, Italy)
- Total number of projects financed: 305
- Total number of direct beneficiaries: 213,000

Some figures at a glance

- 606 dunums of land rehabilitated;
- 474 dunums planted
- 70 km of agricultural roads constructed
- 2865 disabled persons received rehabilitation services
- 245 slow learners received special training
- 500 disabled children integrated in schools
- 688 NGOs received organizational capacity building training
- 9 research projects were completed, including a full mapping of Palestinian NGOs in the West Bank & Gaza.

“Bridging the Divide”- The Partnership Grants Scheme (US\$6 million)

Over the past number of years, the “large” Palestinian NGOs have received the greatest portion of donor funding. This has enabled them to upscale their services and to build their capacity to deliver improved services to a wider segment of the population. However, this situation also resulted in the increased marginalization of the smaller NGOs leaving them with limited access to funding and learning opportunities. In the meantime, social service delivery in marginalized and remote locations, where most of the smaller NGOs are based, continued to suffer.

The Partnership Grants Program was designed in an effort to “bridge” this gap by supporting a partnership

relationship allowing large and smaller NGOs to work together over a two –year period. The Program represents an advanced model of the PNGO I Block Grants Scheme. It provides grants to Partnership Grant Managers (larger Palestinian NGOs/consortia) who, in turn, on-grant to smaller NGO partners. The Program’s support of a partnership relationship also offers an opportunity for the transfer of expertise to the smaller NGOs. This capacity-building process is further supported by earmarking 7 percent of all grants for the implementation of capacity-building programs by the Partnership Grant Managers for the benefit of smaller-grant-recipient NGOs. It also makes allowance for greater impact by transferring larger sums of money to the Partnership Grant Managers to implement sub-projects that target one sector, geographic area and/or beneficiary group.

An example of these programs is the Program managed by *Bisan* and *Ma’an* for the youth sector in Jerusalem and Gaza. This is a US\$1.0 million program that works with 15 NGOs providing services that offer youth access to knowledge, skills and improved facilities for much-needed extracurricular activities. The capacity-building component of this program helps train the 15 NGOs on organizational structures/ management, strategic-planning, innovative approaches to identify the constraints facing youth clubs and their relationship with communities, and introduces the community handbook while providing related training. Another example is a US\$930,000 Program managed by the *Palestinian Medical Relief Society (PMRS)* which works with 15 NGOs helping them set up and manage medical clinics in 15 locations. The Partnership Grants Program has yielded the emergence of a *Partnership Grants Program Forum* convening all the Partnership Grant Managers to discuss common problems and experiences as well as the lessons learnt. The Program also offers the smaller NGOs a similar networking opportunity.

“Up-Scaling Successful Services”- The Development Grants Scheme (US\$3 million)

This scheme provides direct grants to NGOs which, as recipients of PNGO I grants, have demonstrated success and, thus, were eligible to compete for those grants. The Program gives such NGOs the opportunity to replicate their successful projects or otherwise enhance the sustainability of their ongoing services through additional financial support.

The *Abu Rayya Rehabilitation Centre* is an example of an NGO that is receiving a PNGO II grant to finance the establishment of a specialized pediatric unit for dealing with disabled children having Spina bifida and other disabilities. This project is a follow-up project to a first project financed from PNGO I which helped the Abu Rayya Centre build its expertise with an outreach program providing services to Spina bifida visiting patients.

Like Partnership Grants, all Development Grants have an allocation for capacity-building plans that are developed taking into account the individual recipient NGOs’ needs. The Development Grants Scheme currently finances 19 projects and the average grant size is US\$160,000.

The NGOs as a “collective” - The Sector Support Program (US\$1.5 million)

Given the key role played by NGOs in providing critical services to the Palestinian people, it was felt that an investment in improving their “collective” performance would be critical to enhancing their overall development impact and the longer-term sustainability of their services. This seemed particularly relevant since Palestinian NGOs continued to rely almost entirely on donors to ensure their financing.

This component has four main objectives:

- a) promoting a culture of learning between NGOs and supporting improved systems of information exchange and networking;
- b) supporting the role of NGOs in policy articulation and development;
- c) supporting NGOs in devising improved resource mobilization mechanisms and improving their partnership with the Palestinian Authority;
- d) extending technical support to the Networks/ Umbrella Organizations to enable them to better serve and represent their constituencies.

This pioneering approach to supporting Palestinian NGOs, as a group, prompted a lot of interest on the part of the networks which compelled the World Bank to agree that the networks themselves ought to take the lead in managing this project component and defining its components and activities. This is done through the work of a *Sector Support Sub-Committee* which has as its members the Palestinian Networks, and is a sub-committee of the Supervisory Board. The work of the *Sub-Committee* had been supported by commissioning a number of studies that provided the basis for elaborating this Program's components. These studies included, *inter alia*, a capacity needs assessment for all the Networks and Unions using the Organization Capacity Assessment Tool (the OCAT) and an assessment of the financial sustainability of the NGO sector.

The Workplan for the Sector Support Program currently includes the following components: the establishment of a Palestinian NGO Portal which would serve as an interactive "electronic hub" for information exchange; the implementation of a program of support to all Palestinian Networks and the Commission for NGO Affairs in areas of strategic planning, financial management, organizational development etc; the development and endorsement of a code of conduct for Palestinian NGOs; the production of a "best practices manual", holding seminars and supporting research in policy issues of relevance to the sector.

The Partnership Grants Scheme

- 6 Partnership Grant Managers selected in total
- Supported Sectors:
 - 1) Youth (Ma'an Development Centre; Bisan Centre for Research & Development and Arab Studies Society; Youth Development Program)
 - 2) Agricultural extension and land rehabilitation (PARC and Palestinian Hydrology Group; Women's Affairs Technical Committee)
 - 3) Primary Health Services (Palestinian Medical Relief Society; Palestinian Agricultural Relief Society)
 - 4) Education (Palestinian Centre for Micro Projects - formal education in Jerusalem, and non-formal education in Gaza).
- 89 smaller beneficiary NGOs
- Size of Sub-Grants to Smaller NGOs: US\$20,000-70,000 with US\$40,000 being the average size.

One of the important spin-offs of the work of the Sector Support Group has been the decision by the three Palestinian Networks – the *Palestinian NGO Network (PNGO)*, the *Palestinian General Union of Charitable Societies (PGUCS)* and the *Palestinian National Institute of NGOs (PNIN)* to form an *NGO Forum*. The Forum had its first meeting in January 2004 and it discussed an Action Plan for enhancing cooperation between the three networks on issues of strategic planning and practical partnership in the delivery of services.

"Emergency Persists" - The Emergency Grants and the Urgent Development Grants Programs (US\$5 million and US\$2.5 million)

While preparations for PNGO II were underway, the second Intifada broke out and there was a serious debate on whether the Project's longer-term objectives ought to be compromised in

favour of responding to the immediate needs resulting from the emergency situation. This debate also questioned the “feasibility” of promoting partnerships and implementing capacity building programs under circumstances of restricted mobility and access. Finally, it was decided to maintain the longer-term objectives of the Project while providing a window for extending “emergency grants” for quick-impact projects. This facility was open to receive additional financing that the Project could attract over its core budget.

By the end of 2003, this emergency component of the Project had attracted about US\$6 million which were earmarked to finance employment generation programs and limited damage repair.

By mid-2003, the Program has generated more than 162,500 employment person days with an average labor content of over 50% of resources. An additional US\$2.5 million (from the Project’s core budget) was allocated to a new category of “*Urgent Development Grants*” which provided additional resources for the provision of much needed services through longer-duration projects of up to 12 months. To date, 17 of such projects have been approved for a total of US\$1.5 million and a remaining US\$1 million is earmarked for Palestinian/Italian Partnership grants.

Ownership

The *Supervisory Board* is the highest decision-making body of PNGO II’s governance structure. Besides exercising overall oversight, policy guidance and monitoring, the Supervisory Board has the authority to award grants and take financial decisions. In so doing, it is guided by the recommendations of the WAC which performs all technical reviews through its *Technical Appraisal Committee (TAC)* and is solely responsible for implementation and reporting to the Bank.

This expanded Supervisory Board comprises three representatives of the WAC partners (*the Welfare Association, the British Council and the Charities Aid Foundation*); representatives of the seven networks from the West Bank and Gaza; five independent civil society members; and finally, the World Bank and the PA as observers.

In deciding on this expanded role for the Palestinian NGOs, the World Bank had to ensure that sufficient checks and balances were in place to counter any abuse of authority emanating from potential conflicts of interest. Therefore, it put in place a “Conflict of Interest Policy”; it expanded the membership to include independent civil society representatives and it maintained the No-Objection right on Board decisions on the awarding of grants. The Project also gave the PA a No-Objection right on all grant awarding decisions, for the PA to ensure that none of the approved projects contradicted its own policies or duplicated its efforts.

It is the vision of the World Bank, the WAC and its NGO partners that the Supervisory Board should evolve into a permanent structure that would govern an *NGO Fund/Foundation* as a mechanism for channeling donor funding to NGOs. The Board also gives the NGO networks the opportunity to debate, dialogue and take collective decisions on various strategic issues that lie within the domain of the Project.

Emergency Grants Program

- US\$4.5 million (IDA, DFID, IDB, CIDA)
- 91 projects
- 162,585 person days generated
- 10,290 m2 worth of construction
- 143 rehabilitated buildings
- 4 kms of rehabilitated roads
- 1000 Dunums rehabilitated farmlands
- 228 wells constructed/rehabilitated
- 175 Wheelchairs assembled and distributed
- 3,200 Fishing Nets Produced
- 3,300 Embroidery pieces produced:
- 232 children received psychological assistance

Evaluation at mid-point

A *Mid-Term Review (MTR)* undertaken in 2003 by a team of independent experts confirmed the relevance of the Bank's PNGO II project to meeting the increasing needs of Palestinian communities while supporting NGOs in their critical role of service delivery.

The MTR commended the progress made in implementing the grants program, particularly under the severe conditions facing stakeholders and beneficiaries. NGO Partners and grant recipients spoke of the great benefit the Project offers in terms of building their capacity to design, implement, monitor and report on project, citing the support provided by WAC as invaluable to their learning process. The MTR noted the delays encountered in implementing the Sector Support Program. This delay was attributed to the difficulties faced by the Sector Support Sub-Committee in meeting regularly. On the other hand, the MTR highlighted considerable benefits accruing to the consultative process supported by the Project while recognizing that capacity-building and promoting alternative approaches to development could only be achieved over time.

The MTR commended the WAC for its role in bringing stakeholders together to discuss common challenges and experiences. The series of workshops WAC organized to address the issue of *VAT payment by NGOs* was cited as an example of the value-added that this process of consultation was contributing to the work of Palestinian NGOs. The MTR further pointed to the significant benefits resulting from the networking opportunities that the Project was offering the various NGO grant recipients through the different Forums that were created.

The MTR recommended that the Supervisory Board institutes a *policy of information sharing disclosure* for its members as a basis for ensuring adequate representation by the Networks of their member NGOs. The MTR further recommended

a *Board rotational representation* that would be based on *democratic nominations by the Networks themselves*. Given the delays encountered in implementing the Sector Support Program and the capacity building plans for beneficiary NGOs, the MTR recommended that the Project be extended by 12 months which would bring the Project into completion by mid-2005.



World Bank Engagement with Civil Society

The emergence and growth of civil society has been one of the most significant recent trends in international development. At the same time, partnerships among governments, businesses, and civil society organizations (CSOs) are increasingly seen as one of the most effective ways to reduce poverty and achieve sustainable development. Within these multi-stakeholder partnerships, the World Bank recognizes that CSOs play a critical role in helping to amplify the voices of the poorest people in the decisions that affect their lives, improve development effectiveness and sustainability, and hold governments and policymakers publicly accountable.

World Bank interaction with CSOs began to grow in the 1970s through dialogue with policy advocacy NGOs on the social and environmental impacts of World Bank-financed projects. In the early 1980s, leading international NGOs and the Bank established the NGO-World Bank Committee, which held regular meetings to discuss Bank policies, programs, and projects. The breadth and quality of World Bank–civil society relations began to intensify in the mid-1990s when the majority of civil society specialists were hired to work in Bank offices around the world.

Since then, the Bank has undertaken numerous studies, promoted joint World Bank–civil society dialogues, and adopted approaches geared

to promoting greater participation. This more participatory approach to development has been reflected in at least 15 Bank operational policies or guidance notes to staff, including Good Practice (G.P) 14.70 on involving NGOs in Bank-supported activities.

The World Bank has been working to strengthen its engagement with civil society since 1981, when its first operational policy note on relations with nongovernmental organizations (NGOs) was approved by the World Bank's Board of Directors.

Since that time there has been an unprecedented world-wide increase in the level of interaction and collaboration between the World Bank and a broad range of CSOs, including nongovernmental organizations, community groups, trade unions, faith-based organizations, professional associations, and universities.

Today the World Bank dialogues and collaborates with thousands of Civil Society Organizations (CSOs) throughout the world, such as community-based organizations, indigenous peoples organizations, NGOs, labor unions, faith-based groups, universities, professional associations, and foundations. Three Types of Engagement with Civil Society The World Bank engages civil society in three different ways: it *facilitates* relations between governments and CSOs, it *dialogues*

and consults directly with CSOs on policy issues, and it *partners* with civil society on development activities.

- *The Bank facilitates* improved relations between civil society and governments by building the capacity of the governments and CSOs to engage constructively with each other. This is achieved by providing advice, resources, and training; sharing knowledge and best practices; and convening or supporting multistakeholder discussions. This facilitation role is best exemplified in the process of formulation of the country poverty reduction strategy papers (PRSPs).
- *The Bank dialogues* with CSOs on policies, programs, studies, and projects. Dialogue occurs in many forms and venues, and at the local, national, or transnational levels. Dialogue may be initiated by the Bank or by CSOs themselves concerning more general policies or specific projects. *Consultations* are more formal and interactive than dialogue, and generally vary from consultations on global policies—such as social safeguards and adjustment lending—to local consultations on Bank-financed projects.
- *The Bank partners* directly with CSOs through contracting technical assistance and training services, funding civil society development initiatives, and co-managing joint programs. There are many examples of active partnerships in the areas of forest conservation, AIDS vaccines, rural poverty, micro-credit, and Internet development.

To facilitate this growing engagement with CSOs, the Bank has *hired civil society specialists*, who work throughout the institution, reaching out to civil society, providing greater access to the Bank, and promoting greater civil society participation in Bank activities. Today there are 120 civil society engagement staff who work at the global, regional, and national levels.

At the global level, *the Civil Society Team (CST)* provides institutional coordination by formulating institutional strategy, providing advice to senior management, undertaking research and

dissemination, and reaching out to CSOs at the global level. *The Civil Society Group (CSG)* brings together approximately 40 staff who work at World Bank Headquarters in Washington at both the global and regional levels in various geographic regions, thematic networks, funding mechanisms, and other units.

There are civil society specialists who work within the regional departments providing advice to their regional vice-presidents, formulating regional civil society strategy, and coordinating the work of their country-based civil society staff. Most major Bank units (for example, the World Bank Institute) and thematic networks (for example, Environmentally and Socially Sustainable Development and Human Development) also have staff responsible for engaging with civil society.

There are Bank staff who interact with specific constituencies, such as labor unions, indigenous peoples, faith-based organizations, and foundations. Such funding mechanisms as the Global Environment Facility (GEF), InfoDev, and the Development Market-place also have staff responsible for reaching out to civil society.

At the country level, there are *Civil Society Country Staff (CSC)* working in 70 Bank offices around the world. These specialists are often senior professionals with longstanding experience with the civil society sector, many having worked in or led CSOs before joining the World Bank. Country staff carry out a variety of activities, including social analysis, liaising with local civil society, managing outreach programs, and working to involve CSOs in Bank-financed projects. The civil society engagement approach and activities adopted in each country vary considerably and are necessarily shaped by the local context.

Although tripartite relations among civil society, governments, and the Bank have steadily improved over the past decade, there are a number of specific challenges that need to be addressed in order to encourage even more effective collaboration.

The World Bank is taking a number of steps to close the gap that exists between intentions and practice in its engagement with civil society. In the policy area, the Bank is attempting to learn from recent experience and adopt a more consistent and qualitative approach to policy consultations. In the area of information, in addition to having expanded its information disclosure policy in 2001, the Bank is piloting initiatives in some 20 countries to provide easier and earlier access to information in local languages. In terms of operational collaboration, the Bank is analyzing ways of further streamlining and allowing greater flexibility in grant funding and CSO contracting procedures. Finally, the Bank is in the process of improving its monitoring and evaluation of civil society participation in Bank-financed projects.

Governments need to demonstrate a clear commitment to a more participatory, transparent, and accountable approach to policy formulation and program implementation in order to achieve more significant and sustainable poverty reduction results. Those countries implementing PRSPs need to adopt measures to enhance local civil society participation, such as enhancing participatory methodologies, allowing more time for adequate consultation, and budgeting resources for civil society participation.

CSOs need to demonstrate to governments, donor agencies, and citizens that they are also representative, effective, and accountable. Within civil society, there are several important initiatives underway geared toward deepening community involvement in decision-making, establishing codes of conduct, and publishing annual budgets. These efforts should be encouraged and replicated. Also, as opportunities increase for greater participation in macro-economic policy making, CSOs should continue to improve their understanding and technical capabilities in this

Palestinian NGOs participate in World Bank discussion on draft Civil Society paper

The World Bank is finalizing a paper entitled *Issues and Options for Improving Engagement between the World Bank and Civil Society Organisations*. Last February, a video conference was organized between Washington and the World Bank offices in Cairo and Al Ram, featuring an open discussion on the draft with local CSOs. Participants engaged in a lively discussion and contributed some valuable inputs to the paper. Feedback from Palestinian and Egyptian participants will be taken into account in the final paper, which has been discussed in similar ways with CSOs in other world regions. Also, an electronic forum was set up to capture a global audience. The paper is available in the six official languages of the World Bank, including Arabic.

For more information, view the Bank's civil society web-site at:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/CSO/0,,contentMDK:20144378~pagePK:220503~piPK:220476~theSitePK:228717,00.html>



Recent Economic Developments

Economic Output

Most recent economic data available (Palestinian imports from Israel for the first nine months of 2003; Palestinian employment data through the fourth quarter of 2003 and in Israel through November) continues to provide evidence of a modest economic recovery throughout 2003. Looking forward, the extent to which this admittedly fragile growth path can be sustained will depend greatly upon the political/security situation and the extent to which travel and transit restrictions within the West Bank and Gaza, and closures of Israeli labor markets to Palestinian workers, are eased. Indeed, a survey of Palestinian business owners and managers conducted in early January 2004 revealed that in their view the overall business climate had deteriorated in December, their expectations regarding future employment, sales, and investment are at best neutral over the short-term and, on balance, only modestly optimistic over a medium-term horizon.

Foreign Trade

Trade traditionally played an important role in the small and open Palestinian economy. Throughout the past five years, imports of final goods, services, equipment and intermediate inputs represented approximately 70 percent of GDP, while exports of goods and services represented less than 20 percent of GDP.

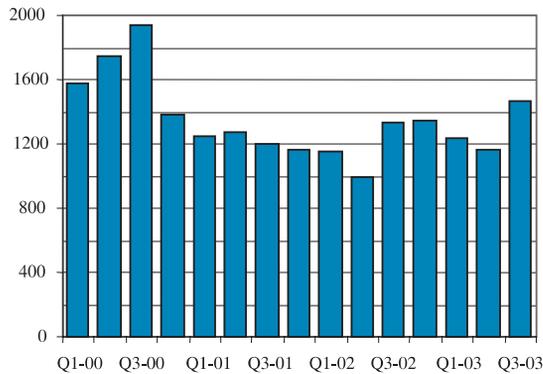
Unfortunately trade is badly registered, as most of it takes place between the West Bank and Israel, where no custom stations exist (unlike trade between Gaza and Israel). The Israeli Central Bureau of Statistics nevertheless estimates such flows, and we rely on their data to depict the evolution of trade since 1998. This only covers Palestinian trade with Israel, and not with the rest of the world. However, trade with Israel represents the bulk of total Palestinian trade.² Furthermore, a significant share of imported goods from Israel are actually originating from third countries – “indirect imports”. In addition, it does not appear that these relationships are considerably

² In 2000, imports from and via Israel represented 73 percent of total imports, while exports to Israel represented 92 percent of total exports.

impacted by exchange rate movements; neither the depreciation of the New Israeli Shekel in the first half of 2002 nor its subsequent appreciation during 2003 is thought to have significantly altered the composition of Palestinian imports in terms of trading partners. (See Figure 13 for shekel-dollar exchange rate movements.)

The impact of closures following the outbreak of the *Intifada* and their progressive tightening through summer 2002 were clearly reflected in the reduction of Palestinian imports from Israel. While both first and second quarter 2003 again witnessed reduction from the levels seen in the second half of 2002 (which, in turn, represented a rebound from the depressed second quarter 2002, the height of Israeli military operations in the West Bank), third quarter 2003 imports (NIS 1,464 million; US\$331 million) were at a level not seen since the outbreak of the *Intifada*. Compared to the third quarter of 2000, the decline in imports is 24.6 percent (Figure 1).

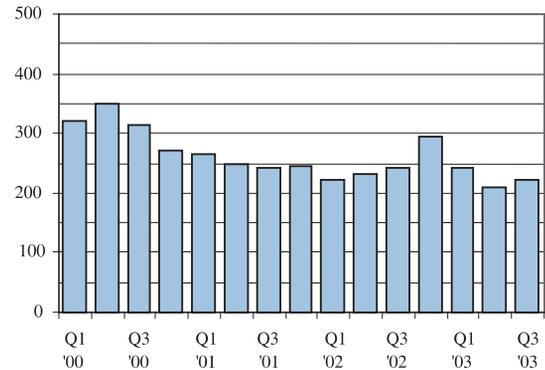
Figure 1. Merchandise Imports from Israel (million NI shekels)



Source : Israeli Central Bureau of Statistics.

Trends in merchandise exports to Israel have followed a similar pattern: decline through summer 2002; some rebound in fourth quarter of that year; two consecutive quarters of decline in 2003, with again an uptick in the most recent period – although not nearly as strong as that registered by imports. Third quarter 2003 merchandise exports to Israel totaled NIS 223 million (US\$50 million). This represents a 28.8 percent decline from third quarter 2000 (Figure 2).

Figure 2. Merchandise Exports to Israel (million NI Shekels)



Source : Israeli Central Bureau of Statistics.

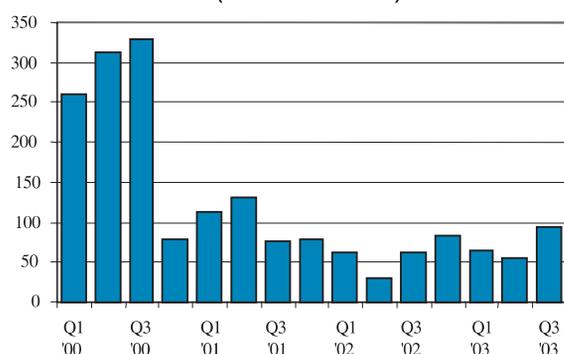
At least three factors explain the reduction in exports witnessed during the past two years: increased costs in transportation resulting from closure making Palestinian products less competitive; foreign purchasers switching to more reliable alternative sources of supply in the face of production and shipping interruptions; and Palestinian producers switching to service domestic markets.

Labor Markets

As a result of external closures nearly 100,000 Palestinian workers have lost their jobs in Israel since September 2000. According to Palestinian Central Bureau of Statistics (PCBS) data, 146,000 Palestinians (116,000 from the West Bank, incl. East Jerusalem, and 30,000 from Gaza) were working in Israel and Israeli industrial estates and settlements during the third quarter 2000.

At its low point during the second quarter of 2002 the number had fallen to 33,000 before rebounding in the following quarter to 53,000; since then, the number of Palestinian workers in Israel and settlements has been roughly stable, fluctuating in accordance with the extent of closure imposed in the wake of specific terror incidents. In fourth quarter 2003, the number of workers stood at 58,000 (54,000 from the West Bank and 4,000 from Gaza).

Figure 3. Workers' Remittances from Israel
(million US Dollars)



Source : Israeli Central Bureau of Statistics.

Fewer jobs in Israel translates directly into a decline in workers remittances. According to the Israeli Central Bureau of Statistics, third quarter 2000 remittances totaled US\$328 million; in third quarter 2003, only \$93 million – a 71 percent decline (Figure 3) – was remitted.

This decrease has had direct consequence on the income of Palestinian households, as workers' remittances from Israel represented some 18 percent of their total disposable incomes in 1999. In turn, lower incomes inevitably affected the demand for Palestinian goods and services and hence, labor demand for Palestinian workers producing such goods and services within the West Bank and Gaza.

The negative impact that job losses in Israel has had on domestic employment was aggravated by the difficulties in conducting business within

the West Bank and Gaza as a result of internal closures and curfews, particularly in 2002, which resulted in significant increases in transaction costs, disruptions in production cycles, losses of perishable output, and lower economies of scale.

Only this year has domestic employment recovered to the extent that the number of Palestinians employed within the West Bank and Gaza surpassed the levels prior to the *Intifada* (Table 1). At the same time, however, the number of unemployed has grown, from 73,000 in the *pre-Intifada* third quarter 2000 to 198,000 currently.

In fourth quarter 2003 the number of West Bank Palestinians working in the West Bank was 386,000, compared to 352,000 just before the *Intifada*. At its low point in second and third quarter 2002, their number had fallen to 287,000 and 288,000 respectively. Fourth quarter 2002 saw an increase in jobs in the West Bank to 334,000, but this growth was short-lived, concentrated in agriculture (related to the olive harvest and reversed in the first quarter of 2003) and some one-off infrastructure repair generating employment in construction.

From a first quarter decline to 300,000, second quarter 2003 saw strong growth – to 371,000 – with continued expansion in the third (to 377,000) and fourth quarters of this year. While much of the increase over the past nine months since the first quarter 2003 was again in agriculture (24,000)

Table 1. Number of Palestinians Employed (thousands)

	Q-3 2000	Q-4 2000	Q-1 2001	Q-2 2001	Q-3 2001	Q-4 2001	Q-1 2002	Q-2 2002	Q-3 2002	Q-4 2002	Q-1 2003	Q-2 2003	Q-3 2003	Q-4 2003
Employed in West Bank	352	316	292	314	314	316	304	287	288	334	300	371	377	386
Employed in Gaza	163	120	126	127	129	134	138	131	111	150	169	175	180	173
Employed in Israel – from West Bank	116	40	69	72	60	66	56	30	50	49	43	50	59	54
Employed in Israel – from Gaza Strip	30	3	3	2	3	2	2	2	2	7	6	4	8	4
Total Employed	662	479	490	515	506	518	501	451	452	540	518	600	624	617
of which, Unpaid Family Member	65	62	46	47	46	48	48	51	40	61	52	76	71	70

Source: PCBS. Note: Israel includes employment in Israeli settlements and industrial estates. West Bank includes East Jerusalem.

jobs and hence potentially seasonal, significant growth was also recorded in commerce (17,000), construction (21,000), manufacturing (9,000), and services (10,000) – which could herald more sustained growth should political and security conditions permit.

In the Gaza Strip, 163,000 Gazans were domestically employed during third quarter 2000. By third quarter 2002, the low point during the *Intifada*, this number had fallen to 111,000 (a 32 percent decline). Four quarters of continuous job growth found 180,000 Gazans employed inside the Gaza Strip, before the decline registered during the fourth quarter of 2003 reduced the number of employed to 173,000. Roughly one-quarter of the job growth since third quarter 2002 was in agriculture (17,000 jobs); construction added 11,000 jobs since third quarter 2002. Both agriculture and construction have strong seasonal components; job growth in services (14,000), commerce (11,000), and manufacturing (4,000) since July-September 2002 could point to potentially more permanent employment, although likely contingent upon the political environment. Indeed, the increase in tension and deteriorating security environment in Gaza during fourth quarter 2003 is reflected in the worsening employment numbers registered that quarter.

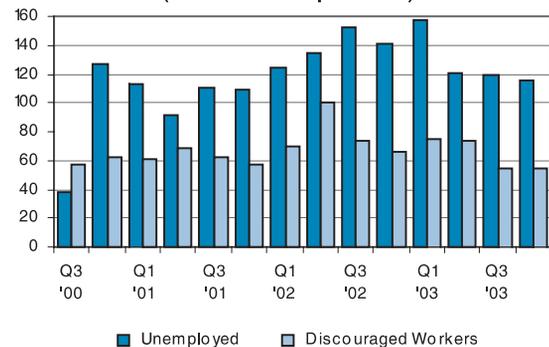
Despite the recent increases in employment, with population growing at approximately 4.3 percent per year, dependency ratios – the total population divided by the number of employed persons – have increased significantly over the *Intifada* period. Whereas in the third quarter of 2000 each job holder in the West Bank was supporting 4.3 persons, by the fourth quarter of 2003 each employed person was supporting 5.4 persons. The dependency ratio in Gaza increased more dramatically, from 5.9 to 7.7.

With the population and labor force growing, declines in Palestinian employment in Israel and Israeli settlements and a lack of domestic job creation during the first two years of the *Intifada*, unemployment and unemployment rates

continued to grow dramatically. And despite the job growth in recent quarters, the number of unemployed remains far in excess of *pre-Intifada* levels. (Under International Labor Organization (ILO) standard definitions, a person must be actively seeking work in order to be considered “unemployed”.)

Although the unemployment rate in the West Bank in the fourth quarter of 2003 has fallen to 20.7 percent (down from its *Intifada* peak of 31.4 percent in first quarter 2003), 115,000 persons remain unemployed (Figure 4). (By contrast, during the third quarter of 2000 the number of West Bank unemployed was 38,000 and the unemployment rate stood at 7.5 percent.)

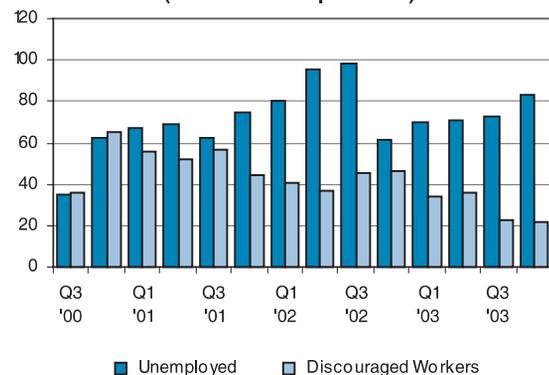
Figure 4. West Bank Unemployment (thousands of persons)



Source: PCBS. Data for West Bank includes East Jerusalem.

In Gaza, fourth quarter 2003 unemployment stood at 31.9 percent (83,000 individuals); prior to the *Intifada* the rate 15.4 percent (35,000 persons). (Figure 5).

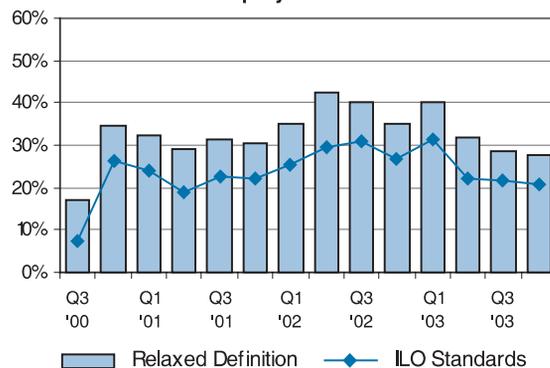
Figure 5. Gaza Strip Unemployment (thousands of persons)



Source: PCBS.

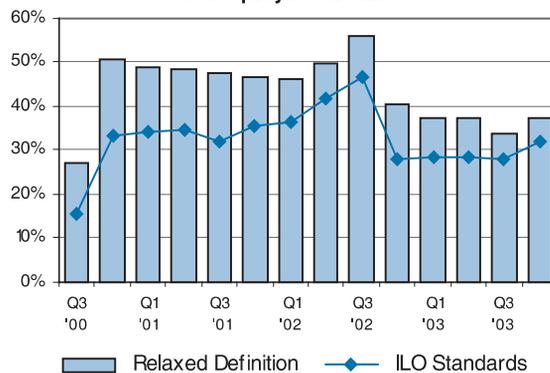
When the definition of the labor force is broadened to include “discouraged workers” – persons without jobs who, because of their pessimism regarding the prospect of actually finding work, have stopped looking – the “relaxed definition” of unemployment shows similar trends. In this case, the unemployment rate in the West Bank has increased from 16.9 percent (95,000 individuals) in third quarter 2000 to 27.8 percent (169,000) in fourth quarter 2003; in Gaza, from 26.9 percent (71,000 individuals) to 37.2 percent (105,000) over the same period (Figures 6 and 7).

Figure 6. West Bank Unemployment Rates



Source: PCBS. Data for West Bank includes East Jerusalem.

Figure 7. Gaza Strip Unemployment Rates



Source: PCBS.

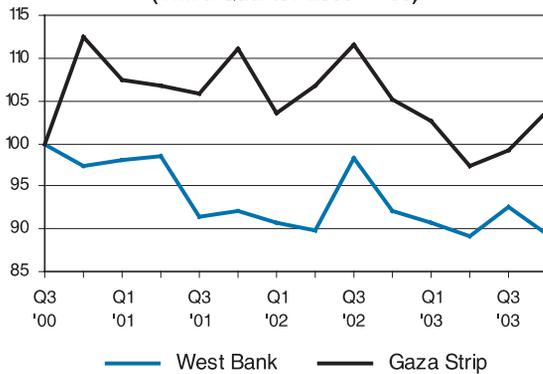
Monthly labor force data from the Israeli Central Bureau of Statistics showed an increase in (“legal”) Palestinian employment in Israel in November, the second monthly increase following two months of decline. November’s monthly average of 12,400 workers compares with 16,900 in January 2003 (the highest level during the *Intifada*) and 29,500 in September 2000.³

Of the 2,500 increase recorded in November, the majority – 1,400 – were in construction, consistent with the overall sectoral allocation of Palestinian workers in Israel. Currently 21 percent (2,600) are employed in agriculture; 63 percent (7,800) in construction; 15 percent (1,900) in other sectors. It is in these “other sectors” – primarily manufacturing and commerce – where the falloff since pre-*Intifada* employment levels has been greatest. According to ICBS data in September 2000 29,500 Palestinians were legally employed in Israel – 5,000 in agriculture; 15,200 in construction; and 9,300 in other sectors.

For wage earners continuing to be employed, the impact of the increase in dependency ratios during the course of the *Intifada* (and the implied obligation of working Palestinians to support greater numbers of extended family member) is exacerbated by the decline in real wages over much of the period of the *Intifada*, fairly consistently in the West Bank, and in Gaza during the period from third quarter 2002 through second quarter 2003. In the West Bank, real wages have declined 10.6 percent since third quarter 2000; in Gaza, they have increased 3.7 percent (Figure 8).

³ PCBS Quarterly Labor Surveys consistently report higher levels of Palestinian employment in Israel than does ICBS, the result of two factors: first, PCBS data includes Palestinians who hold Israeli identity cards (primarily East Jerusalem residents) or foreign passports as well as persons who hold Palestinian identity – presumably ICBS considers foreign passport holders as foreigners and Israeli identity card holders as Israelis; second, PCBS data includes “illegal” (non-permit holding) workers, whereas these undocumented workers are likely to be under-counted by ICBS, as ICBS reports foreigners’ employment on the basis of employers reporting to the National Insurance Institute.

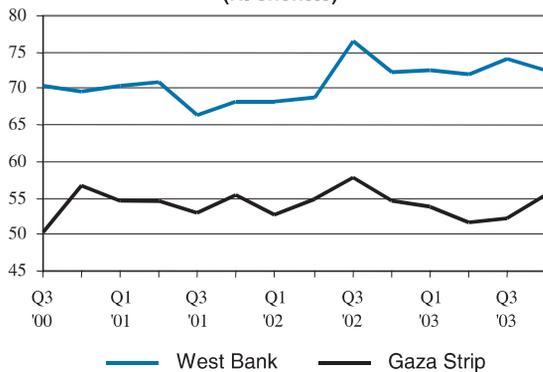
Figure 8. Real Wage Indices
(Third Quarter 2000 = 100)



Source: PCBS average wage data; World Bank staff calculations. West Bank includes East Jerusalem. Data are deflated by consumer price indices for West Bank and Gaza, re-based to Third Quarter 2000 = 100.

Nominal wages have actually increased (3.1 percent in the West Bank and 9.7 percent in Gaza) over the 39 months since third quarter 2000 (Figure 9). The average daily wage in the West Bank stood at NIS 72.5 in fourth quarter 2003, and NIS 55.3 in Gaza; these compare with an average daily wage of NIS 131.8 received by Palestinians working in Israel and Israeli settlements.

Figure 9. Average Daily Wages
(NIS shekels)



Source: PCBS. West Bank includes East Jerusalem.

One explanation for the stickiness of nominal wages may be the physical partitioning of the labor market – the result of travel restrictions associated with internal closure – which has resulted in increased mismatches between supply and demand for various types of labor in the local labor market. Unemployed workers – even those willing to work for less than the prevailing wage – who cannot reach potential jobs remain jobless; at the same time, firms that face a shortage of labor

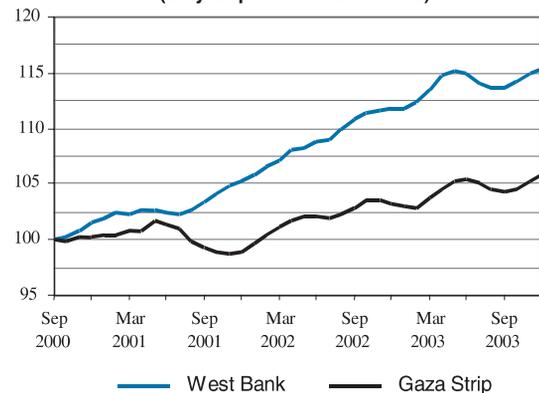
are, therefore, not inclined to reduce workers' compensation.

Such behavior helps explain why the decline in labor demand witnessed during the *Intifada* has resulted primarily in higher unemployment and only to a lesser extent in lower real wages. Indeed the decline in real wages has mostly been the result of increase consumer prices and not decreased nominal wages. Even so, the decline in real wages during the *Intifada* period is much less than experienced in the 1995-96 period of external closure, when real wages declined more than 20 percent in response to a reduction in the number of Palestinians working in Israel – a reduction much smaller than that of the current *Intifada*.

Prices

Consumer prices, measured in NI shekels, increased in both the West Bank and Gaza in the twelve month period January-December 2003, by 4.3 percent in the West Bank and 2.5 percent in Gaza. For the West Bank, this represents a reduction from 2002's inflation rate of 6.1 percent, and a slight increase over the 2.2 percent recorded last year in Gaza (Figure 10).

Figure 10. Consumer Price Indices
(July-September 2000 = 100)



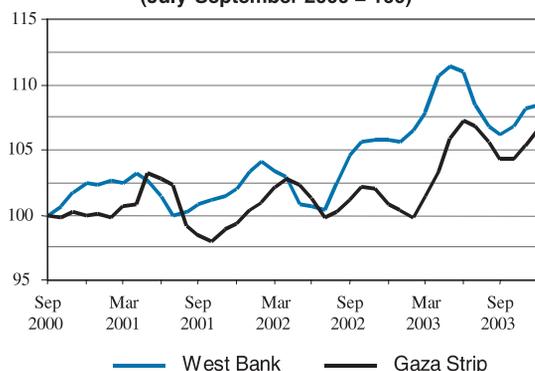
Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

Leading the increase in the West Bank was the Transport and Communications price index, up

7.9% in 2003 (compared to 21.7 percent in 2002) and, somewhat surprisingly, Medical Care, up 8.0 percent. (In 2002, the West Bank Medical Care index fell 1.0 percent; in the period from the beginning of the Intifada through December 2002, medical care prices rose only 0.5 percent.). Cost of medical care in Gaza represented the second largest increase in the components of the consumer price index, rising 4.9 percent (compared to a 1.2 percent fall in 2002 in the Medical Care index for Gaza.) The component with the largest increase in Gaza, the Education price index, rose 7.3 percent. A significant change from 2002, when education prices rose 2.1 percent. (Education in the West Bank rose 5.8 percent in 2003, a rate less than in Gaza, but above the overall West Bank Consumer Price Index increase for the year.)

As Figure 10 indicates, much of 2003's increase in overall consumer prices occurred during the first six months of 2003, with price declines in the third quarter offset by price increases in the fourth. The price increases during the first two quarters was driven by increases in food prices. Food prices generally exhibit strong seasonality effects, peaking during the second quarter (Figure 11). As is customary, food prices then declined in the third quarter before rising modestly in the fourth quarter of the year. Over the course of the year, the Food price index increased 4.7 percent in the West Bank and 3.5 percent in Gaza – in both areas above the increase in the overall price index.

Figure 11. Food Price Indices
(July-September 2000 = 100)

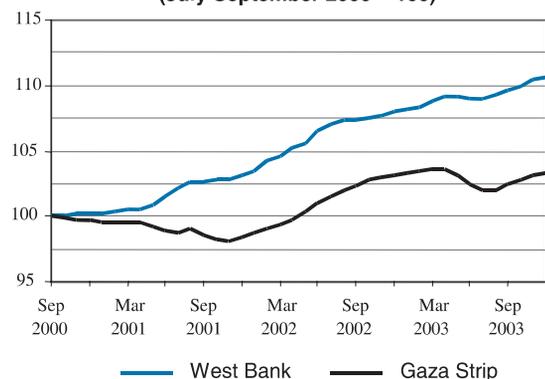


Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

Excluding food, the consumer price index in the West Bank has risen by 4.1 in 2003; in Gaza, the non-food CPI increased 1.8 percent last year – rates below what were witnessed in previous years. (In 2001, non-food prices rose 4.6 percent in the West Bank and fell 0.3 percent in Gaza; in 2002, non-food prices rose 8.7 percent in the West Bank and by 2.8 percent in Gaza.)

When the Transportation and Communication price index is also excluded – transportation prices being most affected by changes in the closure regime, but also by changes in world energy prices, which can be quite erratic – a clearer portrait of general price changes emerges. Non-food, non-transportation prices in the West Bank increased 4.1 percent in 2003, and by 1.5 percent in Gaza (Figure 12). (During 2002, non-food, non-transportation prices rose 4.6 percent in the West Bank and 2.6 percent in Gaza. In 2001, these prices rose 2.0 percent in the West Bank and fell 1.6 percent in Gaza.)

Figure 12. Consumer Price Indices,
excluding Food and Transportation
(July-September 2000 = 100)



Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

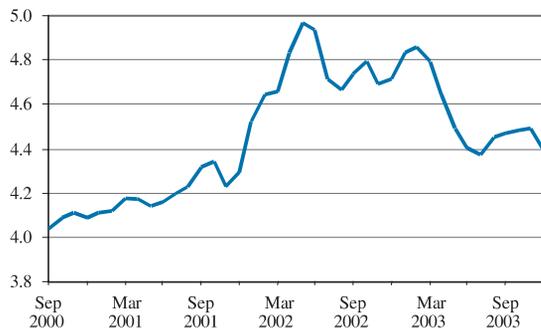
There is also a relationship between price movements in the West Bank and Gaza and changes in the shekel-dollar exchange rate. The depreciation of the Israeli shekel in 2001 and early 2002 (particularly strong in the period November 2001-April 2002; depreciation is represented as an upward movement in Figure 13) and its subsequent appreciation, especially in the period

February-July 2003 (downward movement in the figure) explains to a large extent the acceleration of inflation: during the 2002 and its subsequent slowing down in 2003.

From December 2000 to December 2001 the Shekel lost 4.9 percent of its value with respect to the US dollar; from December 2001 until May 2002 the Shekel weakened a further 15.9 percent. As a result, prices of goods, expressed in shekels, imported into Israel from overseas – and by extension, into the West Bank and Gaza – mechanically increased and the overall consumer price index, also measured in shekels, increased – not by the same amount, but to the extent that the CPI market basket consists of imported goods and of services priced in dollars (such as rents).

With an appreciating shekel – from February 2003 through December 2003 the shekel has strengthened 9.7 percent against the dollar (11.7 percent since the shekel's weakest point in May 2002) – imports become cheaper, and inflation measured in shekels lessens (to the extent that importers actually pass on these reductions to consumers).

Figure 13. NI Shekel-US Dollar Exchange Rate (period average)



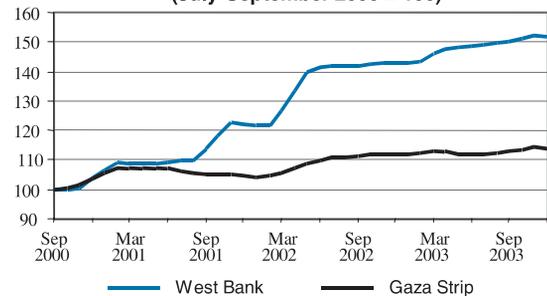
Source: Central Bank of Israel.

While exchange rate movements help explain basic trends in tradeable consumer goods prices (particularly in non-food prices, which are less affected by seasonality) tightened closure during the *Intifada* period also impacted consumer prices overall. This effect comes through both direct and indirect channels: changes in the transportation component of the consumer price index (which

measures transportation prices that have increased directly as a result of heightened closure) and indirectly through increased costs of shipping for producers and distributors, which are in turn passed on as increases in the final price of all goods faced by consumers in the market place.

Thus the tightening of closure associated with the outbreak of the *Intifada* in fall 2000 affected both Gaza and the West Bank, while Israeli military interventions in the West Bank in autumn 2001 and spring 2002 explain the difference in movement in the transportation price index in the West Bank and Gaza. In effect, these are negative shocks that raise the level of the transportation price index (seen as upward steps in Figure 14). In 2003, transportation prices increased in the West Bank 7.9 percent; in Gaza, transportation costs have increased 3.1 percent.

Figure 14. Transportation Price Indices, (July-September 2000 = 100)



Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

Business Confidence

The World Bank, with financial support from the Government of Norway, has commissioned PCBS to conduct a series of surveys on the attitudes of both Palestinian households and Palestinian business owners and managers concerning their current economic situation and their expectations concerning short- and medium-term changes. Similar to consumer confidence, investor confidence, and business attitude surveys conducted around the world, the business survey measures current perceptions and future expectations; of particular interest are questions related to future employment levels, expected sales volumes, and future investment plans, as they reveal information concerning overall optimism/pessimism and, over time, could indicate expectations of economic recovery.

Business establishment owners/managers were asked to evaluate the current business situation – the overall business operating environment – compared to the situation one month ago and their expectations concerning the overall business climate one month in the future – would it be “much better”, “somewhat better”, “unchanged”, “somewhat worse”, or “much worse”.

In the most recent survey (conducted January 3-January 14, 2004) business managers in both the West Bank and Gaza were, on balance, negative in their assessment of the current situation compared to one month ago – with Gazan businessmen in particular noting a deterioration. In the West Bank slightly more than half (51.5 percent) saw the current situation as unchanged; 12.8 percent saw somewhat of an improvement; nearly one-third (32.4 percent) saw somewhat of a worsening; and 3.3 percent believed the situation to be much worse than one month ago. In Gaza, 9.0 percent witnessed an improvement (0.5 percent saying “much better”; 8.5 percent, “somewhat better”); one-third (34.3 percent) saw no change; and a majority noting a deterioration – 43.0 percent believing the situation had worsened somewhat,

and 13.7 percent considerably over the preceding month.

Looking forward one month, more West Bank businessmen expected an improvement relative to the current situation than expected a decline. In Gaza, however, businessmen remained pessimistic on balance. In addition, business respondents were also asked their expectations of future employment and sales over two time frames – “next month” and “next six months” – as compared to the current situation. Expected investment levels over the coming year were also surveyed. Again, five answers were possible: “much higher”; “somewhat higher”; “about the same”; “somewhat lower”; and “much lower” than current levels.

In general, both Gazan and West Bank businessmen were on balance neutral over prospective improvements in specific aspects of business operations over the short-term (“next month”), turning more optimistic over the medium-term (“next six months”) in both prospective employment and sales levels. Regarding future investment plans, large majorities in both Gaza and the West Bank saw little change in planned investment levels over the coming year relative to their current spending. Again, West Bank business managers and owners were generally a bit more optimistic than their Gazan counterparts in each category. (Table 2.)

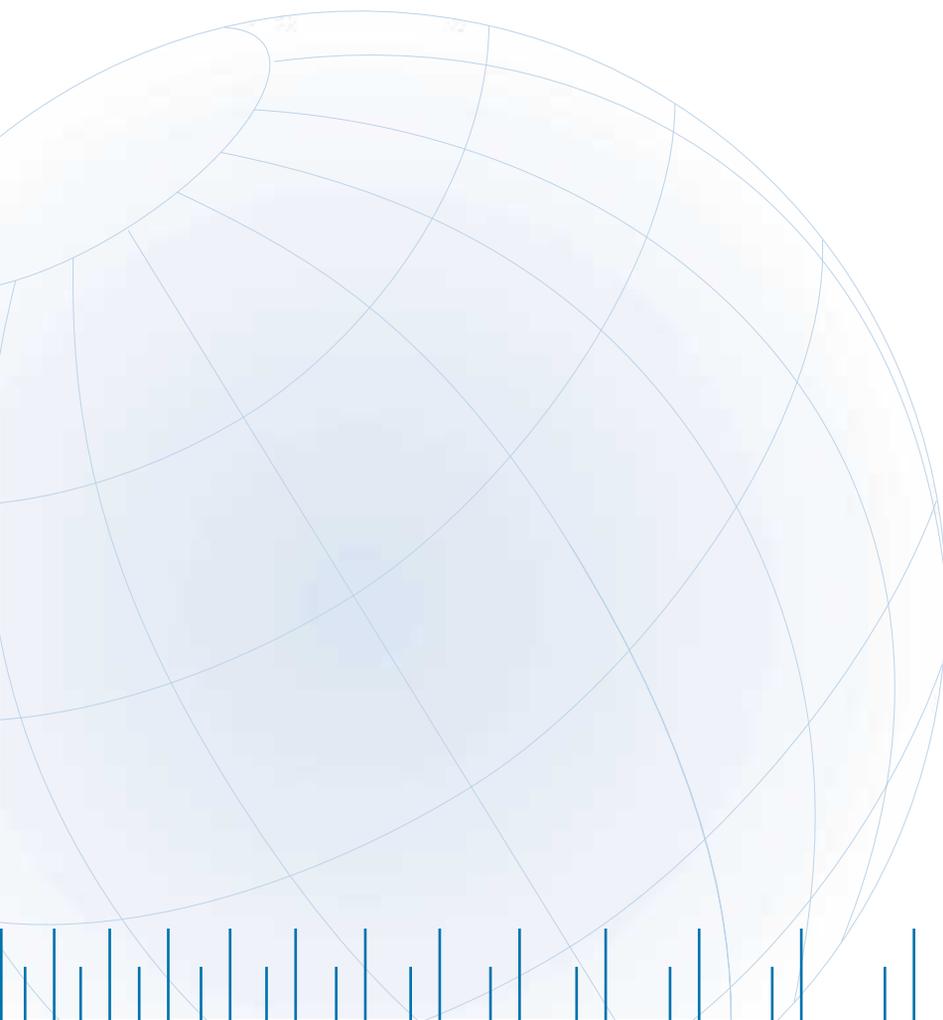
The survey also asked businessmen whether their businesses have “suffered” during the past month and past six months. Fully 85.9 percent of West Bank business managers/owners responded “yes” in the past month (and 93.3 percent over the past six months); in Gaza three-fourths reported “suffering” – 73.3 percent during the past month and 73.4 percent during the past six months. In both West Bank and Gaza, the leading reason for that suffering during the past month was “financial problems, i.e., inability to obtain bank credit”; the second leading reason was “difficulties in obtaining needed raw materials or inputs”.

These were also the leading causes of business suffering over the past six month period. However other closure-related reasons – “problems of employees reaching place of work”; “difficulties in shipping final goods to market”; “unable to

open/operate/work or limited operations because of curfew” – were also selected by significant numbers of West Bank businessmen as reasons for suffering during the previous six months.

Table 2. Expectations of Palestinian Business Owners and Managers: "Next Month" and "Next Six Months" Compared with Current Levels

	Employment		Sales		Investment
	Next Month	Next Six Months	Next Month	Next Six Months	Next Year
West Bank					
Much Higher	0.0%	0.4%	0.2%	0.5%	0.0%
Somewhat Higher	13.5%	31.9%	18.4%	39.0%	16.7%
No Change	76.3%	58.9%	63.3%	46.9%	73.2%
Somewhat Lower	7.4%	5.5%	15.1%	10.8%	9.2%
Much Lower	2.8%	3.3%	3.0%	2.8%	0.9%
Gaza Strip					
Much Higher	0.0%	0.3%	0.0%	0.3%	0.3%
Somewhat Higher	18.0%	21.1%	28.1%	33.1%	12.2%
No Change	66.3%	62.3%	49.5%	45.0%	79.4%
Somewhat Lower	11.6%	10.5%	14.5%	11.7%	7.6%
Much Lower	4.2%	5.8%	7.9%	9.9%	0.5%





Fiscal and Budgetary Developments in 2003 and January 2004

By the International Monetary Fund

The fiscal situation in the West Bank and Gaza remained difficult in 2003 despite some very positive developments (*Table 1*). With sustained monthly transfers of clearance revenue by Israel and increased collection efforts by the PA, total budgetary revenues were remarkably strong and exceeded budget estimates by about US\$160 million. The remarkable revenue performance continued throughout the last two months of the year. This was primarily due to very strong year-end (December) domestic revenue performance on account of non-tax revenues and transfers of state owned enterprises (SOEs) to the budget (US\$19 million). The strong clearance revenue performance tapered off somewhat in the last two months of the year although still higher than the first half of the year (average of Q1 was US\$36 million, Q2 US\$30 million, Q3 US\$47 million, Q4 US\$41 million). Clearance revenues in 2003 exceeded budget projects by US\$115 million while domestic revenue exceeded these projections by US\$48 million.

The strong clearance revenue performance since July 2003 resulted when the Petroleum Commission was taken over by the Ministry of Finance. While this increase was mostly driven by higher petroleum excises, it also resulted from administrative collection efforts as well as a resumption of some growth which accelerated during the second half of the year.

On the current expenditure side, a lower than budgeted annual expenditure level was achieved on account of non-wage expenditure which continued to be squeezed in the last two months of the year, reading US\$100 million below budget. However, wages were US\$43 million more than budgeted for the full year. The wage bill jumped in December by US\$10 million to US\$75 million. The January 2004 wage bill at US\$73 million may be more typical but it nevertheless reflects a 32% increase over January 2003. This large increase was due to i) the implementation of the civil service law in the last quarter of 2003 which contributed to a 15% increase in civil service wages, ii) retroactivity in higher salaries due to job regarding for all ministries and PA agencies iii) substantial increase in employment of security personnel beyond the 2003 budget appropriation. The average wage bill per employee grew between January to December by 39% for civil servants and 21% for the security services. Job regarding was completed for all PA ministries and agencies by end December except for the General Personnel Council.

Budget support for 2003 came in at about US\$230 million – This was a sharp decline from the US\$467 million in budget support in 2002 and US\$530 million in 2001. With the exception of Saudi Arabia, Arab countries stopped most transfers since the expiration of their summit resolutions in September. However, Libya

contributed US\$5 million in February 2004. In addition, EU disbursements incurred major delays. Net domestic bank financing was US\$66 million, bringing the stock of indebtedness to the banking sector to US\$176 million at year-end, some 5.4% of GDP. Arrears declined by US\$31 million (US\$129 million repayment to the private sector and US\$98 million accumulation). Thus, the end-2003 stock of arrears is now at US\$384 million or 12% of GDP.

Budget execution in January 2004 further demonstrated the robustness of clearance revenues which amounted to US\$48 million. Domestic revenues amounted to US\$21 million, in line with the average for the past six months (excluding profit payments) but due to a substantial VAT refund (US\$8.5 million), overall domestic revenues were reduced to US\$12.6 million. On the expenditure side, the wage bill amounted to US\$73 million (as mentioned earlier) and non-wage expenditures were squeezed to US\$14 million. Nevertheless, the lower domestic revenue, coupled with higher deductions by the Israeli authorities (US\$15.8 million) for utility bills (owed by Palestinian municipalities) resulted in a deficit of US\$42 million with virtually no external financing other than the ESSP (US\$4.5 million). The pressure to pay January salaries before the Eid (which began on February 1st) led to extraordinary efforts by the Minister of Finance to raise the necessary financing for the wage bill. The Israeli authorities cooperated by accelerating the transfer of clearance revenues (for December) to January 28 (and by not deducting electricity bills) and the banks cooperated by lending to the PA about US\$110 million. This raised PA net indebtedness with commercial banks to US\$274 million.

Following somewhat slower progress in public finance reform during the period of political uncertainty from September-November 2003, key reform measures were implemented or initiated recently. First, the budget allocation of President Arafat's office was halved in the 2004 budget, with the large "transfer" component redirected

to the relevant social ministries. This is a major reform, which will alleviate donors' concerns about the use of these transfer funds. Second, the long-awaited decision to pay the remaining security personnel through direct bank deposit instead of cash has been taken. President Arafat approved a letter that was sent in early-January to the security agencies under his control, directing them to join the direct deposit scheme. A decision by the Council of Ministers in February supported this decision, stressing that security personnel should only be paid through direct bank deposits. In addition, consolidated statements of all assets of the Palestinian Investment Fund (PIF) have been completed, with a comprehensive report to be issued by the end of March, which will also outline the PIF's strategy with respect to its various commercial holdings. In this respect, the PIF provided a strong signal to the private sector by selling its share in JAWWAL (35%) to PALTEL for US\$42 million.

In other reform developments, the 2002 fiscal operations accounts were closed and forwarded to the PLC; a draft new income tax law, in line with international best practices, was sent to the PLC (taking on IMF comments); a new external audit law has gone through its first reading at the PLC; and the National Pension Committee has started debating the parameters of pension reform.

Table 1. West Bank and Gaza: Monthly Fiscal Developments, November 2003 - January 2004
(in millions of U.S. dollars, unless otherwise stated)

	2003			2004			
	Budget (at actual exchange rate)	Actual			Budget		
		Annual	Nov	Dec	Jan	Annual	Monthly Average
Revenue	585	747	61	87.4	60.9	608	67.2
Domestic	228	275	16.9	45.7	12.7	298	24.8
Net tax revenues	...	151	12.2	14.3	4.3	...	...
Tax revenues	...	165	14.1	15.3	12.8	...	...
VAT refunds	...	-14	-1.9	-1.0	-8.5	...	...
Non-tax revenues	...	123	4.7	31.4	8.4	...	...
Gross monthly clearance 1/	357	471	44.0	41.6	48.2	508	42.3
Expenditure	1,149	1,129	113.7	110.9	36.8	1,306	108.8
Gross wages	700	743	65.4	75.3	72.7	828	69.0
Civilian	...	455	40.1	48.2	45.7	...	...
Security	...	287	25.3	27.1	27.0	...	...
Non-wage expenditure	449	350	39.5	30.9	14.1	478	39.8
PA financed capital spending	24	36	8.8	4.7	0.0	18	1.5
Net lending 2/	0	176	2.2	18.0	15.8	120	10.0
Balance	-822	-558	-55.0	-41.5	-41.8	-638	-53.2
External budget support	589	229	4.6	18.4	4.2	650	54.2
Balance including budget support	-233	-329	-50.4	-23.1	-23.1	12	1.0
Total other financing	233	329	50.4	23.1	-37.5	-12	-1.0
Gross withheld clearance revenues 3/	528	294	0.0	0.0	0.0	180	15.0
Net change in arrears (- = repayment)	-457	-30	-41.6	75.5	-78.3	-180	-15.0
Net domestic bank financing	-72	65	92.0	-52.4	110.2	-12	-1.0
Memorandum items							
Exchange rate NIS/\$	4.54	4.54	4.49	4.39	4.42	4.70	4.70
PA Employment	...	...	127,609	...	...	...	...
o.w. civilian	+2772	...	71,994	...	...	+3500	...
o.w. security	...	...	55,615	...	...	...	...
Average civil service wages			557	670			
Average security wages			455	488			

Ministry of Finance and IMF estimates

1/ Includes payments deducted for dues owed to the Israeli water company Mekorot, while the budget figure is on a net basis.

2/ Payments deducted at source by GOI from disbursements of withheld clearance revenue for owed bills by Palestinian municipalities.

3/ Monthly figures include deductions by GOI for utility bills, while the budget figure is on a net basis.

Update on World Bank Portfolio in the West Bank and Gaza

(Information as of February 28, 2004)

The World Bank assistance since September 2000 has aimed to strike a balance between maintaining medium-term developmental activity where feasible and providing emergency assistance

designed to sustain Palestinian institutions and mitigate poverty.

In response to economic hardship and fiscal crisis, the Bank – like other donors – has placed increasing emphasis on emergency operations. In total, the Bank has committed US\$104.1 million to various emergency projects since the beginning of the current *Intifada*⁴.

Initially, consistent with the Bank's emergency support during periods of closure in the 1990s,

priority was given to job creation. From 2001 onwards the Bank's emergency strategy shifted towards sustaining basic services, largely through support for non-wage expenditures in the ministries of Health, Education and Social Affairs, as well as in municipalities. An additional element in the Bank's emergency response was a reallocation in August 2002 of US\$10.3 million from six projects into public infrastructure repair.

The World Bank has currently 15 ongoing projects in the West Bank and Gaza (Table 1), for a total commitment of US\$208.8 million of which US\$122.5 million has been disbursed to-date. About 45 percent of the World Bank current commitments are made towards emergency projects, while the remaining commitments concern more traditional developments projects in a wide array of sectors.

The most recent addition to the Bank's portfolio of projects was the Emergency Water Project, which became effective in early February, 2004. At the end of 2003, two projects expired (the Legal Development project and the Bethlehem 2000 project).

The World Bank has several projects in the pipeline, which are expected initiated in the near future. One is a Social Safety Net Reform Project, to be implemented by the Ministry of Social Affairs (MOSA), which would aim to improve the design and management of MOSA's main assistance program. Another is a follow-up project in the water sector in Gaza that would consolidate and build upon the achievements of the Bank's first Water and Sanitation project in Gaza.

The Bank is also working with the Ministry of Finance and other stakeholders on preparing a Pension Reform Project aimed at improving the sustainability and management of the PA's civil service pension system. The Bank is also considering a follow-up operation to our on-going health project. Finally, the Bank is discussing with the PA, the possibility of contributing US\$20 million to the multi-donor Budget Trust Fund that is currently being set up.

Besides the financial operations mentioned above, the Bank also performs analytical sector work on various policy issues and subjects of topical concern. Areas of activity for studies which should be completed some time during calendar year 2004 include: infrastructure, waste water, poverty, human development, NGOs and the environment. Bank staff are also conducting two reviews on procurement and financial accountability in the West Bank & Gaza, which will be of interest to a number of other stakeholders in the field.

Since the beginning of the Second *Intifada*, the Bank has produced two assessments of the economic impact of renewed closures and curfews on the Palestinian people. These reports, familiarly known as *Fifteen Months* and *Twenty-Seven Months* have documented socio-economic developments from 2000-2002 and the emergency responses of the donor community, UN agencies and NGOs. An update to this work is due before summer. Hard copies of the previous editions are still available at the Bank office in Al Ram.⁵

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

5 Electronic copies of these two assessments and of some other publications are available on: <http://lnweb18.worldbank.org/mna/mena.nsf/61abe956d3c23df38525680b00775b5e/81299af1b1220c528525680e0071d721?OpenDocument>

On-going Bank Group Operations	
Project Name & Details	Description
<p><i>Education Action Project (EAP).</i> World Bank: US\$7 million. Borrower (PA): US\$0.63 million. Approval Date: July 18, 2001. Closing Date: September 30, 2004. Task Team Leader: David Steel.</p>	<p>The Education Action Project (EAP) supports the work already undertaken by the Ministry of Education in the development of its Five Year Plan (2001-2005) and long-term education strategy. The EAP primarily aims to strengthen the capacity of the Ministry of Education (MOE) to manage the education system more effectively through improving policy-making, planning and budgeting at central and district levels. It supports the implementation of activities in targeted domains included in agreed annual departmental work plans derived from the Five-Year Education Plan. This should lead to improved utilization of funding from the budget and international donors. The Project has two components. The first provides assistance to develop strategies that facilitate planning across the departments, whereas the second supports specific investments in education domains including a program for school improvement through staff review, a school development program, the development of professional standards for headteachers, and support to Vocational Education.</p>
<p><i>Health System Development Project (HSDP).</i> World Bank: US\$7.9 million. Approval Date: December 9, 1999. Closing Date: March 31, 2004. Task Team Leader: Anne Johansen.</p>	<p>The objectives of HSDP are to enhance the management capacity of the Ministry of Health (MOH) and improve access to high-quality and affordable Primary Health Care (PHC) services, especially in rural and underserved areas. The Project has three components. The first supports the upgrading of the PHC network by replacing 40 substandard PHC facilities, including equipment and furniture, and developing their functional standards. The second component supports the establishment of a Health Management Information System. The third component supports improvement of the quality and efficiency of health care.</p>
<p><i>Second Municipal Infrastructure Project (MIDP II).</i> World Bank: US\$7.5 million. Saudi Arabia: US\$5.0 million. Approval date: June 20, 2000. Closing Date: December 31, 2004. Task Team Leader: Ibrahim Dajani.</p>	<p>The main objective of MIDP II is to improve infrastructure services (roads, water, and drainage), including high priority sections of the regional road network and rehabilitation of village and municipal water networks in WBG. The Ministry of Public Works (MPW), Ministry of Local Government (MLG), and the Palestinian Water Authority (PWA) are the implementing agencies for this Project. The Project will also provide support to the MPW to establish its first Road Maintenance Management System. In addition, the Project will continue to provide support to the MLG for an accounting system and institutional reform.</p>
<p><i>Solid Waste and Environmental Management Project (SWEMP).</i> World Bank: US\$9.5 million. Approval Date: October 10, 2000. Closing Date: December 31, 2005. Task Team Leader: Kanthan Shankar.</p>	<p>The Project is financing interventions in solid waste collection, transfer, and disposal of waste for the District of Jenin. The Project is managed by the Joint Services Council for Solid Waste Management (JSU) and is being executed through a Project Implementation Unit (JSC-PIU). The Project is assisting in strengthening capacity building of the Environmental Quality Authority.</p>
<p><i>Southern Area Water and Sanitation Improvement Project (SAWSIP).</i> World Bank: US\$21 million. Approval Date: June 5, 1999. Closing Date: December 31, 2004. Task Team Leader: Suhail Jme'An.</p>	<p>The original objective of SAWSIP was to improve sufficiency and efficiency of water and wastewater services in the southern West Bank. This would be achieved through the preparation and implementation of an appropriate institutional framework for water and wastewater service provision, including the implementation of four-year performance-based management contract and the strengthening of the institutional capacity of PWA to become a sector regulator. The Project is currently going through a restructuring to better align it with current circumstances on the ground.</p>
<p><i>Palestinian Expatriate Professional Program (PEPP).</i> World Bank: US\$3 million. Netherlands: US\$0.3 million. Approval Date: May 22, 1998. Closing Date: December 31, 2004. Task Team Leader: Claus Pram Astrup.</p>	<p>The PEPP supports the recruitment of expatriate Palestinians to key management and senior technical positions in PA institutions as an institution-building measure. Since the Program started in late 1997, 17 persons have been successfully recruited for positions at 11 PA Ministries and Agencies, including: the Ministries of Finance, Health, Higher Education, Housing, the Palestine Broadcasting Corporation, the Palestine Monetary Authority, and the Bethlehem 2000 Committee.</p>
<p><i>Palestinian NGO Project (PNGO II).</i> World Bank: US\$8 million. UK/DFID: US\$7.8 million. Italy: US\$2.4 million. Approval Date: June 21, 2001. Closing Date: August 15, 2004. Task Team Leader: Sima Kanaan.</p>	<p>The Project is aimed at strengthening the capacity of NGOs to deliver sustainable services to the poor and marginalized, while supporting the overall professional and strategic development of the Palestinian NGO sector. The Project is being implemented by the Welfare Association Consortium, consisting of the Welfare Association, the British Council, and the Charities Aid Foundation (CAF). <i>For a detailed description of the achievements of PNGOII the reader is referred to the article in the current issue of the West Bank and Gaza Update.</i></p>

Project Name & Details	Description
<p><i>Electric Sector Investment and Management Project (ESIMP).</i> World Bank: US\$15 million. EIB: US\$38 million. Italy: US\$35 million. PA: US\$3 million. Approval Date: August 31, 1999. Closing Date: June 30, 2004. Task Team Leader: Rene Mendoca</p>	<p>The objectives of this US\$91 million Project are to rehabilitate the power distribution systems in the central and southern West Bank, and to address the institutional structure for longer-term sector management.</p>
<p><i>Emergency Services Support Project (ESSP).</i> Total Financing: US\$ 57.9 million. World Bank: US\$20 million. UK/DFID: US\$7.8 million. Netherlands: US\$5.9 million. EU: US\$9.6 million. Sweden: US\$ 4.7 million; Finland: US\$ 1.2 million; Denmark: US\$2.7 million; Italy: US\$ 5.3 million. Approval Date: February 28, 2002. Closing Date: June 30, 2004. Task Team Leader: David Steel.</p>	<p>The ESSP aims at enabling Social Service Delivery Ministries and Municipalities at sustaining the provision of basic social services, thereby ameliorating further deterioration in the standard of living of the Palestinian population. The Project focuses on supporting health, education, social welfare, and basic municipal services (solid waste, water, and electricity supply). The Ministry of Finance manages the ESSP, with direct implementation handled by the Ministries of Health, Education, Social Affairs, and Local Government.</p>
<p><i>Second Emergency Services Support Project - Phase II (ESSP II)</i> Total Financing: US\$67.7 million World Bank: US\$40 million. Approval Date: December 17, 2002. Closing Date: December 31, 2004. Task Team Leader: David Steel.</p>	<p>Like ESSP I, ESSP II supports the financing of the operating budgets of the social ministries thereby helping sustain public services delivery to the Palestinian population. Unlike ESSP I, ESSP II will not provide budgetary support to Municipalities since that will be done through the Bank's Emergency Municipal Services Rehabilitation Project. On December 2, 2003, the World Bank's Board of Directors approved a Supplemental Grant in the amount of US\$15 million ESSP II in support of the 2004 operating budgets of the social ministries.</p>
<p><i>Emergency Water Project (EWP).</i> World Bank: US\$12.5 million Task Team Leader: Suhail Jme'An.</p>	<p>The main objective of the Project is to support investments that would help alleviate the chronic shortages of safe water supplies; reduce water costs and health risks; and conserve scarce water resources by reducing system losses. The Project includes the following components: (a) emergency water supply repair and rehabilitation in remote rural areas of the southern West Bank; (b) repair and rehabilitation necessary to maintain water and sanitation service levels in the Gaza Strip at the high levels achieved under the Gaza Water and Sanitation Project despite the deteriorating economic and security conditions; and (c) Technical Assistance and Capacity Building provided to the Palestinian Water Authority and the recently established Coastal Municipal Water Utility in the Gaza Strip and to form pilot joint services councils for smaller towns in the southern West Bank.</p>
<p><i>The Integrated Community Development Project (ICDP).</i> World Bank: US\$10 million. Approval Date: May 23, 2002. Closing Date: June 30, 2006. Task Team Leader: Kanthan Shankar.</p>	<p>The Project seeks to improve the quality and availability of basic social and economic services in poor and marginalized communities of West Bank and Gaza. It succeeds previous community development operations financed through the Bank under Community Development Projects I and II. Investments will finance the rehabilitation of roads, water supply and sanitation systems, schools, clinics, thereby preserving and extending the capital stock of villages and small municipalities. It will also finance agricultural activities, including the rehabilitation of wells, roads, and terraces. Lastly, it will pilot new Information and Communication Technology (ICT) initiatives by funding the creation of Multipurpose Tele-centers thereby improving access to information and training for the poor and marginalized.</p>

Project Name & Details	Description
<p><i>The Integrated Community Development Project (ICDP).</i> World Bank: US\$10 million. Approval Date: May 23, 2002. Closing Date: June 30, 2006. Task Team Leader: Kanthan Shankar.</p>	<p>The Project seeks to improve the quality and availability of basic social and economic services in poor and marginalized communities of West Bank and Gaza. It succeeds previous community development operations financed through the Bank under Community Development Projects I and II. Investments will finance the rehabilitation of roads, water supply and sanitation systems, schools, clinics, thereby preserving and extending the capital stock of villages and small municipalities. It will also finance agricultural activities, including the rehabilitation of wells, roads, and terraces. Lastly, it will pilot new Information and Communication Technology (ICT) initiatives by funding the creation of Multipurpose Tele-centers thereby improving access to information and training for the poor and marginalized</p>
<p><i>Emergency Municipal Services Rehabilitation Project (EMSRP).</i> Total estimated cost: US\$65.7 million. World Bank: US\$20 million. EU: US\$36 million. Belgium: US\$6.7 million. PA: US\$3 million. Effectiveness Date: January 22, 2003. Closing Date: June 30, 2005. Task Team Leader: Ibrahim Dajani.</p>	<p>The Project objectives are to: (i) mitigate further deterioration in the quality and coverage of municipal services, particularly solid waste collection, electricity, water, and sanitation services; (ii) generate temporary employment opportunities for unemployed workers who have lost jobs inside Israel, or due to the economic contraction in WBG; and (iii) introduce a mechanism – a Municipal Fund – to link central and local government budgetary planning processes to strengthen Palestinian emergency response capacity, enhance mobilization of donor assistance, and improve the efficiency and equity of resource transfers to local governments.</p>
<p><i>Housing Project (jointly with IFC).</i> World Bank: US\$25 million. IFC: Up to US\$4 million in equity investment. Approval Date: April 14, 1998. Closing Date: March 2004. Task Team Leader: Lawrence Hannah.</p>	<p>The Project's major component is the Palestine Mortgage and Housing Corporation (PMHC) that facilitates the flow of private capital into housing. PMHC commenced operations in September 2000. Although the present situation has significantly slowed PMHC's operations, both affiliates, the Liquidity Facility, providing long-term funds for lending by banks and other primary mortgage lenders in WBG; and the Mortgage Insurance Fund, providing partial risk coverage for primary lenders, continue to increase their respective portfolios. Canada Mortgage and Housing Corporation is the technical partner for the PMHC providing technical assistance and capacity building support. The Project also includes a component for policy and institutional development in the sector that is implemented by the Ministry of Public Works and Housing.</p>
<p><i>Gaza Industrial Estate (GIE) (jointly with IFC).</i> World Bank: US\$10 million. IFC: US\$9 million; US\$7 million syndicated loans. Approval Date: March 24, 1998. Closing Date: June 30, 2004. Task Team Leader: Stephen Karam</p>	<p>The GIE is located on a 50-hectare site at Al-Muntar in the northeast of Gaza (adjacent to the Israeli border) and is the first largely export-oriented industrial estate established to generate sustainable employment and stimulate industrial development in Gaza. The Project has attracted foreign and local investment, and has facilitated joint ventures between Palestinians and other investors. The GIE is managed and operated by PIEDCO, a private sector company; regulatory oversight and some offsite infrastructure services are provided by the PIEFZA. The World Bank and USAID are providing financing for off-site infrastructure and institutional development, while IFC and EIB are financing the developer/operator of the Project.</p>

On-going Bank Group Operations

Project Name & Details	Description
<p><i>Palestinian Economic Assistance and Cooperation Expansion (PEACE) Facility.</i></p>	<p>The PEACE Facility, a multi-donor successor to the Holst Fund, was set up in response to the need expressed by a number of donors for a multilateral umbrella facility to support targeted activities in the West Bank and Gaza (WBG), ranging from technical assistance to projects. The objective of the PEACE Facility is to help relieve the economic and social hardship caused by the current crisis in WBG and the resultant Israeli border closures. The current PEACE Facility donors have focused on projects designed to create short-term employment opportunities for those most affected by the ongoing political crisis. To-date five donors have contributed to the PEACE facility for a total of US\$25.8 million (Canada: US\$3.3 million; Denmark US\$3.5 million; UK: US\$2.2 million; Islamic Development Bank: US\$7.0 million; and Italy: US\$9.0 million).</p>

World Bank Projects Under Preparation

Project Name & Details	Description
<p><i>Proposed Gaza Water and Sanitation Services Project (GWSSP II).</i> World Bank: US\$25 million.</p>	<p>This Project is a follow-up to the ongoing GWSSP. The development objectives of this Project are: (a) to develop a sustainable institutional structure of the water and wastewater sector in Gaza by supporting the functional establishment of a Coastal Municipalities Water Utility, as well as by enhancing and deepening the involvement of the private sector through an eight-year operating contract and strengthening the regulatory and institutional capacity of the Palestinian Water Authority; and (b) to continue improving the water and sanitation services by rehabilitation, upgrading and expansion of existing systems and facilities. Like the GWSSP, this Project is part of a larger parallel capital program to improve water and sanitation services in Gaza. The Project includes substantial investments in the establishment of a bulk water supply network connecting the various municipalities in Gaza, in the sewerage network, and in wastewater treatment plants. These investments, totaling about US\$340 million for 2000-2005, will be financed by soft loans and grants from EIB, USAID, and KfW.</p>
<p><i>Second Health System Development Project (HSDP II).</i> World Bank: US\$10 million.</p>	<p>The Project objectives are to improve the quality, access, and cost-effectiveness of essential secondary and tertiary care health services for populations in the northern Gaza and West Bank regions. In the original plan, the Project intended to replace and upgrade two hospital systems: Al Shifa Hospital in Gaza and Al Watani Hospital in Nablus, and to also build upon the experience of the First Health System Development Project to extend the development of integrated information and management systems to improve the productivity and quality of health care services in the targeted hospitals.</p> <p>Due to the current political situation, the preparation work for the Second Health System Development Project (HSDP II) has been considerably delayed. In addition, the amount of financing available, both from the Bank and from co-financing sources, has been significantly reduced as a result of the crisis. Consequently, the scope of the Project has been reduced. The following components from the original plan will be retained in the revised plan for the HSDP II: (a) a regional Hospital Rationalization Plan for the Northern West Bank; (b) hospital master plans for Shifa Hospital in Gaza City and New Watani Hospital in Nablus; (c) a waste management pilot program; (d) a management information system; and (e) quality improvement.</p>
<p><i>Proposed Social Safety Net Reform Project (SSNRP)</i> World Bank: US\$10.0 million</p>	<p>The objectives of the Project are to mitigate the impact of the present social and economic crisis on the most vulnerable, and to protect the human capital of poor children in the West Bank and Gaza. This objective will be achieved through enhancing and modifying the existing Special Hardship Case (SHC) program of MOSA to include a component that will make eligible households' receipt of assistance conditional upon their compliance with a set of pre-determined criteria related to school attendance, attendance at scheduled health check-ups, and attendance at awareness session on pertinent social issues. The Project will also aim to strengthen the institutional capacity of the PA agencies involved in the implementation of the proposed project, in particular in Ministry of Social Affairs.</p>

IFC Projects

Including the two joint-projects above, IFC has committed US\$25.89 million to three projects under the *Mainstream Program*. Under the *Extended Reach Initiative*, which supported projects in the US\$0.25-5 million range, seven projects were committed for US\$7.42 million, out of which US\$4.92 million was disbursed. The *Extended Reach Initiative* was discontinued in mid-2000.

All IFC-financed projects have been affected by the ongoing political crisis. Most private sector activity has been noticeably reduced, and most WBG companies are facing liquidity and severe operational difficulties due to the internal border closure.

IFC Mainstream Projects	
Project Name & Details	Description
<p><i>Arab Palestine Investment Bank (APIB).</i> IFC approved the US\$3.74 million equity investment in May 1994.</p>	<p>Arab Palestinian Investment Bank was IFC's first investment in the West Bank and Gaza. Established in Ramallah in 1996 by the Arab Bank, DEG, Enterprise Investment Company and IFC, APIB was also the first comprehensive commercial and investment banking institution to be established in the West Bank and Gaza with an intended primary focus on trade finance (e.g., letters of credits and bills discounting), term financing (for industrial and commercial projects for expansion, modernization and working capital needs), foreign exchange and money transfers, financial advisory services (to local businesses and overseas investors) and agency arrangements. APIB was expected to mobilize wholesale funding from the domestic and overseas markets, expanding operations to include money and capital markets activities, treasury management services, portfolio management, and private banking. As of December 31, 2002, APIB approved 30 loans worth US\$12.7 million, and had an outstanding portfolio of US\$7.4 million. Due to the ongoing crisis, the new lending pipeline has significantly decreased, shifting the focus to managing the existing portfolio.</p>
<p><i>Peace Technology Fund (PTF).</i> IFC approved the project investing up to US\$12.6 million in August 1998</p>	<p>The Peace Technology Fund was set up with a committed capital of US\$63.2 million to provide equity capital for productive investments in the West Bank and Gaza. PTF was to encourage economic cooperation between Palestinian and Israeli companies and, if appropriate, invest in joint ventures between Palestinian companies and Israeli or international companies, thereby encouraging transfer of technology and employment generation in the West Bank and Gaza. PTF was expected to invest primarily in small- and medium- sized companies across a broad spectrum of high value added and/or employment generating industries. Prior to September 2000, PTF invested US\$11 million in three projects, but because of the ongoing crisis, all pipeline investments have been put on hold.</p>
<p><i>Palestine Tourism Investment Company Ltd. (PTIC).</i></p>	<p>The Project was approved in April 1999. IFC invested US\$1.35 million in equity and US\$8 million in long-term loans. EIB provided a long-term loan of about \$12 million. The 250 key hotel (the first international one in the West Bank) was built in Bethlehem at an estimated cost of US\$52 million including the renovation of the famous Jacir Palace landmark. It became fully operational under Intercontinental Hotel Company management in September 2000. Tourism has been one of the hardest hit sectors since September 2000. Thus the complex was forced to end operations in March 2001. It sustained some physical damage during the 2002 and remains closed.</p>
<p><i>Arab Concrete Products Company (ACPC).</i> IFC approved the US\$0.8 million loan in June 1997.</p>	<p>This Project enabled Arab Concrete Products Company to fully utilize its production capacity of ready-mix concrete, and expand its distribution capacity. IFC provided a long-term loan of US\$0.8 million out of a total Project cost of US\$2.6 million. Due to the crisis and mobility problems of labor and raw materials, the Project has witnessed a significant drop in operational levels, and at certain times, it has come to a complete standstill.</p>
<p><i>Jericho Motels Company (JMC).</i> IFC approved the US\$1.17 million loan in August 1998.</p>	<p>Developed on 31,000 m2 of land, the Jericho Resort Village consists of a 60-room hotel, 48 bungalows, and recreational facilities. At a total cost of US\$8.1 million, IFC provided a 10.5-year, US\$1.17 million loan, and the financing plan included long-term loans from two local banks and one other international lending institution. The complex, which opened for commercial operations in late 1998, was forced to cease operations in early October 2000 due to the ongoing crisis and closures. However, with the relaxation of the closure on Jericho over the past few months, the hotel reopened most of its premises.</p>
<p><i>Arab Palestinian Storage Company (APSC).</i> IFC approved the US\$0.2 million loan in July 1998.</p>	<p>The Project consisted of establishing a cold storage facility in Gaza with a capacity to store about 5,000 tons of perishable food products. The storage method included both freezing and chilling, to preserve the products for long periods of time. The Project also involved trading in fruits and vegetables, mainly for off-season sales. IFC provided a loan of US\$0.2 million out of a total project cost of US\$5.9 million. Operations started in September 1999. However, Gaza border closures and the ongoing crisis, have noticeably reduced the Project's volume of operations, and in some instances, operations were brought to a complete stop.</p>
IFC Technical Assistance	
<p>IFC's technical assistance efforts have been aimed at supporting the Palestinian Authority's efforts to further broaden and deepen the Palestinian financial sector. IFC has also worked closely with the Palestinian Authority and the private sector to encourage the emergence of new instruments and players in the financial sector and capital markets through the development of framework laws and institutions. IFC was involved with the preparation of draft laws for Insurance, Securities, Capital Markets Authority, Mutual Funds, Mortgage, Tax, and Competition.</p>	

Disbursements Under World Bank Projects (In US\$ Million)

As of February 2004

CURRENT PROJECTS	Allocated Amounts		Disbursed		Total
	TFGWB	JOINT	TFGWB	JOINT	DISBURSED
97 Palestinian Housing Project	17.40		7.66		7.66
97 Legal Development Program	2.79	15.00	2.49		2.49
97 Palestinian Expatriate Professional Program	3.00	0.32	2.02	0.32	2.34
98 Gaza Industrial Estate	10.00		5.02		5.02
99 Bethlehem 2000	25.00	3.61	24.82	3.41	28.23
99 Southern Area Water and Sanitation Project	21.00		17.88		17.88
00 Electricity Sector Management Project	15.00		10.94		10.94
00 Health System Development Project	7.90		6.79		6.79
01 Municipal Infrastructure & Dvpt Project II	7.50	5.00	4.34		4.34
01 Solid Waste & Environmental Mgmt Project	9.50		3.15		3.15
01 Education Action Project	7.00		3.18		3.18
01 Palestinian NGO II Project	8.00	11.62	3.93	1.10	5.04
02 Emergency Services Support Project	20.00	36.87	20.00	30.17	50.17
02 Integrated Community Development Project	10.00		1.94		1.94
03 Emergency Services Support Project II	40.00	27.34	28.28		28.28
03 Emergency Municipal Services Rehab Project	20.00		7.31		7.31
03 Emergency Water Project	12.50				
Total	236.59	99.75	149.75	35.01	184.76

* Projects listed in order of implementation year.

** The Bank's US\$12 million grant was channeled through the Holst Fund.

Multi Donor Trust Funds

	Amount Allocated	Total Disbursed
The Holst Fund (closed)	285.72	285.72
Technical Assistance Trust Fund (closed)	22.77	23.60
PEACE Facility	24.78	18.18
TOTAL	333.27	327.49