Investing in Palestinian Economic Reform and Development

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EXECUTIVE SUMMARY

The course of the Palestinian economy since the Second Intifadah has left per capita GDP in 2006 ($1,130) at 40% less than in 1999, and has altered an already-fragile economy from one driven by investment and private sector productivity, to one sustained by government and private consumption, and donor aid.

Reversing this downward cycle requires parallel actions by the Palestinian Authority (PA), Israel and the donors. Reform and development of the Palestinian economy and its institutions must proceed immediately. To succeed, these reforms must be implemented with determination by the PA, underwritten by donors and supported by Israeli actions. In the same vein, Israeli policies that impact the Palestinian economy and Palestinian actions on security to reinforce these policies must proceed in parallel.

The PA's Palestinian Reform and Development Plan (PRDP) for 2008-10 represents a process around which the PA, Israel and the donor community can coalesce. The PRDP is an important document that envisions a sequence of steps centering on control of expenditures with medium-term reforms across sectors to bring the PA back to financial sustainability. In addition, the PRDP is a promising effort by the PA to link policy-making, planning and budgeting, and to deliver a Palestinian-owned plan for allocating resources.

The PRDP is regarded as succeeding insofar as it is addressing the entirety of the Palestinian population. The Gaza Strip represents about 40% of the population, and an essential part of the Palestinian territory and economy. Any effort at economic recovery and development must address the impacts of the current closure regime and the aftermath of the illegal takeover of Gaza. The continued entry of humanitarian goods has mitigated the impact of the closures on Gaza's population, but has not been sufficient to offset the collapse of the private sector there.

The Expenditure Control Policy of the PRDP

The PRDP, with a gap for recurrent and capital expenditures of around $1.8 billion in 2008, seeks to stabilize the PA's fiscal situation through donor budgetary assistance, while containing recurrent spending and, as the economy improves, shifting resources progressively towards development spending. This expenditure control policy would extend to the largest spending categories, including the public sector wage bill and net lending.

Wages for civil service and security personnel account for almost half of total government expenditures and have increased by nearly 57% since 2004. New policies will reduce the wage bill from 27% of GDP in 2007 to 22% of GDP by 2010. This is a considerable effort in light of the need to compensate for the scarcity of private sector jobs, but is still insufficient to bring the civil service in line with actual requirements. Within the public sector, the security services represent approximately 44% of the wage bill. Reform of the security sector is linked to a political framework that includes the rebuilding of institutions, support to disarmament, demobilization and reintegration, and measures to improve the rule of law. Regardless of the ultimate structure of the security services, some early steps can be taken, including an accounting of their numbers, the removal of "non-compliant" officers, and exploring options for officers nearing or past retirement age. Outside of the security sector, health and education represent other areas of reform over the three year period. These sectors have seen significant accomplishments over the years, but there remains a scope for efficiency gains and cost savings.

Any practical discussion on expenditure control and reform must be supported by a viable pension system. Taking this into the account, the PA has included pension reform in the PRDP, with a planned institutional review of current pension schemes in 2008. Some early steps can be taken, including addressing the unregulated private sector pension system. Also, the PA is exploring a policy of a 'flat rate coverage system' to cover the poorest in the WB&G. This can be explored, with a costing of different options in comparison with the likely savings from a revised pension system. These steps, along with an adequate focus on safety nets, can facilitate any necessary steps the PA would take to recalibrate the pension system to one that is consistent with the PRDP's expenditure control policy.

Another key fiscal reform is the reduction in net lending, which is the second largest expenditure after the wage bill. The PA has already initiated critical steps in this regard. Moving forward, these initiatives are of greatest impact if accompanied by other reforms over time, including: (a) creating electricity suppliers that are financially sustainable and able to collect payments from customers; (b) transferring electricity supply from municipalities to electricity distribution companies, complemented with a system to fix municipal finances; and (c) introducing a well-targeted social protection system to ensure access to electricity for the poorest segments of the population.

The Development Investment Agenda

The PRDP also presents a coherent development plan that reflects a frank assessment of the PA's absorptive capacity for project implementation. The development agenda contains priority investments in governance, social, economic and private sector, and infrastructure development worth \$1.644 billion over three years. The development budget increases progressively over this three year period (from \$427 million in 2008 to \$667 million in 2010), reflecting pragmatic assumptions by the PA of its own absorptive capacity.

As the PRDP is a rolling process, additional analysis will be needed to ensure that the development projects are properly costed and sequenced. Moreover, the economic development projects are vital for creating an environment for investment and trade. Once these priorities are clearly set, it will be necessary to determine the mandates and resource needs- including for capacity building- of relevant institutions such as the Land Authority, Customs, General Administration of Crossings and Borders, etc. Programs aimed at increasing production and exports will need to be designed carefully to ensure access of goods and to account for the impacts of movement and access restrictions.

Implementing the PRDP

The realization of the PRDP relies on parallel commitments by the PA, Israel and donors, but also on a proper design of the implementation mechanisms. In terms of channels of assistance, the PA has expressed the need for donor aid to cover the entirety of the PRDP, with primary focus on recurrent expenditures to ensure the PA's viability. Also expressed was the need for direct assistance into the MOF's Single Treasury Account (STA), given the priority for financing recurrent expenditures and the PA's successful efforts to reconstitute key parts of the public financial management system. In addition to these, other aspects of implementation must be addressed, including: (a) monitoring and evaluation of the PRDP that is clear, practical and that encompasses all of the Palestinian Territories; (b) identifying innovative ways, reflective of the PRDP's commitments, to ensure that Gaza is not confined to humanitarian assistance alone; and (c) exploring, over time, ways of improving the existing intergovernmental fiscal relations.

Scenarios Facing the Palestinian Economy

The PA's macroeconomic framework assumes: (a) the successful advancement of reforms, including law and order; (b) sufficient donor funding; and (c) a gradual easing of movement and access restrictions subject to Israeli security concerns. It does not assume a resolution of the situation in Gaza. Therefore most of the growth would be in the West Bank, driven by Government investment and consumption, both of which are linked to aid. Successfully reaching the PRDP goals will lead to modest growth, averaging 5% per year, which– given current demographics and distribution of income- will barely affect poverty levels.

An economic scenario analysis shows that the successful implementation of Palestinian commitments alone, with partial donor funding and continued movement and trade restrictions, will fall well short of the intended targets. Achieving 5% growth rates will depend critically on the commitment of the international community to fill the total fiscal gap over the next three years, as well as on the revival in the private sector as a result of concrete steps by Israel on settlement growth, and movement and access restrictions. Even with full funding but no relaxation in the closure regime, growth will be slightly negative, at around -2% per year. If the required aid also fails to materialize, income will decline even more, and the already high and growing poverty levels will rise dramatically.

Alternatively, a scenario where the PRDP is implemented and fully funded by donors and where private sector activity and trade is revived will accelerate growth considerably. Embedded in this scenario is a recovery in Gaza driven by the resolution of the current stalemate, and the removal of movement and trade restrictions affecting both the West Bank and Gaza.

Under every foreseeable scenario, the short-term viability of the Palestinian economy will be driven by aid. Even under the most optimistic scenarios significant aid will continue to be required for the medium-term. Clearly, the ability of the private sector to resume its place as a driver for growth will have a major bearing on the sustained health of the Palestinian economy and thus its aid requirements, which will therefore be even larger in the absence of improvements in movements and access restrictions.

INTRODUCTION

1. ***In its report to the Ad Hoc Liaison Committee Meeting in New York on September 23rd, 2007, the World Bank outlined the course of the Palestinian economy since the Second Intifadah,*** which has left per capita GDP in 2006 ($1,130) at 40% less than in 1999, and which has altered the economy from one driven by investment and private sector productivity, to one sustained by government and private consumption, and donor aid.

2. ***A confluence of factors, including political and security events in the West Bank and Gaza (WB&G), the growth in settlements, Israeli restrictions on movement and access since the Second Intifadah, and the 2006 halt in donor aid, have placed an already-fragile Palestinian economy in a downward cycle of crisis and dependence***. Unable to find opportunities in a shrinking private sector, a young population with a rapidly-expanding labor force has turned to the public sector to absorb workers and increase spending to alleviate poverty. And while the public sector began to spend on employment and subsidies to cushion the effect of the restrictions on the private sector, public investment to maintain or add infrastructure nearly ceased. This trend, underway but with different intensities since 2000, was most acute in the aftermath of the elections in 2006.

3. ***Reversing this vicious cycle, in turn, requires parallel actions by the Palestinian Authority (PA), Israel and the donors.*** The policies of one rely on the actions of others for their optimal success, but must not be predicated on them. Reform and development of the Palestinian economy and its institutions must proceed immediately. To succeed, these reforms must be underwritten by donors and supported by Israeli actions. In the same vein, Israeli policies that impact the Palestinian economy and Palestinian actions on security to reinforce these policies must proceed in parallel. Donors remain a cornerstone of this process, both in ensuring the survival of Palestinian institutions in periods of crisis, and in underwriting a return to long-term recovery and development. The impact of donor aid is highest when it is accompanied by concrete PA reforms, and by an enabling environment by Israel to allow for projects to be implemented, and for their benefits to be realized. The absence of these parallel actions will undermine the impact of aid, but not the need for consistent aid flows to ensure the survival of critical Palestinian institutions that will underpin the peace process.

4. ***The June 14th formation of the Emergency Government and later the Caretaker Government, and the culminating Palestinian Reform and Development Plan (PRDP) for 2008-10 represent a process around which the PA, Israel and the donor community can coalesce.*** The PRDP represents a promising effort by the PA to link policy-making, planning and budgeting, and to deliver a Palestinian-owned plan for allocating resources to national policy priorities.

5. ***The PRDP envisions a sequence of steps centering on control of expenditures with a medium-term set of reforms across sectors to bring the PA back onto a path of financial sustainability.*** Embedded within the PRDP are a set of assumptions on the growth of the economy, the revival of the private sector income and employment, and the PA's ability to endure the current crisis by meetings its financing needs. The realism of these assumptions is directly related to progress on the movement and access agenda, and equally

importantly, on the commitment of donors to meet the financing gap over the three-year horizon of the PRDP.

6. ***The PRDP is also regarded as succeeding insofar as it is addressing the entirety of the Palestinian population.*** The Gaza Strip represents about 40% of the population, and an integral part of the Palestinian territory and economy. As such, any effort at economic recovery and development must address the impacts of the current closure regime in place after Hamas' June 14th illegal takeover of the Strip. The continued entry of humanitarian goods has mitigated the impact of the closures on Gaza's population, but has not been sufficient to offset the collapse of the private sector there, particularly the industrial sector. A sustainable solution must include commercial imports and exports. This requires consolidated efforts by the PA, Israel and donors to develop a common policy that delineates Gaza's population from the current events in the Strip.

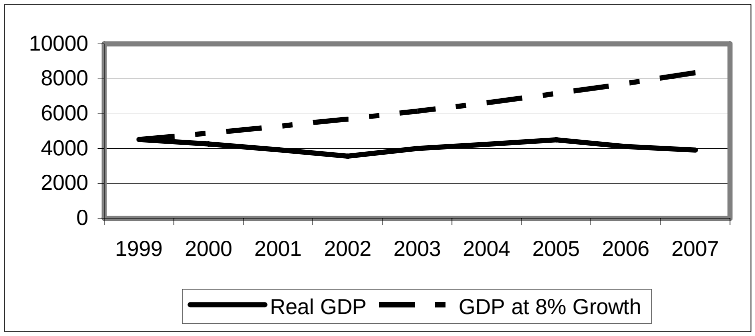
7. ***This paper recounts the course of the Palestinian economy since the aftermath of events in 1999 and 2000, and seeks to identify aspects of the PRDP that may alter this course towards recovery and growth.*** Due to the comprehensiveness of the PRDP, this paper is unable to cover all the salient issues but will focus on a number of vital areas. In addition, the paper will attempt to illustrate through some scenarios the importance of parallel actions on the success of the PRDP. It must be stressed, however, that while the success of the PA's recovery and reform is linked to actions by all parties, and vice versa, the inverse is certainly not true. Unwillingness to invest early on- whether in funds or in policies- in this new momentum of peace and recovery will yield little. The PA, Israel and donors will contribute greatly to Palestinian recovery by committing to actions that are, even in isolation, of critical need.

THE COURSE OF THE PALESTINIAN ECONOMY

8. ***Following the Oslo accords, it was expected that the Palestinian economy would enter a period of sustained and rapid growth.*** While performance was not as strong as hoped, there was steady growth and by 1999 real GDP had grown to $4,512 million. However, since 2000, when Israel instituted a strict closure regime in response to the second *Intifadah*, the Palestinian Economy has been on a downward trend. GDP fell to $3,557 million at the height of the fighting in 2002 and then recovered slightly in 2004 and 2005. But, with the continuing growth in settlements, closures and the cut off in direct aid after the election of a Hamas government, GDP fell again in 2006.

9. ***Real GDP in 2007 is expected to be about $3,901 million, some 14 percent lower than its peak in 1999.*** Because of the rapid population growth during the same period, per capita GDP is off nearly 40% from its peak. The contributing effects of the closures and movement restrictions can not be overestimated. Between, 1995 and 2000, the Palestinian economy was growing at an average rate of 8% per year. Had that trend continued through 2007 in the absence of restrictions, real GDP may have been more than double its current value (Figure 1).

Figure 1: Estimated Real GDP: Actual and With 8% Real Growth



Source: PCBS and World Bank staff calculations

10. ***A combination of borrowing, remittances and increased aid that flowed around the PA has propped up GDP in the past two years and has allowed both public and private consumption to remain strong.*** A recent Palestinian Central Bureau of Statistics (PCBS) survey estimates that despite the economic crisis, household consumption dropped by only 0.6% between 2005 and 2006. But while consumption may have remained robust, investment has fallen to precariously low levels resulting in a hollowing out of the Palestinian productive sectors. Public investment has nearly ceased and in the last two years almost all government funds have been used to pay salaries and cover operating costs. Private investment is also low. The IMF estimates that it fell by over 15% between 2005 and 2006 and there is no evidence that it has significantly increased in 2007. A recent World Bank Investment Climate Assessment, which found that less than a quarter of private sector firms made any investments in 2005/2006 and that the equipment in manufacturing enterprises was on average over 12 years old. The lack of investment in public infrastructure and private enterprises is eliminating any residue of the Palestinian productive base, leading to increased aid dependency and pointing to bleak future prospects unless the trend is reversed.

11. ***Despite large inflows of aid, the shrinking economy has led to increasing poverty. Unemployment in WBG stands at nearly 23 percent up from only 10 percent before the beginning of the Intifadah in 2000***. Unemployment is highest in Gaza at nearly 33 percent of the active work force. Under the current closure regime and the restrictions on imports and exports for commercial activity, this is likely to become much higher as the layoffs in the industrial sector become permanent. The unemployment rate in the West Bank is approximately 19 percent. The percentage of Gazans who live in Deep Poverty has been steadily increasing, rising from 21.6% in 1998 to nearly 35% in 2006.[1] With the continued economic decline in 2007 and the implementation of even more strict closures on Gaza, the current Deep Poverty rate is certainly higher.

[1] PCBS uses two measures of poverty: Deep Poverty (absolute) and Poverty. The Deep Poverty line reflects a budget for food, clothing and housing only. For a family of six the deep poverty line in 2006 was NIS 1,837. The Poverty line adds other necessities including health care, education, transportation, personal care and housekeeping supplies; raising the line to NIS 2,300 for a family of 6. In 2006 the poverty rate based on actual consumption was 24% in WB and 51% in Gaza.

12. ***Poverty levels starkly illustrate the level of aid dependency in WB&G.*** The previously cited rates reflect actual consumption. If remittances and food aid are excluded and poverty is based only on household income, the poverty rate in Gaza rockets to almost 67%. The increase in poverty in the West Bank has been lower but is still significant.

13. ***The situation in Gaza has widened the gap in economic well-being with the West Bank.*** The current closure policy due to the illegal takeover of Gaza has eroded its economic backbone in a manner that is difficult to reverse. According to the Palestinian Federation of Industries, the restrictions have led to the suspension of 95% of Gaza's industrial operations (Table 1). They can access neither the inputs for production nor the crossings to export what they produce, transforming Gaza into a consumer economy driven by public sector salaries and humanitarian assistance only. The agriculture sector has also been badly hit. Nearly 40,000 workers depend on the export of cash crops for Gaza[2].

Table 1: Industrial Decline in Gaza

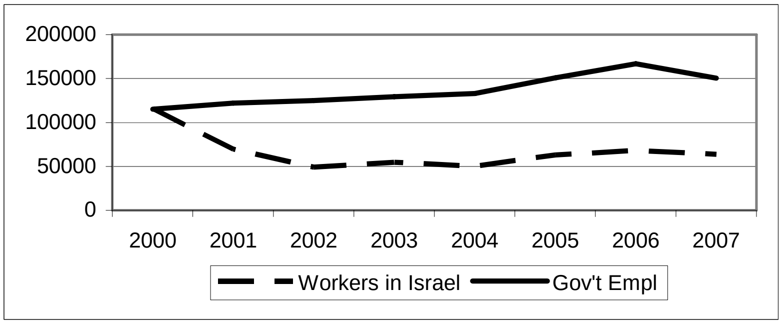
	June 2005 Pre-disengagement	Week 1, July 2007	December 5, 2007[2]
Working Establishments[1]	3,900	780	195
Working Employees[1]	35,000	4,200	1,750
Exports from Gaza (truckloads)[2]	748	0	34 (recent shipments of strawberries and carnations)

Source: PalTrade Presentation to PSCC, July 2007 and recent World Bank interviews with PFI.
1 Source: original data from Industrial associations in Gaza reported to PalTrade
2. Source: Recent World Bank interviews with the Palestinian Federation of Industries

With one of the highest population growth rates in the world- nearly 4 percent per annum- there is a persistent need to accommodate new workers in the labor force. To compensate for the shrinking private sector and the loss of employment opportunities in Israel, the PA has attempted to provide for the rapidly growing population by increasing social transfers and becoming the employer of last resort. The number of Palestinians working in Israel or its settlements fell from 116,000 in 2000 to less than 64,000 in the first half of 2007. To compensate for this, PA employment increased from 114,940 to 150,290, not including contractors and part-time workers (Figure 2). This, along with various increases in salaries, raised wages by 80% between 1999 and 2007. Thus, government efforts to alleviate the effects of the economic crisis have led to an unsustainable fiscal situation.

[2] The Israeli Ministry of Foreign Affairs has noted that there is a need to explore alternatives to the Israeli markets, such as increased access to "…neighboring Arab markets, such as Jordan and Egypt." However, Bank analysis shows that, while the diversification of imports and exports is important for the Palestinian economy, this will also require revisions to the current trade restrictions.

Figure 2: PA Employment vs. Employment in Israel



Source*:* PCBS and World Bank staff calculations

14. ***The government budget, which was in surplus in 1999 when the economy was growing, is expected to have a fiscal gap for recurrent and capital expenditures of around $1.8 billion in 2008.*** The PA has announced a Palestinian Reform and Development Plan (PRDP) to increase revenues, reduce expenditures, and introduce sector reforms to enhance efficiency. But even with these measures and assuming resumed economic growth, the fiscal the gap for recurrent expenditures alone is projected to reach about $1.25 billion in 2010.[3]

15. ***In addition to PA reforms, the defining factors for the WB&G economy remain settlement growth, and movement and access restrictions related to Israeli security concerns, which have fragmented the economy into disconnected cantons[4].*** In the West Bank, the number of checkpoints increased from 376 in August 2005 to 541 in July 2007. There are currently 149 settlements in the West Bank, including East Jerusalem, and roughly 100 "illegal outposts" that lack Israeli government approval. The Settlement population has risen to approximately 450,000, 63% more than during the Oslo Accord period in 1993. [5] Some 38% of the West Bank has been confiscated for current or future settlements, outposts, closed military areas, municipal boundaries, and settlement regional jurisdiction.[6] Palestinians without special permits are restricted from important agricultural areas in the Jordan valley, and producers are cutoff from the East Jerusalem market.[7]

16. ***Recently, The GOI has established five crossing points for the transfer of commercial goods between Israel and the West Bank.*** The crossing points use a system of back-to-back cargo transfer similar to the system for crossing into Gaza. While it is still

[3] Ministry of Finance and IMF projections.
[4] The Israeli Ministry of Foreign Affairs has noted that while some economic hardships are caused by these restrictions, due regard must also be paid to other factors, including lack of transparency and planning on the PA side, and poor implementation of projects designed to improve the PA's economic infrastructure. Other concrete steps can be taken by the PA, including reforms, institutional and capacity building, raising investor confidence, and the legal system, among others. Furthermore, the restrictions are regarded as necessary to protect Israeli civilians from terrorist activity.
[5] OCHA, Humanitarian Impact of Israeli Settlements and other Infrastructure in the West Bank, June 2007.
[6] Ibid., page 9.
[7] The Israeli Ministry of Foreign Affairs has noted that this analysis does not take into account efforts to build alternative gates and roads to allow Palestinians to access agricultural areas, and to maintain their way of life.

difficult to assess, initial reports from traders using the commercial crossing suggest that once all traffic is forced through these crossings, they may be unable to accommodate the current volume of traffic between Israel and the West Bank. Palestinian businesses have already begun expressing serious concerns regarding the impact of the delays and additional costs entailed in using these terminals on their continued ability to compete. [8] Most Palestinian businesses rely on Israel as a provider of inputs, services, or as a market. Indeed, over 95% of Palestinian trade is with Israel. If the past experience at the similarly conceived Karni/ Al-Montar crossing between the Gaza Strip and Israel is any indication, these crossings could become the bottlenecks which constrain the economic development of the West Bank, much as the Karni crossing did Gaza.

THE PALESTINIAN REFORM AND DEVELOPMENT PLAN

The Context of the PRDP

17. ***The PA's three-year Palestinian Reform and Development Plan (PRDP) 2008-10, based on a medium-term expenditure framework*, *is a large step towards linking policies, planning and budgeting.*** Equally important as both a process and an outcome, the PRDP is a Palestinian-owned plan for assigning resources to priorities in Governance, Economic and Private Sector Development, Social Development and Infrastructure. It envisions a process of practical reforms centering on containment of spending with a medium-term set of policies across sectors to bring the PA back onto a path of financial sustainability.

18. ***Considering the current environment, the lingering constraints in Gaza, and the excessive demands on the Caretaker Government, the completion of the PRDP within three months is a considerable achievement.*** The PRDP document is the first iteration of a rolling three-year Medium Term Economic Framework, and will undergo refinements and elaboration at each stage. However, the PRDP's expression of the PA's desired strategy, and the overall expenditure control policy, will drive the more detailed sector policies that must emerge over the coming months.

19. ***In reality, some key elements of the PRDP have already been started by the PA.*** On the fiscal front, the Ministry of Finance has begun to reverse the impacts of 2006-07 and the legacy of its past spending practices, including the reinstatement of cash controls and other of parts of the Public Financial Management System, rebuilding the Single Treasury Account (STA), and reversing approximately 20,000 staffing additions of early 2005 and onward, which caused an immediate reduction of about 8% of the wage bill (in terms of New Israel Shekel). On the security front, efforts at law and order in the main West Bank cities have been strengthened, with an initial deployment of security forces in Nablus.

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[8] Five main crossings have been established to handle Palestinian-Israeli trade: Bardala and Jalameh in the northern West Bank, Taybeh/ Sha'ar Ephraim near Tulkarem, Beitunia near Ramallah, and Tarqumiya to serve the southern West Bank, with the possibility of another commercial crossing being established at Mazmuriyah near Bethlehem. All goods, in either direction, are off-loaded and transferred from Israeli to Palestinian trucks (or vice versa) at these terminals, although only goods outgoing to Israel undergo security inspection. Many Palestinian traders still seek out alternative direct routes into Israel, but these alternatives are increasingly blocked to vehicles carrying Palestinian goods.

Preliminary efforts have also been made to establish institutions that will be the basis of a final status agreement with Israel, including new legislation for the General Administration for Customs and Borders (GACB)[9]. Equally importantly, the PRDP process of consensus-driven reforms and ministry ownership is a key step in and of itself, and represents a break from past budgeting and planning practices.

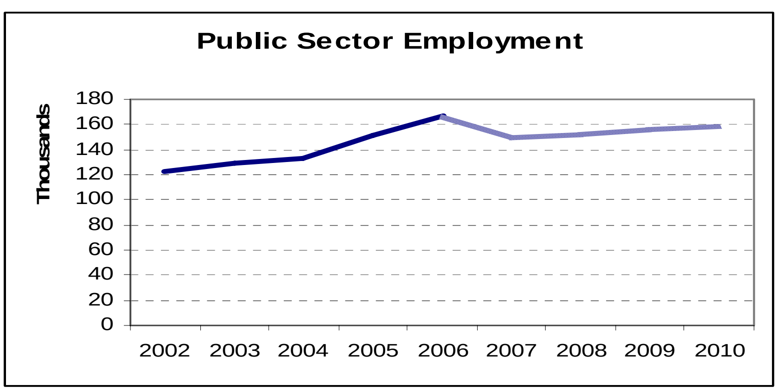
20. ***Embedded in the PRDP is the aim of stabilization through vital budget support, and the longer-term objective of returning the PA's budget to its pre-Intifadah balance through a sequence of policies matched with assumptions about the external environment in which they sill take place.*** The PRDP envisions an average financial assistance package of around $1.9 billion per year over the next three years. In the medium-term, the PA plans to reduce the budget deficit from about 28% of GDP in 2007 to 17% in 2010. The underlying assumptions behind this reduction are: control

21. of spending by the PA, donor assistance to sustain the PA and to allow for public investment, and a revival of the private sector as a source of income and jobs resulting from Israeli removal of restrictions on movement and trade.

The Expenditure Control Policy of the PRDP- the Wage Bill

22. ***The PRDP seeks to stabilize fiscal situation of the PA through immediate and sufficient budgetary assistance, while containing its recurrent spending and, as the economic environment improves, shifting resources progressively more towards development spending.***[10] This expenditure control policy would extend to the largest spending categories, including the public sector wage bill and net lending (Figure 3). Reversing the substantive increases in these cost categories is vital to the PRDP strategy. Moving forward, these steps much be matched with complementary reforms across a number of sectors in order to ensure success.

Figure 3: PRDP Expenditure Control Projections



Source*:* IMF/MOF estimates.

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[9] Translating this into concrete recommendations for the setup and functioning of the GACB will be crucial in the short-term.

[10] The fiscal strategy also stipulates that there will be no further accumulation of arrears. In addition, it envisions a repayment of $500 million of the roughly $900 million in arrears over three years.

23. ***In terms of the wage bill, the PA will freeze real wage increases, and limit public sector employment to the current base of 150,000 civil service and security personnel, while allowing for up to 3,000 new hires annually for key services in the social sectors.*** Wages for civil service and security personnel account for half of total government expenditures and have increased by nearly 57% since 2004. These policies will reduce the wage bill from 27% of GDP in 2007 to 22% of GDP by 2010. Reflected in this base figure of 150,000 is the PA's recent reduction of employees from 167,000.[11] This is a considerable effort in light of the need to compensate for the scarcity of private sector jobs, but still insufficient to bring the civil service in line with actual requirements. In addition, steps are also required to raise productivity and efficiency in the civil service.

24. ***Within the public sector, the security services represent approximately 44% of the wage bill and will require $230 million in capital expenditures over three years.*** Reform of the security sector, another priority in the PRDP, will require a balance between streamlining the public sector, and delivering security consistent with the discussions towards final status negotiations with Israel. This reform is linked to a political framework that must include the rebuilding of institutions, support to disarmament, demobilization and reintegration, and measures to improve the rule of law. Regardless of the ultimate structure of the security services, some steps can be taken immediately. First is a transparent accounting of their numbers, ages and performance, among others, to allow for a proper analysis and valuation of options. Also, certain concrete steps can be taken to rationalize the sector even in the absence of a final structure of the security services. These include a removal of "non-compliant" or "non-reporting" officers, and exploring options for officers nearing or past retirement age.

25. ***Outside of the security sector, health and education represent other areas in need of reform over the three year period.*** These sectors have seen significant accomplishments over the years. The expansion and equitable access in education is comparable with most middle-income countries. Enrolment in basic education is universal, and the enrolment rate for secondary education is above 80%. In 2004, the infant mortality rate was 22 deaths per 1,000 live births, well below the regional average of 44. Total life expectancy at birth was 73 years, on average 4 years longer than the MENA average. However, there remains a scope for efficiency gains and cost savings. Shifting demographic trends imply the need to recruit fewer teachers in the future. Savings can also be realized by changing the mix of staff. A comparison with UNRWA, for example, reveals that the PA employs over twice as many support personnel. In health, total spending is about 13% of GDP, among the highest in the region. PA spending on health and education has been driven by staffing increases, leaving little space to finance pharmaceuticals, medical supplies, teaching and learning materials, and overall operations and maintenance.

26. ***The PRDP places the wage bill as part of a larger administrative and civil service reform program that includes reform of public service legislation, organizational restructuring, and civil service management.*** Indeed, this may be a

[11] Although more than seven years ago, civil service employment stood at 48,000, and staffing in the security services at 41,000.

window to address ministerial inefficiencies related to staff mix, particularly the proportion of support staff to those directly involved in service delivery. Programs to identify support staff members in these and other ministries who can be retrained and adequately qualified for direct service delivery would likely reduce needs for new hires and result in more efficient provision of basic services.

27. ***Whether for civil service, security or social sector staff, any practical discussion on expenditure control and reform must be supported by a viable pension system.*** Pension payments to about 17,000 employees will cost about $165 million in 2008, 75% of which will come from the PA's budget rather than from a self-financing fund as is typical in most cases. The pension fund that is in place- the Gaza Pension Insurance Corporation (GPIC) - is insolvent, holding $300 million in unpaid obligations by the PA.[12] Public sector pensions in the WB&G schemes are among the most generous in the world. Both the 2005 pension law for security services and the Uniform Pension Law are simply unaffordable.[13] Pension reform is thus necessary to ensure a reduction of public pensions expenditures and liabilities over the long-term, as this is ultimately the only way to maintain social protection for the elderly.

28. Taking this into the account, the PA has included pension reform in the PRDP, with a planned institutional review of current pension schemes to take place in 2008. Clearly, pension reform is a contentious issue that can be a source of social tension. However, some early and uncontroversial steps can be taken, including addressing the unregulated private sector pension system. Also, the PA is exploring a policy of a 'flat rate coverage system' to cover the poorest in the WB&G from the impacts of pension reform. This can be explored, with a costing of different options in comparison with the likely savings from a revised pension system. These steps, along with an adequate focus on safety nets, can facilitate any necessary steps the PA would take to recalibrate the pension system to one that is consistent with the PRDP's expenditure control policy. Ultimately, pensions must be tackled, starting with a review of the Unified Pension Law to ensure sustainability over the long-term. The August 23rd, 2007 decree modifying these laws would also require review, as it increases the implicit liabilities of the PA which is the guarantor.

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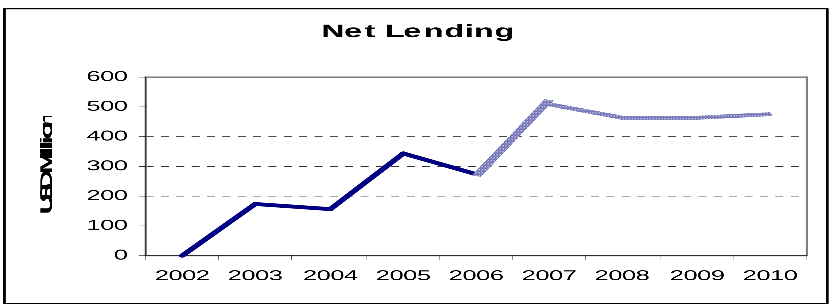
[12] These are arrears due to the Gaza Pension Insurance Corporation from the PA and are made up primarily of employer (PA) and employee contributions collected but not paid into the GPIC.

[13] In January 2005 a Security Services Pension Law was approved covering security personnel 45 years and above. The Law's provisions were unsustainable. Subsequently, a Unified Pension Law (UPL) covering civil service and security employees under 45 came into force in May 2005 was also unsustainable and added to the PA's liabilities. On August 23rd, 2007 a Presidential decree modified these laws, making minor changes in the security services law but retaining fiscally unattainable provisions that increase the PA's implicit liabilities as guarantor. For example, the bylaws allow workers to collect a pension at 55 with only 15 years of service. They also link pensions to current salary scales rather than indexing these to the cost of living. Thirdly, the bylaws now cover the entire formal sector (including the private sector) under the same unaffordable parameters, including PLC members and other elected officials.

The Expenditure Control Policy of the PRDP- Net Lending

29. ***Another key fiscal reform is the reduction in net lending[14], the second largest expenditure after the wage bill.*** Estimated at $512 million in 2007, net lending has risen over the years and now represents 10.6% of GDP. The PRDP seeks to reduce net lending to 7.8% of GDP by 2010 (Figure 4). A recent World Bank assessment found that, despite the current crisis, approximately 60% of municipalities are not accumulating arrears to the central government. These generally tend to be ones with a local power utility or some form of public-private partnership in place. Thus, except for 15% of municipalities that are in true financial distress, many are simply not paying due to a lack of enforcement mechanisms or independent utility. The PA has already initiated steps in this regard, including plans by the Prime Minister for a decree disallowing any deductions from its net transfers from Israel due to municipal electricity arrears. Other options are being explored, including deductions from the salaries of public sector staff, as well as requirements for a 'certificate of payment' of utility bills for anyone seeking municipal services. To protect the poor and vulnerable groups, the Ministries of Finance and Social Affairs plan to identify low-income households who would benefit from some form of transfer to ensure "lifeline" access to electricity in the short-term, until a cross-subsidy system such as a progressive charge rates can be developed. This will be closely linked to institutional reforms in the power sector. More details on how this will be implemented will be developed in early 2008.

Figure 4: PRDP Expenditure Control Projections



Source*:* IMF/MOF estimates.

30. ***These initiatives will create needed momentum for reducing net lending, and are of greatest impact if accompanied by other sector reforms over time.*** Such enabling reforms include:

- ***Creating electricity suppliers that are financially sustainable and able to collect payments from their customers,*** including the formation of the Northern Electric Distribution Company, and the transfer of all of the other electricity supply businesses away from municipalities. Over the medium term, efforts must made to enhance

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[14] Municipalities and electricity utilities do not collect electricity bills in full from customers. They also keep some of what they collect for other uses. They therefore do not pay the Israel Electricity Company (IEC) in full for bulk electricity supply. The Israeli government deducts these arrears from the clearance revenue owed to the PA. So the PA involuntarily covers the shortfall and records it as "net lending" to municipalities and utilities, because it appears as an asset on the PA's balance sheet.

efficiency in the existing networks, and to develop new supply substations and distribution systems throughout the WB&G. Introduction of new technologies, including prepaid meters and automatic meter reading systems (80,000-100,000 in the West Bank and 30,000-40,000 in Gaza[15]) will improve collections. Over time, the PA can explore long-term supply agreements with the Israeli Electricity Corporation (IEC), and diversify its energy sources through further agreements with Egypt and Jordan.

- ***Transferring electricity supply from municipalities to electricity distribution companies must be complemented with a system to fix municipal finances.***[16] Between 2000 and 2006, municipal revenues declined by about 20% in nominal terms. In the absence of a clear intergovernmental fiscal framework[17], municipalities have relied on net lending as a de facto way to generate revenue. Thus, any spin-off of electricity services away from municipalities must be offset by new revenue sources. The PA will need to address the most distressed municipalities, including an assessment of their actual and potential revenue yields. At the same time, incentives to rationalize spending can be strengthened by linking the municipalities' access to grants from the Municipal Development Lending Fund (MDLF) to specific reform measures. In the medium-term, the PA will need a policy for instilling intergovernmental fiscal discipline, including revisions to the laws governing this sector.

- ***To underpin this process, social protection measures must ensure access to electricity for the poorest segments of the population.*** The non-payment of electricity bills has become one of the PA's main safety nets. In the immediate term, the Ministries of Finance and Social Affairs will seek to provide a basic 'life line' supply of electricity to the poorest segments of the population. This requires a proper targeting system, without which social safety net programs (including electricity benefits) cannot be delivered effectively. One option is to leverage the World Bank-funded Social Safety Net Reform Project (SSNRP) to ensure regular cash payments to poor households to reduce the burden of electricity bills. The PA has already adopted a state-of-the-art proxy means testing for the identification of eligible beneficiaries. In the medium-term, however, it is best to ensure access to vulnerable groups through institutional reform of the sector, with independent electric distribution companies administering a 'cross-subsidy' system through 'graduated' rates for higher consumption of electricity.

The Development Investment Agenda

31. ***The PRDP also presents a coherent development plan that reflects a frank assessment of the PA's absorptive capacity for project implementation.*** The development agenda contains priority investments in governance, social, economic and private sector, and infrastructure development worth $1.644 billion[18] over three years (Figures 5 and 6). The development budget increases progressively over this three year period (from $427 million in 2008 to $667 million in 2010), reflecting pragmatic assumptions by the PA of its own absorptive capacity. It is worth noting that total development

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[15] Although, the PA has announced plans to introduce 300,000 metering systems over the next 3 years.

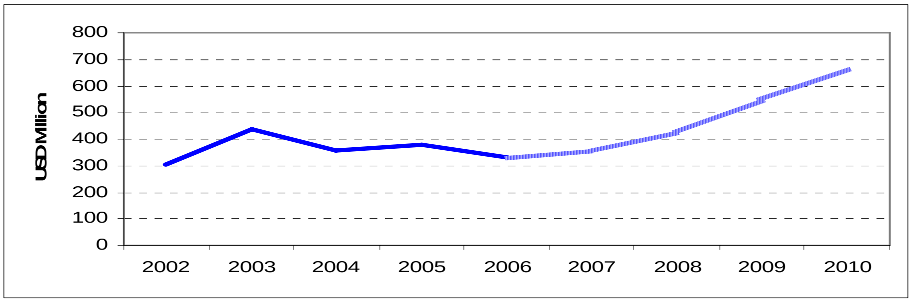
[16] Electricity supply is already under such companies in the central West Bank and in Gaza.

[17] See World Bank (2006) West Bank and Gaza: Inter-Governmental Fiscal Relations and Municipal Finance Issues.

[18] Humanitarian aid is not reflected in these figures.

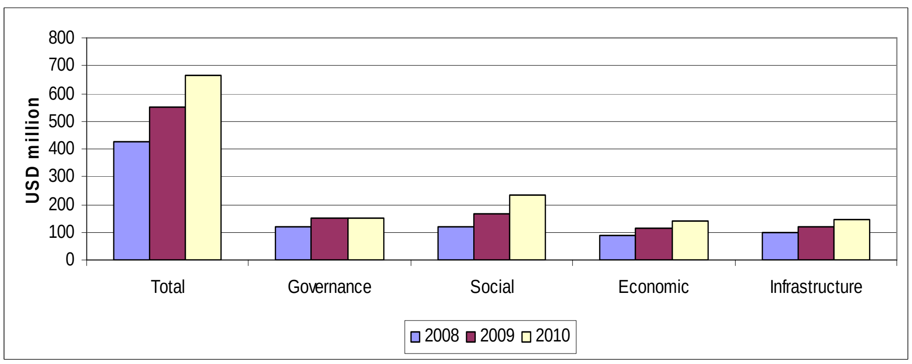
disbursements have dropped fairly steadily from $440 million in 2003 to an estimated $333 million[19] in 2006.

Figure 5: PRDP Development Aid Disbursements



Sources: 2002–2006 data from Ministry of Planning PAMS database, updated November 20, 2007; 2007 data from IMF projections; 2008 – 2010 figures are PRDP budgeted figures.

Figure 6: PRDP Development Program Budget



Source: Palestinian Reform and Development Plan 2008-10.

32. ***Within each of the four development thematic areas, key national priorities begin to emerge.*** The main parts of the governance development agenda are security and local government reform, which together account for $330 million of the total $417 million planned in this sector over the next three years. Education and health quality and capacity programs worth $396 million account for the bulk of the social development allocation of $521 million over the three years. The focus of the infrastructure agenda is on transport and water and wastewater management, comprising $287 million of the total $364 million over the same period. And in economic development, the focus is varied but with an emphasis on developing the capacity and competitiveness of the agricultural, industrial, and services sectors, reflecting an aim of triggering a Palestinian trade-driven recovery.

33. ***As the PRDP and its investment plan is a rolling process, additional analysis will be needed to ensure that the development projects are properly costed and***

[19] Based on Palestinian Assistance Monitoring System, Ministry of Planning, updated November 20, 2007; cumulative aid figures for 2007 are not yet available.

sequenced. For example, investments in water and sanitation are rightly focused on resolving the wastewater issue in Northern Gaza and on rehabilitation of networks. However, they also include ambitious projects such as the Gaza water carrier and desalination plant that would be difficult to accomplish within the budget allocated and within the 3 year time frame. Also, the Electricity Sector Investment program would need to be scaled up if the PA is to properly address energy sector reforms in both the West Bank and Gaza. Reliance on, and harmonization with, sector specific development plans to be updated by the ministries.

34. ***Moreover, it is worth noting that while they represent a small part of total development spending, the economic development projects are vital for creating an environment for investment and trade.*** Once these priorities are translated into concrete actions, it will be necessary to determine the mandates and resource needs- including for capacity building- of relevant institutions such as the Land Authority, the Palestinian Standards Institute, Customs, General Administration of Crossings and Borders, and Palestinian Central Bureau of Statistics, among others. Programs aimed at increasing production and exports will need to be designed carefully to ensure access of goods and to account for the impacts of movement and access restrictions.

Implementing the PRDP

35. ***The successful realization of the PRDP relies on parallel commitments by the PA, Israel and donors, but also on the proper design of the implementation mechanisms.*** In terms of channels of assistance, the PA has expressed the need for donor aid to cover the entirety of the PRDP, with primary focus on recurrent expenditures to ensure the PA's viability. Also expressed was the need for direct assistance into the MOF's Single Treasury Account (STA). Indeed, the PA's efforts to reconstitute key parts of the public financial management system, and cash control procedures, is regarded as broadly sufficient to allow the PA to account for the use of donor funds[20]. Moving forward, the PRDP includes plans to upgrade the systems for control of commitments and cash flow management, while devolving greater responsibility, and accountability for stronger internal control, to line ministries. This will be complemented by plans in 2008 to establish a new General Accountant Department in the MOF. As such, aid mechanisms are best if they reflect the adequacy of PA systems. Where gaps are found, technical assistance and institutional development can be provided quickly by the international community in coordination with the MOF.

36. ***Embedded in the PRDP is a commitment by the PA to review, over time, the existing intergovernmental fiscal relationships.*** The PA's call for local government-driven development and accountability is commendable. It calls for a rationalization of the number of local governments (especially village councils), and for new mechanisms to coordinate policies. Equally important, it identifies the Municipal Development and Lending Fund (MDLF) as the primary mechanism for municipal-based development. The financial and administrative autonomy of the MDLF is critical, as the need for it to remain within its

[20] According to the Israeli Ministry of Foreign Affairs, "At present, it is unclear whether the PA has brought its financial management system up to the pre-Intifada level, but even if this were the case, past experience, even according to the international reports, has demonstrated that pre-intifada financial reporting systems were insufficient."

mandate. At the same time, coordination with the central authorities is important to ensure that donor aid, and national priorities, are coordinated. It will also be important for the MOF to incorporate estimates of MDLF grants to municipalities into its own planning.

37. ***Monitoring and evaluation of the PRDP will be critical for both the PA and for donors.*** In this regard, a practical system must be put in place that reflects the PA's current and future reporting capacities, and that focuses on the main components of the PRDP as they relate to the overall expenditure control policy, key sector strategies, governance, etc. The International Financial Institutions can provide support in this regard, as can the local donor coordination structures that were created in 2005 for this purpose.

38. ***The PRDP includes Gaza in all aspects of assistance and reforms. However, while key reforms will not likely include Gaza in the short-term due to the current situation, innovative ways are needed to ensure that the Strip is not confined to humanitarian assistance alone.*** Gaza is seen as an integral part of the plan- indeed, several development projects target Gaza's population- but will be included as circumstances allow. Clearly, major components of the reform and development agenda will be hampered by the lack of PA control over Gaza, as well as the Israeli closures. Regardless, there is a need for creative mechanisms for the delivery of assistance to Gaza, given the expressed aim of the PA, the Israeli authorities and donors to shield the Strip's 1.4 million people from the impacts of the current political stalemate. This includes allowing imports and exports of commercial supplies out of Gaza in order to revive the private sector.[21] And even in terms of financing of development projects, alternative ways can be used to pay contractors through direct deposits into outside accounts, thus allowing for the implementation of emergency interventions. However, any option will still rely on the ability to bring in project goods into Gaza, and on the regular supply of key inputs such as fuel, construction supplies, etc. At this point, it is difficult to envision the prospects of Gaza's full inclusion in the PRDP given Israel's recent declaration of the Gaza Strip as a hostile entity as a result of continued rocket attacks into Israel.

SCENARIOS FACING THE PALESTINIAN ECONOMY

39. ***The PA's three-year macroeconomic and fiscal framework assumes: (a) the successful advancement of fiscal and other reforms, including law and order; (b) sufficient funding to maintain operations and finance development programs; and (c) a gradual easing of movement and access restrictions.*** It does not assume a resolution of the situation in Gaza. Therefore most of the growth is assumed to be in the West Bank, driven by Government investment and consumption, both of which are primarily financed by to aid. It assumes an average GDP growth of 5% per year, which along with a 4% population growth rate, leaves per capita GDP at a slight growth rate per year and unemployment static at about 23%.

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[21] The Israeli authorities have recently begun allowing exports of an average of 6 truckloads of cash crops out of Gaza through the Kerem Shalom Crossing. However, Karni- the main commercial crossing- remains closed to commercial supplies. Kerem Shalom lacks the capacity to administer large quantities of imports and exports. Given that a 'workable' solution has been found to allow exports through Kerem Shalom, then the same principle can be allowed for the Karni Crossing, which will then provide for enough imports and exports to sustain the Gazan private sector.

40. ***An economic scenario analysis*[22] *shows that the successful implementation of Palestinian commitments alone will not achieve even the modest growth anticipated by the PRDP.*** They must be fully supported by both the large increase in aid and the relaxation of the closure regime anticipated by the PRDP. With the full amount of anticipated aid but no changes in the movement and access restrictions, total real growth will continue to be negative, averaging around -2%, during the period 2008-2012[23]. If despite the Palestinian reforms, aid levels also fail to meet the targets set out in the PRDP, growth will be negative and poverty levels will increase dramatically. The extent of the decline will depend on the short fall in anticipated aid. Thus, Palestinian fiscal and security reforms taken alone will not reverse the economy's decline. Achieving growth rates of 5% and higher will depend on the commitment of the international community to fill the total fiscal gap over the next three years, as well as on the revival in the private sector as a result of concrete steps by Israel to remove movement and access restrictions. Without a revival in the private sector, the PA will not be able to translate its reforms in the revenue collection mechanisms into additional funds, nor will it be able to cut spending without increasing poverty.

41. ***Alternatively, a scenario where the PRDP is implemented and fully funded by donors and where private sector growth and trade is revived will accelerate growth rates to even double digit levels, depending on the extent of the lifting of restrictions.*** Embedded in this scenario is a recovery in Gaza driven by the resolution of the current stalemate, and the removal of internal movement and trade restrictions, including a system of crossing points with Israel that can fully accommodate imports and exports into the West Bank and Gaza.

42. ***Under every foreseeable scenario, the short-term viability of the Palestinian economy will be driven by aid.*** Even under the most optimistic scenarios significant aid will continue to be required for the medium-term. Clearly, the ability of the private sector to resume its place as a driver for growth will have a major bearing on the sustained health of the Palestinian economy and thus its aid requirements, which will therefore be even larger in the absence of improvements in movements and access restrictions.

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[22] The economic results are based on joint analytical work using a model developed by Dr. Yousef Daoud of Birzeit University.

[23] This same figure is derived by the scenario analysis of the IMF as well as that of the World Bank.

<u>ANNEX 1: World Bank Group Support to the PRDP</u>

The Bank Group's work in WB&G since the 1993 Oslo Accords has supported economic recovery and development as an underpinning to the peace process. The Bank has been operating in WB&G without interruption since 1993. The World Bank finances its engagement through its Trust Fund for Gaza and West Bank (TFGWB) which has since 1994 provided $532 million for 37 projects. Since 1993, we have mobilized around $920 million in donor co-financing for many of our operations (including budget support). The Bank's current portfolio consists of 11 projects worth $118 million (see Annex II for description of operations).

<u>Additional World Bank Group Support to the PRDP</u>

The PA has prepared a three-year Palestinian Reform and Development Plan (PRDP) 2008-10 based on a Medium-Term Expenditure Framework (MTEF) approach. This is a crucial step in strengthening the links in policy-making, planning and budgeting, with a view to delivering a Palestinian-owned plan for allocating resources to national policy priorities in Governance, Economic and Private Sector Development, Social Development and Infrastructure. Equally importantly, the PRDP process strengthens ministry and agency level ownership and accountability. The PRDP envisions a process of realistic reforms centering on control of expenditures with a medium-term set of reforms across sectors to bring the PA back onto a path of financial sustainability.

The Bank's assistance program- both financial and policy-oriented- will be tailored to support the PA's PRDP process. From the Bank's own resources, $59 million will finance projects in 2008 for both the West Bank and Gaza, along with a further request from the Bank's Board of Directors for a minimum of $50 million. In addition to this, the Bank plans to leverage substantial donor resources to support both recurrent and development expenditures across its projects.

- **<u>Governance</u>**. In addition to continued economic monitoring and ad hoc advice, the Bank will continue to work with counterparts across the PA to advance the recommendations of the ***Public Expenditure Review*** of 2007. This will be linked to the PRDP process through policy advice on the key reforms identified by the PA, including options for reducing costs associated with ***net lending, reform of the pension system, and overall energy sector reform***, among others. The Bank will continue supporting agencies such as the Palestinian Monetary Authority (PMA) in the ***modernization of its payment system***, and the Ministry of Finance in reviewing the ***Public Procurement System***. The Bank and the PA are exploring other areas of support, taking into account PA priorities and the work of other partner agencies.

  The Bank has also expressed to the PA and donors its readiness to administer a PRDP-linked ***Multi-Donor Trust Fund for budget support***, based on the availability of sufficient resources by the donors, and linked to a concrete and practical PRDP process.

- **<u>Social Development.</u>** In addition to implementation of existing projects, the Bank will provide new funding in three priority areas. ***A third phase of the Emergency Services Support Program*** (ESSP) ($10 mn-December 2007) will support services in Education

& Higher Education, Health and Social Affairs by financing a portion of their non salary recurrent costs. The ESSP can serve as a vehicle for donors to provide funds toward the PA budget. ***Additional funds will be placed into the Social Safety Net Reform Project*** ($10 mn–February 2008) to mitigate the impact of the continued crisis on a subset of the poorest households and to strengthen the capacity of Ministry of Social Affairs to manage cash transfer programs. The SSNRP can also be substantially leveraged with additional donor funds. ***A Village and Neighborhood Development Project*** ($10 mn–April 2008) will support local community institutions to provide services in rural and underserved urban areas. The project will provide block grants to communities for small scale infrastructure, livelihoods schemes and social programs. In addition to these projects, the Bank is undertaking analytical work on ***Equity in the Health Sector***, and on ***Social Inclusion and Gender***.

- **Economic and Private Sector Development.** As co-chairs of the ***Economic Strategy Group*** and the ***Private Sector Working Group***, the Bank will continue to work with the PA and donors to coordinate interventions in these sectors. In addition to its continued ***Economic Monitoring***, which will now also extend to ***Quarterly Reviews of PRDP implementation*** along with the IMF, the Bank will provide analytical and policy advice on ***Trade Facilitation***, focusing on West Bank Trade as a follow-up to previous work on Alternative Trade Corridors for Gaza. Policy Advice on ***Telecommunications Regulation*** will continue to underpin the entry of competition into the market. The Bank is also partnering with the UK Department for International Development in establishing and funding an ***Enterprise Learning Fund*** to finance local businesses in upgrading their production, marketing and export potential.

  The World Bank Group's ***International Finance Corporation (IFC)*** has been active in the WB&G since the Oslo Accords, and has committed over the years US$54 million in 15 companies. Despite the current constraints on the investment climate, IFC is exploring with partners several investments and interventions, including: (a) an investment in an **mobile operator** in the telecommunications sector, (b) Gaza ***offshore gas development***; (c) increased involvement in ***Palestine Mortgage Housing Finance Corporation (PMHC)*** and the housing finance sector; and (d) possible ***trade finance facilities to commercial banks***. IFC will continue providing advisory services through the ***Private Enterprise Partnership for Middle East and North Africa (PEP-MENA),*** including: work on developing the ***legal and regulatory environment for leasing*** in cooperation with the Capital Markets Authority (CMA); ***SME management training***; TA for bottling companies in the ***olive oil sector*** focusing on supply chain development, product quality, and access to export markets; developing a ***Corporate Governance Code*** in cooperation with the Palestinian Monetary Authority and the CMA.

  The World Bank Group's ***Multilateral Investment Guarantee Association (MIGA)*** established a ***Guarantee Fund*** in 1997 to cover political risks, with contributions from Japan and the European Investment Bank. With an underwriting capacity of up to ***$30 million***, the Fund remains in place but has not been utilized by investors due the restrictions on movement and access that continued to hinder investment despite the presence of a guarantee scheme. In response to this, MIGA is exploring a restructuring of the fund to cover other forms of risk and for larger amounts.

➢ <u>**Public Infrastructure Development.**</u> ***A New Electric Utility Management Project*** ($12 mn–April 2008) aims to rehabilitate and expand the distribution network in WB&G and expand the transmission network in Gaza. The project will also provide technical assistance to (i) existing utilities to improve their operating efficiency, (ii) establish the Northern Electric Power Company (NEPCO) and (iii) PEA to undertake the next stage of reforms and look at options for the development of renewable energy. The project has leveraged co-financing of close to $120 million. ***Additional funds will be placed into the Gaza II Emergency Water Project*** ($5 mn–April 2008) to ensure provision of adequate water and wastewater services in Gaza. ***Additional funds will also be placed in the North Gaza Emergency Sewage Treatment Project*** ($12 mn-December 2007) to mitigate the immediate health and environmental safety threats to the communities surrounding the effluent lake at Beit Lahia Wastewater Treatment Plant and provide a satisfactory long term solution to the treatment of wastewater for Northern Gaza. Analytical work will focus on the ***transport sector***, and on ***water resource management***.

World Bank Group Support to the PRDP

Overarching Objective: Palestinian Economic Recovery			
Economic & Private Sector Development	**Governance/Fiscal Reforms**	**Social Development**	**Infrastructure**
Projects • Several IFC investments in the private sector under consideration • Joint Financing and Support with DfID on Enterprise Learning Fund • MIGA Guarantee	**Projects** • Multi Donor Trust Fund for Budget Support (if donor contributions reach critical mass)	**Projects** • Village and Neighborhood Development Project • Social Safety Net Reform Project (Additional Financing) • Emergency Service Support Program	**Projects** • North Gaza Sewage Treatment Project (Additional Financing) • Electric Utility Management Project • Gaza Water II Emergency Project (Additional Financing)
Policy and Technical Assistance • Trade Facilitation • Telecommunications • Movement & Access	**Policy and Technical Assistance** • Economic Monitoring • Energy Sector Reform • Net Lending • Pension Reform TA • Payment Systems TA • Public Sector Mgmt • Country Procurement Assessment follow-up	**Policy and Technical Assistance** • Social Inclusion and Gender • Health Sector Equity Study	**Policy and Technical Assistance** • Transport Sector TA • Water Resource Management TA

ANNEX 2: THE CURRENT WORLD BANK PROJECT PORTFOLIO

Project	Amount	Objective	Status to date	Disbursed
Solid Waste and Environmental Management Project	9.5	The project has implement an environmentally sound solid waste management system for the Jenin District through construction of a controlled landfill, rehabilitation and closure of uncontrolled dumps, improvement in solid waste management services through provision of equipment and training and capacity within the Joint Services Council and the Environmental Quality Agency.	With the landfill starting operations in September 2007, the project is substantially complete. Five uncontrolled dumpsites have been closed, and arrangements for sustainable operations have been put in place.	87%
Gaza II Emergency Water Project	20	The project is working to improve the provision of adequate water and wastewater services in Gaza as well as functionally establish the Coastal Municipalities Water Utility (CMWU) as an autonomous well-run modern utility and strengthen PWA's capacity to assume sector regulatory functions	The project has faced delays as a result of difficulties in securing presence of an international operator in Gaza. Entry of critical goods has recently been secured to allow implementation of works.	58%
Emergency Water Project	12.5	The project aims to help alleviate the chronic shortages of safe water supplies in the West Bank and reduce system losses, water costs and health risks.	Implementation is process as planned with all project components close to completed.	87%
Integrated Community Development Project	15	This project is working to improve quality and availability of basic and economic social services in poor and marginalized communities in West Bank and Gaza through the provision of small-scale labor intensive community projects.	Project funds were scaled up from $10 to $15 million in December 2006 as a response to the high demand for these activities. Implementation has been delayed due to difficulty in movement of goods and people, but the project is expected to be completed by March 2008.	65%
North Gaza Emergency Sewage	7.8	This critical infrastructure project is working to mitigate the immediate gathering health and environmental safety threats to the communities surrounding the effluent lake at Beit Lahia	Implementation was severely impacted by lack of access to the site and problems in getting goods (pipes, pumps etc.) into	87%

Treatment Project		Wastewater Treatment Plant and provide a satisfactory long term solution to the treatment of wastewater for the Northern Governorate in Gaza	Gaza. As a result of coordination with Israel, a number of critical goods are now in place and work on activating a new substitute to the Beit Lahia effluent lake is expected to be completed by March.	
Land Administration Project	3	This Learning and Innovation grant is designed to assess and learn the extent of commitment and readiness of the PA to reforming land administration by introducing policy, legal and institutional changes to achieve efficient procedures for the issuance of land titles and registration of property transactions and transparent processes for management and disposal of public land.	A number of studies have been completed in the areas of land registration accuracy, land markets, land disputes and property valuation. Land surveying in three pilot locations is proceeding well.	55%
Social Safety Net Reform Project	10	The project is working to mitigate the impact of the continued socio-economic crisis on a subset of the poorest and most vulnerable households and to strengthen the institutional capacity of MOSA to manage cash transfer programs. These objectives are being achieved through implementation of a pilot incentive-based cash transfer mechanism with improved targeting modalities that would contribute to improving the living conditions of the beneficiaries.	Due to lack of counterpart and cofinancing funds in 2006, the project was restructured and scaled down to a pilot. The SSNRP has been designed to be able to leverage considerable amount of donor funds to support the PA budget.	27%
Tertiary Education Project	10	The project is working to (i) improve the regulatory environment for tertiary education management, governance and quality assurance, (ii) increase internal and external efficiency of the tertiary education system as a first step towards achieving sustainability and (iii) create incentives and provide the basis for improvements in efficiency, quality and relevance of tertiary education institutions in order to meet the socioeconomic needs of the Palestinian people.	While there have been delays in implementation of some project components, progress on implementation and progress of the Quality Improvement Fund are encouraging. Efforts are underway to strengthen monitoring and evaluation of project activities	27%

Avian Influenza Prevention Project	10	This project, set up as an emergency operation to respond to an outbreak of Avian Influenza in Gaza in the summer of 2006, is assisting the PA in minimizing the threat posed to humans by infection in domestic poultry and preparing for controlling and responding to avian influenza pandemic and other infectious diseases emergencies around humans.	There has been minimal progress on the implementation of the project since the declaration of effectiveness in March 2007. Implementation arrangements will be reviewed and possibly adjusted to ensure that critical activities move forward.	12%
Palestinian NGO Project III	10	The project provides social services to those who are poor, vulnerable or affected by the deteriorating socioeconomic conditions by establishing an effective mechanism to improve the quality and sustainability of Non-governmental Organizations (NGOs) social service delivery.	The project was launched in February 2007. After some initial re-staffing in the NGO Development Committee (the recipient) project implementation is on track.	15%
Emergency Municipal Service Rehabilitation Project	10	The objectives of EMSRP II are to (a) provide funding for infrastructure rehabilitation and maintenance to help mitigate further deterioration in the delivery of essential municipal services, and (b) create temporary job opportunities at the local level through the launching of labor-intensive employment generation schemes. In addition, through the Municipal Development Lending Fund (MDLF), the Project is piloting innovative initiatives to improve municipal service cost recovery (through the introduction of pre-paid electric metering systems) and leverage partnerships with local NGOs to deliver services more effectively.	Donor co-financing from France, the Netherlands and Germany has been confirmed and likely financing is now expected to exceed the original target of $40 million.	20%
Total	**$117.8**			