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INDEPENDENT EVALUATION GROUP

The World Bank Group in the West Bank and Gaza, 2001–2009

Evaluation of the World Bank Group Program

The World Bank Group

WORKING FOR A WORLD FREE OF POVERTY

The World Bank Group consists of five institutions—the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). Its mission is to fight poverty for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

The Independent Evaluation Group

IMPROVING DEVELOPMENT RESULTS THROUGH EXCELLENCE IN EVALUATION

The Independent Evaluation Group (IEG) is an independent, three-part unit within the World Bank Group. IEG-World Bank is charged with evaluating the activities of the IBRD (The World Bank) and IDA, IEG-IFC focuses on assessment of IFC's work toward private sector development, and IEG-MIGA evaluates the contributions of MIGA guarantee projects and services. IEG reports directly to the Bank's Board of Directors through the Director-General, Evaluation.

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Cover image: Kindergarten in Nablus. Union Charitable Societies Northern Governorates of West Bank, Nablus. The Union Charitable Societies receives financial support from the NGO Development Center, which was established and maintained under the World Bank-financed Palestinian NGO projects. Photo courtesy of Svetlana Markova/World Bank.

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Abbreviations and Acronyms

AAA	Analytical and advisory activities
AHLC	Ad Hoc Liaison Committee
AMA	Agreement on Movement and Access
APIB	Arab Palestine Investment Bank
BIA	Beneficiary Impact Assessment
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CMA	Capital Markets Authority
CMWU	Central Municipal Water Utility
CPAR	Country Procurement Assessment Report
DFID	Department for International Development (UK)
DPG	Development Policy Grant
EIB	European Investment Bank
EC	European Commission
EMSRP	Emergency Municipal Services Rehabilitation Project
ESG	Economic Strategy Group
ESSP	Emergency Support Services Project
FIAS	Foreign Investment Advisory Service
FIRST	Financial Sector Reform and Strengthening Initiative
FNMD	Facility for New Market Development
GEDCO	Gaza Electricity Distribution Co.
GSG	Governance Strategy Group
GTFP	Global Trade Finance Program
HEPG	Humanitarian and Emergency Policy Group
HSDP	Health System Development Project
HSSP	Health Sector Support Project
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICDP	Integrated Community Development Project
IDA	International Development Association
IDF	Institutional Development Fund
IEC	Israel Electricity Company
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
JLC	Joint Liaison Committee
LACC	Local Aid Coordination Committee
LACS	Local Aid Coordination Secretariat
LAP	Land Administration Project
LDF	Local Development Forum
LIL	Learning and Innovation Loan
LTFPR	Local Task Force on Palestinian Reform

MDF	Municipal Development Fund
MDLF	Municipal Development and Lending Fund
MDP	Municipal Development Program
MDTF	Multi-Donor Trust Fund
MIDP	Municipal Infrastructure Development Project
MIGA	Multilateral Investment Guarantee Agency
NDC	National Development Center
NGEST	North Gaza Emergency Sewage Treatment Project
NGO	Nongovernmental organization
OCHA	Office for the Coordination of Humanitarian Affairs (UN)
ODA	Official development assistance
PA	Palestinian Authority
PACS	Public Administration and Civil Service
PCBS	Palestinian Central Bureau of Statistics
PCSC	Palestine Commercial Services Corporation
PEA	Palestine Energy and Natural Resources Authority
PER	Public Expenditure Review
PERC	Palestine Electricity Regulatory Commission
PFM	Public Financial Management
PFMR	Public Financial Management Reform
PIF	Palestine Investment Fund
PLC	Palestinian Legislative Council
PLO	Palestine Liberation Organization
PMA	Palestinian Monetary Authority
PRDP	Palestinian Reform and Development Plan
PSD	Private sector development
RSGs	Reform Support Groups
SAWSIP	Southern Area Water Project
SDSG	Social Development Strategy Group
SGs	Strategy Groups
STA	Single Treasury Account
SWEMP	Solid Waste and Environmental Management Project
SWG	Sector Working Group
TFGWB	Trust Fund for West Bank and Gaza
TFPI	Task Force on Project Implementation
TFPR	Task Force on Palestinian Reform
TRA	Telecommunications Regulatory Agency
USAID	United States Agency for International Development
VAT	Value-Added Tax

Acknowledgements

This evaluation of the World Bank Group program in the West Bank and Gaza is part of the Independent Evaluation Group (IEG) country program evaluation series. It combines an assessment of the outcomes of the programs of the World Bank Group member institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The report does not provide separate ratings for each program, and instead looks at performance of the Bank Group as a whole in achieving common objectives.

The evaluation draws on Bank Group documents, external literature, and on interviews with government officials, including the Palestinian Authority (PA) and the Government of Israel, representatives of the private sector, civil society, nongovernmental organizations, bilateral and multilateral development partners, and Bank, IFC, and MIGA staff in Washington, the West Bank and Gaza, and Israel. An IEG mission visited the West Bank and Gaza in March 2010. A list of those interviewed can be found in Appendix H.

The evaluation was prepared by a team led by Konstantin Atanesyan (Task Team Leader, Senior Evaluation Officer, IEG) comprising Nawaf Abu-Sitta, Jumana Farah, Jorge Garcia-Garcia, Gita Gopal, Tarek Kotb, Svetlana Markova, George Polenakis, Miguel Rebolledo Dellepiane, and Christopher Willoughby. Administrative support was provided by Soon-Won Pak and Corky De Asis. William Hurlbut provided editorial support, and Unurjargal Demberel provided data support. Peer reviewers for the study were Arie Arnon, Nu'man Kanafani, and Prem Garg. The report was prepared under the direction of Ali Khadr (Senior Manager, IEGCR) and Stoyan Tenev (Chief Evaluation Officer, CEXEG).

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Foreword

This evaluation assesses the outcomes of the World Bank Group program in the West Bank and Gaza from 2001 to 2009. It combines an assessment of the outcomes of the programs of the World Bank Group member institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA).

World Bank Group support to the West Bank and Gaza focused on Palestinian state institutions, economic recovery, and emergency assistance. World Bank Group assistance covered four broad areas: governance (public financial management and fiscal reform); private sector development, infrastructure development; and human and social development. Institutional capacity building was a pervasive theme in all four areas.

Overall, after almost two decades of engagement, little progress had been made toward achievement of the overarching objectives of the World Bank Group. Despite some progress, institutional development remains uneven. Most infrastructure sectors continue to face technical and political constraints. Economic growth is driven by donor subsidies, and the private sector is weak.

The Bank Group should not be blamed for lack of success, since the main constraints to securing peace and achieving Palestinian statehood were beyond its control. The World Bank Group made important contributions in identifying obstacles to development, estimating their costs, and promoting the search for reasonable compromises. The World Bank is the main economic adviser to the Quartet on the Middle East and the administrator of large donor trust funds. Many analytic reports produced by the Bank not only helped set the agenda for overall development assistance, but also became the technical backbone of political negotiations.

In order to better position itself to help achieve medium-term development outcomes that go beyond humanitarian assistance, the World Bank Group needs to rethink its mandate, role, and scope of activities in the West Bank and Gaza. The Bank Group program needs to recognize that the long-term development effectiveness of its support is heavily dependent on the Israeli-Palestinian political framework, as well as close alignment of its efforts with those of other donors.

Other specific recommendations of this evaluation include: developing a medium-term strategy with a focused results framework; exploring opportunities for closer cooperation with Arab donors; helping the Palestinian Authority to develop a long-term strategy to reduce dependence on aid; and identifying opportunities for Israeli Palestinian cooperation on different aspects of development.

Vinod Thomas
Director-General, Evaluation

West Bank and Gaza: Summary of Bank Group Program Outcome Ratings

Independent Evaluation Group (IEG) Country Program Evaluations (CPEs) assess and rate the outcomes (the "results") of a given World Bank Group program relative to its objectives. This differs from rating country outcomes or Bank Group or client government performance. The central question underlying the following table is: "To what extent did the World Bank Group program realize the outcomes that it set out to achieve?" Distinct ratings and subratings are typically assigned to each "pillar" or set of strategic goals set out in the relevant Bank strategy document.

The World Bank Group defined its objectives in the West Bank and Gaza in very broad terms—reflecting the region's unclear status and dominant political volatility throughout the review period—and did not prepare formal strategy documents. Since there were no official Country Assistance Strategies (CASs) for the West Bank and Gaza, the Bank Group's strategic objectives have been derived from various documents, such as the regular requests for replenishment of the Trust Fund for Gaza and West Bank (TFGWB), the Interim Strategy document (2008), and project and analytic reports. These documents defined objectives and areas of intervention quite broadly, and generally did not specify baselines or set explicit and measurable outcomes. From this perspective, the Bank Group program in the West Bank and Gaza can be considered "non-evaluable" by the standards of a regular IEG objectives-based CPE. The outcome ratings below, which gauge program outcomes relative to retrofitted targets, should be viewed in this context.

STRATEGIC GOALS/PILLARS OF BANK ASSISTANCE[1]	ACHIEVEMENT OF SECTOR OUTCOMES	BANK GROUP CONTRIBUTION TO RESULTS	OUTCOME RATINGS[2]
A. Governance (Public Financial Management and Fiscal Reform)			Moderately Satisfactory
1. Fiscal management and fiscal stability	Improved revenue performance toward the end of the review period was offset by expenditures that grew at a much faster rate, and an increasing dependence on foreign assistance. Large amounts of foreign aid and political constraints to reform the civil service prevented better control of public expenditures and wages.	The Bank produced sound diagnosis of the problems affecting fiscal performance and public finances. It tried to help redress some of the problems through development policy grants in support of the Palestinian Reform and Development Plan (PRDP), establishing ceilings on "net lending" (the unpaid utility bills that Israel deducts from Palestinian Authority (PA) clearance revenue) and the public payroll.	Moderately Unsatisfactory
2. Transparency and accountability in public finance	Important reforms were implemented regarding financial reporting, budget preparation, treasury management, and accounting, resulting in improved transparency and accountability in public finance. The single treasury account (STA) is up and running, and has reduced arrears. Donors are using the STA for budget support.	The Bank has provided valuable advice on broad principles of reform. Bank reports helped boost donor confidence in country systems and were a major factor in the donor decision-making process. As the Public Financial Management (PFM) Reform Fund administrator, the Bank was responsible for monitoring and certifying performance benchmarks and deciding on disbursements.	<u>Satisfactory</u>
3. Municipal finance and development	One of the main developments was the establishment of the Municipal Development and Lending Fund (MDLF), an important instrument for channeling financial and technical assistance to the municipalities. Some progress has been achieved in municipal budgeting: a standardized budget system using accrual-based accounting was approved in 2007 and; an Integrated Financial Management Information System (IFMIS) has been developed and piloted in 5 municipalities and is being rolled out to 28 municipalities in the West Bank during 2010. However, little has been achieved to reduce the municipalities' reliance on central government funds via the expedient of "net lending" to finance their expenditures.	The Bank's advice was essential to the establishment of the MDLF. The Municipal Development Program (MDP) began the move toward greater emphasis in the allocation of resources on the performance of the municipalities, and laid the groundwork for emergence of a sector-wide approach. The Bank also contributed significantly to the initial development of the Palestine Land Authority, and its pilot effort to revive systematic registration work in the West Bank and Gaza.	<u>Moderately Satisfactory</u>
B. Private Sector Development			Moderately Unsatisfactory[3]

STRATEGIC GOALS/PILLARS OF BANK ASSISTANCE[1]	ACHIEVEMENT OF SECTOR OUTCOMES	BANK GROUP CONTRIBUTION TO RESULTS	OUTCOME RATINGS[2]
1. Reducing barriers to private sector development	The main barriers to private sector development—Israeli restrictions on access and movement of people and trade, and political instability and associated risks to investments—remain unchanged.	Bank studies on trade facilitation and improvement in access and movement of goods and people were of high quality, but influenced few real changes. MIGA sought to mitigate the barrier of political risk, but its guarantee scheme proved lacking in relevance due to initial design and marketing flaws.	Unsatisfactory
2. Improving business climate	a) Access to finance: there was improvement in capacity of local institutions and private sector enterprises, especially in the financial sector. In 2009, local banks—Bank of Palestine and Al Rafah Bank—issued guarantees for $3.97 million, a significant increase compared to $0.06 million in 2007. Al Rafah Bank improved its capacity in strategic planning, developed a microfinance culture, and adapted its organization, structure, and accounting practices accordingly. b) Strengthening the legal and regulatory framework: Legal and regulatory frameworks in housing, private pensions, and corporate governance were strengthened. Sufficient capacity was developed within the Palestinian Monetary Authority (PMA) and the Capital Markets Authority (CMA) for drafting laws and regulations on their own.	a) The International Finance Corporation (IFC) and the Bank helped to create a stronger financial sector by developing micro- and trade finance facilities, housing loans, mortgage finance, and access to leasing and insurance. The series of Global Trade Finance Programs (GTFPs) provided financing for imports and exports and built relevant capacity in banks. The Palestinian Monetary Authority (PMA) received assistance under the Financial Sector Reform and Strengthening Initiative (FIRST) initiative to establish a deposit insurance scheme that created confidence in the financial system and enhanced its stability. b) The Bank Group worked with the PMA and CMA under the FIRST initiative to strengthen the legal, regulatory, and prudential frameworks for housing finance. The Bank assisted in establishing the necessary regulatory framework to make private pension products available to the population. It also assisted the PMA and the CMA in conducting a feasibility study to establish a deposit insurance scheme.	Moderately Satisfactory
3. Improving competitiveness	A number of private sector actors improved capacity in production management and export marketing. The outcomes included: improvement of new products certified by international standards bodies; new market penetration; and an increase in exports. In the	The joint Bank-Department for International Development (DFID)-UK Facility for New Market Development (FNMD) supported the development and implementation of comprehensive new market and product development plans. The	Moderately Satisfactory

STRATEGIC GOALS/PILLARS OF BANK ASSISTANCE[1]	ACHIEVEMENT OF SECTOR OUTCOMES	BANK GROUP CONTRIBUTION TO RESULTS	OUTCOME RATINGS[2]
	telecommunications sector, the al-Watanyia project introduced a competitive force to the mobile telephony market, expanded employment opportunities, and fueled infrastructure development.	olive oil project provided technical assistance and advisory services to seven olive oil bottling companies in production management and export marketing. IFC also invested in a telecommunications project.	
C. Infrastructure Development			Moderately Unsatisfactory[4]
1. Water and sanitation	Progress in improving access to and the quality of water supply was limited. Water infrastructure development remains hampered by technical and political issues. Institutional capacity in the sector remains weak. Water scarcity continues to be a serious problem, caused by poor infrastructure, high distribution losses, shortage of trained staff in the municipal authorities, and financial practices that generated little or no funds for investment and maintenance. Deterioration of quality and reliability of water supply in an environment of instability and closures is another important dimension. On the organizational side, the spread of the Water Utility concept has been disappointing. Despite the passage in 2002 of a new Water Law, little progress has been made in implementation of the organizational provisions (with the exception of the establishment of a technocratic water utility in Gaza – the Central Municipal Water Utility (CMWU). The Palestinian Water Authority (PWA) continues to be an all-purpose body, policymaker, regulator, and executive.	Three specific aspects can be identified as benefiting from World Bank action: (i) rural connection rates and supplies in the southern West Bank; (ii) sustaining the water utility (CMWU) in Gaza; and (iii) facilitating interaction on project implementation between Israelis and Palestinians. As a result of the Bank's intervention (North Gaza Emergency Sewage Treatment Project, NGEST), a potential serious environmental catastrophe was averted in Gaza. In 2009, the Bank issued a comprehensive review of the obstacles to more effective water sector development. The report provided an authoritative and objective presentation of the way the Oslo accords had been hampering sector development, and attracted wider international attention. However, few real changes resulted, as key constraints to sector development and improved access to water are political in nature and cannot be influenced by Bank actions alone.	<u>Unsatisfactory</u>
2. Solid waste	Significant accomplishments have been made in the solid waste management subsector. The landfill in Jenin is serving a population of some 600,000, three times the number originally envisaged. It maintains operation on a full cost-recovery basis. Benefiting from the good reputation of the Jenin initiative and its successful closure of more than 80 random dumps, similar projects	The Bank supported the successful project in this area (Jenin Solid Waste), and was critical in helping to maintain cooperation among the municipalities, the donors, and the Israeli authorities—one of the very few successful examples of such cooperation.	<u>Satisfactory</u>

STRATEGIC GOALS/PILLARS OF BANK ASSISTANCE[1]	ACHIEVEMENT OF SECTOR OUTCOMES	BANK GROUP CONTRIBUTION TO RESULTS	OUTCOME RATINGS[2]
	have been started elsewhere in the West Bank.		
3. Electricity	The number of customers of the regional utilities has grown since 2000 at annual rates of between about 3.5 and 4.5 percent, reflecting general population growth and some additional rural electrification. However, increasing restrictions on movement and economic activity have caused declines in employment and overall income levels, thereby increasing the utilities' distribution losses and collection shortfalls. Transmission and distribution losses were 25 percent. Collections rates fell steadily in Gaza, to only 24 percent in 2008, compared with 85 percent for the West Bank utilities. The new regional utilities for the southern West Bank began to operate in the early 2000s. The General Electricity Law was approved in April 2009. Creation of the Palestine Electricity Regulatory Commission (PERC), in accordance with the new law, was approved by the PA Cabinet early in 2010. One of the successful initiatives was conversion to prepayment meters, especially for residential consumers. Surveys indicate that the share of West Bank households using such meters doubled from 18 percent in July 2008 to 39 percent in July 2009, reaching as high as 69 percent in the northern West Bank.	The Bank's advice and financing dealt with the power sector aspects of the "net lending" problem and development of the regional utilities. It provided a common framework for donor support to sector investment and development. The Energy Sector Review (2007) contributed to the confidence of the local counterparts in the Bank's views and approaches. In addition to dealing with the "net lending" problem, it covered power sector issues beyond development of the regional utilities. Implementation of the 161 kV transmission of Israel Electricity Company (IEC) power within West Bank is now going ahead in significant part because the Bank's report confirmed the validity of the Palestine Energy and Natural Resources Authority (PEA) position in this regard. Several of the report's recommendations concern Gaza (its transmission system, power plant, and off-shore gas discovery) where action has been largely blocked until now. The Electric Utility Management Project (approved in 2008), provides a supportive and consistent common framework that is being used by six donors in addition to the Bank for support to investment and additional development of the power sector.	Moderately Satisfactory
4. Transport	Travel rights of the West Bank and Gaza population have been further curtailed by Israeli policy changes since 2000, and many trip distances have been considerably increased by the Separation Wall and other road adjustments. The costs of carrying import/export merchandise to and from the West Bank have increased. The road network has probably	The Bank has not been involved in investment in this sector (except through small-scale road work at the municipal level), but it has provided important advisory support. The Bank's analytical work on movement and access restrictions and trade facilitation was highly informative, and was of importance to donors in the	Unsatisfactory

STRATEGIC GOALS/PILLARS OF BANK ASSISTANCE[1]	ACHIEVEMENT OF SECTOR OUTCOMES	BANK GROUP CONTRIBUTION TO RESULTS	OUTCOME RATINGS[2]
	increased a little, but progress remains uncertain. About 50 percent of the network is in poor condition, similar to the start of the decade. Recent assessments of the financial situation of the municipalities show that they are having difficulties fulfilling their road and street maintenance responsibilities.	management of their programs. However, it did not translate into concrete results. The Bank's three transport sector reviews (2000, 2004, and 2007) were not effectively followed up by the PA or the Bank.	
5. Telecommunications	Telecommunications services have expanded over the past decade. A first major departure from the pattern of a Paltel monopoly finally came to fruition in November 2009. Al-Wataniya began to offer service under the license of second operator won in 2006. By February 2010, al-Wataniya had some 200,000 subscribers. The long delay in activation of the license resulted from PA difficulties in securing release of the requisite frequencies. In August 2009, President Abbas signed a Telecommunications Law, spelling out principles of competition and creating a Telecommunications Regulatory Agency (TRA). The Law has yet to be implemented due to several procedural difficulties.	The Bank has not been involved in investment in the telecommunications sector, but it has played a useful role in providing sector-related advisory support and in helping to advance institutional reform. IFC invested $30 million in one project in 2009, following on the Bank's policy work. The Bank provided advice regarding the regulatory framework, and the design and management of technical assistance in development of staff and procedures for the Telecommunications Regulatory Agency.	Moderately Satisfactory
D. Social and Human Development			Moderately Satisfactory
1. Maintaining basic services (access, quality, and reaching the poor).	Access to basic services during the worst crises remained satisfactory, due to the efforts of many donors. Progress in improving the quality of services and reaching the poorest was more limited.	The Bank contributed to basic service delivery, supported targeted budgetary expenditures for operating facilities, and leveraged donor funding. The Emergency Services Support Projects (ESSP I and II) were the main vehicles for donor financing. The outcome of Bank support was satisfactory in helping to maintain access to basic services, but was not as successful in improving quality or in reaching the poorest and most marginalized. Overall, the Bank's contribution to outcomes is judged to be moderately satisfactory in this area, as the bulk of assistance was directed toward ensuring continuous access to basic services.	Moderately Satisfactory
2. Institutional capacity for service delivery	Some marginal progress has been made in PA ministries, but the	The Bank did strengthen the capacity of some local	Moderately Unsatisfactory

STRATEGIC GOALS/PILLARS OF BANK ASSISTANCE[1]	ACHIEVEMENT OF SECTOR OUTCOMES	BANK GROUP CONTRIBUTION TO RESULTS	OUTCOME RATINGS[2]
	institutional framework in all sectors remains fragmented, and the *modus operandi* of institutions continues to be unsustainable.	nongovernmental organizations (NGOs) and produced good quality analytical work. However, it was unable to produce visible impact (with a few exceptions) on institutions and policies. Several institutions established by Bank-supported initiatives have been essential during the emergency period, but the lack of exit strategies added to the complexity of the institutional architecture that delivers health and education services.	
3. Social and economic security	Progress has been made in integrating the two main social assistance programs. Once completed, the unified system is expected to strengthen capacity in the Ministry of Social Affairs to react to emergency situations. However, in order to operationalize the unified system, several issues related to establishing the poverty line and payment strategy still need to be resolved.	The Bank provided temporary employment and income through small infrastructure projects, which was an important contribution to easing the plight of the poor in times of crisis. This was achieved through the Integrated Community Development Project (ICDP) and NGO II projects. Bank support helped to improve poverty targeting. The Social Safety Net Reform Project (SSNRP) was the Bank's main vehicle to introduce policy and institutional reforms in the management of social assistance programs. Regarding pension reform, the Bank support generated few, if any, outcomes. Despite several quality analytical pieces on pension reform and continuing dialogue with the PA, Bank advice was not followed and its influence on policy has been negligible.	<u>Moderately Satisfactory</u>
OVERALL OUTCOME	The World Bank Group defined the outcomes it sought to achieve in West Bank and Gaza in very broad terms, reflecting the extreme volatility of the political situation that often required abrupt shifts in strategy. Exogenous factors (unresolved conflict, intermittent violence, severe restrictions on movement of people and goods) all but precluded achievement of development objectives in supporting growth and prosperity through private sector development and improving infrastructure services. Achievement of the overarching objectives of Bank Group presence in West Bank and Gaza ("investing in peace" and "building institutions for statehood") was beyond the control of the Bank Group. Nevertheless, relative to a counterfactual in which the Bank Group		Moderately Unsatisfactory

STRATEGIC GOALS/PILLARS OF BANK ASSISTANCE[1]	ACHIEVEMENT OF SECTOR OUTCOMES	BANK GROUP CONTRIBUTION TO RESULTS	OUTCOME RATINGS[2]
	would (hypothetically) have stayed out, the Bank Group identified specific areas where it had comparative advantage and made important contributions by helping to strengthen institutions, to maintain access to basic services, and to provide a social safety net. In addition, the Bank had an important role in expounding obstacles for development, estimating their costs, and promoting the search for reasonable compromises.		
BANK GPOUP PERFORMANCE	The lack of progress in many outcomes reflected fundamental obstacles that were beyond the control of the Bank Group institutions. They did not constitute shortfalls in performance, which has been satisfactory overall and in some cases highly so.		Satisfactory

Evaluation Summary

The World Bank Group in West Bank and Gaza, 2001–09

World Bank Group support to the West Bank and Gaza during the period 2001–09 focused on Palestinian state institutions, economic recovery, and emergency assistance. The World Bank is both the main economic adviser to the Quartet on the Middle East and the administrator of large donor trust funds. Many analytical reports produced by the Bank not only helped set the agenda for overall development assistance, but also became the technical backbone of political negotiations. Bank Group assistance covered four broad areas: governance (public financial management and fiscal reform), private sector development, infrastructure development, and human and social development. Institutional capacity building was a pervasive theme in all four areas. The tension between the long-term development agenda and short-term emergency needs has been a persistent and unresolved feature of Bank Group assistance.

Overall, after almost two decades of active engagement, little progress had been made toward achievement of the overarching objectives of the Bank Group. Despite some recent progress, institutional development is uneven. Most infrastructure sectors continue to face technical and political issues. Recent economic growth is driven mainly by donor subsidies, and the private sector is weak.

However, the Bank Group should not be blamed for lack of success because the main constraints to securing peace and achieving Palestinian statehood were beyond its control. Its comparative advantages were difficult to fully exploit in the context of the West Bank and Gaza. The World Bank Group made important contributions in identifying obstacles to development, estimating their costs, and promoting the search for reasonable compromises.

In order to better position itself in the future to help achieve medium-term development outcomes that go beyond humanitarian assistance, the Bank Group needs to rethink its mandate, role, and scope of activities in the West Bank and Gaza. The Bank Group program needs to recognize that the long-term development effectiveness of its support is heavily dependent on the Israeli-Palestinian political framework, as well as close alignment of its efforts with those of other donors.

Other specific recommendations of this evaluation include: developing a medium-term strategy with a focused results framework; exploring opportunities for closer cooperation with Arab donors; helping the Palestinian Authority (PA) to develop a long-term strategy to reduce aid dependence; and identifying opportunities for Israeli-Palestinian cooperation on different aspects of development.

Background

The permanent political status of the non-contiguous West Bank (of the Jordan River) and Gaza Strip is a subject of negotiations between Israel and the Palestinian Authority, mediated by the Quartet on the Middle East (including the United States, Russia, the European Union, and the United Nations). The Oslo Accords signed in 1993 provided for a transitional period of Palestinian self-rule, and for the establishment of the PA with the aim of developing institutions and building the foundation for a future Palestinian state.

This evaluation assesses the outcomes of World Bank Group's development support to the West Bank and Gaza for the period 2001–09. It covers the programs of the World Bank (International Bank for Reconstruction and Development [IBRD] and International Development Association [IDA]), International Finance Corporation [IFC], and the Multilateral Investment Guarantee Agency [MIGA]). The report does not provide separate ratings for each program, but looks instead at performance of the Bank Group as a whole in achieving common objectives.

The economy of West Bank and Gaza has been in crisis since 2000 and has relied extensively on international donor support. Strict closure policies and movement restrictions imposed by Israel led to disruptions in labor and trade access, business closures, private sector layoffs, and shortages of basic goods. During the past 10 years, real gross domestic product (GDP) per capita has fallen about 10 percent below its 1999 level in the West Bank and about 40 percent below in Gaza. The situation improved after 2007 when increased donor funding, combined with successful reforms implemented by the PA, brought some positive results. GDP growth was estimated at 6.8 percent in 2009, but it is still driven mainly by external donor assistance. Positive developments are counterbalanced by the isolation of about 40 percent of the Palestinian population within the Gaza Strip. About 50 percent of the Palestinian population in the West Bank and 70 percent in Gaza live in poverty, with unemployment rates at 18 and 39 percent respectively.

The World Bank Group activities in the West Bank and Gaza have focused on support for Palestinian state institutions, economic recovery, and emergency assistance. In addition to its own program of lending (on grant terms since 2002) and advisory services, the Bank is the main economic adviser to the Quartet on the Middle East and the administrator of large amounts of donor trust funds. The tension between long-term development and short-term emergency needs has been a persistent feature of Bank Group assistance. In the absence of formal strategy documents, the Bank's strategic objectives have been outlined in regular requests to the Executive Board for replenishment of the Trust Fund for the West Bank and Gaza (TFGWB) and the Interim Strategy of 2008–10, that supported the implementation of the PA's Palestinian Reform and Development Plan (PRDP).

Bank Group Program

The main objectives of the World Bank Group program were broad, reflecting the extremely volatile political situation, characterized by frequent humanitarian and economic crises that required abrupt shifts in the Bank's strategy. The overarching objectives—investing in peace and building institutions necessary for future statehood—were relevant to the needs of the client (the PA) and corresponded to the Bank's comparative advantages. However, their achievement was dependent on finding a political solution to the conflict, which was beyond the control of the Bank. Nevertheless, the Bank identified areas where it was able to make significant contributions to strengthening institutions, helping to maintain access to basic services, and providing a social safety net during times of crisis.

Bank Group assistance emphasized four priorities: public financial management and fiscal reform, private sector development, infrastructure development, and human and social development. Institutional capacity building was a pervasive theme in all four areas.

Public Financial Management and Fiscal Reform

Most of the Bank's work on governance focused on issues related to public financial management (PFM) and fiscal policy. The emphasis on PFM was appropriate because sound financial management was important for building a viable state, and because the Bank has a comparative advantage in this area. Objectives of Bank assistance were broad, but at the same time easy to achieve consensus around in the extremely volatile political situation. Bank assistance dealt with three main issues: enhancing fiscal stability; improving transparency and accountability in public finance; and municipal finance and development.

The PA made a successful effort in the last years of the review period to increase revenues. However, expenditures increased much faster, making the West Bank and Gaza more dependent on foreign assistance. The Bank tried to help address some of these problems through development policy grants in support of the PRDP, establishing ceilings on net lending (municipal debt transferred to the central budget), and the public payroll.

The PA took important actions to improve public finance transparency and accountability, specifically with respect to financial reporting, budget preparation, treasury management, and accounting. The single treasury account (STA) is up and running and has resulted in reduced arrears. Donors are using the STA for budget support. Moving from line item budgeting to program budgeting is another step forward in improving expenditure efficiency. The Bank has provided valuable advice on the broad principles of the reform effort. Bank reports were important in boosting donor confidence in country budgetary systems, and were a major factor in donor decision-making processes.

Regarding municipal finance and development, the Municipal Development and Lending Fund (MDLF) proved to be an effective channel to allocate resources to finance municipalities. However, more needs to be done to build a system that provides financial autonomy and promotes expenditure efficiency and fiscal discipline in municipalities. Bank assistance contributed to the establishment and development of the MDLF, but had little success in pushing reform of municipal and intergovernmental finances.

Private Sector Development (PSD)

The World Bank Group program aimed at reducing barriers to private sector development, improving the business climate, and enhancing the competitiveness of the private sector.

The Bank Group made dedicated efforts to help reduce barriers for PSD, but with little effect. The Bank's studies on trade facilitation and improvement in access and movement of goods and people were high-quality and attracted wide international attention. However, they resulted in few real changes on the ground. Although the expected economic benefit was demonstrated to be favorable to both Israelis and Palestinians, access and movement restrictions proved non-negotiable on economic terms. MIGA sought to support foreign direct investment through a Guarantee Trust Fund that provided political risk insurance. However, the Trust Fund proved to be not relevant to the West Bank and Gaza due to design and marketing flaws.

IFC and the Bank helped to improve the business climate by providing assistance for better access to finance and stronger legal and regulatory frameworks in housing, private pensions, and corporate governance. Most of the results in this area accrued in 2007–09 through a series of strategic investments, technical assistance, and advisory services aimed at enhancing capacity of the stakeholders, including government institutions and the private sector. Specific efforts to create a stronger financial sector yielded results by developing micro- and trade financing facilities, housing loans, mortgage finance, access to leasing, and insurance. The banking sector benefited from IFC and Bank participation in developing corporate governance. Among other important outcomes in this area was the development of sufficient capacity within Palestinian Monetary Authority (PMA) and the Capital Markets Authority (CMA) for drafting laws and regulations on their own.

Two programs that helped improve private sector competitiveness can be reproduced in other sectors: the Facility for New Market Development (FNMD) and the olive oil supply chain development project. The FNMD supported the creation and implementation of comprehensive new market and product development plans. The olive oil project provided technical assistance and advisory services in production management, export marketing, and output markets.

Infrastructure Development

Responding to changes in the political situation, emphasis in the Bank's infrastructure work shifted between helping to meet short-term needs for employment creation, repair to damaged infrastructure, and maintenance of basic service levels, to seeking to accelerate the emergence of viable Palestinian institutions. The distribution of the Bank's support among the different subsectors reflected these factors. The largest beneficiaries were water and sanitation, electricity, and solid waste management. The principal support offered by the Bank in transport and telecommunications was in the form of analytical studies.

The most worrying situation was in water and sanitation because of the due to poor quality and availability of services, dependence of progress on political developments, and weak institutional and organizational capacities. Water scarcity continues to be a serious problem in the West Bank and Gaza. It is caused by poor infrastructure, high distribution losses, shortage of trained staff in the municipal authorities, and financial practices that generate few funds for investment and maintenance. Deterioration of quality and reliability of water supply in an environment of instability and closures is another important dimension. Bank project financing helped to improve rural connection rates and supplies in some areas, and assisted in attracting donor support to the sector. However, most sector issues remain unresolved.

As a result of the Bank's intervention (North Gaza Emergency Sewage Treatment Project) a potentially serious environmental catastrophe was averted in Gaza. In 2009, the Bank issued a comprehensive review of the obstacles to more effective water sector development. The report attracted international attention and provided an authoritative and objective presentation of the way in which the Oslo Accords had been hampering sector development, given the way they were interpreted by the Government of Israel. On the organizational side, spread of the water utility concept has been disappointing. Despite passage in 2002 of a new Water Law, little progress has been made in implementation of the organizational provisions (with the exception of the establishment of a technocratic water utility in Gaza – the Central Municipal Water Utility [CMWU]). The Palestinian Water Authority (PWA) continues to be an all-purpose body, policymaker, regulator, and executive.

Significant progress was achieved in the solid waste management subsector. Increasing numbers of random dump sites had a negative impact on the quality of the groundwater resources, availability of fertile land, and air pollution from smoke. The Bank supported a successful project (Jenin Solid Waste) in this area. The Bank was critical in helping to maintain cooperation among the municipalities, donor partners, and the Israeli authorities. The landfill in Jenin is now serving a population of some 600,000, three times the number originally envisaged. It maintains operation on a full cost-recovery basis. Benefiting from the good reputation of the Jenin initiative and its successful closure of more than 80 random dumps, similar projects have been started in the West Bank.

The most urgent needs in the electricity subsector were the creation of regional utility companies, improvement of the quality and efficiency of distribution, and extension of the network, especially in rural areas. The number of customers of the regional utilities has grown since 2000, reflecting general population growth and some network extension. At the same time, increasing unemployment and falling income levels increased the utilities' transmission and distribution losses (25 percent on average) and shortfalls on collections (85 percent for the West Bank and 24 percent in Gaza in 2008). Similar factors caused rapid multiplication of the volume of Palestinian municipal debt for services (including for electricity) to the Israeli provider that was being transferred to the central budget (net lending). The Bank's advice and financing dealt with the power sector aspects of the net lending problem and the development of the regional utilities. It provided a common framework for donor support to sector investment and development.

The West Bank and Gaza transport system was characterized by the limits to the freedom of Palestinians to use and develop it, and the weakness of the governmental institutions. Travel rights of the West Bank and Gaza population have been further curtailed by Israeli policy changes since 2000, and many trip distances have been considerably increased by the Separation Wall and other road adjustments. The costs of carrying international trade to and from West Bank have increased. The road network has probably increased a little, but progress remains uncertain. About 50 percent of the network is in poor condition, similar to the start of the decade. Recent assessments of the financial situation of the municipalities show that they are having difficulties fulfilling their road and street responsibilities.

The Bank's extensive work on the impact of movement and access restrictions thoroughly analyzed the complex transportation issues, highlighted their economic significance, and discussed alternative ways to meet security needs. This work underscored the signing of the 2005 Agreement on Movement and Access (AMA), played a wide informational role, and was important to all the donors in the management of their programs.

However, there were few concrete results with respect to the easing of closures, and the AMA was never actually implemented. The quality of the road network did not improve and institutional capacity in the sector is weak.

The Bank has not been involved in investment in the telecommunications sector, but it has played an important and useful role in providing sector-related advisory support and helping to advance institutional reform. IFC invested in one mobile telecommunications project following on the Bank's policy work.

Human and Social Development

Human development indicators in the West Bank and Gaza were traditionally comparable with those of upper-middle-income countries. However, renewed violence, border closures, and the attendant economic crisis led to a notable decline in health and education conditions and deterioration in service provision. Maintenance of relatively high human and social development standards is creating significant costs for the Palestinian Authority, and is unsustainable in the long term. The institutional structure for provision of services is fragmented with the presence of multiple actors, including government, NGOs, and donors.

The main objectives of Bank support for human and social development included maintaining access to and improving the quality of basic services, strengthening institutional capacity for service delivery, and improving the social and economic security of the poor.

Outcomes of Bank support were strongly influenced by exogenous factors: periodic violence; fragmentation of government institutions after the 2007 schism between West Bank and Gaza; and limited PA control over the territory, movement, and supply of such basic services as water and electricity. The situation has been further complicated by poor capacity in ministries responsible for service delivery, the patronage system, and corruption. The Bank was flexible in its response to the evolving situation and tried to balance emergency support with addressing medium-term institutional and policy issues. However, this balance was not maintained due to frequent and unexpected emergencies that often required reallocation of resources. The Bank's analytical work was a valuable input to facilitating internal dialogue on reforms and supporting donor efforts.

Overall, the Bank contributed positively to maintaining and arresting the decline in services. The Bank supported targeted budgetary expenditures necessary for operating facilities, provided analytical guidance, and leveraged significant donor funding in the process. Regarding education, the student-teacher ratio remained steady, but enrollment and completion rates at the primary level declined. As for health, the Bank's Emergency Services Support Projects (ESSP I and II) contributed to keeping 430 primary health care centers and hospitals functional. Same projects also financed supply of essential drugs and equipment, nonmedical costs of operating health facilities, contracts with NGOs and private sector hospitals for specialized services, nutrition for children below the age of five in public clinics, and hospital food contracts. Through ESSP I, Bank support helped the Ministry of Social Assistance to continue some of its welfare programs, although there is no complete data to measure Bank's contribution.

Outcomes in strengthening institutions to deliver services were less successful. Although the Bank did strengthen the capacity of some local nongovernmental organizations and produced good-quality analytical work, it was unable to produce a visible impact (with a few exceptions) on institutions and policies. Several institutions established by Bank-supported initiatives have been essential during the emergency period, but the lack of exit strategies added to the complexity of the institutional architecture that delivers health and education services.

Bank support helped to improve poverty targeting, and progress has been made in the integration of the two main social assistance programs—but has yet to be completed. The Social Safety Net Reform Project (SSNRP) was the Bank's main vehicle to introduce policy and institutional reforms in the management of social assistance programs. The Bank provided temporary employment and income generation through small infrastructure projects. These projects, including the Integrated Community Development Project (ICDP) and NGO II projects, were an important contribution to easing the plight of the poor in times of crisis. Regarding pension reform, Bank support generated few tangible outcomes. Despite several quality analytical pieces on pension reform and continuing dialogue with the PA, the Bank's advice was not followed, and its influence on policy has been negligible.

Donor Coordination

The World Bank has played a prominent role in donor coordination, including programmatic leadership, analytical and advisory support, and mobilization of donor financing through trust funds. In 2001–09, the World Bank took the lead in various aid coordination bodies at both the international and local levels, and Bank staff served at high-level secondment assignments to aid coordination bodies, including the Quartet on the Middle East. The Bank's analytical studies and assessments served as a focal point for donor—and donor-PA—discussions and activities in the West Bank and Gaza. Many Bank reports helped set the agenda for the direction and distribution of development assistance. The Bank's economic analysis often became the technical backbone of the political negotiations.

Conclusions

Objectives and results: The World Bank Group institutions established a presence in the West Bank and Gaza in the early 1990s as part of a concerted effort by the international donor community to promote peace and stability. Since then, the Bank Group invested significant financial resources in reconstruction and economic development; provided advice on establishing institutions necessary for future statehood, and helped build requisite capacity. State-building became a stated collective goal of the international community in the later review period. From the World Bank's perspective, this meant helping to establish and strengthen institutions for future statehood and improving governance within these institutions.

Despite some progress, including establishment of several strong and capable institutions at the central level (such as the Ministry of Finance, the Palestinian Central Bureau of Statistics, and the Palestinian Monetary Authority), the institutional framework in most sectors remains fragmented, and the modus operandi of the institutions continues to be unsustainable. All institutions, including PA ministries, are more dependent on donor financing than 10 years ago. Any degree of success in institution building and governance reform was not conditioned on the removal of the most critical constraint to Palestinian statehood –Israeli control– and therefore added little toward achievement of the ultimate objective.

Today this objective seems to be even more distant and difficult to attain than in the beginning of the Bank-supported process. Despite general institutional readiness for statehood, the West Bank and Gaza does not resemble a viable state in other respects: the PA does not control its territory, access to the outside world, or natural resources; and economic growth is driven by international aid and subsidies.

The summary of almost two decades of relentless and dedicated work is sobering: institutional development is highly uneven, with serious gaps at the sector and municipal levels. Most infrastructure sectors continue to face technical and political constraints. Recent economic growth is driven almost exclusively by donor subsidies, and the private sector is extremely weak. The economic peace dividend did not materialize, as the main constraints to peace and prosperity were never seriously addressed.

Bank Group role and performance: The Bank Group, however, should not be blamed for lack of success, as most constraints were clearly beyond its control. Its comparative advantages—sector technical expertise, project management skills, a good grasp of longer-term developmental challenges, and the general inclination toward the "big picture" issues—were difficult to exploit in the West Bank and Gaza. **The lack of progress in many outcomes reflected fundamental obstacles that were beyond the control of the Bank Group**

institutions and were not shortfalls in performance. Indeed, Bank Group performance has been satisfactory overall and in some cases highly so.

The Bank played an important, and by many accounts irreplaceable, role in the West Bank and Gaza throughout the whole review period. It is widely credited with keeping the main state institutions afloat during the worst crises. The Bank was the intellectual leader of the donor community and was useful in identifying obstacles to development, estimating their costs, and promoting the search for reasonable compromises. Bank studies not only described the needs in the West Bank and Gaza, but also triggered specific actions, and delivered the inconvenient truth that changed the views of donors and influenced decisions of the main stakeholders. The Bank leveraged significant contributions from other donor partners with its own financing, and developed a reputation as an effective and efficient administrator of donor resources through trust fund mechanisms.

The Bank Group has an important mission to help the Palestinian people. However, in order **to better position itself to help achieve medium-term development outcomes beyond humanitarian relief, the Bank Group may need to rethink its mandate and role, as well as the scope of its activities, in the West Bank and Gaza.** To date, the Bank Group has struggled to exercise a technical mandate in a situation where politically-driven developments exert the dominant influence on economic and social outcomes. The Bank Group cannot, at least without unambiguous instruction from its shareholders, simply assume a new—essentially political—mandate. However, it can tie its financial support much more closely to politically-driven developments, notably in Israeli-Palestinian relations and progress towards the two-state solution. Such developments matter crucially for the net benefits that Bank support can generate in terms of improvements in the well-being of the Palestinian people. This is an issue of the utmost sensitivity that the Bank's top leadership would need to ponder in consultation with the principal stakeholders in the Bank Group-assisted Palestinian economic development. Such stakeholders would include the PA, the Bank Group's shareholders, the Quartet, and the Government of Israel. The recommendations outlined in the remainder of this summary, although not entirely invariant to such "big-picture" decisions, are nevertheless not tied to any one narrow scenario in this regard.

Lessons and Recommendations

Based on the evaluation findings, IEG recommends that Bank management focus attention on the areas and actions outlined below.

Strategy: Institutionalize a process to formalize and regularly update the Bank Group's strategy for the West Bank and Gaza, including, among other things:

- Preparing a short, self-standing 12-24 month strategy document with an indicative medium-term programming horizon to help institutionalize focus on longer-term development issues.

- Underpinning the strategy with a simple results framework and associated monitoring and evaluation framework.

- Showcasing in each strategy document a handful of discussions and/or rough simulations of how events beyond the Bank Group's control, including changes in the political-security backdrop, would impact the Bank Group's ability to "deliver" stated outcomes.

- Developing different economic approaches to the West Bank and the Gaza Strip, while recognizing them as parts of a single Palestinian entity.

- Sustaining the Bank Group's diverse and high-quality analytical and advisory services program, and seeking to further strengthen a cross-cutting theme in that work of estimating and publicizing the costs to development of the exogenous factors beyond the Bank Group's control, including changes in the political-security backdrop.

Specific Program Issues: Continue support for reform of public financial management, and increase support for the productive sectors, as well as for institutional development in education and health. Among other aspects, this would entail:

- Complementing current strategic support for PFM with more targeted assistance in specific areas — notably through staff based in the field and working directly with government agencies.

- Strengthening the focus on helping local government-related (municipal) institutions deal with local finance and improve their accountability.

- Gradually moving the bulk of the Bank Group's program from budget support to investment in other, preferably productive, sectors.

- Providing advice to the Palestinian Authority on developing a long-term strategy to reduce dependence on foreign aid.

- Supporting the PA in developing a strategic framework for service delivery in the health and education sectors, including all service providers.

Partnerships and Aid Effectiveness: Strengthen existing partnerships, develop new ones, and enhance aid effectiveness, notably through a focus on the following aspects:

- Identifying opportunities for practical cooperation between Israelis and Palestinians on different aspects of development, and give the presence of this dimension particular weight in strategies. There are positive examples in this regard that can potentially be replicated, such as waste treatment schemes in Jenin and Hebron, some aspects of work on electricity and water, and the "net lending" (municipal debt to Israeli utilities, transferred to the central budget) problem.

- Aligning the Bank Group's program closely with that of other donor partners at the programming, implementation, and reporting and evaluation stages.

- Further striving to improve cooperation with Arab donors— an important and as yet almost untapped resource— building on recent modest successes, for example, the Kuwaiti contribution to the PRDP Trust Fund.

- Continuing intra-Bank Group cooperation, including a better-defined role for MIGA.

- Ensuring continuing dialogue with the client and donor partners by strengthening the field presence in some key areas, especially in the water sector.

Management Action Record

Major Monitorable Independent Evaluation Group (IEG) Recommendation Requiring a Response	*Management Response*
A. Strategy: Institutionalize a process to formalize and regularly update the Bank Group's strategy for the West Bank and Gaza, including, among other things:	We agree with the IEG recommendation and in 2008 produced an Interim Strategy, and have already planned to produce a new Interim Strategy in FY11. We believe this shorter-term, more flexible instrument is most suited to the conflict-affected conditions of the West Bank and Gaza.
▪ Preparing a short, self-standing 12-24 month strategy document with an indicative medium-term programming horizon to help institutionalize focus on longer-term development issues.	
▪ Underpinning the strategy with a simple results framework and associated monitoring and evaluation framework.	Management agrees that the new Interim Strategy will attempt to provide a simple results framework to monitor progress.
▪ Showcasing in each strategy document a handful of discussions and/or rough simulations of how events beyond the Bank Group's control, including changes in the political-security backdrop, would impact the Bank Group's ability to "deliver" the outcomes.	Management accepts that a clear recognition of risk and opportunities under differing scenarios is important. The current Interim Strategy delineates a number of risks and the future strategy will attempt to draw out clearly the risks and also potential opportunities depending on changes in the environment and the potential effects on delivery.
▪ Developing different economic approaches to the West Bank and the Gaza Strip, while recognizing them as parts of a single Palestinian entity.	Management agrees that the differing nature of the West Bank and Gaza affects analysis. We will therefore continue to analyze the distinct geographic areas separately and develop different approaches and projects for each territory that takes into account the unique situation in each place. We also emphasize that we have not and will not neglect Gaza despite the difficulties engagement there raises. In fact, our interventions is Gaza, including the North Gaza Emergency Sewage Treatment project, are considered by other donors as ground-breaking in that they address immediate needs despite severe movement and access constraints.
▪ Sustaining the Bank Group's diverse and high-quality analytical and advisory services program, and seeking to further strengthen a cross-cutting theme in that work of estimating and publicizing the costs to development of the exogenous factors beyond the Bank Group's control, including changes in the political-	Management appreciates IEG's endorsement of the value of the analytic and advisory activities (AAA) program and will strive to continue to demonstrate the costs to development of the difficulties in the broader environment.

Major Monitorable Independent Evaluation Group (IEG) Recommendation Requiring a Response	*Management Response*
security backdrop.	
B. Specific Program Issues: Continue support for reform of public financial management, and increase support for the productive sectors, as well as for institutional development in education and health. Among other aspects, this would entail:	
▪ Complementing current strategic support for public financial management (PFM) with more targeted assistance in specific areas —notably through staff based in the field and working directly with government agencies.	The Bank has a full time PFM specialist based in the field who works routinely with the authorities. This engagement is specifically and strategically designed to be complementary to the work of other donors who have greater resources to provide targeted technical assistance (TA). As we develop our new strategy we will engage with the authorities and other donors to see if this is an area that warrants greater attention.
▪ Strengthening the focus on helping local government-related (municipal) institutions dealing with local finance and improving their accountability.	Management agrees with IEG that municipalities are an important area of focus and already has extensive involvement with them. The Bank recently completed a study of municipal finances with recommendations on strengthening their financial situation in light of the ongoing reforms in electricity. In addition the Municipal Development Fund (MDF) and Municipal Development and Lending Fund (MDLF) have been successful instruments. Management plans to continue this important work.
▪ Gradually moving the bulk of the Bank Group's program from budget support to investment and other, preferably productive, sectors.	Given the current fiscal situation facing the Palestinian Authority (PA), budget support is critical to developing country systems and building institutions. It is also fully consistent with the objectives of aid effectiveness allowing resource planning to be coordinated through the budget. Management questions this recommendation given the positive results, noted in the report, regarding the role of the Development Policy Grants (DPGs) in providing incentives for reform. Furthermore management thinks this recommendation should take into account the totality of engagement in West Bank and Gaza. Compared to the Development Policy Grants (DPGs) –

Major Monitorable Independent Evaluation Group (IEG) Recommendation Requiring a Response	*Management Response*
	relatively smaller amounts are dedicated to investments. However those investments leverage significant amounts of donor resources through parallel and cofinancing – resulting in a significant investment program as well as enhancing donor coordination. Should the environment change substantially, the Bank would remain open to revisiting the mix of instruments and use of resources to respond accordingly, though we note that DPGs can play a vital role in supporting reform even in countries where the recurrent budget needs are not so critical.
▪ Providing advice to the Palestinian Authority on developing a long-term strategy to reduce dependence on aid.	The Bank's DPGs are specifically aimed at fiscal strengthening, thereby reducing the PA's dependence on aid. The focus on controlling the wage bill, ending net lending, and increasing domestic revenues are specifically designed to reduce aid dependency. Management proposes to continue this successful line of support recognizing that, ultimately, aid dependence is contingent upon the potential for real private sector led growth, which is currently constrained primarily due to political and security (not policy or economic) factors.
▪ Supporting the PA in developing a strategic framework for service delivery in the health and education sectors, including all service providers.	Management concurs with the observation on health and education and notes that efforts to this effect are on-going. Both the Ministries of Education and Higher Education and Health have developed five year frameworks that include key steps to be taken to improve social service delivery for most service providers. The Bank is working with the Ministry of Education and Higher Education. Given the Ministry of Health's limited institutional capacity, the team is providing AAA on issues related to health financing, health equity and pharmaceuticals in order to trigger the needed reforms that would improve service delivery. Given the continued instability in West Bank and Gaza, the Bank's team will continue to provide emergency support to the social sectors as we have a strong track record in this area.
C. Partnerships and Aid Effectiveness: Strengthen existing partnerships, develop new ones, and enhance aid	

Major Monitorable Independent Evaluation Group (IEG) Recommendation Requiring a Response	*Management Response*
effectiveness, notably through focus on the following aspects:	
▪ Identifying opportunities for practical cooperation between Israelis and Palestinians on different aspects of development, and give the presence of this dimension particular weight in strategies. There are positive examples in this regard that can potentially be replicated, such as waste treatment schemes in Jenin and Hebron, some aspects of work on electricity and water, and the "net lending" problem.	Management agrees the importance of such efforts which have been the practice for a number of years. Since engagement in the West Bank and Gaza, the Bank has been pushing for the kind of practical cooperation between Palestinians and Israelis that matters, for example, implementing the Paris Protocol and the 2005 Agreement on Movement and Access. Furthermore the Bank has always been willing to act as a catalyst for more specific initiatives when asked.
▪ Aligning the Bank Group's program closely with that of other donor partners at programming, implementation, and reporting/evaluation stages.	The Bank is a key player in the local aid coordination structure. Moreover, many of the Bank's investments and budget support are co-financed by donors – creating a natural alignment. However management accepts that it is necessary to continue efforts to ensure alignment and coordination particularly at the evaluation stage.
▪ Further striving to improve cooperation with Arab donors, which is an important and as yet almost untapped resource, building on modest recent successes (for example, the Kuwaiti contribution to the Palestinian Reform and Development Plan [PRDP] Trust Fund).	This continues to be an aim of the current Bank program, in particular in relation to interventions in Gaza.
▪ Continuing intra-Bank Group cooperation, including a better-defined role for MIGA.[1]	Management welcomes IEG's acknowledgement of the positive record on intra-Bank Group cooperation particularly given the International Finance Corporation's (IFC) increased interest over the last few years. Both IFC and MIGA staff are co-located with the Bank in the Resident Mission and the respective staff work closely together in the country office and headquarters.
▪ Ensuring continuing dialogue with the client by strengthening field presence in some key areas, especially in the water sector.	The West Bank Gaza team is strongly represented in the field, with international staff acting as sector coordinators for all networks. In addition, hiring for a local infrastructure specialist focusing on water and wastewater is currently underway and ex-

[1] By its charter, MIGA may only underwrite political risk insurance (PRI) for projects in sovereign countries that are members of MIGA. Any re-definition of MIGA's role in the West Bank and Gaza would need to be executed through an arms-length arrangement or entity and not through MIGA itself.

Major Monitorable Independent Evaluation Group (IEG) Recommendation Requiring a Response	*Management Response*
	pected to be completed in the second quarter of FY11. Budget constraints restrict any further expansion.

Chairperson's Summary: Committee on Development Effectiveness (CODE)

On October 18, 2010, the Informal Subcommittee of the Committee on Development Effectiveness (CODE) considered *The World Bank Group in the West Bank and Gaza 2001–2009 – Evaluation for the World Bank Group Program* prepared by the Independent Evaluation Group (IEG).

Summary

The Subcommittee commended IEG for the comprehensive and informative report, while acknowledging the challenges in evaluating the World Bank Group's support in the West Bank and Gaza. There was broad recognition for the World Bank Group's valuable contribution to addressing the development challenges faced in the region. Given the complex and uncertain political environment of the West Bank and Gaza, many members noted that the lower outcome ratings in many areas of Bank support were comprehensible. The Subcommittee Chair observed that ratings should not be understood as a reflection of Bank/staff performance. The outcome related to the overall performance by different players in the area, and was the result of several uncontrollable, exogenous factors.

Overall, the Subcommittee endorsed the IEG findings, and the recommendations were generally supported, although clarifications were sought in some areas. Many positive aspects of the World Bank Group's support were noted, including its role in donor coordination and leveraging donor resources, institutional capacity building, maintaining human and social services, and the high quality of staff working in the region. Members commented on a number of areas related to the IEG recommendations, including the Bank and International Finance Corporation (IFC) strategy in the region, the importance of IFC and the Bank's analytical work, and on the value of budget support. In addition, interest was expressed in support for job creation and youth unemployment, and maternal health. The Committee emphasized the need for care in communicating the findings of the report, particularly the outcome ratings, which were not indicative of the World Bank Group's performance or effectiveness.

Recommendations and Next Steps

Management is preparing a new Interim Strategy, which will be presented to the Board.

Main Issues Discussed

World Bank Group Strategy for Support. The important contribution that the Bank may make in fragile and challenging areas was noted. The complexities of working in an uncertain context such as the West Bank and Gaza were noted, and the need for a flexible strategy of support was stressed. In this context, members welcomed hearing that an Interim Strategy is being prepared. There was concurrence on the continued need to address short- and long-term development needs. Members also commented on the benefit of focusing on productive sectors including job creation, and addressing aid dependency (though it was acknowledged that aid dependency is closely tied to exogenous factors), and on the importance of a framework to monitor and measure results. A few members asked IEG to clarify its recommendation for the Bank to "tie its financial support more closely to the political driven developments." *IEG noted that the recommendation referred to the link between the areas of World Bank Group engagement and the political dynamics of the region. In addition, it also suggested the possibility of expanding World Bank Group support, should political circumstances improve.*

Responding to the interest expressed in IFC's strategy, IFC noted that it was focusing on areas where it was not constrained by movement and access issues, and where it can have an impact. It was suggested that in promoting private sector development, there may be opportunities to link to markets in other Arab countries. With regard to the Bank's support in Gaza, Bank Management elaborated that approximately half of the Bank's program of support is in Gaza. The Bank is currently addressing sewage treatment, and is looking into opportunities to provide support in the areas of solid waste, electricity, water management, and social safety nets. The Multilateral Investment Guarantee Agency (MIGA) elaborated on the difficulties in bringing its investment guarantee program to fruition due to operational restrictions and the lack of a presence on the ground. However, it confirmed that these constraints are being addressed through changes to the facility's rules, and the recruitment of a local staff to market and assist in the underwriting of new transactions. It also noted that the many IEG recommendations had been explored. MIGA's effort to overcome the difficulties encountered in extending guarantees was welcomed.

Budget Support. Some speakers commented on the IEG recommendation to gradually move the bulk of the World Bank Group's program from budget support to in other, preferably productive sectors. They broadly agree that consideration should be given to the balance of support in the future. However, they cautioned about the timing, observing the important role of budget support in leveraging and coordinating resources from other donors.

Analytical and Advisory Activities. Emphasizing the importance of analytical and advisory work, the Bank was encouraged to continue its analytical and advisory activities, while IFC was urged to continue its advisory services. Interest was expressed in how the Bank's analytical work served as "technical backbone" to political negotiations. *IEG and Bank Management noted that the Bank's reports are highly regarded for their technical quality and often covered important topics (for example, water, access and movement), which are contributing to regional dialogue.*

Coordination. Echoing IEG's recommendation, members emphasized the importance of strengthening partnership and coordination among donors, including Arab donors. *Bank Management affirmed that it was regularly consulting not only the Palestinian Authority but also the Israeli Government, responding to a few members' questions in this regard. Regarding a query about Bank support to address maternal health, it was clarified that through the division of labor with other donors, the Bank is not as involved in the health sector.*

Quality of Support. There was broad recognition for the high quality staff working in the West Bank and Gaza. Some members suggested that lessons may be drawn from the Bank's performance in the West Bank and Gaza, which may be considered for Bank support in other fragile and conflict-affected countries.

Giovanni Majnoni, Chairperson

Chapter 1
Background and World Bank Group Program

Coverage and Structure

This evaluation assesses the outcomes of the World Bank Group's program of development assistance to West Bank and Gaza covering the period from 2001 to 2009. It generally draws upon Independent Evaluation Group (IEG) country program assessment methodology (focusing on development outcomes and associating them with Bank Group assistance), albeit in a more flexible manner than usual given the West Bank and Gaza's unique circumstances— including the disproportionately large role of exogenous factors in determining development outcomes, the absence of formal assistance strategies for most of the period under review, and the highly sensitive and uncertain political environment. Another factor that shaped the World Bank Group's presence and relations with West Bank and Gaza is the fact that the client, the Palestinian Authority (PA), has remained since its establishment in 1994 under the overall territorial, security, economic, and administrative control of Israel.

Therefore, assessment of processes used by the World Bank Group in its work, and its ability to adjust to fast-changing country circumstances is an important part of the evaluation. Owing to the relatively modest contribution from the Bank Group's own funds, this assessment focuses more on analytical and advisory activities than is typically the case for a Country Program Evaluation (CPE). This study combines the evaluation of the programs of the World Bank Group member institutions, including the International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). It does not provide a separate rating for each program, but instead looks at performance of the World Bank Group as a whole in achieving common objectives. The evaluation attempts (wherever possible) to document existing differences between the West Bank and the Gaza Strip, including immediate and longer-term development needs. It is, however, understood that they represent two parts of one entity and are treated as such in the report, and no separate ratings are presented for either.

This evaluation report is structured along the main pillars of the World Bank Group program in the West Bank and Gaza in 2001–09, derived from various program, project, and analytical reports. The pillars are governance (public financial management and fiscal reform), private sector development, infrastructure development, and human and social development. The evaluation covers the main roles of the World Bank Group as a source of financial support and analytical advice, as well as the organizer and convener of donor support.

Background

History, Geography, and Politics

The West Bank and Gaza (also referred to as the Palestinian Territories, are noncontiguous geographical entities, the West Bank of the Jordan River and the Gaza Strip, whose permanent political status has been a longstanding subject of negotiations between Israel and the Palestinian Authority. Status is being mediated by the Quartet on the Middle East[1] and has yet to be determined.

The West Bank is on the western bank of the Jordan River. To the west, north, and south, the West Bank shares borders with Israel, and to the east, it borders Jordan[2] across the Jordan River. The West Bank has a land area of 5,640 square kilometers (including East Jerusalem) with a Palestinian population of about 2.5 million (excluding Israeli settlers).[3] The Gaza Strip lies on the coast of the Mediterranean Sea and borders Egypt on the southwest and Israel on the south, east, and north. Its land area is 360 square kilometers with a population of about 1.6 million.[4]

The West Bank and Gaza Strip, although officially governed by the PA, have been *de facto* separate entities since June 2007, with the West Bank territory being partly administered by the PA and partly by Israel, and Gaza being governed by Hamas, the Islamic Resistance Movement.

The West Bank and Gaza varied greatly throughout history in terms of area ownership and population.

The area, population, and ownership of the West Bank and Gaza varied greatly throughout history. In the beginning of the twentieth century, the Palestinian Territories were under Ottoman rule, which lasted until World War I. After the war, Great Britain occupied the land and administered it on behalf of the League of Nations between 1920 and 1948 under the British Mandate for Palestine—the region predominantly populated by Arabs and including contemporary Israel, Jordan, and the West Bank and Gaza. During this period, the Jewish population significantly increased in the region (Arabs—1,203,000; Jews—608,000[5]) due to several immigration waves, which resulted in the United Nations (UN) Partition Plan to divide the land into separate Arab and Jewish states, with the international zone of Jerusalem. In 1948, the Zionist leaders declared the State of Israel, and the Palestinian Arab leaders rejected the Partition Plan. The first Arab-Israeli war broke out. As a result, Jordan captured the territories of today's Jordan and the West Bank as well as the eastern part of Jerusalem, including the Old City. Israel captured the land of today's Israel (excluding the West Bank and Gaza) and western Jerusalem, and Egypt captured the Gaza Strip. In the course of the Six Day War in 1967, the territories of the West Bank, including East Jerusalem, and Gaza were occupied by Israel.

Since 1967, the political status of the West Bank and Gaza has been the subject of negotiations between Israel and the Palestinian leadership and mediated by the international community. In 1993, the Declaration of Principles on Interim Self-Government Arrangements (Oslo Accords)[6] was signed between the Palestine Liberation Organization (PLO)[7] and Israel, providing for a transitional period of Palestinian self-rule in West Bank and Gaza, gradual devolution of economic authority to the Palestinians, elections in the Occupied Territories and recognition of the PLO as the legitimate representative of the Palestinian people. The PLO also accepted the right of Israel to exist in its pre-1967 borders. The Palestinian Authority was established with the aim of developing strong institutions and building the foundation for a future Palestinian state.[8] Under a series of agreements signed in the 1990s, Israel transferred to the PA security and civilian responsibility for a number of Palestinian-populated areas of the West Bank and Gaza.[9]

With a series of peace agreements signed in the 1990s, Israel transferred to the Palestinian Authority security and civilian responsibility for a number of Palestinian-populated areas in the West Bank and Gaza.

The Oslo II Agreement (September 1995) divided the West Bank into three zones of control:[10] Area A, where the PA had full responsibility for internal security, public order, and civilian affairs; Area B, where the PA governed public order and civilian affairs but the Government of Israel retained security control; and Area C, where the Government of Israel retained full responsibility for security, public order, and certain civil affairs (table 1.1).

Table 1.1 Territorial Designation of the West Bank (in percentage terms)

	Oslo II (1995)	*Wye River (1998)*	*Sharm El-Sheikh (1999)*
Area A	2.0	9.1	17.2
Area B	26.0	20.9	23.8
Area C	72.0	70.0	59.0

Source: World Development Report, 2011

The Oslo process was set back after the assassination of Israeli Prime Minister Yitzhak Rabin in 1995 and subsequent political changes in Israel after the 1996 elections. It was revived again in 1999, culminating in the Camp David negotiations in 2000. Eventually the negotiations to determine the permanent status of the Palestinian Territories stalled due to disagreements on the status of Jerusalem, Israel's settlement expansion, and the outbreak of the second Palestinian *intifada*[11] (uprising) in September 2000. In the spring of 2002, following a dramatic increase in suicide bombings, the Israeli Defense Force reoccupied all PA autonomous areas and divided them into separate enclaves, reasserting direct security control.

Despite attempts by the international community to revive the peace talks between Palestinians and Israelis, the situation continued to worsen in the 2000s. The Quartet on the Middle East completed the "roadmap," a peace plan designed to achieve a permanent settlement of the conflict by 2005 based on reciprocal steps by the two parties. In 2005, Israel withdrew all of its settlers and soldiers and dismantled its military facilities in Gaza (while keeping control of maritime, airspace, and most access to the Strip). Despite these developments, the political state of affairs has deteriorated due to violence and mutual accusations that both sides have not followed through on their commitments.

The political and economic crises peaked in 2006, when Hamas, the Islamic Resistance Movement, won a majority in the Palestinian Legislative Council elections. This was followed by an Israeli blockade and the effective division of the West Bank and Gaza into two separate political and administrative blocs.

The political and economic crisis peaked when Hamas, the Islamic Resistance Movement, won a majority in the Palestinian Legislative Council (PLC) elections in 2006. This was followed by an Israeli blockade and the effective division of the West Bank and Gaza into two separate political and administrative blocs. The Quartet suspended aid to the Hamas-led government that was formed in March 2006, when it failed to confirm three principles for dialogue: recognition of Israel, renunciation of violence, and acceptance of past peace accords between the PLO and the Government of Israel. A Unity Government, formed by Hamas and Fatah in March 2007, only marginally resolved the crisis, but did not last long. In June 2007, President Mahmoud Abbas declared Hamas authority over Gaza illegal, and swore in a new Caretaker Government under Prime Minister Salaam Fayyad.

Since 2007 and the Hamas takeover of Gaza, the West Bank and Gaza have effectively become two separate entities divided between Hamas, which controls the Gaza Strip, and the Fatah party, which dominates the Palestinian government in the West Bank.

Since 2007, the West Bank and Gaza have effectively become two separate entities divided between Hamas, which controls the Gaza Strip, and the Fatah party, which dominates the Palestinian government in West Bank. Since 2007, the PA in the West Bank, under the leadership of the technocratic cabinet of Prime Minister Fayyad, has adopted a progressive course of institutional and economic reform, with impressive results on many fronts.

At the end of 2008, fighting broke out in Gaza between the Israeli Defense Force and Hamas, leading to numerous Palestinian casualties,[12] aggravation of the ongoing siege of Gaza Strip, and devastation of its economy. International donors pledged $4.5 billion in aid to rebuild Gaza. However, by the end of 2010, large-scale reconstruction had not yet begun.

Economy

An unstable socio-political environment and periodic outbreaks of armed conflict have set the Palestinian economy on a downward trend since 2000, leading to greater aid dependence.

Given an unstable sociopolitical environment and periodic outbreaks of armed conflict, the Palestinian economy has been on a downward trend since 2000. As a result, the West Bank and Gaza have relied extensively on the support of the international development community. Following the Oslo Accords, the international community pledged an unprecedented amount of funding ($3.6 billion in 1994–98), and it was expected that the Palestinian economy would enter a period of sustained and rapid growth. Instead, the situation began to deteriorate in the latter half of the 1990s, and became especially tense after the outbreak of the second *intifada* in 2000. Much stricter closure policies and movement restrictions by Israel led to the disruption of labor and trade access, widespread business closures, private sector layoffs, and a shortage of basic goods. Gross domestic product (GDP) fell by over a quarter (from $4.5 billion to $3.8 billion) between 1999 and 2002[13] at the height of the fighting, then recovered slightly in 2004–05—fueled by support from development partners. GDP fell again in 2006–07 after the imposition of a financial embargo on the Hamas-led government by Israel and a large part of the international community. Overall, during the past 10 years, real GDP per capita in West Bank has fallen to about 10 percent below its 1999 level. In Gaza, real GDP per capita is about 40 percent below what it was in 1999.[14]

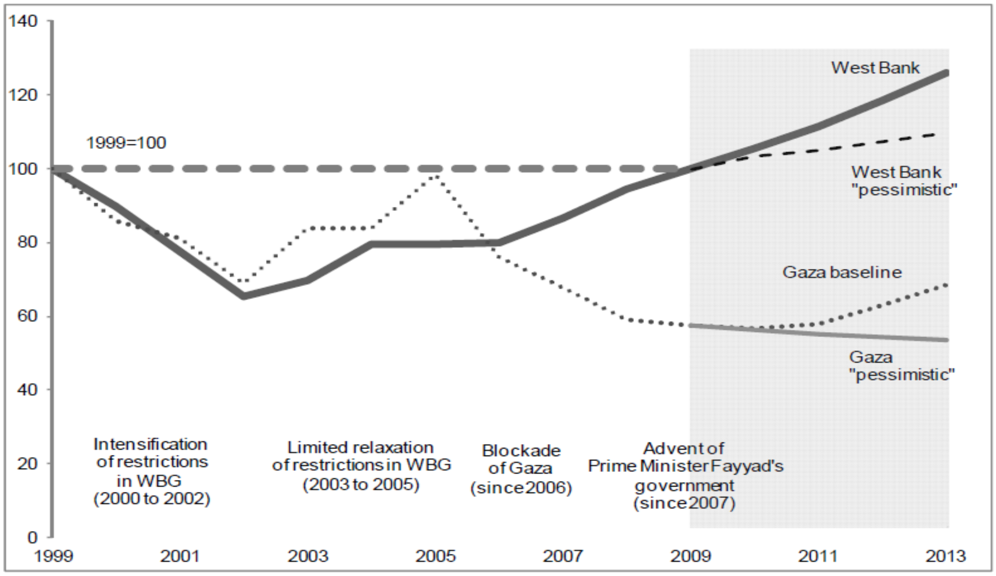
Since 2007, the situation in the West Bank has improved because of increased donor funding, improvements in security conditions, the relaxation of restrictions on the internal movement of people and goods, and public finance reforms implemented by the Palestinian Authority.

Since 2007, when President Abbas formed the Caretaker Government and the embargo was lifted, the international community has reinstated financial and technical assistance, helping to provide basic social services and fund the public sector payroll. From 2007–09, the PA received nearly $4.2 billion in budget support from the international donor community.[15] Positive economic results were achieved with increased donor funding, improvements in security conditions in the West Bank, the relaxation of restrictions on the passage of people and internal trade, and public finance reforms implemented by the PA. Indeed, since 2007, Palestinians have experienced positive real GDP growth (6.8 percent estimated in 2009)[16]—although it is still mostly stimulated by external donor assistance. Most of the GDP growth was in West Bank (8.5 percent estimated in 2009),[17] with growth in Gaza significantly lower (1 percent estimated in 2009).[18]

Despite large inflows of international aid, 50 percent of the Palestinian population in the West Bank and 70 percent in Gaza live in poverty, with unemployment rates of 18 and 39 percent respectively.

However, growth was mainly driven by donor financing, and there were few signs of private sector engagement outside of the real estate and housing sectors. In addition, these positive developments remain challenged by the isolation of about 40 percent of the Palestinian population within the Gaza Strip. Despite large inflows of international aid, 50 percent of the Palestinian population in West Bank and 70 percent in Gaza live in poverty,[19] with unemployment rates at 18 and 39 percent[20] respectively.**Conditions in Gaza:** The recent modest economic progress in the West Bank excluded the 40 percent of the Palestinian population who live in Gaza. Since the Hamas takeover of Gaza in June 2007, it has remained sealed for all but limited volumes of basic goods. With very few humanitarian exceptions, most of the 1.5 million Gazans cannot exit to Israel, or to Egypt through the Rafah Crossing. The entry of critical inputs, including fuel, electricity, and materials to maintain water and sanitation networks, is highly variable and subject to numerous reviews in Israeli courts on the acceptability and extent of sanctions. In addition, the 2008 war between the Israeli Defense Force and Hamas wrought tremendous destruction on Gaza's economy and infrastructure, wiping out its productive sectors, including agriculture. Consequently, the private sector in Gaza has all but collapsed: what little activity remains depends on inputs coming in through tunnels along the Egyptian border or the limited selection and volume of goods allowed in by Israel. At this point, the Gaza economy is almost completely driven by the regular payment of public employees' salaries, humanitarian assistance and work programs provided by the UN and other donor agencies, and the "tunnel economy."

Figure 1.1 West Bank and Gaza: Paths of Regional Real GDP per Capita Relative to 1999 (Index; 1999=100)



Source: Palestinian Central Bureau of Statistics (PCBS); IMF Staff Report on the West Bank and Gaza, April 2010.
Notes: GDP= gross domestic production; IMF= International Monetary Fund; WBG= West Bank and Gaza.

Bank Group Program

Bank Group Presence

The World Bank Group played a leading development role in the West Bank and Gaza even before the signing of the September 1993 Declaration of Principles. In November 1992, the cosponsors of the Middle East Multilateral Peace Talks asked the Bank to provide the advisory and financial leadership for a program of economic assistance to the Palestinian people, as well as a study of the economic prospects and development challenges of what were then referred to as the Occupied Territories. The resulting six-volume report[21] positioned the Bank well to assume the important advisory role once the Oslo Accords yielded results.

Since 1993, the World Bank Group has directly invested $676 million[22] in the West Bank and Gaza, and administered larger sums of funding from other donors through a number of trust funds (over $1.1 billion). An extensive program of analytical and advisory activities (AAA) supported the financing instruments. In the West Bank and Gaza, the analytical and advisory role of the Bank was rather unique and included not only being the main "economic adviser" to the Quartet on the Middle East, but in general the leader of the large group of active donors present there. The Bank was also an important convener for coordinating donor activities and managing some donor resources through its trust funds.

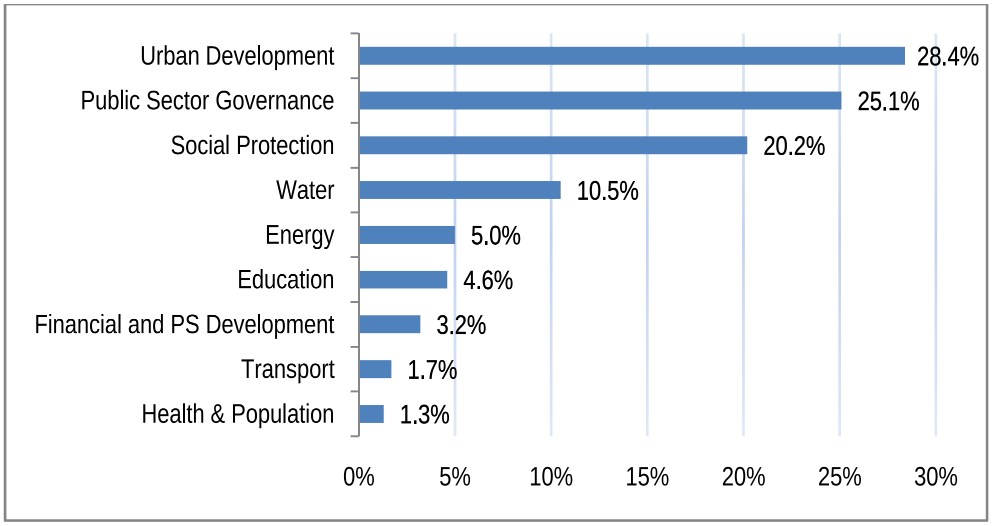
The analytical and advisory role of the World Bank was rather unique and included not only being the main "economic advisory" to the Quartet on the Middle East, but the leader of a large group of donors.

Since the West Bank and Gaza did not meet the criteria to apply for membership of the World Bank Group institutions and use the financing sources available to member countries, the World Bank established the Trust Fund for Gaza and the West Bank (TFGWB) in 1993. Successive replenishments of the TFGWB, which has funded the World Bank program in the West Bank and Gaza, have come from IBRD net income allocations. World Bank financing amounted to $379 million during the 2001–09 period.[23]

The financial resources of the Bank-administered Trust Fund for Gaza and the West Bank for 1993-2010 were primarily directed to infrastructure, public sector governance, institutional development, social protection, and emergency assistance.

As of the beginning of 2010, the TFGWB has been replenished eight times for a total allocation of $620 million.[24] The TFGWB has received an additional $108.28 million from investment income, service charges, and commitment fees on outstanding credits. Twelve million dollars were transferred to the Holst Fund[25] in 2000 for an Emergency Response Program, bringing the total TFGWB resources to $716.28 million. As of April 30, 2010, $608 million has been disbursed for the West Bank and Gaza portfolio, and $81.24 million are committed or undisbursed (including $2.24 million of repayments due to IDA). The TFGWB financial resources in 1993–2010 were primarily directed to infrastructure, public sector governance, institutional development, social protection, and emergency assistance (figure 1.2).

Figure 1.2 World Bank Investment in Projects by Sector, 1993–2010



Source: World Bank data as of June 2010.

IFC has been present in the West Bank and Gaza since 1996 and remained active over the evaluation period, despite the constraints on the investment climate and the economic blockade that have devastated the Palestinian private sector. There were no IFC investments in the West Bank and Gaza between 2001 and 2007 due to political instability. During 2008–09, IFC increased its activities, with a committed investment portfolio of $62 million in 6 operations[26] focused on the financial sector, telecommunications, leasing, trade, and housing finance. IFC supported the projects with its advisory services, spending an additional $1.5 million for 8 advisory-service projects in direct support of its investments and in projects focused on the improvement of the business environment. More recent advisory services have aimed at the improvement of the legal and regulatory framework, access to export markets, management training, and corporate governance.

In 1997, MIGA established a Guarantee Fund with an underwriting capacity of up to $20 million to cover political risks, with contributions from the PA and other donors. In 2008 the Guarantee Fund's capacity increased to $30 million and changes have been enacted to its operational rules to increase its relevance in attracting private sector investment. However, although there has been some interest, to date, investors have not used the Fund.

A previous IEG evaluation noted that many of the uncertainties facing the West Bank and Gaza made it doubtful whether the benefits of World Bank Group assistance would prove resilient to the considerable risks—a consideration which still applies.

In 2002, IEG (previously known as the Operations Evaluation Department) prepared an evaluation of World Bank assistance to the West Bank and Gaza covering the period 1993–2001 (box 1.1). It rated the overall outcome of Bank assistance satisfactory and stressed that the Bank's performance, including the strategy, was timely and relevant. At the same time, the report noted that the many uncertainties facing the West Bank and Gaza made it unclear whether the benefits of the Bank's assistance would be resilient to the considerable risks.

Box 1.1 Evaluation of World Bank Assistance to West Bank and Gaza, 1993–2000

The 2002 evaluation of the World Bank's assistance to the West Bank and Gaza concluded that the Bank had been an important contributor to improving the living standards of Palestinians from 1993–2000. The Bank has been a major player in improving infrastructure and social services and in providing emergency employment.

However, there was little development in the private sector, despite the Bank's efforts to improve the business climate. This was due mainly to restrictions on the movement of goods and people, as well as political uncertainty. The Bank provided considerable assistance in the form of financing, technical advice, and training to PA civil service agencies. However, the overall institutional development impact was considered modest, given the very challenging and politically-charged environment.

The evaluation found that the Bank took appropriate risks in assuming the role of trust fund administrator. The evaluation stressed that although the focus on shorter-term visible achievements such as infrastructure was important, it was even more important to ensure longer-term institution building and especially a competent, fiscally sound governing structure.

The evaluation recommended more flexibility and selectivity. It noted that the Bank should have concentrated on targeting infrastructure delivery and services to poorer segments of the population, and strengthening public sector management.

Bank Group Objectives, 2001–09

The World Bank program in the West Bank and Gaza generally focused on support for economic recovery and development and emergency assistance. The tension between the long-term development agenda and short-term emergency needs has been a persistent feature of the Bank's program. Since there were no official Country Assistance Strategies (CASs) for the West Bank and Gaza, the Bank's strategic objectives have been outlined in different forms, such as the regular TFGWB requests for replenishment and the Interim Strategy document (2008) that supported implementation of the PA's Palestinian Reform and Development Plan (PRDP) (table 1.2). The strategy documents defined objectives and areas of intervention very broadly and did not set explicit and measurable outcomes.

The tension between support for the long-term development agenda and short-term emergency needs has been a persistent feature of the World Bank's program.

During and after the *intifada* (late 2000 to 2004), the Bank sought to balance support for medium-term developmental activity, where feasible, against providing emergency assistance designed to sustain Palestinian institutions. In 2005–07, the Bank concentrated on accelerating economic growth, improving governance and institutions, and supporting service delivery. For 2008–10 the Bank has planned—under an overarching objective of economic recovery—to improve governance and support fiscal reform, private sector development, public infrastructure, and human development. Resources[27] allocated through TFGWB financed about 40 projects over 2001–09, primarily covering social development, public sector governance, and infrastructure. IFC's corporate and regional strategies have focused on IFC's support to the objectives of the private sector development and the infrastructure pillars of the Bank Group's strategy.

Table 1.2 Summary of Bank Group Strategic Objectives, FY2001–10

Pillars	*2001–03*	*2004–05*	*2006–07*	*2008–10*
Overarching Objective	Transition to statehood and development of the requisite policies and institutions, and addressing immediate emergency needs.	Balance efforts to manage the emergency with a continued focus on a medium-term development agenda.	Support the key PA objectives: accelerating economic growth, improving governance and institutional development, and improving service delivery.	Palestinian economic recovery.
Governance/ Public Sector Management	Continue laying the institutional foundation for statehood.	Support the development of sound economic strategies, policies, and institutions.	Accelerate growth, build institutions, enhance fiscal stability, and improve integrity, accountability, and transparency in government operations.	Improve governance and support fiscal reform.

Private Sector Development	Maintain/recover private sector activity.	Develop efficient and transparent institutions in the private sector, and convene Palestinian and Israeli economic interest groups.	Increase export capacities and improve agricultural sector competitiveness.	Support economic and private sector development.
Infrastructure Development	Develop sustainable systems and infrastructure in the water, electricity, and solid waste sectors.	Build the capacity of institutions to deliver basic services in the water/environment sector and urban services.	Improve infrastructure services.	Support public infrastructure development.
Social and Human Development	Support the delivery of essential social services, and build institutions.	Strengthen capacities for and finance the delivery of basic services to the poor; develop efficient and transparent institutions.	Improve service delivery, strengthen human capital, and make available quality services, and sustain and strengthen the development of sound institutions.	Support human development in health, education, and social safety nets; develop and strengthen institutions.

Source: World Bank
Notes: FY=fiscal year; PA= Palestinian Authority.

BANK GROUP ROLES AND INSTRUMENTS

To meet its strategic objectives, the World Bank Group used three vehicles for providing development assistance—financing of development projects, analytical and policy work, and the leveraging donor assistance.

The World Bank Group used three development assistance vehicles: financing of development projects, analytical and advisory work, and the leveraging of donor assistance.

Project financing/investment: Resources allocated by the Bank through the TFGWB[28] financed about 40 projects in the West Bank and Gaza in 2001–09, covering public sector governance, social development, and infrastructure. Overall, Bank financial assistance amounted to $379 million.

From 2001–04, social assistance received the largest share of Bank financing ($92 million), mainly in support of emergency services delivery, community development, strengthening nongovernmental organizations, and social safety net reform (table 1.3).

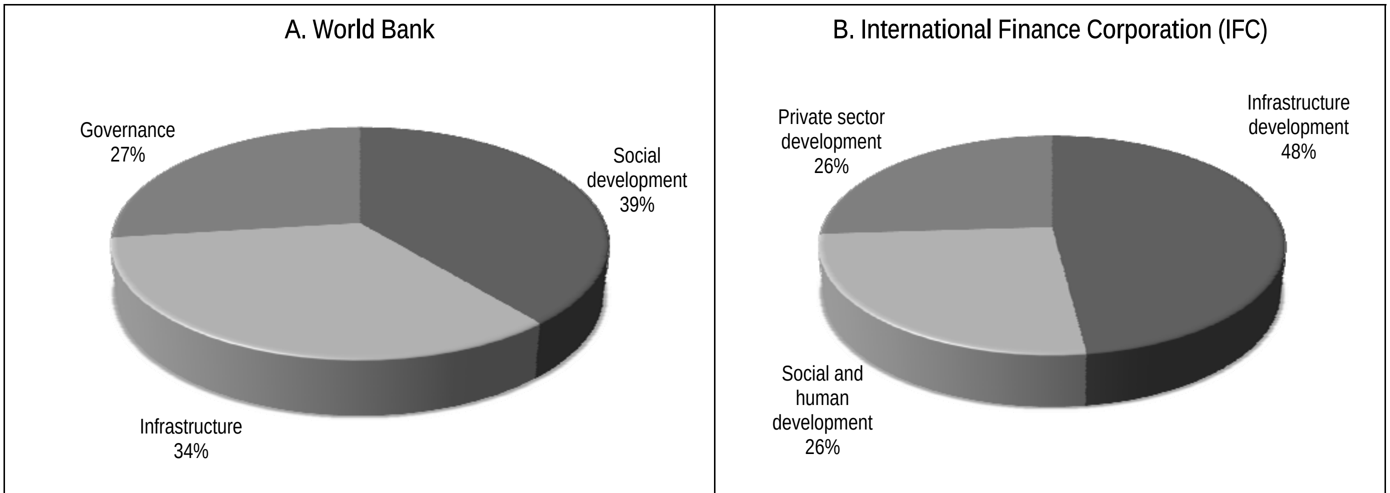
From 2005–07, the focus was on reconstruction programs in infrastructure ($45 million), financing emergency water, sanitation, and sewage projects in Gaza, and rehabilitation of municipal services. Governance and institutional building ($100 million) were the Bank's priorities in 2007–09, including support for the Palestinian Reform and Development Plan (PRDP), particularly in the areas of fiscal sustainability and public financial management.

Table 1.3 Bank Financing by Major Groups, FY2001–09 (US$ million)

	2001–04	*2005–07*	*2008–09*	*Total*	*Share (%)*
Social development	93.2	19.2	35.7	148.0	39
Infrastructure	59.6	44.5	26.3	130.4	34
Governance	20.4	0	80.0	100.4	27
Total	173.2	63.7	142.0	378.8	100

Source: World Bank internal database. March 2010.

Figure 1.3 Investment (percent) in Projects by Major Groups, FY2001–09



Source: World Bank data as of March 2010. *Source:* IFC data.

The performance of the Bank portfolio during the 2000s was significantly lower than the regional and Bank-wide average, which can be explained by the volatile political and economic environment. IEG outcome ratings of 24 projects that were closed between FY2003–10 show that 57 percent (by number) had an outcome rating of moderately satisfactory or better, which is lower than both the Middle East and North Africa Region average of 69 percent and the Bank average of 78 percent.

Similarly, the West Bank and Gaza performed at a lower level than both the Middle East and North Africa Region and the Bank-wide average on institutional development impact and sustainability. The portfolio quality has seen considerable volatility especially in FY2006–08, when the political situation in the West Bank and Gaza was highly unstable and unpredictable (figure 1.4). By FY09, the situation had improved, with fewer projects at risk in the West Bank and Gaza (18 percent) than with respect to the Bank average (22 percent).

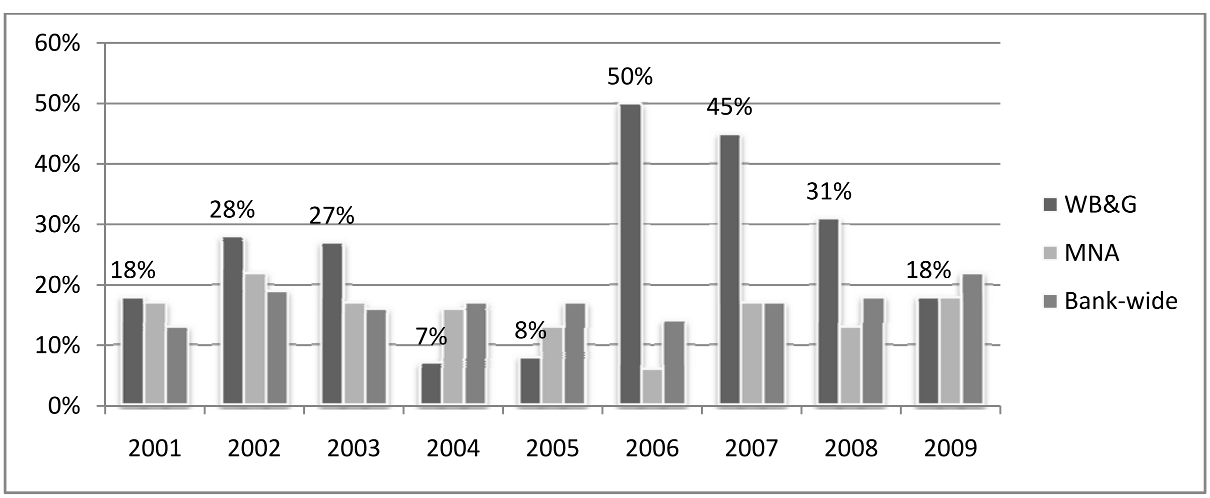
The World Bank Group portfolio quality has experienced considerable volatility especially since fiscal years 2006-08, when the political situation was highly unstable and unpredictable.

Table 1.4 IEG Ratings of Closed Operations, FY2003–10

Country/group	*Total number of evaluated projects*	*Outcome (% satisfactory)*	*Institutional development impact (% substantial)*	*Sustainability (% likely)*
West Bank and Gaza	24	57	21	23
Egypt	16	87	50	88
Jordan	9	78	33	80
Lebanon	11	55	25	57
Yemen	16	63	33	70
Middle East and North Africa	146	69	34	71
Congo, Democratic Republic	4	50	33	67
Haiti	2	100	..	..
Nepal	10	50	33	50
Bank-wide	1760	78	55	79

Source: World Bank internal database. June 2010.

Figure 1.4 Percent of Projects at Risk, FY2001–09



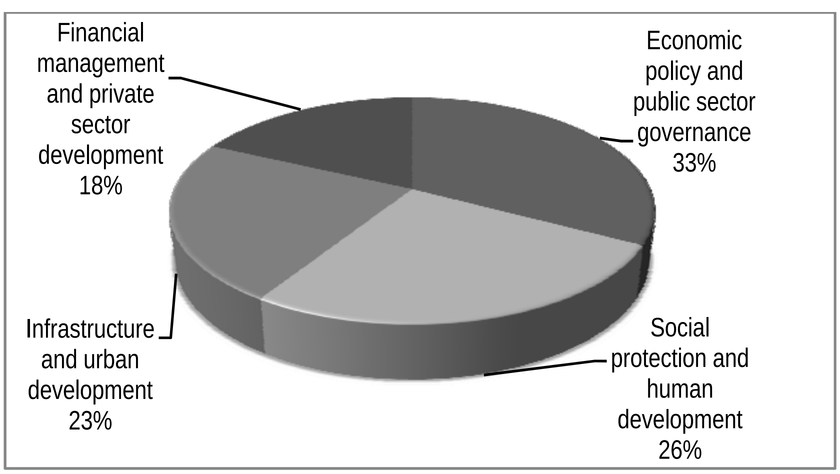
Source: World Bank internal database. June 2010.
Notes: MNA= Middle East and North Africa; WB&G = West Bank and Gaza.

IFC started to invest again in the West Bank and Gaza only in the later part of the evaluation period (FY2008–09), despite persistent investment climate constraints. Therefore, these investment projects are not yet mature enough to be rated according to IEG project evaluation methodologies. They focused on support of infrastructure development (48 percent), social and human development (26 percent), and private sector development (26 percent).

The World Bank Group has guided the donor community through analytic work, helping define the basic development challenges and priorities for development assistance.

<u>Analytical and advisory activities:</u> **The Bank Group institutions delivered a wide range of analytical and advisory activities in 2001–09, aiming to assist the PA in various sectors.** The Bank has guided the donor community through its analytical work, helping define the basic development challenges and assistance priorities. More than 60 AAA pieces, including economic and sector work (45 policy notes, reports, and consultations) and technical assistance (16 "how-to" guidance notes and institutional development plans)—were completed in FY2001–09. The Bank's analytical and advisory services covered economic policy and public sector governance, social protection and human development, infrastructure and urban development, and financial management and private sector development (figure 1.5).

Figure 1.5 Bank Group Analytical and Advisory Services by Sector, 2001–09



Source: World Bank data as of March 2010 (based on total number of studies) **In the early years (2001–03), the Bank focused on analytical work undertaken with or at the request of development partners and the PA**, most with a longer-term focus on building institutional capacity needed for the transition to statehood as well as on the collective effort to cope with emergencies, deliver essential social services, and spur recovery of the private sector.[29]

From 2004–07, the Bank produced some of its most influential analytical pieces and facilitated the strategic dialogue between the PA and development partners, leading donor activities in policymaking, developing local institutional capacity, and trying to convene Palestinian and Israeli economic interest groups. The Bank's contribution was especially important in providing detailed information and analysis on the impact of the separation barrier and movement and access restrictions on the economic and social development in the West Bank and Gaza. [30]

Under the 2008 Interim Strategy (2008–10), the Bank designed the AAA program to support the Palestinian Reform and Development Plan (2007),[31] strengthen the knowledge base of development partners (including key diagnosis tasks), and prepare for new lending operations. The Bank's focus shifted slightly from the sociopolitical overviews and strategic analyses of economic trends to more technical advice in specific sectors, such as public sector governance, social inclusion, health services, water resources, and communications technologies. It continued to help develop the financial and private sector.[32] In addition, the Bank continued its technical support to the Quartet on a broad range of issues, including movement and access analysis, advice on PA reforms, and technical analysis of proposed projects to jump-start the Palestinian economy.

The World Bank provided technical support to the Quartet on the Middle East on a broad range of issues, including movement and access analysis, advice on Palestinian Authority reforms, and technical analysis of proposed projects to jump-start the Palestinian economy.

IFC supported clients and the PA with advisory service projects aimed at improving the legal and regulatory framework, facilitating access to finance and export markets, providing training programs for bank management, and supporting corporate governance.

__Leveraging Donor Assistance:__ **Over the period 2001–08, the West Bank and Gaza received a total of $11.6 billion in official development assistance (ODA),** equivalent to about $1.5 billion per year (table 1.5).

The World Bank took the lead in both local and international aid coordination bodies.

The World Bank has leveraged resources from other donors, using the resources provided to the TFGWB and managing other donor trust funds. The Bank also took the lead in various aid coordination bodies at both the international and local levels, and Bank staff served on secondment assignments to the main aid coordination bodies. Since 1993, the Bank has administered more than $1.5 billion in funds provided by donors through cofinancing— almost $3 of donor resources for every $1 committed from the TFGWB.

In 2001–09, the Bank administered 34 donor trust funds totaling $897.45 million, including 19 Bank projects and AAA, which generally provided cofinancing for budget support (71 percent), emergency assistance (25 percent), development projects (2.5 percent), and analytical work and technical assistance (1.5 percent).

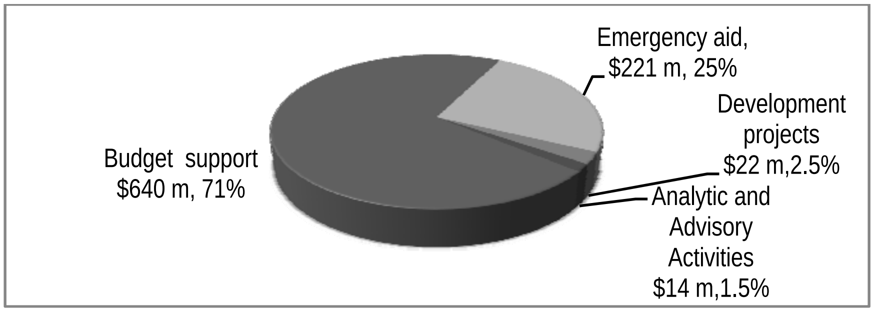
Table 1.5 Total Net Disbursements of Official Development Assistance and Official Aid, 2001–2008

Development partner	*Total net ODA disbursements, US$ million*								*Cumulative 2001–08*	*% of total*
	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*		
All donors, total	869.4	1,616.4	971.6	1,115.2	1,116.1	1,450.2	1,872.3	2,592.8	11,603.9	100.0
DAC countries	280.2	410.6	491.5	609.0	570.6	755.6	833.9	1,384.7	5,336.1	46.0
United States	84.3	138.1	194.1	273.9	180.6	205.5	212.3	490.6	1,779.3	15.3
Arab countries	246.6	775.8	23.8	20.1	7.4	..	3.9	..	1,077.7	9.3
Norway	37.5	50.9	53.5	53.8	74.0	87.8	106.2	115.8	579.5	5.0
Germany	17.9	37.9	35.3	31.2	39.8	67.7	75.2	77.4	382.4	3.3
Sweden	21.9	28.0	35.2	39.4	36.9	51.0	54.3	71.8	338.5	2.9
Spain	10.1	11.3	14.2	23.8	39.4	40.0	72.7	103.2	314.5	2.7
United Kingdom	17.0	23.8	31.1	29.5	23.5	35.1	22.5	102.6	285.0	2.5
France	12.7	15.6	22.2	25.2	29.9	40.0	55.9	74.2	275.6	2.4
Netherlands	14.0	13.9	13.1	20.9	29.9	32.2	30.3	75.1	229.4	2.0
Japan	21.5	12.8	4.5	9.0	5.8	78.2	48.7	30.3	210.7	1.8
Multilaterals, total	342.2	429.3	455.4	480.8	526.4	672.9	1,017.4	1,179.8	5,104.1	44.0
UNRWA	211.0	237.6	263.5	273.5	306.7	402.0	463.3	496.6	2,654.2	22.9
EC	118.5	170.9	181.1	186.7	206.7	257.9	540.9	661.3	2,324.0	20.0
World Bank	25.1	23.8	33.7	59.2	21.6	12.5	23.8	103.8	303.5	2.6

Source: OECD Development Assistance Committee Database as of July, 2010.

Notes: DAC= Development Assistance Committee of OECD; EC= European Commission; ODA= official development assistance; OECD= Organisation for Economic Co-operation and Development; UNRWA= United Nations Relief and Works Agency.

Figure 1.6 World Bank-Administered Trust Fund Financing, 2001–09 (millions US$)



Source: World Bank, as of May 2010.

Chapter 2

Governance: Public Financial Management and Fiscal Reform

Background

Improving governance has been a persistent theme in all Bank strategy documents for the West Bank and Gaza since its engagement in the Palestinian Territories began in 1993–94. The Bank's first diagnostic report, "An Investment in Peace" (World Bank 1993),[1] stressed the importance of building strong, transparent, and accountable institutions for the future Palestinian state. Most of the Bank's work in this area in the review period focused on issues related to public financial management and fiscal policy, which is also the core of this evaluation report.

In 1994, the PA began collecting revenue on its own for the first time.[2] Revenues increased steadily, from 8 percent of GDP in 1994 to 21 percent in 1999, higher than the average for other countries in the region. By the year 2000, the PA had advanced in establishing organizations and institutions for economic and financial administration—the Ministry of Finance, the Palestinian Central Bureau of Statistics (PCBS), and the Palestinian Monetary Authority (PMA). Although they had been designed on sound principles and under the general agreement of the parties involved, capacity in these structures and their overall performance still fell short of expectations set at their founding.

By 2000, the Palestinian Authority had advanced in establishing organizations and institutions for economic and financial administration.

According to IMF estimates,[3] about 20 percent of accrued revenues were diverted to off-budget activities outside the control of the Ministry of Finance. This practice further exacerbated liquidity problems, which were managed by borrowing from domestic banks and accumulating arrears. By the end of 2002, the stock of arrears exceeded 10 percent of GDP, creating serious problems with solvency and credibility. On the expenditure side, the large government wage bill (reaching half of total expenditure by 2000) crowded out expenditure in social services and public investment. The entire public investment program was financed by donors—often outside of the budget system (table B1, Annex B).

The closures and ensuing decline in economic activity after 1999 had a negative impact on public finance. After the start of the second *intifada* in September 2000, Israel started withholding[4] transfers of tax revenues that it had collected on behalf of the PA (about 14 percent of GDP). Expenditure on wages and salaries increased from 11.5 percent of GDP in 1999 to 24 percent of GDP in 2009 (table B1, Annex B). In addition to wages, expenditure in non-wage payments and "net lending"[5] also increased—from close to zero in 2001–02 to about 7 percent of GDP in 2007–09. By 2009, public expenditure reached about 52 percent of GDP, 30 percentage points higher than in the late 1990s (table B1, Annex B). This expansion was made possible by growing external financing, which averaged 26 percent of GDP in 2006–09.

Average annual official development assistance per capita to the West Bank and Gaza increased from $202 in 1998–2000 to $513 in 2006–08.

In absolute terms, total expenditure and "net lending" increased four times, from $839 million in 1998 to $3.2 billion in 2009. External financing increased six times, from $239 million in 1998 to $1.4 billion in 2009. Average annual ODA per capita increased from $202 in 1998–2000 to $513 in 2006–08.

Bank Program

<u>**Objectives:**</u> **The Bank strategy in the West Bank and Gaza for the period 2001–09 was reflected in several requests for replenishment of the TFGWB, and an Interim Strategy (2008).** The strategy sought to improve governance and fiscal management, and help build the institutions necessary to support the future Palestinian state. The strategy documents defined objectives and areas of interventions broadly, and did not set explicit and measurable outcomes (table 2.1). Public sector management was the main focus of the Bank's work in the area of

governance, consistent with the recommendations of the 2002 IEG (Operations Evaluation Department [OED], the previous name of IEG) review[6] of the Bank's assistance to the West Bank and Gaza.

Public sector management was the main focus of the World's Bank's work in the area of governance.

Table 2.1 Governance—Bank Group Objectives, 2001–09

Period	*Strategic objectives*
2001–03	Institution building
	Emergency response and institution building
2004–05	Supporting sound economic strategies, policies, and institutions
2006–07	Accelerating growth
	Governance and institution building
2008–09	Governance and fiscal reform

Source: World Bank documents.

Since none of the strategy documents had an explicit results framework, this review uses a set of "implied objectives" based on policy areas covered by the Bank strategies (such as public sector management), and intended outcomes (such as fiscal stability). It uses commonly accepted performance indicators to measure progress. The implied objectives for governance are shown in table 2.2 below.

Table 2.2 Implied Objectives for Governance

1. Sustainable fiscal management and fiscal stability
a. Fiscal independence
b. Enhancing fiscal stability
c. Macroeconomic stability
2. Improve transparency and accountability in public finance
3. Municipal finance and development

Instruments: The strategies proposed a combination of project financing, AAA, and economic monitoring activities (Annex B, tables B2 and B3).

The Bank's analytic work in this area covered macroeconomic issues, financial and intergovernmental fiscal relations, institutional development, trade, and ongoing activities (including periodic updates for the Ad Hoc Liaison Committee [AHLC] and other economic reports). Among the main reports relevant to governance were the Country Financial Accountability Assessment (CFAA 2004), the Country Procurement Assessment Report (CPAR 2004), and the Public Expenditure Review (PER 2007). They covered the fiduciary side and diagnosed the status of financial management in the West Bank and Gaza. Reports on municipal finance mainly informed the situation on delivery of municipal services, rather than the strategy on municipal finance and intergovernmental fiscal relations. The Bank started integrating the work on municipal finance and fiscal policy toward the end of the review period, but its impact on policy is not yet clear.

Bank financing can be classified in terms of: (i) supporting reform through budget support and seeking to promote transparency and accountability and, later in the period, restraining the fiscal deficit and growth of the wage bill; and (ii) investment operations supporting municipalities and service delivery at the local level. The latter part of the financial assistance did not address institutional development issues aimed at sound financial management at the local level. However, the later policy grants (PRDP Development Policy Grants (DPGs) I and II) tried to address these issues by limiting the impact of "net lending" on the government's budget. The Bank also helped to establish the Municipal Development Lending Fund (MDLF) to finance municipal works.

Sound fiscal management was a necessary condition for continued donor support, essential for the survival of the Palestinian Authority.

<u>**Relevance (objectives and design):**</u> **The main objectives of Bank assistance in governance—*improving public financial management* and *reforming fiscal policies*—were highly relevant to the needs of the client.** An effective Palestinian government had to have strong financial foundations, resilient to domestic and external upheavals. Better fiscal management was needed for economic growth, stability, and proper use of financial resources. Sound fiscal management was also a necessary condition for continued donor support, essential for the survival of the PA. Overall, the objectives and design of Bank assistance were substantially relevant, but more attention could have been paid to governance and institutional development at the local level.

Achievement of Objectives

None of the Bank strategy documents did not set specific targets or established baseline values. Therefore, this evaluation looks at whether there was positive/negative change in the areas that the Bank assistance contributed to over the review period.

The large increase in external financing in recent years can certainly be seen as an expression of international community support for the current Palestinian cabinet of Prime Minister Fayyad. Nevertheless, overreliance on external financing constitutes a threat to the government's fiscal independence and its ability to create a stable economic environment in the longer term.

SUSTAINABLE FISCAL MANAGEMENT AND ENHANCED FISCAL STABILITY

Fiscal independence: In order to measure the extent to which fiscal independence was achieved, revenues and external financing as a percentage of GDP were used as results indicators. Values were then compared at the beginning and at the end of the review period. Three-year averages were used to isolate the potential effects of large changes in one year.[7] Table 2.3 shows that an increase in revenues was accompanied by a much larger increase in external financing needed to cover growing expenditures, indicating overall weakening fiscal independence. However, these numbers should be interpreted with a caveat. The large increase in external financing in recent years can certainly be seen as an expression of international community support of the current Palestinian cabinet of Prime Minister Fayyad. Nevertheless, overreliance on external financing constitutes a threat to the government's fiscal independence, as well as its ability to create a stable economic environment in the longer term.

Table 2.3 Indicators of Results for Fiscal Management and Fiscal Stability (Sub-objective 1)

		Baseline		Results	
Objectives and outcome indicators	*Improvement*	*Period 1*	*Value*	*Period 2*	*Value*
1. Fiscal independence					
a. Revenues—commitment basis (percent of GDP)	Yes	2000, 2003–04	21.8	2007–09	25.5
b. External financing					
i. Percent of expenditure and net lending	No	2000, 2003–04	16.0	2007–09	56.0
ii. Percent of GDP	No	2000, 2003–04	5.7	2007–09	27.6
2. Enhancing fiscal stability					
a. Reduce the PA's recurrent budget deficit (percent of GDP)	No	2000, 2003–04	-11.5	2007–2009	-23.8
b. Reduce the wage bill's share of total expenditures (in percent)	Yes	2000, 2003–04	55	2007–2009	49
c. Reduce net lending (percent of GDP)	No	2000, 2003–04	4.7	2007–2009	7.9
3. Macroeconomic stability					
a. Growth (percent per year)	Yes	2000–2002	-10.1	2007–09	3.8
b. Inflation (percent per year)	No	2000–2002	3.2	2007–09	5.1

Sources: IMF, World Bank, Palestinian Central Bureau of Statistics.
Notes: GDP= gross domestic product; IMF= International Monetary Fund; PA= Palestinian Authority.

Enhancing fiscal stability: This review used three indicators to measure achievements in improving fiscal stability: (i) recurrent budget deficit (on a commitment basis)—recording an increase from 11.5 to 24 percent of GDP; (ii) share of wages and salaries—a decrease from 55 to 49 percent of total expenditure (but still a large 24 percent of GDP); and (iii) "net lending" (the unpaid utility bills that Israel deducts from PA clearance revenues)—an increase from 4.7 to 7.9 percent of GDP.[8]

Although external financial assistance has helped to increase domestic demand and revive growth, restrictions to access and movement continue to be the main constraints to sustained growth in the West Bank and Gaza.

Macroeconomic stability: Economic growth and inflation are used as indicators to measure the achievement of macroeconomic stability. Growth rebounded in 2007–09, reaching 3.8 percent of GDP per year, after falling 10 percent per year in 2000–02 during the second *intifada*. Annual inflation edged upward from 3.1 percent in 2000–02 to 5.1 percent in 2007–09. Although external financial assistance has helped to increase domestic demand and revive growth, restrictions to access and movement continue to be the main constraints to sustained growth in the West Bank and Gaza. An increase in demand alone does not guarantee sustained growth, especially when most of it comes from government expenditure fuelled by public employment.

In summary, the objectives of fiscal stability and sustainable fiscal management were not achieved. Although the PA has started to control the growth of the wage bill and reduced its "net lending" from the 2007 peak, more needs to be done.

Bank Contribution: **The Bank supported achievement of this sub-objective through AAA and financial transfers.** Regarding AAA, the Bank produced relevant reports on financial management and fiscal issues. The CFAA (2004) reviewed the changes in the public financial management (PFM) system carried out since 2002, and identified a number of follow-up actions. The CFAA did not cover issues of fiscal policy.

The PER (2007) provided a comprehensive review of the problems and challenges for reform. Specifically, it recommended practical changes in macro-fiscal policy, public financial management, civil service reform, intergovernmental fiscal relations, and education, health, and social policy. The report correctly identified two critical and fundamental issues: (i) bringing aggregate expenditure closer to likely revenues and available financing; and (ii) the composition of expenditure, and hence its overall efficiency. The report noted that "central to both issues is resolute and realistic action to reduce government employment and wages while improving internal incentives."[9]

The Palestinian Authority introduced important reforms in public financial management— although large amounts of aid and political constraints to reforming the civil service have prevented better control of public expenditures and the wage bill.

In summary, the Bank produced a sound diagnosis of the problems affecting public finance and public financial management, but lack of political will was a barrier to reform. The situation changed only after June 2007 under the leadership of Prime Minister Salaam Fayyad. The PA introduced important reforms in PFM, although large amounts of aid and political constraints to reforming the civil service have prevented better control of public expenditures and the wage bill.

On the financing side, the Bank provided three grants for adjustment and reform over the review period. The 2004 Public Financial Management Reform (PFMR) Structural Adjustment Operation for $20 million supported improvements in financial management policies, and sought to provide donors with sufficient fiduciary assurances to ensure their financial support for the 2004 and 2005 budgets. This operation consisted mostly of components that were designed to promote transparency and accountability, but not fiscal retrenchment. Only one component aimed at limiting the growth of the wage bill, but it did not set a specific target.

In 2004, the Bank helped to set up a PFMR Trust Fund to facilitate donor support for the PA budget. The PFMR Trust Fund disbursed funds subject to the PA's achievement of agreed benchmarks. The other two operations, the FY2008–09 Palestinian Reform and Development Policy Grants I and II for $40 million each sought to strengthen the fiscal position of the PA, and increase government transparency and accountability through improved public financial management. The two grants were targeting at reducing "net lending" and establishing control over the public sector wage bill. At the end of the review period, "net lending" fell to 6.1 percent of GDP in 2009, close to the PRDP II target of 6 percent. However, the wage bill increased, albeit by a small amount, reaching 24 percent of GDP in 2009, and exceeding its PRDP II target of 22 percent.

In sum, when considering the entire review period, Bank financing did not have a tangible effect on enhancing fiscal stability and strengthening fiscal independence. However, the Bank helped the government to control "net lending" and growth of the wage bill in 2008–09. The design of the PRDP grants was appropriate for dealing with expenditure controls and promoting fiscal stability, as they properly specified the measures to be taken and expected results.

Improving Transparency and Accountability in Public Finance

The Bank's strategy documents set broad goals in this regard that specified neither the expected results and performance indicators, nor the baseline values. This section follows a slightly different approach from the previous one. It reviews and summarizes the main changes that took place in PFM since 2000, based on mission interviews and document reviews.

PFM sector outcomes:[10] The first major reform (2000) was designed to address diversion of revenues to accounts outside of the Ministry of Finance's control, excessive hiring in the civil service and security services, and lack of transparency and accountability in the management of the commercial investments of the PA. Implementation resulted in excise revenues being channeled to the Ministry of Finance through the Single Treasury Account (STA), an audit of the assets of the Palestine Commercial Services Corporation (PCSC), and an agreement to set up the Palestine Investment Fund (PIF) to manage the PA's commercial investments in a transparent manner.

Ultimately, the PIF was not established, and the agreed transfer of the Gaza payroll from the General Personnel Council to the Ministry of Finance did not occur. These two issues, in addition to the diversion of revenues, had to await the second wave of reforms triggered by internal political and financial crises, and by pressure from the donor community.

The new wave of reforms started in June 2002. It covered diverse areas of public sector governance and included measures to improve transparency and accountability in PFM including:[11] (i) directing revenues through the STA; (ii) setting up the PIF; (iii) integrating accounting systems of the West Bank and Gaza; (iv) establishing an internal audit function; (v) appointing financial controllers in all ministries; (vi) paying salaries through personal bank accounts; (vii) drafting a new external audit law; and (viii) establishing a new procurement agency in the Ministry of Finance.

An essential achievement for good treasury management was the establishment of the STA and the abolition of parallel accounts in Gaza and the West Bank. Achievements included improved control over the civil service payroll, as the Ministry of Finance took charge of the central payroll system from the General Personnel Council. The elimination of large discretionary transfer appropriations for the President's Office in the 2004 budget was another milestone. In addition, the formal establishment of the PIF,[12] bringing together all PA equity holdings under Ministry of Finance oversight through an audit function, was another important achievement. The PA monopoly on importing cement was removed, and the Ministry of Finance took over the management of the Petroleum Commission (the PA's petroleum monopoly). These important steps allowed lost revenues to be captured and diminished opportunities for diverting funds in a non-transparent manner.[13] As a result, the 2004 CFAA reported major improvements in the PFM system of the West Bank and Gaza since mid-2002.[14]

The Palestinian Authority's 2003 budget represented the first serious attempt to develop a budget that accounted for all revenues and set meaningful and manageable limits on expenditures.

After the 2002–03 reforms, the Ministry of Finance posted budget documents and extensive background budget data on its website. The 2003 budget represented the first serious attempt to develop a budget that accounted for all revenues and set meaningful and manageable limits on expenditure. Following the integration of the separate West Bank and Gaza accounting systems, monthly budget execution reports were prepared and posted on the Ministry of Finance's website at the end of each month.

The reform program regressed after January 2006, as most donors stopped funding following the Hamas victory in the Palestinian Legislative Council elections. The ensuing financial problems had direct repercussions on the management of public finances and reporting. In 2006–07, the Ministry of Finance did not publish a single financial report, the government used parallel accounts, the STA was not operating, and the line ministries did not have bank accounts.

Renewed PFM reforms restarted after June 2007, following the appointment of the new cabinet. The PA asked for Bank and IMF assistance in this effort.[15] Periodic reporting resumed in early 2008. Capacity still needs to be improved in this area, but progress is evident. According to mission interviews, the Ministry of Finance plans to produce accrual base financial statements. The Bank provided support in the following areas: (i) regulations for the new accounting system; (ii) preparation of the final accounts; (iii) improvement of monthly fiscal reporting; (iv) devolving more transaction processing to line ministries; and (v) developing a programmatic approach to budgets.

In 2008, the Bank concluded that the STA could be trusted, and that the Multi-Donor Trust Fund (MDTF) could be used to transfer money for budget support. As a result of the improvements in financial management, today more than 90 percent of donor contributions to the Bank-managed MDTF go directly to the STA for budget support. Establishment of the STA was a major step in improving transparency and accountability in financial management. It helps to control expenditures and avoid large discrepancies between actual and budgeted expenses. Advances in accounting and cash management have led donors to trust the system, improving timely disbursement of funds.

The Palestinian Authority's establishment of the Single Treasury Account was a major step in improving transparency and accountability in financial management.

Since 2009, the government has taken important steps to improve budgeting, moving from line item budgeting to performance-based budgeting. Budget allocations by sector are guided by the goals set in the Palestinian Reconstruction and Development Plan. The cabinet issues the guidelines that establish the sectoral priorities for the PRDP period. Despite clear advances, there is still room for improvement in many areas, in particular in integrating the investment and recurrent expenditure budgets.[16]

A recent IMF staff working paper[17] provides useful information regarding fiscal institutions in middle- and low-income countries, including the West Bank and Gaza. It rates the budget institutions of 72 countries and covers aspects of integrity, transparency, and accountability. The paper's rankings and scores aid in understanding where the budget institutions of the West Bank and Gaza stand today and how they compare with other countries.[18]

There is still room for improvement in many public finance areas, in particular in integrating the investment and recurrent expenditure budgets.

Table B6 in Annex B compares budgetary institutions in the West Bank and Gaza against regional neighbors, the highest ranked country among the 72 countries in the index (Peru), and the averages for the low-income and middle-income countries. The comparison indicates serious weaknesses in budget institutions, especially at the planning and implementation level. The IMF paper also produced an index of institutions by budget categories (Annex B, table B7), showing a similar picture, and suggesting areas for improvement.[19]

<u>Procurement:</u> In 2004 the Bank prepared a Country Procurement Assessment Report, and a procurement action plan, supported by an Institutional Development Facility (IDF) grant in the amount of $400,000. The 2008 Country Procurement Issues Paper reviewed the state of procurement regulations and implementation. It confirmed the 2004 CPAR findings related to the legal framework for public procurement, and found the system incomplete and insufficiently robust to provide a clear, rules-based environment for public procurement. The system did not meet the requirements to be selected for the next stages of the piloting program for the use of country systems. Regarding the 2004 CPAR action plan, the Country Procurement Issues Paper found that it had been partially implemented, and focused on the drafting of the new procurement law and regulations.[20] The Country Procurement Issues Paper concluded that "changes in the Government since 2006 have delayed the ratification and enactment of the law and regulations and prevented progress and successful completion of the other reform activities."[21] In sum, the Bank helped to prepare a draft procurement law, which in its present form is still a subject of debate and disagreement.

<u>Pensions and civil service reform:</u> Few, if any, achievements are recorded in this area. Although both areas were mentioned in Bank strategies for the West Bank and Gaza, no specific interventions addressed either pension or civil service reform. Regarding pensions, the long continuing dialogue with the PA did not bear fruit. Together with the United Kingdom's Department for International Development (DFID), the Bank provided advice on civil service reform. However, it had little impact, as it overlapped with a period (2003–04) not conducive to reforms amid "continued uncertainty about the leadership of the PA and the inability of reformers to gain firm control of the political agenda."[22] Civil service reform became a highly political issue, with the size of the civil service growing each year. It reached 180,000 in 2007—partly to address unemployment caused by the ongoing conflict and closures, and partly to accommodate political allies and boost the security apparatus. After 2007, the government of Prime Minister Fayyad started dealing with the problem, and by 2009 the number of civil servants had shrunk to about 150,000.

Civil service reform became a highly political issue, with the size of the civil service growing each year. It reached 180,000 in 2007— partly to address unemployment caused by ongoing conflict and closures, and partly to accommodate political allies and boost the security apparatus.

<u>Summary of achievements in PFM:</u> Improvements in PFM between 2000 and 2010 are indisputable. A political and financial crisis led to major reforms in 2002 and 2003 that improved financial accountability and transparency. The reform process suffered a setback in 2006–07 after the Hamas victory in PLC elections, and the subsequent drastic reduction in donor financing of the PA budget. Reforms resumed again in mid-2007 after President Mahmoud Abbas appointed Salaam Fayyad as Prime Minister and Minister of Finance. The government now controls the donor commitments process, collects more revenues, and has taken steps to improve transparency and integrity. A single treasury account is up and running, which has resulted in reduced arrears, and donors are using the STA for budget support. Moving from line item to program-based budgeting is another step forward for improving expenditure efficiency.

Overall, some systems of accountability and transparency are indeed in place. However, a lot still depends on the political will and personal leadership of the Prime Minister.

<u>Bank Contribution:</u> It is difficult to separate the Bank's contribution from other donor assistance to developments in PFM for the past 10 years. In terms of analytical work, the Bank and IMF were the most prominent players, producing reports on PFM, diagnosing problems, proposing solutions, and offering guidance to the authorities. The 2004 CFAA and the 2007 PER were the most influential of the Bank reports, providing sound analysis that was accepted by other donors and the PA.

In terms of analytical work on public financial management, the World Bank and the International Monetary Fund were the most prominent players, providing sound analysis that was accepted by other donors and the Palestinian Authority.

Bank reports boosted donor confidence in country financial systems, and were a major factor in donor decision-making processes. As the PFM Reform Fund administrator, the Bank was responsible for monitoring and certifying performance benchmarks and deciding on disbursements. With relatively limited resources spent on economic and sector work (ESW), the Bank was able to influence other donor programs and PA policy. The Bank's quarterly reports on reform implementation (PRDP reform matrix) are carefully read and used by all key stakeholders.

Overall, the Bank's technical assistance targeted high levels of policymaking, and was of good quality. However, it was sometimes sporadic and follow through was not always done. Perhaps better prioritization, more consistency, and more staff presence in the field working full-time on specific issues would have helped.

The Palestinian Authority has a better command of the development agenda and ownership of reforms.

Some PA government officials told IEG[23] that although the Bank was the main force behind the selection of sectors for assistance and development of sector strategies until 2006, today its influence is much less pronounced and even minimal. One obvious reason for that is the better command of the development agenda and ownership of the reforms by the PA. This is certainly a positive development, and an achievement that the Bank should continue to support.

MUNICIPAL FINANCE AND DEVELOPMENT

Bank Program: Historically municipalities had a special place in the West Bank and Gaza, and were directly responsible for developing and providing the main public services, such as roads, energy, water and sanitation, basic education, and primary health care. By the time of the Oslo Accords in 1993, the West Bank and Gaza had 28-30 designated municipalities, representing all of the main towns. In its first few years of the PA's existence, it accorded municipality status to 75 additional localities.

As much as 40 percent of public investment is being done by the municipalities using donor funds.

By the end of the 1990s, the Bank was most concerned about the financial aspects of the municipalities, especially the transparency of their operations and the efficiency of their expenditures.[24] The Bank's report on Public Sector Management (1999) highlighted these issues. It found that even the longer-established municipalities had very limited revenue from local taxes, and covered the costs of some services through the margin on electricity or water fee collections. The report indicated that as much as 40 percent of public investment was being done by the municipalities using funds provided by the donors.

The two areas that the Bank recommended for urgent attention were development of accrual-based accounting and reinforcement of revenues. The Bank argued that the best source would probably be the development of a property tax. However, first property assessments and land titling would need to be overhauled. The Public Sector Management report also recognized that additional capacity building should be done for investment planning and project selection. Working with a subset of five municipalities on all of these issues had been envisaged under the first Municipal Infrastructure Development Project (MIDP-I, 1996), and was to be reinforced and extended to others under the second project, which was approved by the Bank in January 2000.

<u>Sector outcomes:</u> **Some groundwork was laid for improvement in municipality financial management in the first half of this decade.** However, it was only in the last two or three years that some signs of wider improvement became evident.

Progress has been achieved in municipal budgeting. Municipalities are now submitting annual budgets that more closely reflect what is actually planned. A standardized budget system using accrual-based accounting was approved by the Ministry of Local Government in 2007. A Unified Chart of Accounts and related coding system have been adopted, and were applied by all municipalities in reporting on their planned and executed budgets for 2008. A fixed asset registration system and valuation methodology has also been adopted by the Ministry of Local Government, and has already been applied in some 43 municipalities. An Integrated Financial Management Information System (IFMIS) has been developed and piloted in 5 municipalities, and is being launched in 28 municipalities in the West Bank during 2010. Most of this work has been carried out under the Local Government Capacity Building Project financed by Denmark and managed by the Bank. The project is being implemented under the Municipal Development and Lending Fund, which was created in 2005 to help promote and finance the development of municipalities.

<u>Net lending:</u> **The municipalities have not been able to adhere to the hard budget constraint, as recommended by the Bank.** Consequently, a substantial number of municipalities failed to pay bills to the Israeli bulk suppliers of electricity and water. The Israeli Ministry of Finance deducted the sums due from the import-duty and value-added tax (VAT) revenues that it paid to the PA, thereby imposing the municipal defaults on the central Palestinian budget. Estimates

for 2007 indicated that nearly two-thirds of all municipalities (and 84 percent of those in Gaza) were running budget deficits that could not be sustained.

Bank Contribution

MDLF: The Bank's advice[25] was critical in one main area of institutional development related to municipal financing and management—namely, the establishment of the Municipal Development Fund (MDF) in 2003, and its subsequent transformation into the Municipal Development and Lending Fund in 2005.[26] The MDF was established to "induce local governments to increase revenue collection, adopt sound accounting practices, improve spending management and boost accountability and reporting."[27] Prior to the creation of the MDF/MDLF, Bank advice rarely led to any action, partly because of institutional weakness in the Ministry of Local Government.

Apart from its capacity building and reform promoting functions, the Municipal Development and Lending Fund has become an important instrument for channeling financial assistance of about $100 million from foreign donors to the municipalities to date. Indeed, the Fund is the Palestinian Authority's preferred mechanism for channeling development assistance to local governments, especially for administrative and financial management reforms.

Apart from its capacity building and reform-promoting functions, the MDLF has become an important instrument for channeling financial assistance from foreign donors to the municipalities. To date, it has channeled about $100 million, with participation by all 132 municipalities. The Municipal Development Program (MDP) launched in 2009 began the move toward greater emphasis in the allocation of resources to the performance of the municipalities. It laid the groundwork for emergence of a sectorwide approach. The Palestinian Reform and Development Plan (PRDP, 2008–10) stated that the MDLF was the PA's preferred mechanism for channeling development assistance to local governments, especially for administrative and financial management reforms.

In sum, municipalities are able to develop plans and financing schemes, but the extent and sustainability of institutional development at the municipal level are not clear. The MDLF proved to be an effective mechanism for channeling funding (grants) to local communities,

but its dependence on external financing raises serious questions as to whether these services can be maintained in the longer term. The presence of multiple donors that prefer promoting their own approach to municipal development is another constraining factor. Another risk factor is that municipal reform often entails changes that require political leverage, which the MDLF does not possess, as it is a technocratic structure. The Ministry of Local Government, which under normal circumstances was supposed to be carrying out that task, continues to be extremely weak in terms of institutional capacity.

Little has been achieved to reduce the municipalities' reliance on central government funds via the expedient of "net lending" to finance their expenditures. So far, the Bank has tried to address this issue with conditions in the PRDP grants. However, the issue is much more complex and requires government action on municipal revenue, expenditure, financing, intergovernmental finance, and local public enterprises.

<u>Land Administration:</u> **The Bank also contributed significantly to the initial development of the Palestine Land Authority, and its pilot effort to revive systematic registration work in the West Bank and Gaza.** The Bank approved a $3 million grant in January 2005 along the lines of a Learning and Innovation Loan (LIL).[28] It aimed at establishing the feasibility of introducing land reforms. This was to be done by enabling the PA to issue land titles and register property transactions, and to dispose satisfactorily of public land. The project pursued objectives of substantial relevance but had design issues[29] that precluded achievement of the objectives. In retrospect the Bank considered the project to have been inexpertly designed and too ambitious for the brief period intended. An IEG review of the project completion report rated its outcome moderately unsatisfactory. This evaluation concurs with that assessment. Nonetheless, there was much appreciation from the Palestinian authorities for the efforts made and the experience gained, and for the high-quality manual on systematic registration that was generated.

Outcomes of Bank Assistance: Summary of Ratings

The overall outcome of Bank assistance for the governance pillar is rated moderately satisfactory. Table 2.4 summarizes the ratings for each sub-objective discussed in this chapter.

Table 2.4 Governance—Outcome Ratings

Strategic goals	*Achievement of sector outcomes*	*World Bank Group contribution to results*	*Outcome ratings*
1. Fiscal management and stability	Improved revenue performance toward the end of the review period was offset by much faster growth in expenditures, increasing dependence on foreign assistance. The PA introduced important reforms, but the large amount of aid and political constraints to reform of the civil service prevented better control of public expenditure and the wage bill.	The Bank produced a sound diagnosis of the problems affecting fiscal performance and public finances. It tried to help address some of the problems through development policy grants in support of the PRDP, establishing ceilings on "net lending," and the public payroll.	Moderately Unsatisfactory
2. Transparency and accountability in public finance	Important reforms were implemented on financial reporting, budget preparation, treasury management, and accounting. The STA is up and running, which has reduced arrears; and donors are using the STA for budget support. Moving from line item to program budgeting is another step forward in improving the efficiency of expenditures.	The Bank has provided valuable advice on broad principles of change. Bank reports boosted donor confidence in country systems and were a major factor in donor decision-making processes. As the PFM Reform Fund administrator, the Bank was responsible for monitoring and certifying performance benchmarks and deciding on disbursements.	Satisfactory
3. Municipal finance and development	One of the main developments was establishment of the MDLF, an important instrument for channeling financial and technical assistance to the municipalities. Some progress has been achieved in municipal budgeting: a standardized budget system using accrual-based accounting was approved in 2007 and an IFMIS has been developed and piloted in 5 municipalities. It is being launched in 28 municipalities in the West Bank during 2010. However, little has been achieved to reduce the municipalities' reliance on central government funds via the expedient of "net lending" to finance their expenditures.	The Bank's advice was critical to the establishment of the MDLF. The MDP began the move toward greater emphasis in the allocation of resources on the performance of the municipalities, and laid the groundwork for emergence of a sectorwide approach. The Bank also contributed significantly to the initial development of the Palestine Land Authority and its pilot effort to revive systematic registration work in the West Bank and Gaza.	Moderately Satisfactory
Governance: Overall Outcome		Moderately Satisfactory	

Source: IEG.
Notes: IFMIS= Integrated Financial Management Information System; MDP= Municipal Development Program; MDLF= Municipal Development and Lending Fund; PA= Palestinian Authority; PFM= Public Financial Management; PRDP= Palestinian Reform and Development Plan; STA= Single Treasury Account.

Conclusions

This evaluation finds the *overall emphasis* on PFM appropriate because of the importance of sound financial management for building a viable state, and because of the Bank's comparative advantage in this area. The *objectives of Bank assistance* were overly broad, but in the extremely volatile political situation it was easy to achieve consensus and adapt implementation as necessary. However, the absence of a results framework made it difficult to judge how successful and effective the strategies were or could have been. The strategies did not specify the results they expected to achieve and their link to the interventions, therefore the *relevance of their design was modest.*

The World Bank did extensive analytic work on financial accountability, public expenditure, and procurement that helped identify the problems in budget and financial management.

Bank strategies selected adequate instruments *to tackle public sector management problems.* The Bank did extensive analytical work on financial accountability, public expenditure, and procurement that helped identify the problems in budget and financial management. The Bank's work on public expenditure identified inefficiency problems, but the strategies did little to define ways to reduce them. Although interventions like the PRDP grants started paying closer attention to containing public employment and reducing "net lending," that concern was not reflected in the earlier strategy. It is likely that the strategies would have been more relevant if they had paid more attention to expenditure and efficiency issues from the beginning.

The impact of the Bank's analytical work on procurement and municipal finance was limited. On the positive side, the PRDP grants are taking into account aspects of municipal development and finance and their attendant relationship to overall fiscal policy.

***The Bank's support dealt with three main issues*:** enhancing fiscal stability; improving transparency and accountability in public finance; and municipal finance and development.

Regarding *fiscal stability,* the evaluation finds that the PA made an effort to increase its revenues, but its expenditures increased much faster, making it more dependent on foreign assistance. The Bank tried to help address some of these problems through PRDP grants, establishing ceilings on “net lending” and the public payroll. Future Bank assistance should follow fiscal developments to help ensure that fiscal stability improves and the PA reduces its dependence on foreign aid, which financed growing expenditures. It will be important to ask if the large flow of funds to the PA encourage or delay needed reform in the public sector, and if such flows discourage private sector development.

The PA took important actions on financial reporting, budget preparation, treasury management, and accounting that helped improve *transparency and accountability*. As reforms advance, the PA needs more assistance for specific tasks and less general advice on broad principles of change. The top-down approach employed in the past was useful in identifying the main problems in PFM, but future assistance needs to be more specific and immediate. Perhaps the Bank would need to take another look at the status of PFM and public expenditures, identify more specific and circumscribed problems, and tailor the assistance to solve them. Deploying a staff member[30] to the field office to deal with PFM was a step in the right direction. It needs to be followed by a deepening of the reach of assistance and technical advice.

The Municipal Development and Lending Fund has been an effective tool in delivering funds to municipalities, but it cannot substitute for reforms necessary to improve service delivery and accountability to local authorities.

With respect to *municipal development*, the MDLF represents an effective system to channel foreign resources to finance municipalities. However, more needs to be done to build a system that provides financial autonomy and promotes expenditure efficiency and fiscal discipline in the municipalities. Bank assistance contributed to the establishment and development of the MDLF, but it had little success in pushing reform of municipal and intergovernmental finances. The MDLF has been an effective tool in delivering funds to municipalities and in providing them with technical assistance, but it cannot substitute for the reforms necessary to improve service delivery and accountability of the local authorities. The MDLF needs to explore the option of lending at competitive rates (as opposed to providing grants) to municipalities, recovering the loans, and building a strong capital base.

Lessons and Recommendations

- ❖ Bank experience in the West Bank and Gaza shows the benefits of intensive and high-quality AAA in helping to define problems and identify solutions in fragile environments.

- ❖ The Bank should continue its support for PFM, making it more targeted, both in selecting the categories for assistance (for example, using the Bank's Public Expenditure and Financial Accountability program categories or the IMF's Code of Good Practice for Fiscal Transparency) and in its delivery (based in the field and working directly with ministries).

- ❖ The rapid rise of "net lending" and its negative impact on fiscal stability show the importance of fiscal discipline and strong fiscal institutions at the local level. The Bank made an effort to develop its knowledge of municipal finance, but that effort was not systematic. This review suggests that the Bank consider helping local governments improve their financial institutions and accountability in future programs.

- ❖ The experience on procurement reform indicates that good technical reports and technical assistance are insufficient to produce the results without commitment from the client.

Chapter 3

Private Sector Development

Background

The signing of the Oslo agreement in September 1993 created optimism about private sector participation in the West Bank and Gaza. Shortly thereafter, the Bank and IFC engaged in investments and delivered technical assistance and advisory services to clients in the West Bank and Gaza. However, private sector development was interrupted by the start of the second *intifada* in September 2000. The effects of the violence and unresolved conflict on the economy were devastating, with decline in gross output reaching its lowest level in 2002 (Annex C, table C2). More importantly, by 2005, despite recovery, the Palestinian economy underwent a serious structural change with a shift from an economy driven by investment and private sector productivity to one sustained by government consumption and donor aid.

Private sector development was interrupted by the start of the second intifada in September 2000. The effects of the violence and unresolved conflict on the economy were devastating, with decline in gross output reaching its lowest level in 2002.

Private sector activity in Gaza: Since the Hamas takeover of Gaza in June 2007, the crossings have remained sealed to all but a limited amount of basic humanitarian goods. The population in Gaza relies on aid, government spending, and the "tunnel economy" (illegal trade through tunnels at the southern border with Egypt). Israeli military operations in Gaza in December 2008–January 2009 (Operation Cast Lead) resulted in casualties and destruction of housing and infrastructure. The private sector was devastated, and most industrial establishments, agricultural lands, and support infrastructure were either totally or partially destroyed. Close to 1,200 private sector enterprises[1] were damaged (either partially or fully) with direct physical damage estimated at around $140 million (not including agriculture).

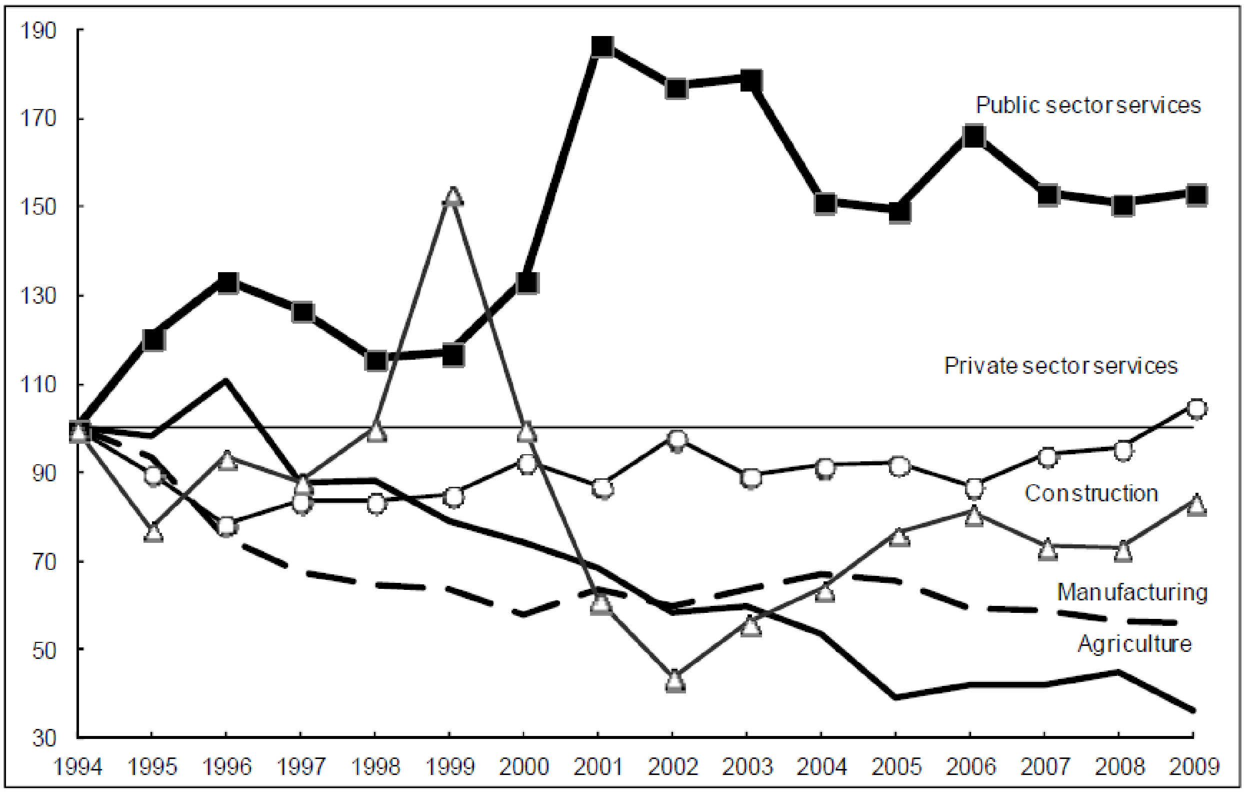
The population in Gaza relies on aid, government spending, and the "tunnel economy."

Structure of the economy:[2] Manufacturing and construction are the main contributors to economic output (Annex C, figure C1), accounting for 28 and 14 percent respectively in the West Bank and 18 percent each in Gaza. Agriculture and trade are the other two major GDP components with 13 and 11 percent in the West Bank and 12 percent each in Gaza Strip. Overall, today, in the West Bank and Gaza, services account for 79 percent of the economy, followed by industry[3] (13 percent), and agriculture (8 percent).

Manufacturing and construction are the main contributors to economic output, followed by agriculture, trade, services, industry and agriculture.

The Palestinian economy has traditionally depended on Israel as a source of employment and as its main market for agricultural products. However, there is a growing realization among many exporters that Israel is disengaging from the Palestinian private sector. Israel has opened its markets to low-cost imports, whereas the costs for Palestinian products rise because of expensive transportation and security issues. This is making it difficult for Palestinian enterprises to compete.[4]

Figure 3.1 Shares in GDP of Sectoral Output Relative to 1994 (Index; 1994=100)



Source: Palestinian Central Bureau of Statistics and International Monetary Fund.

Bank Group Program

<u>Strategy</u>: Private sector development (PSD) was a priority of the World Bank Group program in the West Bank and Gaza throughout the review period. All World Bank Group strategy documents since 2002 expected any turnaround in the economy to be led by the private sector, which was devastated by the *intifada* and needed help to recover. To achieve this goal, the World Bank Group strategy aimed at: reducing barriers to private sector development; improving the business climate (including better access to finance and an improved legal and regulatory framework conducive to private sector development and growth), and enhancing competitiveness of the private sector.

IFC's corporate strategies have consistently categorized the West Bank and Gaza within the subset of focused frontier countries at least since 2000, but the emphasis has varied.[5] In sum, IFC led the private sector investment side, complemented with advisory services, with the IBRD providing grant financing and producing analytic reports, and MIGA providing guarantees to allow investors to recoup their investment in security-troubled situations.

The International Finance Corporation led the private sector investment side, complemented with advisory services. The World Bank provided grant financing and produced analytical reports. The Multilateral Investment Guarantee Agency provided guarantees to allow investors to recoup their investment in security-troubled situations.

<u>Relevance</u>**: World Bank Group strategy was relevant to the client needs and correctly recognized that growth should be based on private sector development and export orientation.** After the start of the *intifada* in 2000, the World Bank Group shifted to emergency assistance and took measures to mitigate risks of unknown (at the time) duration. A flexible approach and reliance on the country team's responsiveness and feedback for readjusting in this volatile environment were relevant under the circumstances (until 2004). From 2005 onward, World Bank Group strategy was aligned with PA efforts to develop a longer-term vision for development. In addition to budget support, the Bank delivered a strong AAA program that promoted PSD.[6] Continued harmonization of the Bank's portfolio with other donor initiatives further strengthened the Bank's leadership role on PSD in the local aid coordination structure. At the same time, with the benefit of hindsight, the Bank could have been more responsive to the longer-term institution building needs, which appeared prominently in Bank strategy only after 2007.

Table 3.1 Private Sector Development—Bank Group Objectives, 2001–09

Period	*Strategic objectives*
2001–03	Maintain/recover private sector activity.
2004–05	Develop efficient and transparent institutions in private sector
	Convene Palestinian and Israeli economic interest groups.
2006–07	Increase export capacities
	Improve agricultural sector competitiveness.
2008–09	Support economic and private sector development.

Source: World Bank documents.

Implementation

Throughout 2001–09, IFC led the investment side of PSD-related interventions and provided advisory services addressing leasing, housing finance, microfinance, and corporate governance.[7] The Bank's ESW and TA addressed the institutional and operational capacity side of PSD. The Bank's contribution consisted of joint projects with IFC (Microenterprise development, Gaza Industrial Estate, and Palestinian Mortgage and Housing) and analytical work.

Throughout 2001–09, the International Finance Corporation led the investment side, addressing leasing, housing finance, microfinance, and corporate governance.

Pre-2001 activities: In the immediate aftermath of the Oslo agreements when the private sector was exploring new investment opportunities, IFC was able to identify strategic sponsors. IFC sought to first target the financial sector. The first IFC investment was with the Arab Palestine Investment Bank (APIB) with a focus on project finance. IFC also invested in other major banks (ComBank, Jordan National, and the Arab Bank) to develop capacity for accommodating the microenterprise financing needs of the private sector. The Small Enterprise Fund (SEF, 1996) allowed for IFC involvement in smaller investments between $0.5 and $1.5 million.[8]

Since 1999, IFC worked jointly with the Bank (through the TFGWB) on three larger operations of strategic significance. First, the Microenterprise Project ($5 million TFGWB; $7.5 million IFC; and $7.5 million from the private sector) provided commercially viable lending to microenterprises and built capacity in local commercial banks. Second, the Gaza Industrial Estate Project ($10 million TFGWB; $9 million in equity and loans from IFC; and $40 million from the United States Agency for International Development (USAID), the European Investment Bank (EIB), and the PA) financed establishment of an industrial park that was expected to attract new investments in Gaza. Third, the Housing Project ($25 million TFGWB, and up to $4 million in equity and $15 million in loans[9] from IFC) aimed to develop and expand the mortgage market. In parallel, MIGA launched its Palestinian Investment Guarantee Fund with an initial investment of $10 million from the TFGWB to cover political risk.

IFC also supported the first international-standard 250-key hotel in Bethlehem (Jacir Palace, $9.4 million) and the Peace Technology Fund, a greenfield project involving the establishment of an investment fund that would provide equity and equity–related securities to Israeli-Palestinian cooperative ventures.[10]

The second intifada *had a devastating effect: projects collapsed, and many investors had to default. The International Finance Corporation remained engaged and tried to minimize losses and find solutions for maximum recovery.*

2001–05: The IFC portfolio in the year 2000 comprised $51.4 million in commitments of which $31 million had been disbursed, including $14 million in equity financing. The start of the second *intifada* had a devastating effect: projects collapsed, and many investors had to default. IFC remained engaged and tried to minimize losses and find solutions for maximum recovery. Very soon, IFC found itself the only international investor remaining in the West Bank and Gaza after the *intifada*.

During this period, IFC focused on salvaging the existing portfolio and succeeded in reducing its exposure significantly. In September 2005, IFC's outstanding portfolio was $15 million in 11 firms. There were no new IFC investments between 2001 and 2007 (Annex C, tables C4-C6). In view of the aggravated security conditions and reduced economic activity, IFC reduced the size of its local office but remained active, trying to adjust to the new political and economic reality. Although it did not pull out abruptly from the country, its position was clearly reserved, as it put new investments on hold. The local office was trying to identify a new role in the emerging environment, following a long learning curve until 2005.

The poor outcomes of the projects due to the *intifada* and restrictions on movement and access had lasting negative effects on the regional scorecard and regional Development Outcome Tracking data, adding to the staff's normal risk aversion in such a challenging business environment.

Like IFC, the Bank went through a period of retreat and reevaluation of its PSD objectives. The Bank eventually developed a flexible approach geared toward reconstruction and slowing the further deterioration of the business environment. The Bank's analytic work informed various stakeholders and provided recommendations on private sector growth. Bank studies stressed that economic growth cannot be stimulated by government spending alone, but should be led by expansion of private sector activities. Bank studies[11] warned that inadequate legal and regulatory institutions, auditing standards, and transparency impose costs on private agents. Further, the Bank suggested enhancing the investment climate through policy-based lending operations, capacity-building efforts, regular investment climate assessment studies, and direct public support to firms through rural credit and microfinance.

World Bank studies warned that inadequate legal and regulatory institutions, auditing standards, and transparency impose costs on private agents and suggested enhancing the investment climate.

2005–2007: As the situation slowly improved and risks started to subside, IFC started efforts to reengage and identify new partners in the West Bank and Gaza, often in cooperation with the Bank. IFC Advisory Services aimed at improving the investment climate and identifying new business opportunities. These services proved to be a valuable and appropriate tool through which IFC could offer technical assistance not directly linked to an investment, thereby engaging with partners that could become project sponsors.

IFC's work on corporate governance since 2005, jointly with the Palestinian Monetary Authority (PMA) and the Capital Markets Authority (CMA), led to the introduction of the Palestinian corporate governance code in late 2009. Among other activities, IFC contributed to the 2005 Country Economic Memorandum (CEM) that identified key constraints to private investment. The Foreign Investment Advisory Service (FIAS, a joint service of the Bank and IFC) analyzed key issues constraining growth in sectors with high value–added and employment growth potential.[12]

During the same period, the Bank's PSD agenda was dominated by efforts to address the issue of restrictions on access and movement of goods and people. In 2005 (at the time of Israel's withdrawal from Gaza), the Bank argued that a healthy Palestinian economy was an essential part of confidence-building measures, and that Israeli restrictions on movement and access were crippling any such possibility. The analysis also suggested that it would be possible to reduce these restrictions without destabilizing security—the main concern of the Israeli authorities. This argument had some resonance with all stakeholders, including the Government of Israel and the PA, and was adopted as a core part of the terms of reference for James Wolfensohn's Quartet Mission.

A series of negotiations culminated in the Agreement on Movement and Access (AMA) brokered by U.S. Secretary of State Condoleezza Rice in November 2005. Despite its high profile, the AMA was never implemented. The donor community had built expectations and had linked the success or failure of PSD to access and movement improvements. After the disillusionment following the breakdown of AMA, focus shifted toward monitoring reports of crossings to account for the difficulties in trade.[13]

The relaxation of the security regime is essential to private sector development, yet the steps toward this end do not belong in the realm of economics.

The 2006 CEM noted that relaxation of the security regime would be essential to private sector development, yet the steps toward this end did not belong in the realm of economics. According to the report, the menu of economic policy to stimulate PSD should consist of measures to improve the business climate and lower the cost of doing business. In a similar vein, the report recommended that the PA and donors increase their emphasis on addressing the deficiencies in enterprise-learning mechanisms and improve management training and business advisory assistance.

2008–09: In 2007, IFC entered its most active phase in the West Bank. IFC has not directly engaged in Gaza due to the closure issues, but is supporting financial entities like the Bank of Palestine that has operations in Gaza. IFC engagement in the West Bank was boosted by an emphasis by the PA on reviving investor confidence, and strong IFC regional management support and high level World Bank Group management visits. These actions were intended to underscore commitment to full engagement, and reflected the general easing of the security environment and movement and access constraints. New investments reached $62 million ($30 million in the financial sector and $32 million in telecommunications) and a $75 million guarantee for the mortgage/housing project was committed in April 2010.

IFC's previous engagement with the banking sector established relationships that initiated cooperation on the Global Trade Finance Program (GTFP). The GTFP is a facility that offers foreign banks partial or full guarantees covering payment risk on banks in emerging markets for trade-related transactions, thus permitting local banks to issue letters of credit for export-import transactions. GTFP trade finance lines were approved for three banks (Al Rafah, Arab Islamic Bank, and the Bank of Palestine). Further cooperation with the Bank of Palestine resulted in an equity investment for up to 10 percent, a student loan facility supported by the Palestine Education Fund, and a housing finance initiative to provide affordable housing in cooperation with the PIF. Another major investment in cooperation with PIF was the Watanyia telecommunications project.[14]

IFC project development and structuring in the West Bank and Gaza seemed to take longer and cost more than similar projects in other countries in the Middle East and North Africa Region. For example, a guarantee project in West Bank and Gaza took more than three times as long and cost more than four times the average of three similar projects in the same region (see table 10 in Annex C). Although two projects are never perfectly comparable, the scale of the gap provides an indication of the difficulties of doing business in the West Bank and Gaza.

This period was also the Bank's most prolific regarding PSD, both in terms of activity and outcomes. The focus shifted to less political and more realistic targets such as institutional development, improving the ease of doing business, and capacity development for small and medium enterprises (SMEs). Movement and access restrictions (commercial crossings) were monitored on a regular basis to provide data for negotiations. A sharing grant scheme was put into place to enhance SME capacity. The Bank provided TA for the financial,[15] telecommunications,[16] and housing[17] sectors.

A recent Investment Climate Assessment *concluded that the Palestinian private sector is reluctant to invest because of: (i) restrictions to access and movement; (ii) the need for Israeli middlemen to access international markets; and (iii) the highly uncertain economic and political environment.*

A World Bank report on Potential Alternatives for Palestinian Trade (2007) recommended using the Rafah Crossing as a trade corridor to ship goods from Gaza to a container terminal at the entrance to the Suez Canal and to Cairo International Airport.[18] The Bank's *Investment Climate Assessment* (ICA, 2007) concluded that the Palestinian private sector is reluctant to invest because of: (a) restrictions to access and movement; (b) the need for Israeli middlemen to access international markets; and (c) the highly uncertain economic and political environment. The study recommended the creation of a Facility for New Market Development (FNMD), which was established in 2008 with financial support from the UK's Department for International Development (DFID).[19]

The International Finance Corporation's reengagement with strategic partners after 2007 generated commitments of about $135 million in the telecommunications, banking, and housing sectors.

Conclusions: From 2001–05, IFC maintained a reserved approach, with no new investments, as it tried to minimize losses after the *intifada*. It maintained a field presence (albeit with minimal resources), and learned to adapt in the changing environment. The most prominent investments for this period were carried out jointly with the Bank and aimed to create employment and build capacity. Capacity-building components were often considered best practice, even though most projects did not produce the expected results.

In 2007, IFC activities started to pick up with the use of Advisory Services, providing technical assistance for corporate governance, and producing studies on microfinance and the olive oil sector. A FIAS study addressed obstacles in the business regulatory environment. IFC's reengagement with strategic partners after 2007 generated commitments of around $135 million in the telecommunications, banking, and housing sectors.

IFC's de facto investment moratorium during 2001–05 was perceived as a warning sign by private sector actors. Some Palestinian investors and policymakers told the IEG mission that stronger commitment, earlier activity, and a stronger presence on behalf of the international participants could have triggered a larger and earlier private sector response. At the same time, IFC did maintain a local presence during times of crisis and remained engaged with its operating portfolio. After the second *intifada*, IFC focused on helping defaulting clients to cope with the crisis, and was one of the few international investors that maintained a presence in the country.

IFC Advisory Services and GTFP projects proved useful for IFC to reengage in the West Bank and Gaza. The development of appropriate tools to work in a challenging environment like the West Bank and Gaza proved to be critical for success in the last few years. IFC's successful advisory interventions, such as the olive oil sector TA, can be further exploited in cooperation with the Bank to replicate similar success stories.

The Bank provided investment financing and complemented the IFC program with AAA. Bank reports were of high quality, although some of them quickly became obsolete due to the high volatility of the political and economic situation. For a relatively long period (2004–07) the Bank focused on describing the negative economic impact of the restrictions to access and movement in an effort to convince the Government of Israel to relax some of the restrictions for the benefit of both sides. The efforts to use economic arguments to resolve a highly political standoff proved futile.

The World Bank's contribution in analytical work is highly valued by the entire donor community and the Palestinian Authority.

From 2005–09, the Bank focused on TA for trade facilitation, improving the legal and regulatory framework, investment management, and providing policy advice on telecommunications regulation. The ICA recommendations had the most visible impact, leading to the establishment of the successful Facility for New Market Development. The Financial Sector Reform (FIRST) initiative achieved positive outcomes in housing finance, capital market development, deposit insurance, and private pension regulation. The Bank continues active cooperation on PSD with the PA and donor partners, and provides quarterly policy reviews on the PRDP implementation. The Bank's analytical work contribution is highly valued by the entire donor community and the PA.

<u>MIGA presence</u>**: In 1997, MIGA established the West Bank and Gaza Investment Guarantee Trust Fund (the Fund) to cover political risks and encourage the flow of foreign direct investment.** The Fund was created in response to demand expressed by private investors,

mainly from the Palestinian Diaspora, interested in doing business in the West Bank and Gaza. It was composed of subscriptions from the European Investment Bank ($6.3 million), the Government of Japan ($5.1 million), and a credit from the TFGWB ($10 million). The Fund aimed to encourage small and medium-size investments, and was capable of issuing guarantees of up to $5 million in coverage per project.

To date, the only guarantee that has been issued was the 1999 $5 million contract with Solomon's Pools (an investment in tourism). The contract was cancelled in the fall of 2000 as the investors were deterred by the high premiums they had to pay in the prevailingly positive economic environment at that time. Ironically, this happened just before the *intifada* started.

From 2000 until 2008, the Fund remained idle in the TFGWB budget. It did not seem directly relevant to the political and economic situation, nor was it proactively marketed. Prospective clients had to direct inquiries about the Fund to MIGA's headquarters, which (as reported to the IEG mission) deterred them from approaching MIGA.

In July 2010, the Multilateral Investment Guarantee Agency recruited a full-time person to be based in the West Bank and Gaza to market their donor trust fund, assist in project underwriting, and liaise with investors.

In an effort to revive the Fund, in 2008, MIGA restructured it to cover other forms of risk and larger amounts, and opened up to local private sector investors. The current underwriting capacity of the Fund has reached $30 million, but it is still inactive. In July 2010, MIGA recruited a full-time outreach person to be based in the field to market the Fund, assist in project underwriting, and liaise with investors and MIGA. It should be noted that competitively–priced comparable products (such as OPIC's guarantee for political risk) are now emerging in the local market. In order to create a product able to acquire a share of the market, MIGA should take a closer look at supply and demand for guarantees in the West Bank and Gaza.

In conclusion, the Guarantee Fund established by MIGA in 1997 to cover political risks was not relevant to the situation in the West Bank and Gaza, and investors opted not to use it. The changes introduced in 2008 addressed most of the limitations, but this did not revive investor interest. MIGA should consider a more thorough assessment of the market to identify a target niche, or alternatively develop new products (for example, for temporary business interruption, a current request of the business sector). Marketing is critical. The recent recruitment of an outreach person is a positive step toward this end.

The long inertia of the Fund created an image that needs to be reversed. Cooperation with a local operator may refresh the interest of the private sector for MIGA products, as might full and prompt implementation of an IFC-MIGA Joint Agreement in the West Bank and Gaza.

Finally, pricing is another constraining factor, as MIGA appears to be a costly option for small-scale investments. A possible option could be to pair up with a private sector insurer to use the Fund. Alternatively, MIGA could act as an insurer for larger regional projects or consider a more flexible pricing structure.

Achievement of Objectives

The strategic objectives of the World Bank Group for PSD in the West Bank and Gaza were: reducing barriers to private sector development; improving the business climate; and improving competitiveness of the private sector. Most of the results in these areas were achieved in the later period (2007–09). Therefore the outcomes and sustainability may not as yet be evident.

Reducing barriers for private sector development: The World Bank Group made dedicated efforts to help reduce barriers to private sector development, but with little or no effect.

Studies on trade facilitation and improvement in access and movement of goods and people influenced few, if any, real changes. Although in most cases the expected economic benefit was demonstrated to be favorable to both sides, access and movement restrictions proved nonnegotiable in economic terms. The relevant outcomes were therefore short-lived and to date almost negligible overall. The cost of imports increased in 2009 by 30 percent, and the cost of exports remained the same.[20] Political risk was another barrier that MIGA sought to address. However, MIGA's guarantee scheme proved not relevant to the reality of the West Bank and Gaza business environment.

Improvement of the business climate: The World Bank Group addressed both access to finance and strengthening of the legal and regulatory framework.

The banking sector benefited from International Finance Corporation and World Bank participation in developing corporate governance. Overall, the World Bank Group intervention in improving access to finance was catalytic: it sped a process that otherwise would have been delayed.

Access to finance: **Both IFC and the Bank produced visible results, most of which accrued in 2007–09.** A series of strategic investments aimed at enhancing stakeholder capacity. Some were successful, but most of the early ones (2001–05) were impacted by the *intifada* and did not last long enough to produce a positive outcome. Specific efforts to create a strong, healthy financial sector yielded results by developing micro– and trade– financing facilities, housing loans, mortgage financing, access to leasing, and insurance. Technical assistance to the PMA and the CMA enhanced capacity in the areas of mortgage credit, capital market development, and deposit insurance. The banking sector benefited greatly from IFC and Bank participation in developing corporate governance.

Overall, World Bank Group intervention in improving access to finance was catalytic: it sped a process that otherwise would have been delayed. Although IFC's early projects were affected by the *intifada* and failed financially,[21] positive effects emerged from the interaction with some project sponsors. For example, the Microenterprise Project never reached the anticipated level of lending, yet the institutional capacity building component proved to be sustainable until the later period.

The International Finance Corporation and World Bank provided technical assistance and advisory services to strengthen the legal and regulatory frameworks in housing, private pensions, and corporate governance.

Strengthening the legal and regulatory framework: **Although outcomes may need time to determine measurable results, the World Bank Group's contribution to strengthening the legal and regulatory framework was substantial.** IFC and the Bank provided TA and advisory services to strengthen the legal and regulatory frameworks in housing, private pensions, and corporate governance. Under the FIRST initiative, the Bank worked with PMA and CMA to strengthen the legal, regulatory, and prudential frameworks for housing finance. This framework is now ready to support the emergence of accessible mortgage credit.

Furthermore, the Bank assisted in establishing the necessary regulatory framework to make private pension products available to the population, and helped the PMA and the CMA to conduct a feasibility study to establish a deposit insurance scheme. Perhaps the most important outcome in this area was the attainment of sufficient internal capacity within the CMA and PMA to independently draft laws and regulations.

IFC played an important role in strengthening capacity in the banking sector. The series of GTFPs provided financing for imports and exports, and supported relevant capacity building in banks. In 2009, the banks issued guarantees for $3.97 million, a significant increase compared to $0.06 million in 2007. All of these guarantees were issued on behalf of the Bank of Palestine and Al Rafah Bank. Al Rafah Bank improved capacity in strategic planning, developed a microfinance culture, and adapted its organization, structure, and accounting practices accordingly. The PMA received assistance under the FIRST initiative to establish a deposit insurance scheme that created confidence in the financial system and enhanced its stability.

Improving competitiveness of the private sector: Two programs stand out in this area: the Facility for New Market Development, [22] and the olive oil supply chain development project.

The FNMD supported the development and implementation of comprehensive new market and product development plans.[23] The outcomes included improvement of products (16 products, including 10 products that are now certified by international standards bodies), development of new products (13 new products), market penetration (26 new markets on 5 continents), job creation (76 new jobs), and an increase in exports ($5 million in incremental export and local sales).

The olive oil project provided technical assistance and advisory services to eight olive oil bottling companies. It resulted in improvements in quality standards, an increase in exports, and access to new markets.

The olive oil project provided TA and advisory services to eight olive oil bottling companies in production management, compliance with international quality standards, and export marketing. The outcomes of this intervention were: improvement in quality standards (five companies received International Organization for Standardization (ISO) 22000 certification); an increase in exports (35 percent since the start of the project); and access to new markets (five companies secured $938,000 in new export contracts).

The IFC had an influence in the telecommunications sector. .[24] It introduced a competitive force to the mobile telephone market, expanded employment opportunities, and fueled infrastructure development.

Ratings: Outcome ratings for the Private Sector Development pillar are summarized in table 3.2. The aggregate rating of "moderately unsatisfactory" for the pillar reflects the larger weight given to the rating of unsatisfactory for achieving the objective of "reducing barriers to private sector development." The larger weighting takes into account the critical role of this goal for private sector activity and development in general, as well as for achieving the remaining outcomes under this pillar.

Table 3.2 Private Sector Development—Outcome Ratings

Strategic goals	*Achievement of sector outcomes*	*Bank group contribution to results*	*Outcome ratings*
1. Reducing barriers to private sector development	The main barriers to private sector development—Israeli restrictions on access and movement of people and trade, together with political instability and associated risks to investments—remain unchanged.	Bank studies on trade facilitation and improvement in access and movement of goods and people were of high quality but influenced few real changes. MIGA sought to mitigate the political risk barrier but its guarantee scheme proved to not be relevant to the West Bank and Gaza situation due to initial design and marketing flaws.	Unsatisfactory
2. Improving the business climate	(a) Access to finance. There was significant improvement in capacity of local institutions and private sector enterprises, especially in the financial sector. In 2009, local banks—the Bank of Palestine and Al Rafah Bank—issued guarantees for $3.97 million, a significant increase compared to $0.06 million in 2007. Al Rafah improved capacity in strategic planning, developed a microfinance culture, and adapted organization, structure, and accounting practices accordingly.	(a) IFC and the Bank helped to create a stronger financial sector by developing micro– and trade–financing facilities, housing loans, mortgage financing, access to leasing, and insurance. The banking sector benefited from IFC and Bank participation in corporate governance. The series of GTFPs provided financing for imports and exports, and supported relevant capacity building in banks. The PMA received assistance under the FIRST initiative to establish of a deposit insurance scheme that created confidence in the financial	Moderately Satisfactory

		system and enhanced its stability.	
	(b) Legal and regulatory frameworks in housing, private pensions, and corporate governance were strengthened. Sufficient internal capacity was developed within Palestinian Monetary Authority (PMA) and the Capital Markets Authority (CMA) for drafting laws and regulations.	(b) The World Bank Group worked with the PMA and the CMA under the FIRST initiative to strengthen the legal, regulatory, and prudential frameworks for housing finance. The Bank helped establish the necessary regulatory framework to make private pension products available to the population, and helped the PMA and the CMA to conduct a feasibility study to establish a deposit insurance scheme.	
3. Improving competitiveness	A number of private sector actors improved capacity in production management and export marketing. The outcomes included: improvement of new products certified by international standards bodies; new market penetration; and an increase in exports. The telecommunications project introduced a competitive force to the mobile telephone market, expanded employment opportunities, and fueled infrastructure development.	The joint Bank-DFID Facility for New Market Development (FNMD) supported the development and implementation of comprehensive new market and product development plans. The olive oil project provided TA and advisory services to seven olive oil bottling companies in production management and export marketing. IFC also invested in a telecommunications project.	Moderately Satisfactory
Private Sector Development: Overall Outcome			Moderately Unsatisfactory

Source: IEG.

Notes: DFID= Department for International Development (UK); FIRST= Financial Sector Reform and Strengthening Initiative; GTFP= Global Trade Finance Program; IFC= International Finance Corporation; PMA= Palestinian Monetary Authority.

Lessons and Recommendations

❖ Development and selection of the right services and products, based on knowledge of local market conditions and needs, is critical to success in post-conflict environments. IFC Advisory Services were useful for reengagement with the private sector. Advisory services that were not directly linked to an investment proved to be a flexible platform pertinent to a reality where confidence had to be built slowly. At the same time, the MIGA Guarantee Fund established in 1997 to cover political risk was not relevant and has found no demand for its services.

❖ A permanent local presence and understanding of the local environment is important for success and imperative for responding rapidly to change. Bank and IFC commitment to long-term engagement and the development of strong relationships with the stakeholders based on trust was the basis for success. A history of participation in strategic investments was a confidence–building factor that conveyed an important message to the business community and contributed to a more positive perception of the economic situation.

❖ Successful World Bank Group-wide cooperation and effective donor coordination proved to have a multiplier effect in ensuring better results. Successful interventions, such as the olive oil sector TA, can be replicated in other sectors. Bank-IFC cooperation has great potential to generate success stories in a challenging business environment, using the leverage of the World Bank Group.

❖ Develop new instruments to support capacity building in medium-sized enterprises. The FNMD proved useful, but it is designed to help mainly small enterprises and covers a limited array of skills. IFC, for its part, works with the larger clients. A new tool is needed to address to a wider range of clientele, in between the ranges of IFC and FNMD.

❖ The World Bank Group should explore opportunities for developing private sector capacity in Gaza. There were few opportunities for PSD in Gaza in the last few years. The private sector is almost nonexistent there, following the near annihilation of nearly all productive capacity during the 2008-09 war and the subsequent blockade. What is left of the private sector continues to deteriorate, with the "tunnel economy" eroding and corrupting its structure even further. Perhaps a lesson from the West Bank is that PSD is not fully contingent on access and movement restrictions. There are other components to consider, such as capacity and institution building. Therefore, when trade and accessibility barriers unlock, businesses are ready to export.

❖ MIGA should consider a more comprehensive market assessment for its products and pricing in the West Bank and Gaza, or develop new products. The long inertia of the West Bank and Gaza Investment Guarantee Trust Fund created an image of the Fund that needs to be reversed. Possible cooperation with a local operator may refresh the interest of the private sector for MIGA products. Pricing is another factor that needs to be revisited. MIGA appears to be a costly option for small-scale investments. A more viable option could be for MIGA to pair with a private sector insurer through which to utilize the Fund, or to partner with IFC.

Chapter 4
Infrastructure

Bank Strategy

This chapter assesses the quality and success of the Bank's efforts to help the Palestinian authorities to develop infrastructure services since 2000. In the absence of an explicit statement of intended strategy or objectives, the analysis is based on stated emphases in the Bank's relevant analytical work and project documents.

After the Oslo accords signing in 1993-94, Palestinian institutions gradually began to take over responsibility for most infrastructure services.

Pre-2001: After the signing of the Oslo accords in 1993–94, Palestinian institutions gradually took over responsibility for delivery of most of the main infrastructure services. The high-level Palestinian institutions that had emerged were at widely varying levels of capacity in this regard. In the mid-late 1990s, the Bank had gradually moved from objectives of rapid improvement of employment and service supply in infrastructure toward building institutions and policies that would generate and efficiently implement sound long-term strategies.

The Bank's most urgent broad recommendation by the end of the 1990s was to develop organizational arrangements to deliver adequate quality as efficiently as possible but also earn sufficient revenues to invest in needed expansion and upgrading. Collaboration among municipalities, which had traditionally provided infrastructure services for their own citizens, had begun to produce economies of scale. Broader regional cooperation had been achieved in several geographic areas in electricity, and to some degree in water and sanitation. Various experiments had been made in privatization, as with the dedicated multi-dimensional telecommunications company (Paltel), its sole major electricity generator (Gaza Power Plant, built in 1997–99), and the Gaza water management contract. Experience had been promising but mixed, and there was a great need to develop effective, independent regulatory policies and institutions.

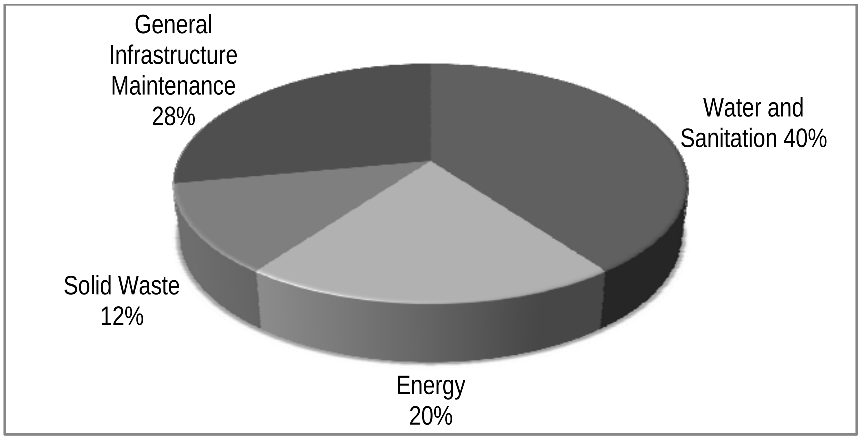
The increasing trend in the World Bank strategy to focus on improving efficiency, accelerating economic growth, and strengthening the autonomous Palestinian institutions was unexpectedly interrupted by the second intifada *in September 2000.*

Most of the services being provided by the Palestinian infrastructure institutions at the end of the 1990s were limited to distribution and small amounts of bulk transmission. Basic supply and main transmission services were still provided largely by Israeli public or private companies, such as Israel Electricity Company (IEC) or Mekoroth, the Israeli water supply company. Vital upcoming issues were identified for the best sources for additional water and energy supplies, and the organizational arrangements that would be most efficient in each case. The increasing trend in Bank strategy to focus on improving efficiency, accelerating economic growth, and strengthening the autonomous Palestinian institutions was unexpectedly interrupted in September 2000 by the start of the second *intifada*.

<u>2001–09:</u> **Throughout the decade, but especially in the first half, the Bank's work in the infrastructure sectors shifted uneasily, and sometimes abruptly, in response to political developments.** Shifts in emphases were evident between meeting short-term needs of employment, damage repair, and maintenance of the most basic service levels, to seeking to accelerate the emergence of viable Palestinian institutions. Program changes were not confined to the introduction of new projects or initiatives, but also extended to changing the emphasis in execution of operations already underway.

Another important choice concerned the balance between advisory and analytical work, and development and financing of a set of actions to bring about physical results in the area. Studies were of higher priority than in most of the Bank's other client countries not only because of the young Palestinian institutions, but also because of multiple physical and bureaucratic constraints for actual infrastructure work to be started in most fields—especially in the transportation and water supply sectors.

Figure 4.1 Distribution of the Bank Group's Capital Assistance in Infrastructure, 2000–09



Source: World Bank data as of April 2010.

The distribution of the Bank's capital assistance among the different infrastructure sectors reflected these factors, as well as the urgency of each sector's need for additional investment. The largest beneficiary was the *water* sector, reflecting its strategic importance. Nearly 40 percent of the $172 million committed by the Bank for infrastructure over FY2000–09 was devoted to major projects for the expansion of groundwater pumping, transmission/distribution, and sewerage in Gaza and the southern West Bank. Nearly 20 percent of the Bank's total infrastructure financing went to dedicated projects for reinforcing local electricity distribution systems. More than 12 percent was allocated to the creation of major sanitary landfills for receiving solid waste in two West Bank regions. Less important amounts were allocated to smaller investments in these fields through the general mechanisms.[1]

Financial assistance to these three subsectors was backed by studies. The most important ones were: (i) a broad assessment of infrastructure (2004), focusing on water, electricity, transport, and telecommunications, to highlight planning and maintenance needs;[2] (ii) a comprehensive review of the energy sector (2007),[3] with the main focus on electricity; and (iii) a wide-ranging review of obstacles to the development of bulk water supplies, especially the difficulties resulting from the split of responsibilities and powers between the PA and the Government of Israel (2008–09).[4]

Since 2004, repeated efforts have been devoted to the search for mutually acceptable remedies to the impediments to growth resulting from the Oslo arrangements relevant to transport and trade.

For the other two subsectors—transportation and telecommunications—the principal support offered by the Bank was in the form of studies: important work on ways to improve regulation and strengthen competition in telecommunications was done in 2007 and 2008, [5] and broad reviews of the transportation sector were issued by the Bank in 2000, 2004, and 2007.[6] The only capital financing the Bank has devoted to the transport sector has been limited amounts for repair and maintenance of regional and local roads through the municipal governments.

Since 2004, repeated efforts have been devoted to the search for mutually– acceptable remedies to the impediments to growth resulting from Oslo arrangements relevant to transport and trade. The Bank's efforts started with broad negotiations on the problems of movement and trade in 2004–05, and moved on to proposals for work focused on selected access points, and then to a focus on particular access points (in 2005–06, the Rafah Crossing for Gaza, and in 2007–08, the Allenby Bridge for the West Bank).

Table 4.1 Infrastructure Development—Bank Group Objectives, 2001–2009

Period	*Strategic objectives*
2001–03	Develop sustainable systems and infrastructure in the water, electricity, and solid waste sectors.
2004–05	Build the capacity of institutions to deliver basic services in the water/environment sector and urban services.
2006–07	Improve infrastructure services.
2008–09	Support public infrastructure development.

Source: World Bank documents.

Water and Sanitation

Bank program before 2001: Water scarcity was—and remains— a serious problem in the West Bank and Gaza. It is caused by weak infrastructure, high distribution losses (up to 40-50 percent), a shortage of trained staff in the municipal authorities, and financial practices that have generated little or no funds for investment in the system.

Water scarcity was—and remains— a serious problem in the West Bank and Gaza. Contributing causes include weak infrastructure, high distribution losses (up to 40-50 percent), a shortage of trained staff in the municipal authorities, and financial practices that have generated little or no funds for investment in the system.

Before 2001, the Bank's program recognized the limited water resources to which the Palestinians had access, but it also reflected a certain optimism that the debate on the sharing of water resources with Israel had at least begun with the internationally underwritten Oslo Accords, and that it would be carried further in the Final Status Negotiations. By the end of the 1990s, the Bank had already had significant experience in the water and sanitation sector in the West Bank and Gaza. In 1996, it made a $25 million credit in support of a management contract to upgrade Gaza's water and wastewater services.[7]

The most urgent water and sanitation needs for larger-scale development of bulk supplies include a major desalination plant for Gaza, and substantial wastewater treatment initiatives in Gaza and the West Bank.

The Palestinian Water Authority (PWA) was created in 1995 to provide, for the first time, a body with territory-wide responsibility to lead and manage development and distribution of the area's limited water resources. In 2000, the PWA completed a National Water Plan that emphasized the development of regional water utilities to take over the municipalities' water supply and sewerage responsibilities and provide professional management, a solution strongly supported by the Bank and other donors. The most urgent needs for larger-scale development of bulk supplies were considered to be a major desalination plant for Gaza, and substantial wastewater treatment initiatives in Gaza and the West Bank.

<u>Sector outcomes:</u> **Although water remains a relatively scarce and expensive commodity, per capita supplies appear to have increased modestly since 2000, and the share of the population with house connections continued to grow at least until 2005.** The decentralized organization of the sector, especially in the West Bank, has made it difficult to generate reliable data, especially territory-wide. Further, the PWA's data systems, strong in the early years, appear to have deteriorated recently.[8] The most reliable recent figure for the share of West Bank population connected to the public network is 90 percent in 2005.[9] PCBS figures for 2009[10] indicate no increase since the middle of the decade on a territory-wide basis, and a drop for the West Bank to 85 percent. The possibility that connections have ceased to increase, or have even dropped relative to total population, is supported by the evidence of decline in overall annual investment in the water sector in the second half of the decade.[11]

Overall collections performance has been poor—as little as 25 percent in Gaza City and the Jenin Municipality. This financial performance reflects largely the pressures on household budgets from years of instability and falling employment over the course of the decade. There is also a weaker dimension to these results, which is harder to quantify precisely: the change in the *quality* and *reliability* of water supply in an environment of instability, closures, and import interruptions.

Table 4.2 West Bank Population with No or Very Low Network Supply of Water, 2005 (Before Distribution Losses)

		Not connected		*<20 liters per capita /day*		*20-50 liters per capita/day*	
Region	*Total population*	*Population*	*Percentage of total*	*Population*	*Percentage of total*	*Population*	*Percentage of total*
Northern	952,000	173,000	18.2	23,000	2.4	109,000	11.4
Central	472,000	4,000	1.0	5,000	1.0	56,000	11.9
Southern	699,000	40,000	5.7	105,000	15.0	132,000	18.9
Total	2,123,000	217,000	10.2	133,000	6.3	297,000	14.0

Source: West Bank and Gaza: Assessment of Restrictions on Palestinian Water Sector Development, Sector Note (2009), World Bank Report No. 47657-GZ.

There has been little progress over the decade in dealing with wastewater issues. Only about 35 percent of West Bank Palestinians[12] are connected to a sewerage network. Twenty-five million cubic meters of raw sewage are being discharged each year in 350 locations,[13] mostly into open *wadis*— despite the fragility and limited scale of the groundwater aquifers. Gaza has been increasing household sewerage connections—from about 50,000 in 2000 to nearly 100,000 (as of 2009)—but its systems and treatment plants are severely overloaded. Five people were killed in a flood of sewage in March 2007 when a storage lagoon breached its embankment at Beit Lahia. The possibility of a repetition of this tragic event was finally eliminated in 2009 by further progress of the PWA's North Gaza Emergency Sewage Treatment Project (NGEST). The Bank and other donors have been supporting NGEST since 2005, but the project has been repeatedly slowed by political and border-closure problems (see box 4.1).

Only about 35 percent of Palestinians living in the West Bank are connected to a sewerage network.

On the organizational side, the spread of the Water Utility concept has been disappointing. Despite the political and economic obstacles posed by the local environment, the Central Municipal Water Utility (CMWU) in Gaza remains the only application of the concept. Despite the passage of a new Water Law in 2002 (based on the National Water Plan of 2000), little progress has been made in actual implementation of the organizational provisions, and PWA continues to be an all-purpose body, policymaker, regulator, and executive.

Box 4.1 North Gaza Emergency Sewage Treatment Project (NGEST)

One of the first wastewater treatment facilities in Gaza was built in 1976 at Beit Lahia, in the far north of the Strip. It was designed to serve a population of 50,000 and to treat 5,000 cubic meters of wastewater per day. By the year 2000, it was receiving more than 10,000 cubic meters per day from a population of 190,000. The plant's proximity to the Israeli city of Ashkelon, and its water intake from the Mediterranean, had caused Israel to prohibit discharge of the poorly treated effluent into the sea. Therefore, it had to be dumped in sand dunes adjacent to the plant, adding to the high nitrate levels of the shallow aquifer. Serious accidents involving loss of human lives had occurred in 1989 and 1992, as a result of wastewater pouring through breaches in the surrounding sand barriers.

In 2000, the PWA secured agreement for concessionary financing of a new treatment plant. However, by 2003 it was clear that the deteriorated security situation in Gaza would make it difficult to pursue implementation. Activities were suspended.

Confronted with rising sewage inflows and the risk of new accidents, the PWA approached the Bank and other donors in 2004 for emergency help. A project was put together, with Part A supporting the more urgent works for construction of effluent infiltration ponds at the site of a future new treatment plant, and Part B mainly involving the support of construction of the more advanced and much larger water treatment plant at the new site. By September 2004, firm agreement had been reached with the EIB to share the financing of Part A. Other donors tentatively agreed to support the much larger costs of Part B. The World Bank approved a grant of $7.8 million.

Construction of Part A was expected by late 2006 or early 2007, but was only completed in April 2009. In June 2006, access to Gaza was blocked by Israel in retaliation for the capture of an Israeli soldier, Gilad Shalit. On March 27, 2007, a small breach occurred and sewage flooded the nearby village of Um Ul Nasser, killing 5 and requiring the evacuation of some 40 percent of the 5,000 villagers. In April 2007, the contractor was allowed to proceed, but intensive involvement by the Bank and some other donors was required to keep things on track. Biweekly meetings were held between the Israeli Defense Force's Civil Administration, the PWA, and the World Bank to review movement of all goods on an item-by-item basis.

Every three months, a larger group involving the Israeli Ministry of Defense discussed higher-level matters, such as project design and the movement of workers. Each truck had to be cleared by the Civil Administration, Shin Bet (Israeli intelligence) and the Israeli Defense Force. In addition, the border crossings which were frequently closed, caused additional delays. Completion of works was further delayed early in 2009 in order to repair damage caused during a brief war between Israel and Hamas (Operation Cast Lead). Most of the cost increases were covered by an additional Bank grant ($3 million) approved in April 2008.

Design of the less time-sensitive Part B took longer than expected, but was also delayed by the failure to attract bids on account of the unpredictable political environment. A new call for bids in 2009 yielded more promising results after the PWA and its consultants tried to clarify and simplify the documents. At present, the contract for Part B has been signed and a contractor mobilized. A major facilitating factor in this regard was a comfort letter regarding access to the work site issued by the Government of Israel.

Source: World Bank documents and IEG mission interviews (March 2010).

<u>Bank Contribution:</u> **Within the rather modest PA record to date in improving water services, three specific aspects can be identified as benefiting from World Bank action.** Bank project financing contributed to the investment that improved rural connection rates and supplies in the southern West Bank, especially in the Hebron Governorate. Second, the Bank's continuous involvement with the water and wastewater sector in Gaza helped to sustain the most promising organizational initiative so far in the water sector, the CMWU in Gaza. The Bank also assisted in attracting donor support that has enabled some progress to continue. Third, the Bank has often succeeded in using its image of a neutral and technically competent broker between the two sides to facilitate progress on project implementation.

The World Bank has often succeeded in using its image of a neutral and technically competent broker between Israelis and Palestinians to facilitate progress in project implementation.

Following the truncation of the Southern Area Water Project (SAWSIP) in response to the start of the *intifada*, the Bank worked with the PWA and a group of bilateral donors to further implement the extensive plans for improvement in the South that had been made in the late 1990s. In July 2003, the Bank approved a contribution of $12.5 million for an Emergency Water Project[14] intended to improve water services to some 90,000 people in the villages and small towns of western Hebron. Special arrangements had to be made to minimize disruptions from restrictions on movement and access, especially in Area C[15] where some of the works had to be conducted.

By drawing on a combination of financing sources and approving supplementary grants to cover the costs of repairs necessitated by damage during the war, the Bank has helped sustain at least minimal requisite levels of water and wastewater service in Gaza. This has enabled the CMWU to continue progress on the agreed performance objectives. Maintenance of this support was particularly important for the sector in 2005–07 when most donors stopped financing the PA. The ability of the Bank to channel funds to urgent development purposes helped convince other donors to reactivate some assistance for activities in Gaza.

Water projects tended to require more Israeli-Palestinian collaboration than most others. The World Bank played an active and important role in facilitating cooperation, working closely with the Israeli Defense Force and the Civil Administration.

Because of the humanitarian purpose of the product, the technical nature of many issues, as well as the geography of the region, water projects tended to require more Israeli-Palestinian collaboration than most others. The Bank played an active and important role to help that cooperation to happen, working closely with the Israeli Defense Force and its Civil Administration.

In 2008, the Bank initiated a comprehensive and broad review of the obstacles to more effective water development, including: Palestinian institutional weaknesses; inadequacies of the Oslo arrangements for decision-making about sharing resources by Israelis and Palestinians; Israeli movement and access restrictions; and donor shortcomings. The report was issued in the spring of 2009 and attracted considerable attention. The thorough analysis undertaken found that a much more important factor than previously recognized was the relevant part of the Oslo agreement itself, and the way it had implemented:[16]

> The Israeli-Palestinian Joint Water Committee (JWC) has not fulfilled its role of providing an effective collaborative governance framework for joint resource management and investment. The JWC was established under Article 40 to implement the Oslo Interim Agreement on Water. However it has not been an effective mechanism for facilitating sector investments. *A high proportion of Palestinian projects has been rejected or long delayed in the JWC. Records show that 106 water projects and 12 large-scale wastewater projects are awaiting JWC approval, some of them since* [italics for emphasis added] *1999. …* Out of the $121 million of projects presented to JWC in the 2001–2008 period, 50 percent by value ($60.4 million) have been approved, and one-third have been implemented or have begun implementation….. *The governance system established by Article 40... together with the way it has been implemented, gives Israeli authorities control over the allocation and management of West Bank water resources* [italics for emphasis added]. Israeli territorial

> jurisdiction in Area C (60 per cent of the West Bank) consolidates this control, which makes integrated planning and management of water resources virtually impossible for the PA. … *The Israeli Water Authority has used its role as de facto regulator to prevent Palestinian drilling in the Western Aquifer, despite growing demand from Palestinian consumers, and whilst increasing its own off-take from the aquifer above agreed levels* [italics for emphasis added].

The work provided an authoritative and objective presentation of the way in which the Oslo accords had actually been implemented in this vital sector, and attracted wider international attention. Reactions from the Israeli authorities have included some positive steps in accelerating project approvals and providing permits for imports needed for water projects. A larger impact from this study remains to be seen.

Solid Waste

Bank Program: The need for active public management of the solid waste sector has been a growing concern among Palestinians since the 1990s. Justifiable worries arose about the negative effects of increasing numbers of random dump sites on the quality of the West Bank and Gaza's limited groundwater resources, availability of fertile land, and air pollution from smoke. Since any modern landfill would likely be located at least partly on lands categorized as Area C (see table 1.1) approval would have to be obtained from the Israeli Civil Administration division of the Israeli Defense Force. Widespread consultations suggested that a promising pilot area for developing appropriate organizational solutions could be Jenin, in the north of the West Bank. Feasibility studies were commissioned from the multidonor Technical Assistance Trust Fund that the Bank administered.

Justifiable worries arose about the negative effects of increasing numbers of random dump sites on the quality of the West Bank and Gaza's limited groundwater resources, availability of fertile land, and air pollution from smoke.

Box 4.2 Jenin Solid Waste and Environmental Management Project (SWEMP)

The Jenin Solid Waste Management scheme stands out as the most successful of the Bank's infrastructure initiatives in the West Bank and Gaza. It offers important insight into the Bank's ability to contribute constructively in situations of conflict and establish requirements for effective institution building.

Jenin is well known for having drawn some of the harshest Israeli reprisals during the second *intifada*, yet this project drew important support from a greater variety of Israeli sources than most. The Palestinian project director had given much attention during the project's preparatory phase in the late 1990s to learning about relevant Israeli experience, developing links with appropriate specialists, and even stimulating the interest of Israeli local authorities close enough to the border that this would be a direct concern. Despite the tensions with Israel, the Mayor of Jenin backed the hiring of an Israeli specialist who made crucial improvements to the design of the project.

Throughout project execution, Bank and project staff devoted sustained attention to development and maintenance of good relationships and mutual understanding with the Israeli Defense Force Civil Administration and other Israeli authorities whose permission and support were essential for activities (many of them in Area C), as well as for imports of equipment and supplies. An important factor in helping to secure this support was a good understanding in the neighboring Israeli municipal authorities of what the project was trying to accomplish.

Among the several West Bank and Gaza infrastructure projects prepared in the late 1990s, the Jenin landfill project was the only one that was *not* so severely truncated that many of the original objectives had to be largely abandoned. The Bank, at the insistence of the local authorities, did not close down the project during the most difficult period of 2002–03, but instead kept the funds that had been committed essentially on reserve for two or three years until the time for activation would become more propitious.

This action contributed greatly to consolidation of the cooperation among the local government leaders brought together in the Solid Waste Joint Service Council (JSC). This was an important achievement, as development and maintenance of inter-municipality cooperation on infrastructure has proved a significant problem in the Bank's experience throughout most of the West Bank.

Source: World Bank documents and IEG mission interviews (March 2010).

The World Bank-assisted Jenin solid waste project was this subsector's major accomplishment, serving a population of some 600,000— three times the number originally envisaged.

__Outcomes:__ Effective organizational solutions have been found, but they are spreading more slowly than desirable, and the need for new landfill space is rising, especially in Gaza. The Bank-assisted Jenin project was this subsector's major accomplishment. It began operating in July 2007, four years later than planned, but is serving a population of some 600,000— three times the number originally envisaged. The increased number served will shorten the period the landfill can receive new waste, but an offsetting factor will be the development of neighboring private initiatives for recycling portions of what is received. The JSC has already signed a contract with a private investor. It has also made sure to maintain operation on a full cost-recovery basis, aided by the Jenin municipality's requiring households to pay their monthly solid waste charge at the same time as recharging their electricity prepayment cards.

Benefiting from the positive results of the Jenin solid waste project, similar projects have been started in the West Bank, largely meeting the needs of the population there. However, new initiatives are needed for Gaza.

Benefiting from the good reputation of the Jenin initiative and its successful closure of more than 80 random dumps, other projects have been started in the West Bank.[17] These projects, in addition to Jenin, would largely meet the needs of the West Bank, but new initiatives are needed for Gaza.

Bank Contribution: Leadership and persistence on the part of project management team were critical in keeping the Jenin project alive during the second *intifada*, and gradually overcoming the various obstacles to construction. Local project leaders were also the principal instigators of Israeli technical cooperation, which added much to the efficiency of the investment design. However, these elements almost certainly would not have been sufficient to carry the project through. Extensive work by Bank staff to build and maintain collaboration was critical in helping to sustain cooperation among the municipalities. The Bank also involved and consulted relevant donors at the earliest stage and kept them continuously informed. In addition, The Bank remained in close touch with the Israeli Civil Administration to facilitate needed approvals and imports. The subsequent spread of more effective management of solid waste throughout the West Bank benefited from the Bank's continued promotion of the sector.

Electricity

Bank Program: One of the first public institutions that was created by the PA was the Palestine Energy and Natural Resources Authority (PEA). Another important sectoral development in the late 1990s was the construction of a first locally– based power plant in Gaza financed entirely with private capital. Simultaneously the municipalities of the Gaza Strip pooled their existing power systems into a newly created company, the Gaza Electricity Distribution Co. (GEDCO), which they jointly own with the PEA.

The World Bank, working in close cooperation with the Palestinian Energy Authority, determined the most urgent electricity subsector needs. These included the creation of regional utility companies to take over the distribution functions of the West Bank municipalities, quality and efficiency improvements in power *distribution, and extension of the network, especially in rural areas.*

Working closely together, the Energy Authority and the Bank determined that the most urgent needs for further development of the electricity subsector were: creation of regional utility companies to take over the distribution functions of the West Bank municipalities; improvement of the quality and efficiency of power distribution; and extension of the network, especially in rural areas.

In August 1999, the Bank approved the first loan in support of the power sector. It aimed at helping the creation and initial operation of two new regional utilities; developing a modern dispatch center and financial management system; and supporting the Energy Authority's efforts to develop an institutional and legal framework for the sector. It was hoped that the Electricity Law (including provision for the establishment of an independent regulatory body), and environmental regulations governing power operations would be approved before the loan closed in 2004.

<u>Outcomes:</u> **In terms of institutions and laws, things have developed very much as foreseen at the beginning of the decade.** Even though the second *intifada* broke out within a year of approval of the Bank's loan, the new regional utilities for the southern West Bank began to operate before the loan closed. The General Electricity Law, requiring the municipalities to transfer responsibility for operating their distribution system to the relevant regional utility was approved by the PA president (in continued absence of a Legislative Council sitting) in April 2009. Creation of the Palestine Electricity Regulatory Commission (PERC), in accordance with the new law, was approved by the PA Cabinet early in 2010.

Customers of the regional utilities have grown since 2000 at annual rates of between about 3.5 and 4.5 percent, reflecting general population growth and some additional rural electrification. But growing restrictions on movement and economic activity have caused declines in employment and overall income levels, thereby increasing the utilities' distribution losses and shortfalls on collections (table 4.3).

Table 4.3 Key Performance Indicators for Major Electricity Distributors

		Customers ('000)			Transmission and distribution loss (percentage of energy sent out)			Collections as percentage of billings		
Company	*Areas served*	*2000*	*2005*	*2008*	*2000*	*2005*	*2008*	*2000*	*2005*	*2008*
Nablus	Nablus Municipality	41	47	53	10	14	12	92	83	80
JDECO	East Jerusalem Ramallah, Jericho, Bethlehem	133	169	190	25	22	27	83	93	89
HEPCO	Hebron Government	23	28	32	22	21	19	80	69	68
SELCO	Southeast Hebron	-	14	17	-	26	24	-	64	48
GEDCO	All Gaza Strip	119	146	157	22	26	25	80	45	24
Total		316	390	432						

Source: Company submissions to Palestine Energy and Natural Resources Authority
Notes: GEDCO= Gaza Electricity Distribution Company; HEPCO= Hebron Power Company; JDECO= Jerusalem District Electrical Company; SELCO=Southern Electric Company.

The situation has been worse in the Gaza Strip. In 2008, GEDCO recorded transmission and distribution losses of 25 percent (close to 24 percent average for the West Bank), and collections rate of only 24 percent, compared with 85 percent for the West Bank utilities.

The electricity situation has been worse in Gaza, with transmission and distribution losses of 25 percent and collections of only 24 percent.

Similar underlying economic factors caused a rapid multiplication of the volume of Palestinian municipal debt imposed by the Israeli Ministry of Finance on the PA. Most of the 58 Palestinian municipalities still handling their own power distribution have been using their mark-up on the price of power to help cover the costs of other local government functions. Growing numbers of them have been pushed by the tightening financial squeeze on their operations to underpay, or not pay, their debts to the Israel Electricity Company (IEC). The resultant "net lending"[18] imposed on the PA began accelerating rapidly in 2006 and, by 2007, was accumulating at a rate of nearly $50 million per month. The PA and IMF estimate that it amounted to about $535 million for 2007, equivalent to nearly 11percent of GDP.[19] PA efforts appear to have reduced the accumulations in 2008–09, but the issue is still unresolved.

One of the successful electricity initiatives was conversion to prepayment meters, especially for residential consumers. Surveys indicate that the share of West Bank households using such meters doubled from 18.4 percent in July 2008 to 39.4 percent in July 2009, reaching as high as 69 percent in northern West Bank.[20] To help reduce the burden that the current situation imposes particularly on the poorest, PEA developed in 2009 a new electricity tariff providing subsidies[21] for low-income households, which would be applied by all the regional utility companies once it has been approved by PERC.

Palestinian officials working in the electricity sector suggest that the World Bank has been quite influential throughout. Indeed, there are indications that the effectiveness of the Bank's advice has increased over time, perhaps benefiting from increased credibility based on results.

Bank Contribution: Drawing attention to the fact that the most important studies guiding the development of the power sector have been undertaken by international consultant firms recruited in one way or another through the World Bank, Palestinian officials responsible for the sector suggest that the Bank has been quite influential throughout. There are some indications that the effectiveness of its advice has increased over time, perhaps benefiting from increasing credibility.

The Energy Sector Review (2007) contributed to the confidence of the local counterparts in the Bank's views and approaches. It dealt thoroughly with the power sector aspects of the "net lending" problem and what needed to be done about it. It also covered the power sector issues beyond development of the regional utilities. Implementation of the 161 kV transmission of IEC power coverage within West Bank is now going ahead in significant part because the Bank's report confirmed the validity of the PEA position in this regard. Several of the report's recommendations concern Gaza (its transmission system, power plant, and off-shore gas discovery) where action has been largely blocked until now.

Cooperation between the PA and the Bank in electric power has probably been more intensive in the last two years, that is, since mid-2008, because of both the importance of the "net lending" issue, and the nature of the recommendations the Bank has been making. The recommended steps proposed involved rebuilding some cooperation with Israeli authorities (especially on the exchange of billing information), promoting effective collaborative action among a variety of Palestinian agencies (for example, the Ministry of Finance, PEA, Regional

Utilities, the MDLF, Social Security, and others), and tightening the controls and monitoring. The initiatives have been an important element underlying the Development Policy Grants that the Bank has made in each of the recent years. The Electric Utility Management Project, approved by the Bank in April 2008, provides a supportive and consistent common framework that is being used by six donors in addition to the Bank for support to investment and additional development of the power sector itself.

In quick response to the legal reforms adopted in 2009–10, the Bank has provided technical assistance to design and develop a timetable that will help the mayors and municipal councils lead and implement the transfer of their power distribution services to the utility companies, as required by the new law.

Transportation

<u>Bank Program:</u> An important characteristic of the West Bank and Gaza transport system has been the limits to the freedom of Palestinians to use it, and of the PA to develop it. Checkpoints and temporary closures first introduced by the Israeli authorities in the middle of the 1990s were increased, and applied for longer periods from late 2000 on. Palestinian residents of the West Bank and Gaza cannot access Israel without special permits, nor can Israeli citizens normally visit the highly urbanized Area A. Merchandise movements between Gaza and Egypt were banned, and those between Gaza and Israel were very tightly restricted.

Although the Palestinian authorities have retained full rights to develop transport infrastructure in Area A and close to full rights in the Area B, they require active Israeli cooperation for execution of any requisite linked works in Area C (about 60 percent of the West Bank territory).

Regarding transport, the World Bank sees the main priorities on the facilitation side to be a stronger institutional structure to respond to the priority to ensure secure, safe and unrestricted access between the West Bank and Gaza, as well as to international border crossings. On the expenditure side, the main priorities are the repair of road network damages and attending to the road maintenance backlog.

A second issue of importance in the transport sector concerned the weakness of the young governmental institutions, exacerbated by the uncertainty of division of labor between them. The Ministry of Transport, Ministry of Public Works and Housing, and local governments, all had important roles to play in connection with the development, maintenance and use of the road network, the territory's main transportation infrastructure. The Bank favored the concept that was thought to have wide support in the PA in the late 1990s. This involved creating a Central Road Administration and backing its functioning with the establishment of a Road Fund drawn from taxation on road users.

In the Bank's view, the main priorities on the facilitation side were a stronger institutional structure to respond to the priority to ensure secure, safe and unrestricted access between the West Bank and Gaza and to international border crossings and, on the expenditure side, the repair of the damages to the road network and elimination of the road maintenance backlog.

<u>Outcomes:</u> **There are no major improvements to report in the transport sector as of yet. However, the deterioration that has occurred may be less than what might have been the case under the prevailing circumstances.** Travel rights of the West Bank and Gaza population have been further curtailed by Israeli policy changes since 2000. Many trip distances have been considerably increased by the Separation Wall adjacent (but not necessarily parallel) to the recognized frontier between Israel and the West Bank, and other road adjustments. The costs of carrying international trade to and from the West Bank have increased, albeit not prohibitively.[22]

Table 4.4 West Bank and Gaza—Approximate Scale of Road Network, 2009 (km)

Main roads	600
Regional roads	1,000
Local Link roads	2,400
Municipality roads	1,500
Total	5,500 [23]

Source: Palestinian Ministry of Public Works and Housing

The size of the road network has probably increased a little, but progress remains uncertain. Although there are no relevant survey results available, indications are that about 50 percent of the network is in poor condition, similar to the start of the decade. Recent assessments of the financial situation of the municipalities show that they are having difficulties fulfilling their road and street responsibilities.

__Bank Contribution:__ It **is hard to assess results from the very extensive work[24] that the Bank has done on movement and access and trade facilitation, as anything much beyond prevention of further deterioration.** One overall index of movement restrictions that is often used (but with focus more on movements internally than internationally) is the monthly count of West Bank closure obstacles that is compiled by the UN Office for the Coordination of Humanitarian Affairs (OCHA). Restrictions stood at 550 in February 2010,[25] less than the 600 and 700 of some of the worst periods, but much higher than the scores below 400 that prevailed in the second half of 2005 when the supplementary Agreement on Movement and Access was signed. It is generally recognized that none of the Agreement's provisions were in fact implemented by either side. The political atmosphere sharply deteriorated in 2006 with the victory of Hamas in the PLC elections, and the reaction of the Government of Israel and many of the donors.

The World Bank made serious efforts to help build institutional capacity in the transportation network, especially for planning and maintaining the road network. However, implementation stopped with the outbreak of the second intifada.

In retrospect, there is little doubt about whether this work was worthwhile. Bank work provided a thorough analysis of the complex issues, brought out their economic significance, and discussed alternative and better ways to meet security needs. The work has played a wide informational role, and is of importance to all the donors in the management of their programs. The review and analysis that were carried out have remained relevant in the work on particular adjustments and modifications to the restrictions.

The Bank made a serious effort[26] to help build institutional capacity for planning and maintaining the road network, but implementation was prevented by onset of the second *intifada*.

Although the Bank may not have needed to provide substantial road financing in recent years given the interest of other donors and the needs in other areas, it would have been highly desirable, and in tune with wider objectives, to undertake the critically needed institution-building for road network management and efficient maintenance.

Telecommunications

<u>Bank Program:</u> Paltel, the principal telecommunications operator in the West Bank and Gaza, had been created in 1995 as a private company. In November 1996, it was granted a 20-year license giving it exclusivity of up to 10 years for main services, and up to 5 years for mobile telephones (starting in 1998 with the launch of Jawwal, Paltel's mobile operator). The Bank first examined overall telecommunications in the West Bank and Gaza in 2003, and included this sector in the infrastructure assessment published in 2004.[27] The report recognized that progress had suffered from constraints incorporated in the Oslo agreements, notably the lack of authorization for the PA to have its own international telecommunication gateways, limited access to the frequency spectrum, and restrictions to obtaining right of way for facilities. But the report's main message was that the PA needed urgently "to liberalize the sector, license new operators and services, and establish independent regulation to ensure successful liberalization and modernization."[28]

The Palestinian Authority still needs to liberalize the telecommunications sector by licensing new operators and services, and establishing independent regulation to ensure successful sectoral liberalization and modernization.

<u>Outcomes:</u> The Bank has not been involved in investment in the telecommunications sector, but it has given considerable attention to advancing institutional reform, in view of the increasing importance of the sector for broader economic growth. Telecommunications services have expanded over the decade (table 4.5). A first major departure from the pattern of a Paltel monopoly finally came to fruition in November 2009 when al-Wataniya began to offer service under the license of a second operator awarded in 2006. By February 2010, al-Wataniya had already some 200,000 subscribers. The long delay in activation of the license resulted from PA difficulties in securing release of the requisite frequencies.

Table 4.5 West Bank and Gaza—Growth of Main Telecommunications Services, 2000–08

Numbers of Subscribers	*2000*	*2005*	*2008*
Fixed line	272,200	349,000	348,000
Mobile telephone	175,900	1,094,600	1,153,000
Internet	7,000	77,900	102,200
Broadband	100	7,500	100,000

Source: Palestinian Ministry of Telecom and Information Technology and International Telecommunication Union.

In August 2009, President Abbas signed a Telecommunications Law, spelling out the principles of competition and creating a Telecommunications Regulatory Agency (TRA). The Law has yet to be implemented due to several procedural difficulties.[29]

World Bank Group Contribution: Many parties were involved in the effort to secure the frequency package needed to fulfill the PA's contract with al-Wataniya and introduce competition into Palestinian telecommunications. World Bank staff, the Quartet Special Envoy and members of his office, and other international and Palestinian bodies were often mentioned as important contributors. IFC followed through with an investment of $30 million in al-Wataniya in 2009.

Palestinian observers of telecommunications development over the last decade suggested that the Bank and the donor community could have valuably contributed to more precise fulfillment of the Oslo accords and their adjustment in this area. The Joint Technical Committee, which was supposed to ensure smooth cooperation, met only twice (in 2004) between 2000 and 2007 due to political tensions.

The Bank's engagement in infrastructure development has brought with it substantial improvement in the quality and quantity of cofinancing.

Overall, there is no doubt **that the Bank has played an important and often leading role in providing sector-related advisory support**, including advice on the regulatory framework for interconnection, and on the design and management of technical assistance in development of staff and procedures for the eventual TRA.

A striking facet of the Bank's brief history of supporting infrastructure development in the West Bank and Gaza is the substantial improvement in quality and quantity of cofinancing that has been linked with the Bank's commitments. Several projects initiated in the last five years have been expected to carry cofinancing of three or more times the Bank's contribution and have exceeded the projected ratio. The Electric Utility Management project (FY2008), at appraisal, included cofinancing from six other donors amounting to some 10 times the Bank's $12 million, and current indications are that this will be attained.

Ratings: Table 4.6 summarizes the main outcome ratings for the Bank's program. This is not a summary of ratings for individual projects and analytical studies, but rather of the overall effort drawing on all dimensions of the Bank's work and the activities started in this decade as well as those completed. More emphasis is given to what was achieved by the end of the decade. Less emphasis is given to efficiency considerations—including the time elapsed in achievement of an improvement or adherence to a timetable—than would be appropriate in countries which have faced few of the remarkable number of exogenous constraints that have persistently hamstrung the West Bank and Gaza.

An area of significant accomplishment is the solid waste subsector. Significant progress has been made in designing and implementing a satisfactory solution to the problems faced. Similar efforts can be replicated and refined in other regions.

The most problematic subsector is water and sanitation, as limited progress has been made in developing the institutional and organizational capacities needed—at the center to guide, lead, and organize the territory-wide effort for this crucial sector, and at the local level to manage and maintain effective service. Attempts to fill these gaps suffered during the *intifada*, but there is no particular reason why they should have suffered significantly more than other sectors.

The aggregate rating of moderately unsatisfactory for the Infrastructure Development pillar reflects the larger weight given to the sector rating of unsatisfactory for the water and sanitation subsector. The larger weighting takes into account the strategic importance of the sector and its prominent place in the Bank's overall infrastructure investment program (40 percent of the total, see figure 4.1).

Table 4.6 Outcome Ratings Summary for Infrastructure

Strategic goals	*Achievement of sector outcomes*	*World Bank Group contribution to results*	*Outcome ratings*
1. Water and sanitation	Progress in improving water supply access and quality was limited. Water infrastructure development remains hampered by technical and political issues. Institutional capacity in the sector remains weak. Water scarcity remains a serious problem, caused by poor infrastructure, high distribution losses, shortage of trained staff in the municipal authorities, and financial practices that generate little or no funds for investment and maintenance. Deterioration of quality and reliability of the water supply in an environment of instability and closures is another important dimension. On the organizational side, spread of the Water Utility concept has been disappointing. Despite passage in 2002 of a new Water Law, little progress has been made in implementation of the organizational provisions, and PWA continues to be an all-purpose body, policymaker, regulator, and executive.	Three specific aspects can be identified as benefiting from World Bank action: (i) rural connection rates and supplies in the southern West Bank; (ii) sustaining the water utility (CMWU) in Gaza; and (iii) facilitating interaction on project implementation between Israelis and Palestinians. In 2009, the Bank issued a comprehensive and broad review of the obstacles to more effective water sector development. The report provided an authoritative and objective presentation of the way the Oslo Accords had been hampering sector development, and attracted wider international attention. However, there were few real changes on the ground.	<u>Unsatisfactory</u>
2. Solid waste	Solid waste management was an area of significant accomplishment. The landfill in Jenin is serving a population of some 600,000, three times the number originally envisaged. It maintains operation on a full cost-recovery basis. Benefiting from the good reputation of the Jenin initiative and its successful closure of more than 80 random dumps, other projects have been started in the West Bank.	The Bank supported the successful project in this area (Jenin Solid Waste), and was critical in helping to maintain cooperation among the municipalities, the co-donors, and the Israeli authorities.	<u>Satisfactory</u>
3. Electricity	Customers of the regional utilities have grown since 2000 at annual rates between about 3.5 and 4.5 percent, reflecting general population growth and some additional rural electrification. But increasing restrictions on movement and economic activity have caused declines in employment and overall income levels, increasing the utilities' distribution losses and collections' shortfalls. Transmission and distribution losses have been high, often as much as 25 percent. The collections rate deteriorated over the decade in Gaza to only 24 percent in 2008, but was maintained around 85 percent in most of the West Bank utilities.	The Bank's advice and financing dealt with the power sector aspects of the "net lending" problem and development of the regional utilities, and it provided a common framework for donor support to sector investment and development. The Energy Sector Review (2007) contributed to the confidence of the local counterparts in the Bank's views and approaches. It dealt thoroughly with the "net lending" problem and what needed to be done about it, and covered power sector issues beyond development of the regional utilities. Implementation of the 161 kV	<u>Moderately Satisfactory</u>

	The new regional utilities for the southern West Bank began to operate in the early 2000s. The General Electricity Law, was approved in April 2009. Creation of the Palestine Electricity Regulatory Commission (PERC), in accordance with the new law, was approved by the PA Cabinet early in 2010. One successful initiative was conversion to prepayment meters, especially for residential consumers. Surveys indicate that the share of West Bank households using such meters doubled from 18 percent in July 2008 to 39 percent in July 2009, reaching as high as 69 percent in northern West Bank.	transmission of IEC power within West Bank is now going ahead in significant part because the Bank's report confirmed the validity of the PEA position in this regard. Several of the report's recommendations concern Gaza (its transmission system, power plant, and off-shore gas discovery), but action has been largely blocked until now. The Electric Utility Management Project (approved in 2008), provides a common framework that is being used by six donors in addition to the Bank for support to investment and additional development of the power sector.	
4. Transportation	Travel rights of the West Bank and Gaza population have been further curtailed by Israeli policy changes since 2000, and many trip distances have been considerably increased by the Separation Wall and other road adjustments. The costs of carrying international trade to and from the West Bank have increased. The road network has probably increased a little, but progress remains uncertain. About 50 percent of the road network is in poor condition, similar to the start of the decade. Recent assessments of the financial situation of the municipalities show that they are having difficulties fulfilling their road and street responsibilities	The Bank has not been involved in investment in this sector (except through small-scale road work on the municipal level). However, it provided important advisory support. The Bank's analytical work on movement and access restrictions and trade facilitation did not translate into results, but played a wider informational role, and was of importance to donors in the management of their programs.	Moderately Unsatisfactory
5. Telecommuni-cations	Telecommunications services have expanded over the decade. A first major departure from the pattern of the Paltel monopoly finally came to fruition in November 2009 when al-Wataniya began to offer service under the license of a second operator awarded in 2006. By February 2010, al-Wataniya already had some 200,000 subscribers. The long delay in activation of the license resulted from PA difficulties in securing release of the requisite frequencies. In August 2009, President Abbas signed a Telecommunications Law, spelling out the principles of competition and creating a Telecommunications Regulatory Agency (TRA). The Law has yet to be implemented due to several procedural difficulties.	The Bank has not been involved in investment in the telecommunications sector, but it has played a useful role in providing sector-related advisory support and helping to advance institutional reform. IFC invested $30 million in one project in 2009 following on the Bank's policy work. The Bank provided advice on the regulatory framework, and on design and management of TA in the development of staff and procedures for the Telecommunications Regulatory Agency.	Moderately Satisfactory
Infrastructure Development: Overall Outcome			Moderately Unsatisfactory

Source: IEG.
Notes: CMWU= Central Municipal Water Utility; IEC= Israel Electricity Company; PEA= Palestine Energy and Natural Resources Authority; PWA= Palestinian Water Authority; TA= technical assistance.

Lessons and Recommendations

❖ A major weakness of the Palestinian development effort remains the lack of capacity and leadership in the main infrastructure sector ministries. The Bank has made some efforts to respond to this problem. It has had a few partial successes at central government level, as in the case of the MDLF. It has had more notable successes at the lower and regional levels, as with the CMWU managing water for nearly half of Gaza, and the Solid Waste JSC serving most of the northern West Bank. It needs to give higher priority to sustaining efforts in this crucial direction, even in the face of crises that highlight emergency needs, or because of delays in political processing of required government decisions.

❖ The water and transport sectors have suffered most from the lack of strong leadership, strategy, and commitment. The Bank's capacity-building effort in the water sector suffered from downgrading in order to respond more fully to emergency situations, and in transport the effort never got beyond the analytic and advisory activities (AAA) level. The time may now be ripe for developing a more strategic approach in these sectors, as well as for capacity building to implement it— with the attraction of other donor resources. Such efforts would require the task management to be resident in the field (especially in the water sector), in line with the common tendency among other donors.

❖ An important direct contribution to the peace process that can be expected from the Bank is the promotion of concrete practical cooperation between Israelis and Palestinians, and among ill-coordinated Palestinian official institutions. Important examples, at different scales, include the above-mentioned Northern (Jenin) Solid Waste Project, the NGEST project, the al-Wataniya mobile phone project, and the current effort to reduce the "net lending" fiscal problem. The Bank should actively seek opportunities of this sort, and prioritize them for policy or project support.

❖ In order to sustain its good success in attracting other donors in financing specific projects or programs, the Bank needs to pay particular attention to the adequacy and continuity of its in-country staffing arrangements in cases where the concerned Palestinian institutions are comparatively weak and the program/project is going through a difficult or particularly busy phase. The water sector is the most important example in this regard.

Chapter 5

Human and Social Development

Background

Human development indicators in the West Bank and Gaza were traditionally among the highest in the Middle East and North Africa Region and are comparable with those of other higher-middle income countries (table 5.1).

However, **the start of the second *intifada* in September 2000 and subsequent developments have stalled the progress achieved during the 1990s.** Deterioration in service provision caused by the renewed violence, border closures, and economic crisis led to a notable decline in health and education conditions.[1]

Progress achieved in human development indicators during the 1990s stalled after the second intifada and subsequent developments.

Table 5.1 West Bank and Gaza—Comparative Social Indicators, 2002 and 2008

	West Bank and Gaza		*Middle East and North Africa Region*		*Middle-Income Countries*		*Lower Middle-Income Countries*	
Selected Social Indicators	*2002*	*2008*	*2002*	*2008*	*2002*	*2008*	*2002*	*2008*
Life expectancy at birth, total (years)	72	73	69	71	67	69	66	68
Fertility rate, total (births per woman)	6	5	3	3	3	2	3	3
Mortality rate, infant (per 1,000 live births)	..	24	..	29	..	41	..	45
Immunization, DPT (% of children ages 12-23 months)	..	..	87	89	73	81	69	79
Mortality rate, under-5 (per 1,000)	..	27	..	34	..	57	..	64
Population growth (annual %)	3	3	2	2	1	1	1	1
Literacy rate, adult total (% of people ages 15 and above)	..	94	..	73	..	83	..	80
School enrollment, primary (% gross)	103	80	101	106	103	109	101	108
School enrollment, secondary (% gross)	86	92	69	72	62	67	55	62

Source: World Development Indicators as of July 2010
Notes: DPT= diphtheria, pertussis, and tetanus.

The positive numbers also mask the fact that the maintenance of these standards is incurring significant costs to the Palestinian Authority (PA) and is unsustainable in the long term. The 2007 PER found that in nominal terms, the salary budget of the Ministry of Education has increased by nearly 80 percent since 2000, and the number of teachers has increased by 36 percent. The salary budget of the Ministry of Health increased by nearly 73 percent, and the number of medical personnel nearly doubled during this same period. A large percentage of these costs were covered by donors: about 42 percent of the total financing for the health sector between 2002 and 2005, and in some years, up to 80 percent.[2]

Intermittent resumption of violence and restrictions on movement continue to be the key constraints to effective provision of services, causing frequent school and hospital closures, unreliable access to workplaces and service points for employees and the general population, lack of supplies and equipment, and a lack of adequate electricity and water supply.

Intermittent violence and restrictions on movement continue to be key constraints to the effective provision of social services.

The situation in Gaza is further exacerbated by its political and physical isolation, causing highly uneven distribution of resources and staff as compared to the West Bank, and restricted access to services (especially medical) provided from outside of the Gaza Strip.[3] Despite large inflows of international aid, 50 percent of the Palestinian population in the West Bank and 70 percent of Gazans live in poverty,[4] with unemployment rates above 18 and 39 percent[5] respectively.

Despite large inflows of international aid, 50 percent of the Palestinian population in the West Bank and 70 percent in Gaza live in poverty, with unemployment rates above 18 and 39 percent respectively.

The institutional structure for the provision of social services is fragmented with the presence of multiple actors. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) provides basic education, health, and social assistance to some 1.6 million registered refugees in the West Bank and Gaza (since 1948).[6] NGOs have historically taken responsibility for many service areas, such as early childhood development programs and specialized health services, and are responsible for about 40 percent of the hospital beds in the West Bank and Gaza. The private sector also plays a role in provision of health and education services, albeit a minor one.

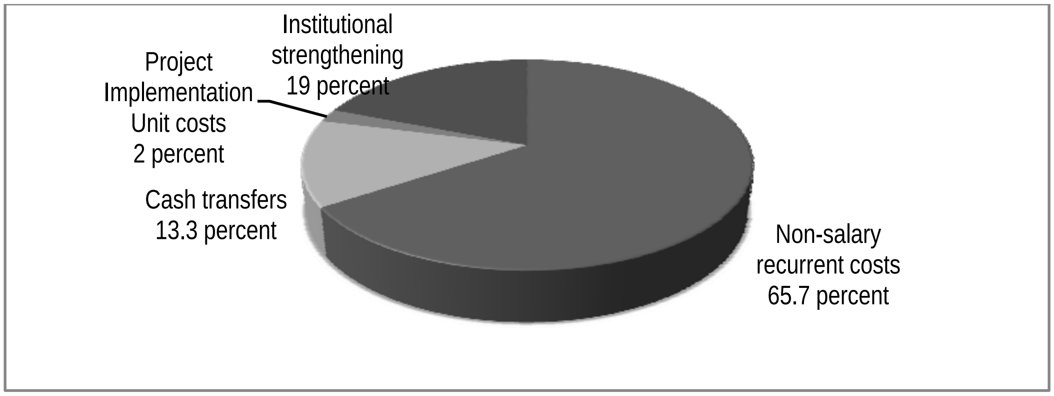
Since 1994, following the Oslo Agreements and the creation of the PA, the provision of basic services became the primary responsibility of sector ministries. The 2006 division between the West Bank and the Gaza Strip has further exacerbated the institutional architecture. Most ministries were de-facto split into two separate entities. There are about 40 multilateral and bilateral donor agencies assisting the PA and NGOs with human development.

The effective division of the West Bank and Gaza in 2006 has further exacerbated the institutional architecture, with most ministries de-facto split into two separate entities.

Bank Program and Strategy

Human and social development was always an integral part of Bank assistance to the West Bank and Gaza. Between 2000 and 2009, Bank support included 10 operations in the health, education, and social protection sectors (Annex E, table E1), totaling $152 million, of which $125 million was for human and social development activities. A rough estimate indicates that about 66 percent was spent on financing non-salary operating costs in the Ministries of Health, Education, and Social Assistance, about 19 percent on institutional strengthening, and about 13 percent on cash transfers (figure 5.1). Analytical work constituted a significant part of the Bank support to these sectors, and was closely linked to financing (Annex E, table E2). In 2008, IFC provided a risk-sharing guarantee to the Bank of Palestine for a joint venture, a student facility loan for $16 million.

Figure 5.1 Distribution of Bank Financing in Social and Human Development, 2000–2009



Source: World Bank data as of April 2010.

The objectives of Bank support for health, education, and social assistance are summarized in table 5.2. They are derived from four strategy and multiple project documents covering the period 2001–09. Although the goals of the Bank did not change much in essence, they did reflect the changes in the political situation through shifts from a medium-term development focus to emergency assistance and back.

The World Bank generally balanced well emergency support and medium-term development activities. However, this balance was not maintained throughout the evaluation period due to frequent and unexpected emergencies that often required reallocation of resources.

Overall, Bank support for health, education, and social assistance was based on a solid analytical foundation and was consistent with the Bank's mandate and the needs of the Palestinian people. The Bank's ESW contributed to the government's long-term planning efforts and fed into other donor initiatives. The Bank generally balanced well emergency support and activities that aimed at medium-term development impact. However, this balance was not maintained through the evaluation period due to frequent and unexpected emergencies that often required a reallocation of resources.

Although for the most part Bank support was delivered directly by or through central agencies, some interventions involved local actors and encouraged alternative service providers. The Bank's support for NGOs was timely and appropriate, as it targeted marginalized communities and provided important services (early childhood development, psychosocial services, elder care, cancer treatment and neurology, and operating hospitals). Through its NGO and Integrated Community Development (ICDP) projects, Bank support also aimed to strengthen community participation and the demand side of service delivery.

Most of the Bank operations in the sector were output-based and lacked an explicit results framework. This could be partially explained by the emergency nature of many projects, acknowledged in many project documents. However, even in the non-emergency operations, such as the Health Sector Support Project (HSSP I), the Education Action Project (EAP), Non-governmental Organization (NGO II), and the ICDP, the focus continued to be for the most part on outputs or on beneficiary observations.

By and large, donor collaboration was not strong in these sectors. The Bank was able to set the strategic agenda and leverage other donor funds mainly in the case of emergency services and the NGO project. There was little collaboration in the education or health sectors, and the ICDP did not attract the anticipated donor financing.

Table 5.2 Social and Human Development—Bank Group Objectives, 2001–09

Period	*Strategic objectives*
2001–03	Maintain basic social services through financing non-salary operating costs Continue laying the groundwork for institutional sustainability and future statehood
2004–05	Strengthen capacities for and finance the delivery of basic services Support social safety nets
2006–07	Strengthen human capital, and make available quality services Sustain and strengthen the development of sound institutions Support Pension Reform Ensure adequate social safety nets Assist the Palestinian Authority in preparing a Social Protection Strategy to support effective targeting
2008–09	Balance medium-term development and emergency assistance to sustain Palestinian institutions and mitigate poverty Sustain and strengthen the development of sound institutions Continue dialogue on pension reform Support social safety nets

Source: World Bank documents.

Outcomes of Bank Support

To understand the results of Bank support, this chapter focuses on whether the Bank was successful in the following areas: maintaining delivery and improving quality of basic services; strengthening institutional capacity for service delivery; and improving social and economic security of the poor. Given the weakness and, at times, virtual absence of a well-defined results framework, this evaluation is based on Bank reports, interviews with relevant stakeholders, site visits, and feedback from Bank staff. Table 5.3 summarizes ratings for each category. The rest of the chapter provides explanations for each rating.

Table 5.3 Summary Outcome Ratings

	Education	*Health*	*Social protection*	*Overall rating*
A. Maintaining basic services				
Improved access to services	MS	S	MU	MS
Improved quality of services	MU	MS	NA	MU
Reaching the poor	MU	MS	S	MS
Rating	MU	MS	MS	MS
B. Institutional capacity for service delivery				
Stronger governmental institutions to deliver services	MS	MS	NA	MS
Stronger alternative mechanisms for provision of basic services	MU	MU	MU	MU
Improved accountability in delivery of services	MU	MU	MU	MU
Rating	MU	MU	MU	MU
C. Social and economic security				
Effective social safety net	*NA*	*NA*	MS	MS
Reformed pension system	*NA*	*NA*	MU	MU
Temporary wage employment	*NA*	*NA*	S	S
Rating			MS	MS
Overall Rating	MU	MS	MS	MS

Source: IEG
Notes: S – Satisfactory; MS – Moderately Satisfactory; MU – Moderately Unsatisfactory; NA= not applicable.

Maintaining Delivery and Improving Quality of Services

This section reviews the extent to which Bank support helped to (i) maintain the delivery of and access to services, (ii) improve the quality of services, and (iii) ensure that the services reached the poorest and most marginalized communities.

Access to services: The approach of financing targeted expenditures, selected as essential to keeping services operational, worked relatively well. The Emergency Services Support Projects (ESSP I and II) were the main vehicle for donor financing. In the education sector, the student-teacher ratio remained steady, but enrollment and completion rates at the primary level declined (Annex E, tables E4-E5). In the health sector, ESSP I and II contributed to keeping functional 430 primary health care centers and hospitals for three years between 2001 and

2004—a period of heightened restrictions on mobility when access to primary health care facilities became critical.

The ESSP I and II projects also financed: the supply of essential drugs[7] and equipment; nonmedical costs of operating health facilities; contracts with NGOs and private sector hospitals for specialized services; nutrition for children below the age of five in public clinics; and hospital food contracts (Annex E, table E6). Through ESSP I, Bank support helped the Ministry of Social Assistance to continue some of its welfare programs, although there are no complete data to measure the Bank's contribution. Expenditures included: rent payments for shelters and rehabilitation centers; procurement of equipment, learning materials, and supplies for youth training centers and rehabilitation centers; and food supplies to beneficiaries of these institutions.

Quality of services: The **Education Action Project[8] supported professional development for teachers, school-based quality improvement, secondary vocational schooling, and curriculum improvement.** The Health System Development Project (HSDP) aimed to minimize the expansion of new Ministry of Health facilities, with preference given to upgrading the quality of existing health services in the neediest communities. The NGO II project and ICDP aimed to improve the quality of specialized health services.

In the education sector, **the school-based quality improvement initiative and curriculum development under the Education Action Project were dropped as a result of the diversion of about 30 percent of project funds for emergency purposes.** The Education Action Project helped to strengthen teaching methods, reduce operational costs, and better utilize existing resources.[9] However, the skills gained were not highly relevant once the facility-based approach was dropped. Inadequate incentives for teacher performance, lack of resources to implement new learning, and poor coordination between training and skills requirements reduced its benefits. Establishment of three vocational annexes (instead of planned four) did not achieve the intended outcomes, as the quality and efficiency of education provided by these schools were undermined by lack of essential facilities and design flaws.[10] It also missed an opportunity to support gender equality, that is, instead of aiming to finance construction of four vocational training annexes—two for boys and two for girls—it ended up constructing three for boys.

***In the health sector*, the HSDP expanded provision of services and helped to develop functional standards for basic health facilities by replacing approximately 40 substandard primary health care facilities with clinics that met the quality standards.** The centers were constructed in rural or underserved areas, increasing access to services for the poor. Forty-six new services were added (such as specialist care, lab facilities, and family planning). Utilization rates in these clinics increased by 28 percent after the project intervention. The HSDP supported reforms to allow the contracting of specialized services to NGOs and private sector health facilities, thus providing a broader range of services to the beneficiaries. The system, however, remains inefficient and did not achieve the envisaged cost reduction. On the contrary, the cost of providing such services has increased from $59 million in 2004 to about $85 million in 2008.[11]

About 30 percent of the NGO II project funding supported specialized health services. A beneficiary impact assessment (BIA)[12] conducted in 2005 showed that although services were available to over 60 percent of respondents, the majority of beneficiaries were not satisfied with the coverage, cost, and quality of those services.

Box 5. 1 The Gender Dimension

Bank strategy documents did not mention the gender dimensions of development (as required by the Bank's Operational Procedures (OP) 4.20 on Gender and Development or by OP 2.30 on Development Cooperation and Conflicts). Nevertheless, some projects (NGO II and the ICDP) demonstrated gender-awareness, and project activities benefited both men and women at the grassroots level.

During the IEG mission interviews, a few NGO respondents commented that in some cases support for women by untrained NGOs and other local-level implementing bodies was reinforcing gender stereotypes rather than influencing change.

In 2009, a gender assessment (*West Bank and Gaza Check Points and Barriers: Searching for Livelihoods in the West Bank and Gaza, Gender Dimensions of Economic Collapse*) was prepared in close collaboration with CARE International and the Women's Studies Institute at Birzeit University. Although local experts expressed some reservations about the Bank's methodological approach to gender analysis, the report is notable for being context-specific, based on empirical evidence and prepared collaboratively with other relevant stakeholders. However, the report focused on the impact of the conflict rather than on the gender reasons for some of the evident inequalities, such as low labor force participation. It provided little guidance to either Bank staff or client stakeholders as to how gender issues could be addressed in the existing context.

Source: IEG.
Notes: ICDP=Integrated Community Development Project; IEG= Independent Evaluation Group; NGO= nongovernmental organization.

__Reaching the poor__:[13] **Reaching the poorest and most marginalized communities through the ESSP and NGO projects was somewhat constrained by the community contribution (cofinancing) requirement.** According to the BIA (2005), 65 percent of interviewed beneficiaries indicated the need for increasing the coverage to include the neediest. At the same time, the employment component of ICDP utilized strict criteria to target the marginalized, creating job opportunities for over 5,000 workers from poor households. Overall, however, only 40 percent of the beneficiaries belonged to the poorest households. This could be explained by the fact that smaller communities with populations less than 1,000 inhabitants were unable to benefit from infrastructure projects as priority was given to larger communities.

To summarize, the outcome of Bank support was moderately satisfactory in helping to maintain access to basic services, but was not as successful in improving their quality. The Bank reached the poor through its services, but its ability to reach the poorest and most marginalized was limited. Overall, the Bank contribution to outcomes is considered to be moderately satisfactory in this area, as the bulk of assistance was directed toward ensuring continuous access to basic services.

Institutional Capacity and Accountability

The institutional framework for service delivery has evolved over the years in response to varying contexts. It was often driven by donors, who provided significant amount of funds to keep the health, education and social assistance services functioning. In assessing the outcomes of Bank support in this area, this evaluation examined whether the Bank contributed to enhanced skills and knowledge, strengthened institutions, systems, and processes for service delivery, and improved accountability in service delivery.

Overall, the World Bank's analytical and project work has generated knowledge in the human and social development sectors, and is highly appreciated by stakeholders. However, its influence on development policies is evident only in the education sector and not in areas related to health, social assistance, or pensions.

__Enhanced skills and knowledge:__ **Although basic capacity in the West Bank and Gaza is comparatively high in these sectors, there is room for improvement** to deal with the specific circumstances: uncertain resources, multiple institutions, lack of coherent policy, and restrictions imposed after the second *intifada*. In the *health* sector, there has been significant training in terms of outputs, and assessments indicate participant learning. However, there appears to be no systematic assessment of sustainability or utilization.

Stakeholders in the Ministry of Social Affairs observed that their capacity had been strengthened to ensure better poverty targeting of their programs. Overall, the Bank's analytical and project work has generated knowledge in these sectors and is highly appreciated by stakeholders. However, its influence on development policies is evident only in the education sector, and not in areas related to health, social assistance, or pensions.

Stronger institutions, systems, and processes for service delivery: The Education Action Project contributed to computerization of the financial management system in *education*. The project, however, did not achieve its objective of linking planning and budgeting functions. Accounting classification and the chart of accounts did not (at the time of the mission) support program-based budgeting, and still following a traditional input-based classification. A planned Education Monitoring and Information System was not functional. Toward the end of the Education Action Project, at the request of the Ministry of Education, the Bank prepared an education sector analysis.[14] Donors commented positively on its quality and noted its contribution to the development of a multi-donor sectorwide approach (SWAp), although the Bank has not been part of it.

The HSSP (closed in 2005) contributed to improved systems *in health* through the establishment of a Health Information Center in Nablus which covered both the West Bank and Gaza. The Health Information Center provides statistical data analysis and publishes an annual health status report with vital statistics and data for health planning and management. However, the Health Information Center's effective functioning was constrained by the division of the Ministry of Health between the West Bank and Gaza after 2007. Another outcome was the unification of the General Health Insurance, which enhanced capacity to access the beneficiary registry, allowing for real-time registration and verification of the beneficiary status.

The HSSP II, envisaged in the 2005 Bank strategy, did not materialize. Instead, the Bank decided to undertake analysis of the health financing options because ongoing donor support in the health sector was considered to be fragmented and provided for in an unsustainable manner. However, the study *(West Bank and Gaza: Health Policy Report, Reforming Prudently Under Pressure, 2009*) was not able to influence health policy because of sectoral politics.[15]

The Bank supported strengthening of alternative institutions to deliver basic services. The NGO II project aimed to strengthen capacity to deliver sustainable services to the poor and marginalized, and supported the overall professional and strategic development of the NGO sector. Between 2001 and 2006, the project financed 89 subprojects totaling $5.8 million in health, education, and social assistance areas. The ICDP had similar objectives of improving the quality and availability of basic social and economic services in poor and marginalized communities. It financed about 35 micro-projects ($2.6 million), mainly in construction and rehabilitation of education infrastructure.

The NGO II project helped to establish the National Development Center (NDC) as a coordinator of donor support to NGOs, and contributed to the participatory development of the NGO Code of Ethics, providing a self-regulatory mechanism for greater transparency and accountability of NGOs. The number of NGOs disclosing their financial accounts, in accordance with the new Code, increased from 6 percent in 2008 to 59 percent in 2010.

Most of the support provided by NDC included construction of buildings, supply of equipment, and provision of operating costs (including salaries). Although this support contributed to maintaining necessary services, close to 80 percent of funds for such activities came from donors, and the services stopped when donor funding came to an end. Institutional strengthening of NGOs was uneven, skewed toward the larger NGOs.

Sustainability of these interventions is unlikely as most local NGOs have little or no resources to continue the activities. The ICDP appears to have had a greater focus on sustainability given the involvement of local government structures in the planning and implementation of local infrastructure projects.

In sum, although several institutions established through Bank-supported initiatives have contributed to development objectives and provided intended services, their sustainability is unlikely and their future role is questionable. Most of these institutions are highly dependent on donor support. In some cases, they function as independent entities managing local development projects.

<u>Increased accountability in service delivery</u>**: Neither the NGO project nor the ICDP were particularly successful in improving the accountability of service delivery institutions by enhancing the voice and participation of communities.** According to the 2008 beneficiary assessment for the ICDP, only 26 percent of respondents participated in project planning and implementation, and only 18 percent had full information about the project prior to its implementation. Lack of transparency in financial matters was another constraint.

The 2005 BIA for the NGO II project reiterates this point: 79 percent of the responding beneficiaries had no knowledge of the project budget, and about half of the beneficiaries did not have adequate knowledge of the project components.

Some marginal progress has been made in Palestinian ministries, but the institutional framework in all sectors remains fragmented and the modus operandi of institutions continues to be unsustainable.

Overall, the outcome of Bank support for more responsive and accountable institutions for service delivery is rated moderately unsatisfactory. Some marginal progress has been made in PA ministries, but the institutional framework in all sectors remains fragmented, and the modus operandi of institutions continues to be unsustainable. All institutions, including PA ministries, are now even more dependent on donor financing than 10 years ago.

Social and Economic Security

<u>Social safety net</u>**: The Social Safety Net Reform Project (SSNRP) was the Bank's main vehicle to introduce policy and institutional reforms in the management of social assistance programs.** The SSNRP aimed to mitigate the impact of the social and economic crises on the most vulnerable groups. As part of the reform, the project aimed to introduce conditional cash transfers for qualifying poor families, enabling them to pay the out-of-pocket costs of keeping their children in school and making regular preventive visits to health clinics. In June 2007, Bank's Board approved restructuring of the SSNRP. This involved removing mandatory

eligibility conditions, and shifting to one-time unconditional cash transfers, which potentially limited their developmental impact.

With support from the Bank, the ministry reviewed and updated its proxy means testing for determining eligibility for payments based on data from the 2007 household census and the 2007 household expenditure and consumption survey. As a result of this support, the Council of Ministers issued a decree in February 2009 to merge all ongoing cash assistance programs using the poverty targeting database developed with support from the SSNRP. The merger has been completed, and the system is expected to strengthen the capacity of the Ministry of Social Affairs to react to emergency situations. However, in order to operationalize the unified system, several issues related to establishing poverty line and payment strategy still need to be resolved.

The SSNRP also supported a one-time emergency assistance transfer for 4,880 poor households. Development benefits of these transfers were not clear, as they were not linked to relevant health and education conditions, such as school attendance, participation in vocational training, and health check-ups.[16]

Pension reform: Bank support generated few, if any, outcomes in this area. Despite several quality analytical pieces on pension reform and continuing dialogue with the PA, Bank advice was not followed and its influence on policy has been negligible[17].

Temporary wage employment for the poor: The ICDP and NGO II projects helped to generate employment for poor households by using local labor in small infrastructure projects. The 2005 BIA indicates positive impact including temporary improvement in income and acquisition of new skills, leading to the ability of some women to start home-based projects, and even find permanent employment.

Conclusions

- **Overall, the outcome of Bank assistance is rated moderately satisfactory (**table 5.4). **Together with other donors, the Bank contributed positively to maintaining and arresting the decline in services.** The Bank was flexible in its response to the evolving situation, and balanced emergency support with addressing medium-term institutional and sectoral policy issues. Bank assistance supported service providers (governmental and nongovernmental) and addressed urgent needs through its projects. The Bank's analytical work was a valuable input to facilitating internal dialogue on reforms and supporting other donors' efforts.

Bank supported targeted budgetary expenditures necessary for operating facilities, provided analytical guidance, and leveraged significant donor funding in the process. Outcomes in strengthening institutions to deliver services were less successful. Although the Bank did strengthen the capacity of some local NGOs and produced good quality analytics, it was unable to produce a tangible impact (with a few exceptions) on client institutions and policies. Bank support helped to improve poverty targeting, and progress has been made in integration of the two main social assistance programs, but it has yet to be completed. The Bank provided temporary employment and income through small infrastructure projects. These were an important contribution to easing the plight of the poor in times of crisis. Little progress was made on pension reform.

Table 5.4 Outcome Ratings for Human and Social Development Pillar

Strategic goals	*Achievement of sector outcomes*	*Bank group contribution to results*	*Outcome ratings*
1. Maintaining basic services (access, quality, and reaching the poor).	Access to basic services during the worst crises remained satisfactory, due to the efforts of many donors. Progress in improving the quality of services and reaching the poorest was more limited.	The outcome of Bank support was satisfactory in helping to maintain access to basic services, but was not as successful in improving their quality. It reached the poor through its services, but its ability to reach the poorest and most marginalized was limited. Overall, the Bank contribution to outcomes is considered moderately satisfactory in this area, as the bulk of assistance was directed toward ensuring continuous access to basic services. The Bank contributed to basic services delivery, supported targeted budgetary expenditures for operating facilities, and leveraged donor funding. The Emergency Services Support Projects (ESSP I and II) were the main vehicle for donor financing.	Moderately Satisfactory
2. Institutional capacity for service delivery	Some marginal progress has been made in PA ministries, but the institutional framework in all sectors remains fragmented, and the *modus operandi* of institutions continues to be unsustainable.	The Bank did strengthen capacity of some local NGOs and produced good quality analytical work, but it was unable to produce a tangible impact (with a few exceptions) on institutions and policies. Several institutions established by Bank-supported initiatives have been essential	Moderately Unsatisfactory

		during the emergency period, but the lack of exit strategies added to the complexity of the institutional architecture that delivers health and education services.	
3. Social and economic security	Progress has been made in the integration of the two main social assistance programs. Once completed, this system is expected to strengthen the capacity of the Ministry of Social Affairs to react to emergency situations. However, in order to operationalize the unified system, several issues related to establishing the poverty line and payment strategy still need to be resolved.	With the ICDP and NGO II projects, the Bank provided temporary employment and income through small infrastructure projects, which was an important contribution to easing the plight of the poor in times of crisis. Bank support helped to improve poverty targeting. The Social Safety Net Reform Project (SSNRP) was the Bank's main vehicle to introduce policy and institutional reforms in the management of social assistance programs. Regarding pension reform, Bank support generated few, if any, tangible outcomes. Despite several quality analytical pieces on pension reform and continuing dialogue with the PA, Bank advice was not followed and its influence on policy has been negligible.	Moderately Satisfactory
Overall Outcome			Moderately Satisfactory

Source: IEG
Notes: ICDP= Integrated Community Development Project; NGO= nongovernmental organization; PA=Palestinian Authority.

Lessons and Recommendations

❖ The model of fast disbursement aimed at maintaining access to basic services in crisis situations is often necessary and effective, but it must be part of an overall portfolio that includes support for medium-term institutional and policy reform.

❖ The Bank should consider supporting development of a strategic framework for service delivery to ensure more efficient resource allocation and better coordination among all entities involved in providing social services for the Palestinian population. Alternative service providers such as NGOs need to be gradually incorporated within the framework of national programs, and operate in a complementary manner— instead of creating parallel structures providing similar services.

❖ More attention could have been paid to institutional sustainability issues within the ICDP and NGO projects. A more explicit results framework would have been helpful in this regard. Although several institutions established by Bank-supported initiatives may have been essential during the emergency period, the lack of exit strategies added to the complexity of the institutional architecture that delivers health and education services.

- The Bank needs to strengthen gender mainstreaming in Bank projects to ensure sustainable economic empowerment of women.

Chapter 6

Donor Coordination

Structure of Aid Coordination in the West Bank and Gaza

<u>From the Oslo Accords to the Paris Declaration (1993–2005)</u>: Since the 1993 Oslo Agreement, an elaborate donor coordination structure has been developed in the West Bank and Gaza. Aid coordination faced significant constraints due to the volatile political environment, division of PA bodies between West Bank and the Gaza Strip, and program implementation difficulties arising from the jurisdictional complexities of Areas A, B, C.[1] The main structures established with active involvement of the World Bank in the 1990s were the Ad Hoc Liaison Committee (AHLC, 1993),[2] the Joint Liaison Committee (JLC, 1994),[3] and the Task Force on Project Implementation (TFPI, 1997).[4]

Aid coordination faced significant constraints due to the volatile political environment, division of the Palestinian Authority bodies between the West Bank and Gaza, and program implementation difficulties arising from the Oslo agreement jurisdictional complexities of Areas A, B, and C.

In the wake of the *intifada*, , new donor coordination entities emerged in 2001-02 to assess physical and institutional damage, determine reconstruction priorities, and mobilize funds, These included: the Quartet on the Middle East,[5] the Task Force on Palestinian Reform (TFPR),[6] the Reform Support Groups (RSGs),[7] and the Humanitarian and Emergency Policy Group (HEPG).[8]

In 2002, the Local Aid Coordination Committee (LACC)[9] was created to coordinate all official agencies providing development aid to the Palestinians. At the same time, the local coordination structure lost its trilateral nature as Israel ceased to participate in the LACC and, progressively, the PA was also no longer formally involved.[10]

The principal effects of the *intifada* on aid management were a shift away from long-term assistance in institution-building toward emergency and budgetary support, and an increasingly donor-driven agenda. The Mokoro Report on aid coordination in the West Bank and Gaza[11] identified four major challenges for effective donor assistance: (i) maintaining the resilience of the existing system; (ii) adapting to new demands and streamlining and strengthening the existing structure; (iii) strengthening the PA's role and involvement; and (iv) enhancing the quality of aid through improvements in harmonization and effectiveness rather than volume.

<u>2005 – 2010:</u> In 2005, the donor community reformed the coordination structure, supporting the PA's national priorities and in line with the 2005 Paris Declaration on Aid Effectiveness.[12] A two-tier structure was maintained: at the international level, the AHLC (chaired by Norway, co-sponsored by the EC and the US, with the World Bank as the Secretariat)[13] remained in place to review donor/aid policies and strategies. The Quartet assumed a facilitating role.

At the local level, the Local Development Forum (LDF), co-chaired by the Ministry of Planning, merged the LACC, the Local Task Force on Palestinian Reform (LTFPR),[14] and the HEPG and included all donor agencies as well as representatives of the international NGO network (AIDA). The LDF included four Strategy Groups (SGs)—economic policy, governance, infrastructure development, and social development and humanitarian issues—focusing on policy formulation and programmatic coordination, and pursuing greater integration of donor projects with PA priorities, and better harmonization of donor procedures.

The appointment of a new government under the leadership of Salaam Fayyad in June 2007 signaled the start of a new phase of stabilization and reconstruction, reviving the flow of development aid to the West Bank and Gaza.

However, the reformed aid coordination structure was not put into place until mid-2007 due to the donor decision to suspend assistance to the Hamas-led government after its victory in the Palestinian general elections of January 2006. The international community withdrew from all dealings with the Hamas government, but continued to work on those limited activities that they had with Palestinian line ministries. The appointment of a new government of Prime Minister Salaam Fayyad in June 2007 signaled the start of a new phase of stabilization and reconstruction, reviving the flow of development aid to the West Bank and Gaza.

The current donor coordination structure (Annex F, figures F1-F2) prominently includes the PA, as well as national stakeholders such as civil society and the private sector. The LDF is co-chaired by the Palestinian Ministry of Planning, Norway, the World Bank, and the Office of the United Nations Special Coordinator (UNSCO). The Prime Minister chairs the LDF meetings, which are generally held every quarter. The four Strategy Groups (SGs) are co-chaired by PA donor representatives, providing a venue for partnership building among donors and the PA. The World Bank co-chairs the Economic Strategy Group (ESG). Seventeen Sector Working Groups (SWGs)[15] report to the SGs and serve as the main instrument in coordination between the PA and the donor community at the technical level.

The Local Aid Coordination Secretariat (LACS)[16] is guided by the four co-chairs of the LDF and is responsible for ensuring that the various local aid coordination bodies work smoothly together and increase aid effectiveness. The LACS facilitates and provides technical support to the work of the LDF, the SGs, and the SWGs, and functions as the Secretariat of the Task Force on Project Implementation.[17] The Joint Liaison Committee, the local AHLC counterpart, was revived at the AHLC meeting in 2008.

World Bank Role in Donor Coordination

The World Bank has played a prominent role in donor coordination since the Oslo Accords in 1993, when the Bank's six-volume report[18] laid the foundations for the donor community work in West Bank and Gaza. The Bank has been at the center of donor coordination through its different responsibilities, functions, and tasks, including programmatic leadership, analytical and advisory support, and the mobilization of funds from the international donor community through trust funds.

The World Bank has been at the center of aid coordination through its various responsibilities, functions, and tasks, including programmatic leadership, analytical and advisory support, and aid mobilization through its trust funds.

In 2001–09, the World Bank took the lead in various aid coordination bodies at both the international and local levels: (i) serving as Secretariat for the AHLC; (ii) co-chairing of the LDF; (iii) serving as permanent member of the HPEG and the JLC; (iv) co-chairing of the LACC Secretariat/the LACS; (v) co-coordinator of the SWGs (Secretariat for the Infrastructure SWG and member of three other SWGs) in the pre-Hamas government period; (vi) co-chair of the Economic Strategy Group (ESG), the Private Sector Development and Trade Sector Working Group, and member of other SGs/SWGs under the reformed aid coordination structure; and (vii) alternating chair and permanent member of the TFPI. Also, the World Bank staff served on secondment assignments to aid coordination bodies such as the TFPI, the LACC secretariat, and the Quartet.

Many World Bank reports had an agenda-setting impact on the direction and distribution of development assistance.

Through its analytical and advisory work, the Bank has influenced and shaped, to great extent, donor coordination efforts, meeting agendas, and assistance policy. Bank analytical studies and assessments served as a focal point for donor—and donor-PA—discussions and activities in the West Bank and Gaza. Many Bank reports had an agenda-setting impact on the direction and distribution of development assistance including: the assessment of aid effectiveness (1999);[19] a proposal for aid coordination reform coproduced with the AHLC and the EC (2005); an assessment series on the impact of the Israeli closure regime on the Palestinian economy (2002–03); bi-yearly economic monitoring reports series in preparation for the AHLC meetings; and others.

The Bank has also provided the international donor community with socioeconomic and humanitarian data and analysis, in-depth reviews of specific sectors (such as public expenditure, telecommunications, water and sanitation, land administration), and cross-cutting issues such as gender, energy security, and employment generation.

There are numerous examples of the impact of the Bank's economic advice and technical assistance to the PA on donor policies and specific activities: The Bank's technical advice on improving public expenditure through the reform monitoring matrix was adopted by many donors under the PRDP trust fund (2008).[20] The water sector study (2009)[21] prompted UNSCO to put together a Water Package for Gaza, including emergency response and long-term development actions for environmental sustainability.

The Palestinian Authority and the international donor community have acknowledged the World Bank's leading role in providing economic and sector advice, promoting donor coordination, and mobilizing donor funds and leveraging resources, as well as initiating multi-donor operations and overseeing joint financing mechanisms for development assistance.

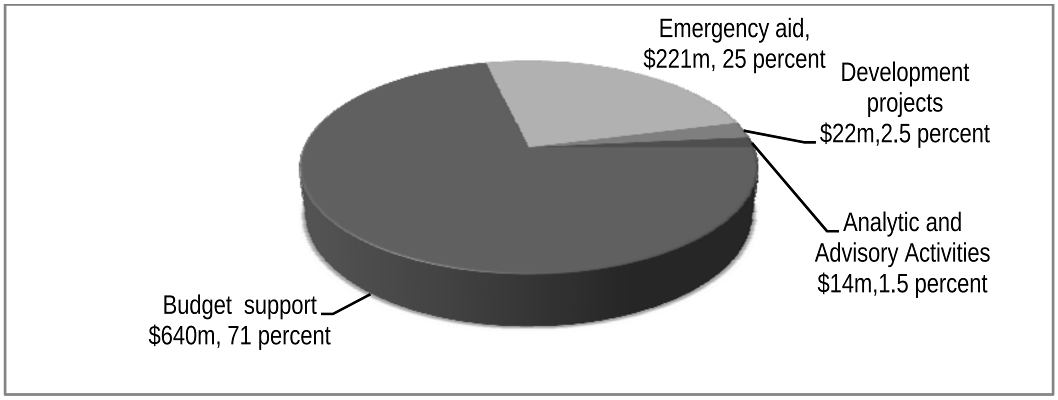
Donors and the PA particularly appreciated Bank's objective information and sound economic analysis, which often formed the technical backbone of the political negotiations. The Mokoro report stated that "one could argue that the Bank is better able to play a leading role among donors, both in analysis and in the mobilization of resources, partly because it is not itself a dominant funding source. In other countries, where the Bank's share of aid is typically much higher, relations between the Bank and other donors are often less harmonious."[22] Indeed, the World Bank has been a relatively smaller donor in terms of program and project financing in comparison to the United Nations Relief and Works Agency (UNRWA), the European Commission (EC), the United States, and Norway (table 1.5). However, both the PA and the donor community have acknowledged the Bank's leading role in providing economic and sector advice, promoting donor coordination, and—equally important— mobilizing donor funds and leveraging resources, initiating multi-donor operations and overseeing joint financing mechanisms for development assistance.

The World Bank has mobilized funds from other donors, using resources provided to the TFGWB and managing other multi-donor trust funds. Since 1993, the Bank has administered more than $1.5 billion of funds provided by donors through cofinancing. Indeed, almost $3 of donor resources has been pledged for every $1 committed from the TFGWB.

In 2001–09, the Bank administered 34 donor trust funds totaling $897.45 million.[23] The trust funds were associated with 19 Bank projects and AAA activities, which generally provided cofinancing for budget support (71 percent), emergency assistance (25 percent), development projects (2.5 percent), and analytical work and technical assistance (1.5 percent) (figure 6.1).

Two budgetary support trust funds—the Public Financial Management Reform (PFMR) Trust Fund and the Palestinian Recovery and Development Plan Multi-Donor Trust Fund (PRDP MDTF), totaling $640 million—were established by the World Bank at the PA's request in the post-*intifada* period. This was at a time when Israeli security measures resulted in severe economic depression and fiscal compression, including significant budget deficits.

Figure 6.1 Areas Financed through World Bank-Administered Trust Funds, 2001–09 (US$m)



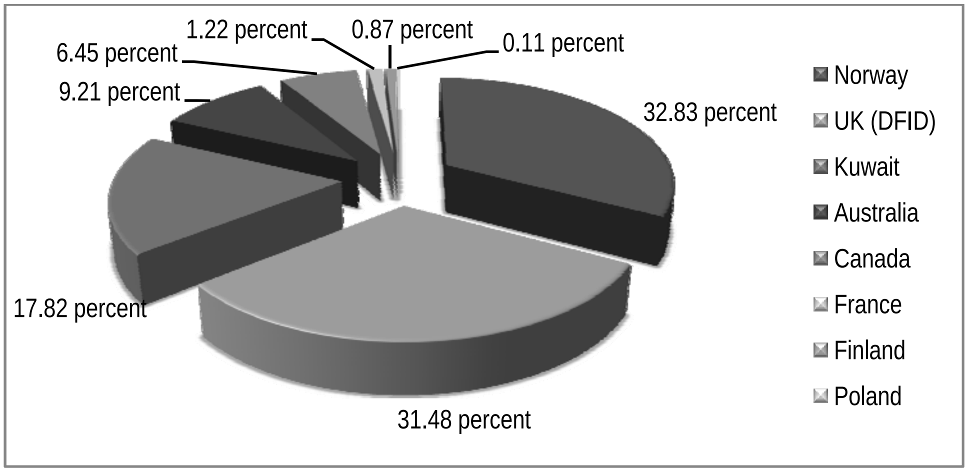
Source: World Bank data as of May 2010.

The PFMR trust fund (2003) guaranteed strong fiduciary oversight, which helped leverage donor resources for budgetary support. The Bank's strength in fiscal controls and procedures attracted donor contributions to the PRDP trust fund for budget support (2008), which supported the PA policy agenda as expressed in the PRDP (2008–2010),[24] including a three-year fiscal framework (figure 6.2). In the context of the PRDP, an independent supervision mechanism—the reform monitoring matrix—was established for channeling budget support funds to the West Bank and Gaza. The Bank's quarterly reporting on public resource management and expenditure is a requirement for the participating donors to release funds for budgetary support. Nonparticipating donors also use these reports to gauge the state of reforms, in some cases making it conditional for the release of their own funds.

The World Bank's strength in fiscal controls and procedures attracted donor contributions to the Palestinian Reform and Development Plan Trust Fund for budget support.

Figure 6.2 Palestinian Recovery and Development Plan (PRDP) Multi-Donor Trust Fund by Donor

Total Transferred to the PA's Single Treasury Account: $448.89 million



Source: World Bank data as of April 2010.
Notes: DFID= Department for International Development (UK); PA= Palestinian Authority.

Although donor budget support has helped reduce the PA's budget deficit at the central governmental level, payment of salaries and non-salary operating costs—especially at the municipal level—have been severely squeezed. It caused shortages in essential supplies -- drugs, fuel, school textbooks, and a decline in basic public services. The Bank operated several emergency response trust funds (a total of five operations amounting to $220.77 million) financing basic service delivery and non-salary items in the education, health, social, and municipal sectors (Emergency Services Support Project -ESSP 1-3; and the Emergency Municipal Services Rehabilitation Project -EMSRP-2), as well as health and environmental safety through waste water management (NGEST) (Annex F, table F1).

Using the ESSP MDTFs and the EMSRP trust fund, the World Bank provided donors with an important and effective means to respond to the emergency situation in the West Bank and Gaza and respect to the donor policy of "no interaction" with the Hamas government in Gaza (environmental emergency assistance through NGEST).

Three Bank-managed trust funds for the implementation of development projects ($22.35 million) covered support for the enhancement of the capacity of NGOs to deliver sustainable services to the poor, [25] policy, legal, and institutional reform in land administration, [26] and enhancing the management and sustainable financing of tertiary education.[27] Donors generally appreciated the Bank's expertise in these sectors, relied on the Bank's analytical and advisory work, and followed the Bank in selecting the areas of intervention.

Aid Effectiveness

The 2005 Paris Declaration on Aid Effectiveness defined five principles of aid effectiveness for the international donor community: *recipient country ownership, alignment with national priorities, harmonization of donor activities, managing for results,* and *mutual accountability*. In the context of the West Bank and Gaza, which has always been highly dependent on foreign assistance, aid effectiveness has not been an easy task due to the ongoing conflict and complexity of the political and security situation, the number of donors (83 donor countries), and the PA's limited capacity to manage foreign aid. The World Bank's assessment of aid effectiveness in West Bank and Gaza noted that "the overall aid coordination structure is unique; it is also heavy, complicated, time consuming, inefficient but indispensable and somewhat effective."[28]

Some progress has been observed on three out of the five principles of aid effectiveness during the period of 2001–09. After 2000 (and especially toward the end of the decade), Palestinian *ownership* became more evident— especially in the budget support and emergency response operations. After 2003, Palestinians gradually became more involved in project design and preparation.

The World Bank's aid effectiveness assessment noted that "the overall aid coordination structure [in the West Bank and Gaza] is unique: it is also heavy, complicated, time consuming, inefficient but indispensible and somewhat effective."

***Alignment with national priorities* became stronger after adoption of the reformed donor coordination structure in 2005.** Since 2007, the main donors meet biannually with the PA on the strategic level to discuss trust fund contributions. A few donors voiced criticism of the PRDP trust fund (2008–10), calling it a "shopping list rather than an investment in meaningful planning,"[29] which failed to emphasize the PA's priorities and was prepared without sufficient consultations with donors.

The UN Harmonized Approach to Cash Transfers [30] has not been introduced in the West Bank and Gaza, and the donors have not yet been able to fully harmonize their procurement, financial management, and reporting procedures. Nonetheless, various forms of *harmonization* have taken place: for example, the PA's regular report through the trust fund mechanism using Bank procedures had a positive impact on donor harmonization. However, a recent Bank report to the AHLC identifies the following problems:

> Different donors espouse different approaches to and models for institutional development, and once a donor is working with a specific Palestinian institution, other donors tend to shy away from this institution, resulting in lack of overall coherence. While all donor interventions identify the long-term institutional development priorities in their initial designs, in the interim, given humanitarian needs and other constraints, actual implementation does not live up to the previously set high standards of institution-building.[31]

The progress on *managing for results* and *mutual accountability* principles is hardly measurable, because the last assessment of overall aid effectiveness in the West Bank and Gaza was done in 1999 by the Bank, and no follow-up study on the subject has been conducted since.

Lessons and Recommendations

❖ *Aid effectiveness:* The last study on aid effectiveness was conducted by the Bank in 1999. The Bank was due to prepare a follow-up in 2008. However, this never took place, despite strong interest expressed by the PA and donors.

❖ *Data collection on donor funding:* The Ministry of Planning, the LACS, and the Bank identified significant gaps in information on volume and type of donor assistance. Compiling this data is essential for aid predictability, planning, and budgeting.

❖ *Integration of Arab donors:* Although the majority of Arab donors do not have a field presence and are not involved in policy support— rather focusing on traditional infrastructure financing— they remain among key providers of external aid. Closer cooperation with Arab donors is an important yet untapped resource. The Bank's experience here is limited, but some recent cases (such as Kuwait's recent contributions to the PRDP trust fund[32]) could serve as a starting point for broader partnership.

❖ *Donor visibility in trust fund administration:* Some donors expressed concerns about insufficient visibility accorded to the donors participating in the Bank's trust fund programs. In the highly politicized context of the West Bank and Gaza, the Bank is advised to take a proper notice of such concerns and address them accordingly.

❖ *Locally– based Bank team leaders:* The Bank produces high impact analytical and advisory sector work, but at times lacks sufficient field presence in key sectors (for example, in water). This has an adverse impact on overall effectiveness of Bank assistance and sector donor coordination in particular.

Chapter 7
Conclusions

Bank Group Presence

INVESTING IN PEACE

The World Bank Group established a presence in the West Bank and Gaza in the early 1990s as part of the international donor community's concerted effort to promote peace and stability in this volatile region. A 1994 World Bank report[1] stressed the "urgent need to deliver tangible benefits to the Palestinian population to reinforce the momentum towards peace." Since then, the Bank has invested significant financial resources in reconstruction and economic development, provided advice on establishing institutions necessary for future statehood, and helped build requisite capacity. The tension between long-term development and short-term emergency needs has been a persistent feature of all Bank strategies in the West Bank and Gaza.

The overarching objective of the donor community, including the Bank—promoting peace and stability—was political at its core, as its achievement depended heavily on progress in finding a long-lasting and mutually acceptable political solution to the Arab-Israeli conflict. The World Bank's Articles of Agreement define the Bank's activities as nonpolitical[2] and, in order to avoid overstepping its mandate, the Bank tried to carve a technical niche within the areas of building institutional capacity and investing in basic infrastructure, even before a political solution was found. This kind of incremental approach was close to the spirit of the 1993 Declaration of Principles (Oslo Accords), which was essentially a set of confidence-building measures between the two parties without a formal commitment to Palestinian statehood.

STATE-BUILDING

Investing in state-building became a collective goal of the international donor community after April 2002, when the UN Security Council Resolution 1397 formally affirmed "a vision of a region where two States, Israel and Palestine, live side by side within secure and recognized borders."[3] From the World Bank perspective, state building in the West Bank and Gaza translated into helping to establish and strengthen institutions for future statehood and improving governance within these institutions.

In hindsight, despite marginal progress in some agencies at the central level, the institutional framework in all sectors remains fragmented, and the modus operandi of institutions continues to be unsustainable. All institutions, including PA ministries, are more dependent on donor financing now than 10 years ago. Many state structures continue to be used as means for absorbing unemployment through the central budget payroll, which is being subsidized by donors. There are some positive results though—islands of institutional excellence, such as the Ministry of Finance, the Palestinian Central Bureau of Statistics (PCBS), and the Palestinian Monetary Authority (PMA). However, these successful examples are hardly surprising developments, taking into account the scale of donor resources invested in the institution-building process. In addition, success should be attributed to a great extent to the strong performance and reform drive of the present Palestinian cabinet under the leadership of Prime Minister Salaam Fayyad.

Most importantly, any degree of success in institution building and governance was not tied to the removal of the most critical constraint to Palestinian statehood—Israeli control over the West Bank and Gaza—and therefore carried little value toward the achievement of the ultimate objectives. **In the end, most international assistance, including Bank resources, ended up being directed toward mitigating the impact of the conflict through social assistance programs (such as direct subsidies to the needy households, short-term, low-skill employment schemes, and the like), and investments in basic infrastructure. The result was chronic aid dependence**. The donor community interpreted the state-building challenge in a technocratic manner; in this particular context, though, the political underpinnings needed to make this exercise viable were not in place.

Strengthening the Private Sector

Another key objective of the World Bank Group was development of a private sector capable of leading economic growth and generating employment. This goal motivated substantial investments in rehabilitating infrastructure and efforts to developing an appropriate legal and regulatory framework. **However, trying to revitalize private sector activity and attract**

investors under conditions of severe constraints on movement and access— in addition to periodic outbursts of violence and destruction of essential infrastructure— was an extremely challenging task that was bound to fail. The main foreign investment potential of the West Bank and Gaza—the economic resources and entrepreneurial skills of Palestinian Diaspora, which are normally more resilient to domestic risks—remains to a large extent untapped.

Results

The main objectives of the World Bank Group work in the West Bank and Gaza seem to be even more distant and difficult to attain today than at the beginning of the process in the early 1990s. The World Bank Group institutions assumed the specific role of competent and impartial technical adviser at the behest of its shareholders, following the promising political environment in the immediate aftermath of the Oslo Agreements. **However, the Bank ended up spending most of its resources on budget support to the PA, social assistance programs, and addressing humanitarian emergencies**.

Despite general institutional readiness for statehood,[4] the West Bank and Gaza currently does not resemble a viable state in several respects: the PA does not control its territory, access to the outside world, or natural resources; and economic growth is being driven by international aid and subsidies[5] instead of by the private sector (which is practically nonexistent in Gaza after the 2008 war). In addition, the government is desperately divided geographically and politically between two antagonistic factions—Fatah in the West Bank and Hamas in Gaza. Some observers have commented that, in some respects, the Hamas-led government in Gaza more readily fits the model of a "state" (because of its unchallenged "internal sovereignty" and uninterrupted control over its own territory), rather than the donor-supported and technocratic government of Prime Minister Fayyad in the West Bank.

The summary of almost two decades of relentless and dedicated work is sobering. Institutional development is highly uneven, with serious gaps at the sector and municipal levels. Infrastructure development—especially water, the most important and heavily invested subsector—continues to face serious technical and political issues. Recent modest economic growth is driven by donor subsidies, and the private sector is extremely weak.

The economic peace dividend did not materialize as the main constraints to peace and prosperity were never seriously challenged. The most elaborate and high-level attempt to date to present a valid and mutually beneficial economic argument to trigger a political decision to relax the closure regime—the 2005 Agreement on Movement and Access (AMA), prepared by the Bank and sponsored by the Quartet members at the highest political level—was never implemented.

Role of the World Bank Group

The World Bank Group can only be assigned rather limited accountability for lack of success, as most constraints were clearly beyond its control. The Bank's comparative advantages—sector technical expertise, project management skills, a good grasp of longer-term developmental challenges, and the general inclination toward the "big picture" issues—were difficult to exploit in the West Bank and Gaza.

The World Bank Group played an important and, by many accounts, irreplaceable role in the West Bank and Gaza throughout the review period. It is widely credited with keeping the main state institutions afloat during the worst crises. The Bank was and continues to be the intellectual leader within the donor community, having produced a wide range of analytical and advisory activities intended to assist the PA in various sectors. The Bank has been useful in identifying obstacles to development in the West Bank and Gaza, estimating their costs, and promoting the search for reasonable compromises. These actions have contributed to the shaping of small adjustments and have also improved understanding of the realities of the situation. Bank studies not only described the needs and led to specific actions (for example, on movement and access, water, and other issues), but also delivered the inconvenient truth that changed the views of donors and influenced decisions of the main stakeholders.

The Bank leveraged significant contributions from other donor partners with its own financing, and developed a reputation as an effective and efficient administrator of donor resources through Trust Fund mechanisms.

The World Bank Group was flexible in its response to the evolving situation and balanced emergency support with addressing medium-term institutional and sector policy issues. Bank assistance supported service providers (governmental and nongovernmental) and addressed urgent needs through its projects.

In the future, the World Bank Group will continue to have an important mission in helping the Palestinian people. However, in order to better position itself to help achieve medium-term development outcomes beyond humanitarian relief, the World Bank Group may need to rethink its mandate and role, as well as the scope of its activities.

To date, the World Bank Group has struggled to exercise a technical mandate in a situation where politically-driven developments exert the dominant influence on economic and social outcomes. The World Bank Group cannot, at least without an unambiguous instruction from its shareholders, simply assume a new—and essentially political—mandate. However, it can tie its financial support much more closely to politically-driven developments, notably in Israeli-Palestinian relations and progress towards the two-state solution. Such developments matter crucially for the net benefits that Bank support can generate in terms of improvements in the socio-economic well-being of the Palestinian people. This is an issue of the utmost sensitivity that the Bank's top leadership would need to ponder in consultation with the principal stakeholders in the World Bank Group–assisted Palestinian economic development, including the PA, the Bank Group's shareholders, the Quartet, and the Government of Israel. The recommendations outlined in the remainder of this summary, although not entirely invariant to such "big-picture" decisions are nevertheless not tied to any one narrow scenario in this regard.

Lessons and Recommendations

Based on the evaluation findings, IEG recommends that the World Bank Group management focus attention on the areas and actions outlined below.

STRATEGY

❖ **Prepare a short, self-standing 12-24 month strategy document with an indicative medium-term programming horizon to help institutionalize the focus on longer-term development issues.** The World Bank Group program in the West Bank and Gaza is generally focused and covers important areas. However, it would benefit from strengthening and deepening its longer-term strategic thinking. Development of the first Interim Strategy for the West Bank and Gaza in 2008 was an important step in this direction.

❖ **Develop a simple results framework and associated monitoring and evaluation framework to underpin the medium-term strategy**. Seeking more precise goals and results should help with the designing of a better strategy and select interventions tailored to goals. Emergence of periodic and increasingly more elaborate national strategy updates (PRDP) is a helpful development in this regard.

❖ **Showcase in each strategy document a handful of discussions and/or rough simulations** of how events beyond the World Bank Group's control, including changes in the political-security backdrop, would impact the World Bank Group's ability to "deliver" the outcomes.

❖ **Develop different economic approaches to the West Bank and the Gaza Strip,** while recognizing them as parts of a single Palestinian entity. A needs assessment for Gaza would be a helpful step in this direction.

❖ **Sustain the World Bank Group's diverse and high-quality analytical and advisory services program,** while seeking to further strengthen a cross-cutting theme of estimating and publicizing the costs to development of the exogenous factors beyond the World Bank Group's control, including changes in the political-security backdrop.

SPECIFIC PROGRAM ISSUES

❖ **Continue support for PFM, but make it more targeted in selecting the categories for assistance and delivery—notably through staff based in the field and working directly with government agencies.** Reform of public financial management was one of the most successful areas of Bank engagement and should have positive long-reaching, cross-sectoral effects. The rapid rise of municipal debt and its negative impact on fiscal stability (net lending) highlighted the importance of fiscal discipline and strong institutions at the local level.

❖ **Strengthen the focus on helping local government-related (municipal) institutions** dealing with local finance and improving their accountability.

❖ **Provide the Palestinian Authority with advice on developing a long-term vision for improving its sustainability,** including a strategy for reducing dependence on aid. It is perhaps time to start thinking about shifting the emphasis from budget support to developing the productive sectors.

- **Support the PA in reforming the presently fragmented framework for service delivery in the health and education sectors** to ensure more efficient resource allocation and better coordination. Gradually incorporate alternative service providers (NGOs and others) within the framework of national programs in order to operate in a complementary manner, instead of creating parallel structures providing similar services.

PARTNERSHIPS AND AID EFFECTIVENESS

- **Identify opportunities for practical cooperation between Israelis and Palestinians** on different aspects of development, and give the presence of this dimension particular weight in strategies. This is a difficult task, but the World Bank Group is well-positioned for it and has had success in this area in the past that can potentially be replicated, such as waste treatment schemes in Jenin and Hebron, some aspects of work on electricity and water, and the "net lending" problem.

- **Align the World Bank Group's program closely with that of other donor partners.** In order to maximize the benefits of a well-funded donor presence and obtain the most out of its own experience in aid coordination and donor resource management, the World Bank Group needs to align closely its efforts with other donor partners at all stages: programming, implementation, and reporting. There are good examples that need to be followed up.

- **Improve cooperation with Arab donors**. Closer cooperation with Arab donors is an important and as yet untapped resource. The Bank's experience in this area is very limited, but in some recent cases (such as Kuwait's recent contribution to the PRDP Trust Fund) could serve as a starting point for broader partnership.

- **Ensure continuing dialogue with the client by strengthening the field presence**. A permanent local presence and understanding of the local environment are important confidence-building factors. The active presence of the Bank and IFC in the West Bank and Gaza throughout the worst crises conveyed an important message to the donor community and the private sector and contributed to a more positive perception of the economic situation. At the same time, the Bank lacks a permanent task management presence in some strategically important areas, such as water and sanitation. Addressing this issue would be a definite gain in effectiveness and efficiency in terms of dialogue with the main stakeholders and progress in implementation.

- **Continue and deepen intra-World Bank Group cooperation**. Intra-World Bank Group cooperation in the West Bank and Gaza demonstrated clear benefits and needs to be deepened, including a better-defined role for MIGA.

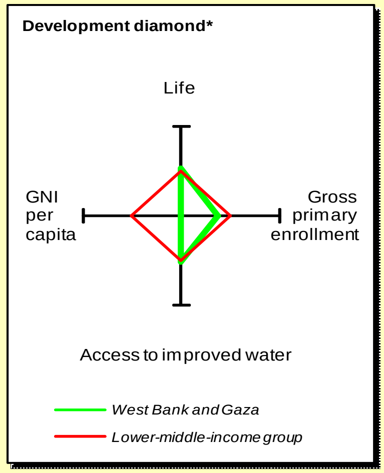
Appendix A

Table A.1 West Bank and Gaza at a Glance

West Bank and Gaza at a glance

12/9/09

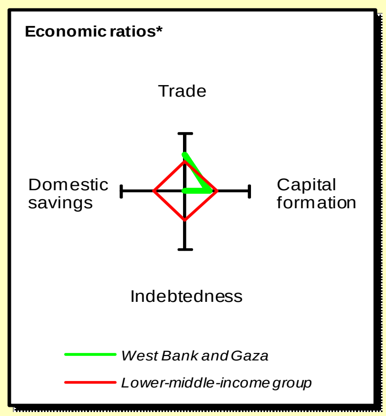
POVERTY and SOCIAL	West Bank & Gaza	M. East & North Africa	Lower-middle-income
2008			
Population, mid-year *(millions)*	3.9	325	3,702
GNI per capita *(Atlas method, US$)*	..	3,242	2,078
GNI *(Atlas method, US$ billions)*	..	1,053	7,692
Average annual growth, 2002-08			
Population *(%)*	3.3	1.9	1.2
Labor force *(%)*	4.9	3.0	1.6
Most recent estimate (latest year available, 2002-08)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	72	57	41
Life expectancy at birth *(years)*	73	70	68
Infant mortality *(per 1,000 live births)*	24	32	46
Child malnutrition *(% of children under 5)*	2	..	26
Access to an improved water source *(% of population*	89	88	86
Literacy *(% of population age 15+)*	94	73	83
Gross primary enrollment *(% of school-age populatic*	80	106	109
Male	80	109	112
Female	80	104	106



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

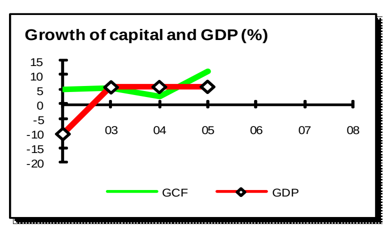
	1988	1998	2007	2008
GDP *(US$ billions)*	..	3.9	..	..
Gross capital formation/GDP	..	36.0	..	..
Exports of goods and services/GDP	..	17.7	..	..
Gross domestic savings/GDP	..	-18.5	..	..
Gross national savings/GDP	..	26.0	..	..
Current account balance/GDP	..	-27.3	..	..
Interest payments/GDP	..	..	..	..
Total debt/GDP	..	..	..	..
Total debt service/exports	..	..	..	..
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..

	1988-98	1998-08	2007	2008	2008-12
(average annual growth)					
GDP	..	-2.5	..	..	..
GDP per capita	..	-5.9	..	..	..
Exports of goods and services	..	-5.0	..	..	..

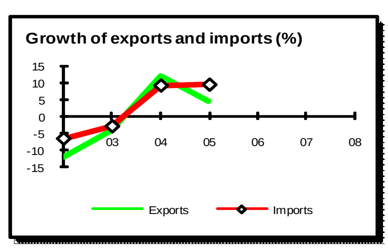


STRUCTURE of the ECONOMY

	1988	1998	2007	2008
(% of GDP)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Household final consumption expenditure	..	95.7	..	..
General gov't final consumption expenditur	..	22.8	..	..
Imports of goods and services	..	72.2	..	..



	1988-98	1998-08	2007	2008
(average annual growth)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Household final consumption expenditure	..	-2.7	..	..
General gov't final consumption expenditur	..	2.3	..	..
Gross capital formation	..	-9.1	..	..
Imports of goods and services	..	-4.6	..	..



Note: 2008 data are preliminary estimates.
This table was produced from the Development Economics LDB database.
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

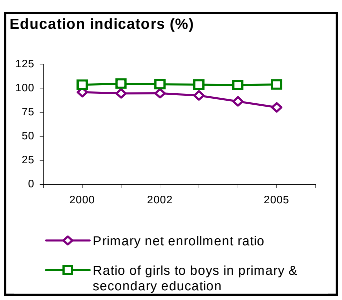
Table A.2. West Bank and Gaza— Progress on Millennium Development Goals

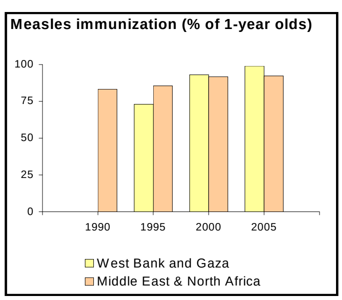
Millennium Development Goals

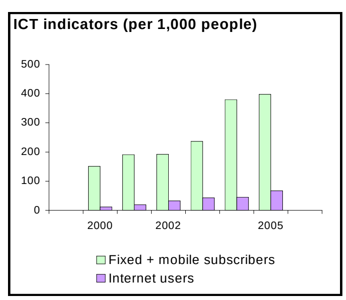
West Bank and Gaza

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	West Bank and Gaza			
Goal 1: halve the rates for $1 a day poverty and malnutrition	**1990**	**1995**	**2000**	**2006**
Poverty headcount ratio at $1 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	30.8
Share of income or consumption to the poorest qunitile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	*4.1*	..	
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	96	85
Primary completion rate (% of relevant age group)	..	..	103	
Secondary school enrollment (gross, %)	..	..	81	75
Youth literacy rate (% of people ages 15-24)	..	*97*	..	*99*
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	104	100
Women employed in the nonagricultural sector (% of nonagricultural employment)	10	12	14	
Proportion of seats held by women in national parliament (%)	..	..	..	13
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	40	33	27	28
Infant mortality rate (per 1,000 live births)	34	28	24	25
Measles immunization (proportion of one-year olds immunized, %)	..	73	93	97
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..
Births attended by skilled health staff (% of total)	..	*95*	97	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	..	*42*	..	*50*
Incidence of tuberculosis (per 100,000 people)	31	31	26	
Tuberculosis cases detected under DOTS (%)	..	..	10	
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	92	92	*88*
Access to improved sanitation facilities (% of population)	..	73	73	*50*
Forest area (% of total land area)	1.5	..	1.5	1.5
Nationally protected areas (% of total land area)	..	..	..	..
CO2 emissions (metric tons per capita)	..	..	..	..
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	*34*	42	151	290
Internet users (per 1,000 people)	0	..	12	
Personal computers (per 1,000 people)	..	..	*39*	
Youth unemployment (% of total labor force ages 15-24)	..	..	*34.8*	*24.0*







Note: Figures in italics are for years other than those specified. .. indicates data are not available. 9/28/07

Development Economics, Development Data Group (DECDG).

Figure A.3. Map of West Bank and Gaza

Figure A.4. West Bank

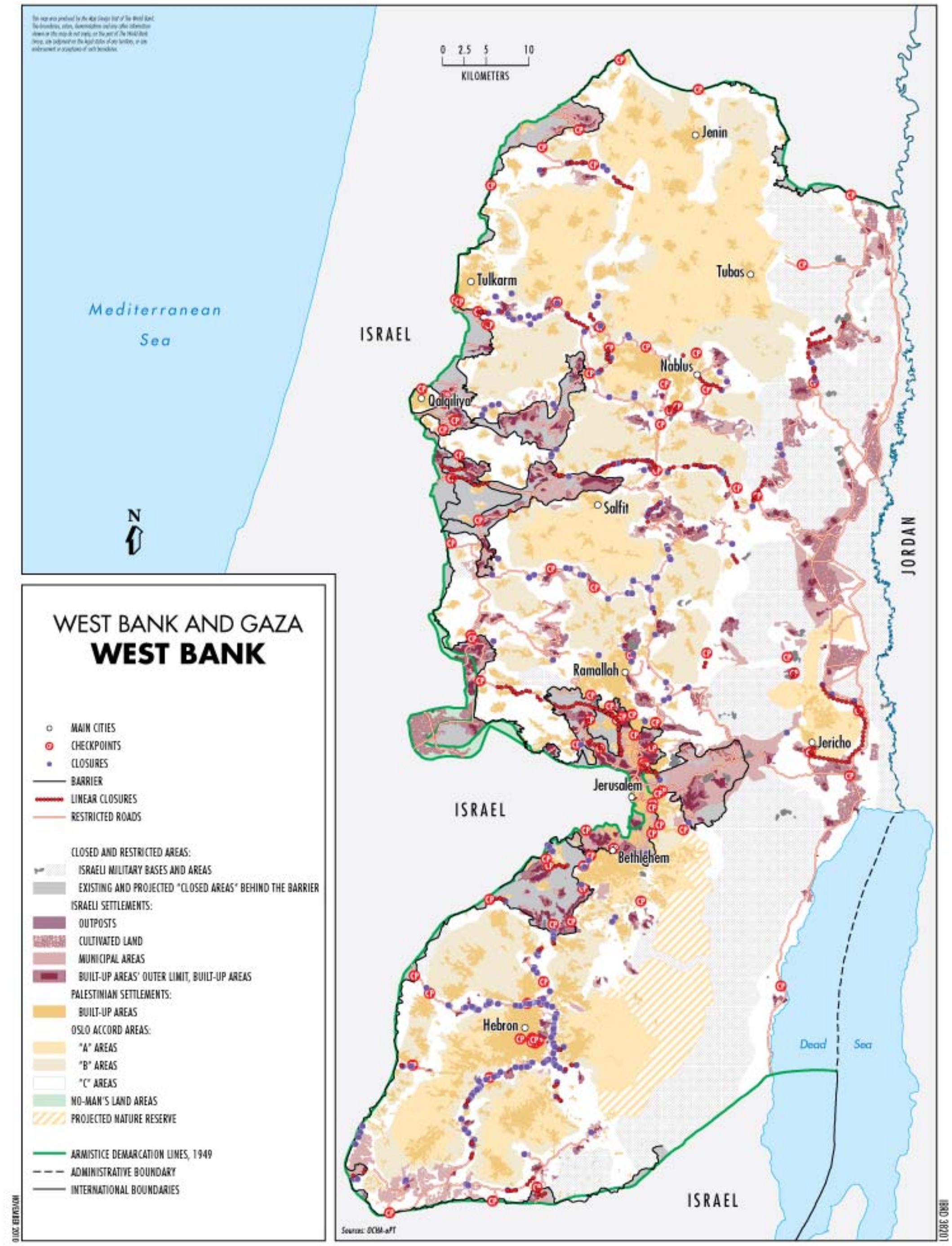


Figure A.5. Gaza

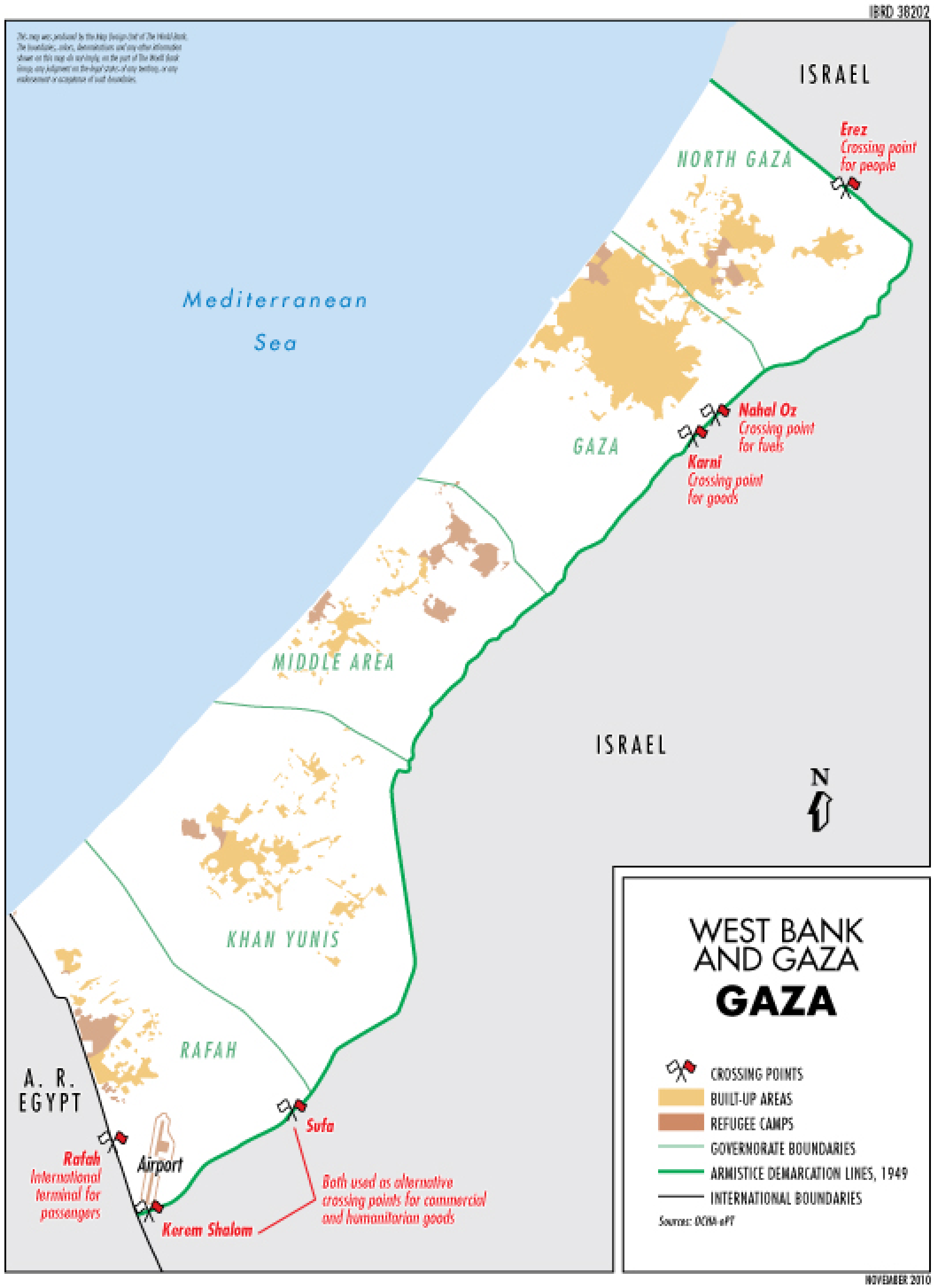


Table A.3. West Bank and Gaza and Comparator Countries - Economic and Social Indicators, 2001–2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009	West Bank and Gaza	Egypt, Arab Rep. of	Jordan	Lebanon	Yemen, Rep. of	Mid Eas and No Afr
										2001–2009 average					
Growth and Inflation															
GDP growth (annual %)	-15.0	-10.0	6.0	6.0	6.0	-4.8	-1.4	2.3	6.8*	-0.5	4.8	7.1	4.4	4.0	4.8
GDP per capita growth (annual %)	-18.0	-13.0	2.0	3.0	3.0	-11.0	..	-0.5	3.8*	-3.8	2.9	4.4	3.3	1.0	2.9
GNI per capita, Atlas method (current US$)	1,210.0	1,030.0	1,070.0	1,150.0	1,250.0	..	..	..	..	1,142.0	1,371.3	2,471.3	5,386.3	661.3	2,1
GNI per capita, PPP (current international $)	..	..	..	..	..	..	..	..	..	..	4,378.8	4,412.5	9,222.5	2,000.0	6,0
Inflation, consumer prices (annual %)	1.0	6.0	4.0	3.0	3.0	..	..	..	..	3.4	7.6	4.8	..	12.3	..
External Accounts															
Exports of goods and services (% of GDP)	16.0	16.0	14.0	15.0	14.0	11.8	13.2	14.4	12.7*	14.1	26.0	51.0	20.1	38.0	33.
Imports of goods and services (% of GDP)	70.0	71.0	70.0	69.0	68.0	78.5	78.5	67.2	68.8*	71.2	29.8	81.3	43.0	40.0	30.
Current account balance (% of GDP)	-33.0	-31.0	-45.0	-47.0	-21.0	-32.5	-31.9	-23.6	-27.5	-32.5	1.8	-4.6	-14.7	1.0	..
Other Macroeconomic Indicators															
Gross domestic savings (% of GDP)	-32.0	-30.0	-29.0	-29.0	-28.0	..	..	..	..	-29.6	15.4	-4.3	0.6	20.3	28.
Gross fixed capital formation (% of GDP)	22.0	26.0	27.0	25.0	26.0	20.3	17.2	26.9	30.7	24.6	18.5	24.4	23.0	21.3	23.
Fiscal Accounts															
Revenues, excluding grants (% of GDP)	..	..	..	..	..	..	..	..	..	..	25.9	33.0	20.0	..	32.
General government final consumption expenditure (% of GDP)	29.0	31.0	29.0	31.0	33.0	..	..	..	..	30.6	12.0	22.5	15.6	16.7	14.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	West Bank and Gaza	Egypt, Arab Rep. of	Jordan	Lebanon	Yemen, Rep. of	Mic Eas and No Afr
										2001–2009 average					
Gross national expenditure (% of GDP)	154.0	156.0	156.0	154.0	154.0	..	..	..	..	154.8	103.5	130.0	122.8	102.0	..
Cash surplus/deficit (% of GDP)	..	..	..	..	..	..	..	..	..	..	-6.1	-1.0	-11.1	..	1.0
<u>Social Indicators</u>															
Health															
Life expectancy at birth, total (years)	72.0	72.0	72.0	73.0	73.0	73.0	73.0	73.0	..	72.6	69.5	71.8	71.4	61.3	70.
Immunization, DPT (% of children ages 12-23 months)	..	..	..	..	..	..	..	..	..	..	97.8	96.8	75.5	62.4	87.
Improved water source (% of population with access)	..	..	..	..	..	89.0	..	..	..	89.0	98.0	98.0	100.0	66.0	88.
Improved sanitation facilities (% of population with access)	..	..	..	..	..	80.0	..	..	..	80.0	66.0	85.0	..	46.0	74.
Mortality rate, infant (per 1,000 live births)	..	..	..	..	24.0	24.0	24.0	24.0	..	24.0	22.3	18.0	13.5	56.0	30.
Education															
School enrollment, preprimary (% gross)	33.0	31.0	27.0	30.0	30.0	30.0	30.0	..	..	30.1	14.6	32.8	69.3	1.0	20.
School enrollment, primary (% gross)	107.0	103.0	98.0	91.0	87.0	83.0	80.0	..	..	92.7	96.3	99.0	100.0	83.2	103
School enrollment, secondary (% gross)	84.0	86.0	89.0	93.0	93.0	94.0	92.0	..	..	90.1	78.3	85.5	82.3	46.0	70.
Population															
Population growth (annual %)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	..	3.0	2.0	2.3	1.5	3.0	2.0
Population, total (in million)	3.1	3.2	3.3	3.5	3.6	3.7	3.8	3.9	..	3.5	76.5	5.4	4.0	20.8	305
Urban population (% of total)	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0	..	72.0	43.0	78.0	86.5	28.6	56.

Source: World Bank World Development Indicators, July 2010; IMF Report, April 2010.
*Estimated.

Notes: DPT= diphtheria, pertussis and tetanus; GDP= gross domestic product; GNI= gross national income; PPP= purchasing power parity.

Table A.4. West Bank and Gaza and Comparator Countries – Official Development Assistance per capita, 1998–2008

Country	**ODA per capita**										
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
West Bank and Gaza	216.8	177.9	212.1	279.5	501.9	291.4	323.0	312.2	391.8	488.6	658.5
Egypt	28.9	22.9	18.9	17.6	17.0	13.2	19.9	12.9	11.1	13.8	16.5
Jordan	89.4	92.3	115.1	91.1	106.6	242.8	113.7	123.2	104.7	92.5	125.7
Lebanon	65.3	52.0	52.8	63.3	116.0	57.0	65.4	59.3	171.1	229.7	256.6
Yemen	21.5	25.9	14.5	22.8	30.2	11.8	12.3	13.8	12.9	10.6	13.3
Congo, Dem. Rep.	2.6	2.7	3.5	4.7	21.8	97.4	31.8	30.0	34.2	19.8	25.7
Haiti	48.8	30.9	24.0	19.4	17.4	23.4	32.3	45.2	60.8	72.2	92.3
Nepal	17.2	14.6	15.8	15.6	14.1	17.9	15.9	15.6	18.4	21.5	24.9

Source: World Bank World Development Indicators and OECD Development Assistance Committee website, July 2010.
Notes: ODA= official development assistance. OECD= Organisation for Economic Co-operation and Development.

Table A.5. West Bank and Gaza - Approved Projects, FY2000–2009

Project ID	Project Name	Approval FY	Closing FY	Amount (US$)
P040506	Electricity Sector Investment and Management	2000	2007	15.0
P053892	Health System Development I	2000	2005	7.9
P058683	Municipal Infrastructure Development project II	2000	2005	7.5
P071367	Strengthening Public Investment Management	2000	2006	0.4
P054051	Solid Waste and Environmental Management	2001	2009	9.5
P065593	Education Action Project	2001	2006	7.0
P071040	Palestinian NGO Project II	2001	2006	8.0
P073538	Emergency Response Program	2001	N/A	11.6
P069986	Integrated Community Development Project	2002	2008	10.0
P074470	Water and Sanitation Services (additional financing)	2002	N/A	6.0
P075735	Capacity Building for Social Sector Management and Reform	2002	2005	0.2
P075984	Emergency Services Support Project	2002	2004	20.0
P078136	Emergency Services Support Project II	2003	2005	25.0
P078212	Emergency Municipal Services Rehabilitation Project	2003	2006	20.0
P065921	Emergency Water Project	2004	2009	12.5
P081477	Social Safety Net Reform Project	2004	Active	10.0
P083837	Emergency Services Support Project II (additional financing)	2004	N/A	15.0
P088754	Public Sector Financial Management Reform Structural Adjustment Operation	2004	2005	20.0
P091358	Public Procurement Reform (additional financing)	2004	2008	0.4
P065920	Emergency Water Project II	2005	Active	20.0
P074595	Northern Gaza Emergency Sewage Treatment (NGEST) Project	2005	Active	7.8
P080892	Land Administration Project	2005	2009	3.0
P083767	Tertiary Education Project	2005	Active	10.0
P074594	Emergency Municipal Services Rehabilitation Project II	2007	Active	10.0
P096777	Palestinian NGO Project III	2007	Active	10.0
P100568	Avian/Human Influenza Prevention/Control	2007	2009	10.0
P104253	Integrated Community Development (additional financing)	2007	N/A	5.0

P084461	Electric Utility Management	2008	Active	12.0
P091314	Northern Gaza Emergency Sewage Treatment (NGEST) Project (additional financing)	2008	Active	12.0
P104257	Village and Neighborhood Development Project	2008	Active	10.0
P108373	Emergency Services Support Project III	2008	Active	10.0
P109304	Social Safety Net Reform Project (additional financing)	2008	Active	10.0
P110172	Emergency Water Project II (additional financing)	2008	Active	5.0
P111078	PRDP Support	2008	2009	40.0
P105404	Southern West Bank Solid Waste Management	2009	Active	12.0
P113117	Food Price Crisis Response	2009	Active	5.0
P113621	PRDP Support II	2009	2010	40.0
P116758	Tertiary Education Project (additional financing)	2009	Active	5.0
P116776	Emergency Services Support Project III (additional financing)	2009	Active	5.0
P116777	Palestinian NGO Project III (additional financing)	2009	Active	3.0
P116792	Emergency Water Project II (additional financing II)	2009	Active	3.0
P116794	Emergency Municipal Services Rehabilitation Project II (additional financing)	2009	Active	3.0
P116854	Electric Utility Management (additional financing)	2009	Active	2.5
Total				459.3

Source: World Bank internal database. January 2010.

Notes: FY= fiscal year; NA= not applicable; NGO= nongovernmental organization; PRDP= Palestinian Reform and Development Plan.

Table A.6a West Bank and Gaza - World Bank Commitments by Sector Board (US$ million), FY2000–2009

Sector Board	2000	2001	2002	2003	2004	2005	2007	2008	2009	Total
Agriculture and Rural Development							10.0			10.0
Education		7.0				10.0			5.0	22.0
Energy and Mining	15.0							12.0	2.5	29.5
Environment		9.5								9.5
Financial and Private Sector Development		11.6								11.6
Health, Nutrition and Population	7.9				0.0					7.9
Procurement					0.0					0.0
Public Sector Governance	0.0				20.0			40.0	40.0	100.0
Social Development							15.0	10.0		25.0
Social Protection		8.0	30.0	25.0	25.0			20.0	10.0	118.0
Urban Development	7.5			20.0		3.0	10.0		18.0	58.5
Water			6.0		12.5	27.8		17.0	3.0	66.3
Total	30.4	36.1	36.0	45.0	57.5	40.8	35.0	99.0	78.5	459.3

Source: World Bank internal database. January 2010.

Table A.6b: West Bank and Gaza - World Bank Support by Sector Board (Number of Projects), FY2000–2009

Sector Board	2000	2001	2002	2003	2004	2005	2007	2008	2009	Total
Agriculture and Rural Development							1			1
Education		1				1			1	3
Energy and Mining	1							1	1	3
Environment		1								1
Financial and Private Sector Development		1								1
Health, Nutrition and Population	1									1
Procurement					1					1
Public Sector Governance	1				1			1	1	4
Social Development							2	1		3
Social Protection		1	3	1	2			2	2	11
Urban Development	1			1		1	1		3	7
Water			1		1	2		2	1	7
Total	4	4	4	2	5	4	4	7	9	43

Source: World Bank internal database. January 2010.

Table A.7. West Bank and Gaza - Analytic and Advisory Activities (AAA), FY2000–2009

Product ID	Product Name	Delivered FY	Product Line
P058680	Transport Sector Study	2000	ESW
P067620	West Bank and Gaza Poverty Review	2001	ESW
P067642	EPS Model (Economics of Permanent Status Workshops and Analysis)	2001	ESW
P070501	Fiscal Decentralization/Municipal Finance Study	2001	ESW
P071156	West Bank and Gaza Pensions Concept Note	2001	ESW
P071929	SME/PSD Strategy	2001	ESW
P072674	Transition to Statehood	2001	ESW
P070595	Higher Education Sector Study	2002	ESW
P071159	Long Term Policy Options	2002	ESW
P075097	Rehabilitation Services for Disabled	2002	TA
P075823	Pensions Reform	2003	ESW
P075875	Social Safety Nets	2003	ESW
P077422	ICT Strategy	2003	ESW
P078412	PSD Strategy (Phase II)	2003	ESW
P080192	Update of Economic Assessment	2003	ESW
P080300	Public Administration Reform	2003	ESW
P080628	Higher Education Policy Dialogue	2003	ESW
P081356	Displaced Persons	2003	ESW
P082188	Civil Service Reform	2003	ESW

Product ID	Product Name	Delivered FY	Product Line
P078429	Country Financial Accountability Assessment (CFAA)	2004	ESW
P083740	Economic Road Map	2004	ESW
P084674	Civil Service Reform	2004	TA
P086419	Infrastructure Assessment	2004	ESW
P086437	Vulnerable Children Assessment	2004	ESW
P087493	Wastewater Reuse Policy Note	2004	ESW
P087629	Poverty Update	2004	ESW
P078450	Country Procurement Assessment Review (CPAR)	2005	ESW
P083715	Update of Economic Assessment	2005	ESW
P083835	HD Sector Work	2005	ESW
P087223	Community Studies	2005	ESW
P093592	Private Sector Pensions	2005	ESW
P094159	Gaza Recovery	2005	ESW
P087104	Passages and Trade Facilitation	2006	TA
P088021	NGO Study	2006	ESW
P094291	Palestinian Recovery Program	2006	TA
P094909	Intergovernmental Fiscal Relations and Municipal Finance Study	2006	ESW
P095796	Country Economic Memorandum (CEM) - Sources of Growth	2006	ESW
P095835	Education Sector Analysis	2006	ESW
P096286	Second Economic Monitoring Report	2006	ESW
P095797	Public Expenditure Review (PER)	2007	ESW
P100487	Investment Climate Assessment (ICA)	2007	ESW
P100971	Transport Sector Review and Strategy	2007	ESW
P101545	Passages and Trade Facilitation (Phase II)	2007	TA
P104089	Energy Sector Review	2007	ESW
P106649	Telecommunications TA	2007	TA
P107495	Telecommunications Institutional TA	2008	TA
P108086	Support for Payments System	2008	TA
P108335	Public Sector Management/Governance	2008	TA
P109259	Pension Reform Funding	2008	TA
P109991	Health Equity Analaysis	2008	TA
P110057	Electricity Net Lending	2008	TA
P101280	Water Resources Management	2009	TA
P107305	Social Inclusion and Gender	2009	ESW
P108035	Palestinian Trade Facilitation (Phase III)	2009	TA
P110209	Transport Sector TA	2009	TA
P110955	Health Policy Report	2009	ESW
P111116	Country Procurement Issues Paper	2009	ESW
P111198	Economic Impacts of Access to Land	2009	ESW

Product ID	Product Name	Delivered FY	Product Line
P111200	Financial Sector Review	2009	ESW
P111224	Housing Finance Sector	2009	ESW
P112800	Telecommunications Reform and Institutional Strengthening	2009	TA
P115114	Water Restrictions Study	2009	ESW

Source: World Bank internal database. January 2010.

Notes: ESW= economic and sector work; HD= human development; ICT= information and communication technologies; NGO= Nongovernmental organization; PSD= private sector development; SME= small and medium enterprise; TA= technical assistance.

Table A.8 West Bank and Gaza – IEG Project Ratings, Exit FY2000–2009

Exit FY	Approval FY	Project Name	IEG Outcome
2000	1997	Community Development	Highly Satisfactory
2001	1995	Education & Health Rehabilitation	Moderately Satisfactory
2002	1998	Palestinian NGO Project	Satisfactory
	1999	Community Development II	Moderately Satisfactory
	2001	Emergency Response Program	Satisfactory
2003	1997	Water & Sanitation Services	Moderately Satisfactory
	1996	Municipal Development	Unsatisfactory
	1997	Microenterprise	Unsatisfactory
	2002	Emergency Services Support Project	Moderately Satisfactory
2004	1997	Legal Development	Highly Unsatisfactory
	1999	Bethlehem 2000	Moderately Unsatisfactory
2005	1998	Gaza Industrial Estate	Unsatisfactory
	1997	Housing Finance	Moderately Unsatisfactory
	1997	Palestinian Expatriate Professional Program	Unsatisfactory
	2000	Health System Development I	Satisfactory
	2000	Municipal Infrastructure Development II	Satisfactory
	2003	Emergency Services Support Project II	Satisfactory
	2004	PFMR Structural Adjustment	Satisfactory
2006	1999	Southern Area Water	Moderately Unsatisfactory
	2001	Education Action Project	Moderately Satisfactory
	2001	Palestinian NGO Project II	Moderately Satisfactory
	2003	Emergency Municipal Services Rehabilitation	Moderately Satisfactory
2007	2000	Electricity Sector Investment & Management	Moderately Satisfactory
2008	2002	Integrated Community Development	Moderately Satisfactory
	2008	PRDP Support	Satisfactory
2009	2001	Solid Waste & Environmental Management	Highly Satisfactory
	2004	Emergency Water	Moderately Unsatisfactory
	2005	Land Administration	Moderately Unsatisfactory

Source: World Bank internal database. July 2010.

*Sustainability and Institutional Development Impact were rated until around FY06; Risk to Development Obj

Notes: # = Bank system for ranking changed; FY= fiscal year; IEG= Independent Evaluation Group; NGO=nongovernmental organization; PFMR= pu

Table A.9. West Bank and Gaza and Comparator Countries - Portfolio Status Indicators (US$ million), FY2001–2009

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009
West Bank and Gaza									
Number of Projects	17	18	15	15	13	8	11	13	11
Net Commitment Amount	207.4	237.7	189.1	199.0	153.8	82.8	112.8	125.1	157.0
Number of Projects At Risk	3	5	4	1	1	4	5	4	2
Percent At Risk	17.6	27.8	26.7	6.7	7.7	50.0	45.5	30.8	18.2
Commitment At Risk	38.0	54.9	29.5	3.0	10.0	43.0	50.3	40.0	20.0
Percent of Commitment at Risk	18.3	23.1	15.6	1.5	6.5	51.9	44.6	32.0	12.7
Egypt, Arab Rep. of									
Number of Projects	18	18	16	17	14	16	15	16	14
Net Commitment Amount	1,083.0	1,012.0	763.8	1,014.1	1,085.5	1,795.1	1,321.6	1,931.6	1,786.6
Number of Projects At Risk	1	5	2	3	1	1	2	1	3
Percent At Risk	5.6	27.8	12.5	17.6	7.1	6.3	13.3	6.3	21.4
Commitment At Risk	15.0	347.2	123.7	16.4	15.0	15.0	140.0	20.0	285.0
Percent of Commitment at Risk	1.4	34.3	16.2	1.6	1.4	0.8	10.6	1.0	16.0
Jordan									
Number of Projects	9	8	7	7	6	6	6	7	8
Net Commitment Amount	291.7	256.7	311.7	319.7	267.7	267.7	254.0	246.1	268.5
Number of Projects At Risk	0	1	1	0	0	1	1	1	0
Percent At Risk	0.0	12.5	14.3	0.0	0.0	16.7	16.7	14.3	0.0
Commitment At Risk	0.0	5.0	35.0	0.0	0.0	15.0	15.0	0.6	0.0
Percent of Commitment at Risk	0.0	1.9	11.2	0.0	0.0	5.6	5.9	0.2	0.0
Lebanon									
Number of Projects	13	13	13	9	7	6	6	5	4
Net Commitment Amount	729.4	518.0	529.5	387.9	321.9	296.6	284.6	264.6	254.3
Number of Projects At Risk	7	7	6	3	5	1	2	1	1
Percent At Risk	53.8	53.8	46.2	33.3	71.4	16.7	33.3	20.0	25.0
Commitment At Risk	475.7	270.3	239.1	140.0	216.6	20.0	63.5	43.5	43.5
Percent of Commitment at Risk	65.2	52.2	45.2	36.1	67.3	6.7	22.3	16.5	17.1
Yemen, Rep. of									
Number of Projects	20	19	18	19	17	18	19	19	20
Net Commitment Amount	636.0	605.9	675.8	784.0	687.0	747.7	711.7	846.5	990.2
Number of Projects At Risk	2	2	2	4	1	1	2	0	4
Percent At Risk	10.0	10.5	11.1	21.1	5.9	5.6	10.5	0.0	20.0
Commitment At Risk	78.7	45.7	50.7	98.8	27.5	21.3	155.3	0.0	110.0
Percent of Commitment at Risk	12.4	7.5	7.5	12.6	4.0	2.8	21.8	0.0	11.1
Middle East and North Africa									
Number of Projects	116	114	109	99	89	95	93	86	79
Net Commitment Amount	5,652.3	5,087.3	4,762.6	4,961.4	5,365.3	6,494.3	5,860.8	6,203.2	5,964.1
Number of Projects At Risk	20	25	18	16	12	6	16	11	14

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009
Percent At Risk	17.2	21.9	16.5	16.2	13.5	6.3	17.2	12.8	17.7
Commitment At Risk	1077.9	1239.1	768.3	405.8	419.9	211.3	1087.7	598.5	848.8
Percent of Commitment at Risk	19.1	24.4	16.1	8.2	7.8	3.3	18.6	9.6	14.2
Congo, Democratic Republic of									
Number of Projects	..	2	2	7	8	8	10	12	15
Net Commitment Amount	..	500.0	504.0	1,240.0	1,332.0	1,407.0	1,737.0	1,955.7	2,309.7
Number of Projects At Risk	..	0	0	0	2	3	6	7	7
Percent At Risk	..	0.0	0.0	0.0	25.0	37.5	60.0	58.3	46.7
Commitment At Risk	..	0.0	0.0	0.0	160.0	262.0	1171.0	1443.7	908.7
Percent of Commitment at Risk	..	0.0	0.0	0.0	12.0	18.6	67.4	73.8	39.3
Haiti									
Number of Projects	2	..	..	..	3	5	10	12	16
Net Commitment Amount	47.0	..	..	..	75.0	70.0	138.0	167.1	206.7
Number of Projects At Risk	2	..	..	..	1	1	3	4	9
Percent At Risk	100.0	..	..	..	33.3	20.0	30.0	33.3	56.3
Commitment At Risk	47.0	..	..	..	12.0	12.0	20.0	15.0	145.0
Percent of Commitment at Risk	100.0	..	..	..	16.0	17.1	14.5	9.0	70.1
Nepal									
Number of Projects	8	8	10	9	12	12	13	16	16
Net Commitment Amount	221.3	225.5	303.2	302.0	424.5	421.5	470.2	823.5	858.4
Number of Projects At Risk	1	2	2	1	1	3	4	4	5
Percent At Risk	12.5	25.0	20.0	11.1	8.3	25.0	30.8	25.0	31.3
Commitment At Risk	5.0	126.3	78.0	75.6	75.6	145.2	138.7	163.2	303.6
Percent of Commitment at Risk	2.3	56.0	25.7	25.0	17.8	34.5	29.5	19.8	35.4
Bank-wide									
Number of Projects	1457	1428	1395	1346	1332	1345	1347	1384	1408
Net Commitment Amount	106,640.7	102,601.3	94,772.5	92,554.3	93,211.7	92,888.8	97,790.5	104,145.2	128,471.6
Number of Projects At Risk	184	272	218	228	224	188	224	250	310
Percent At Risk	12.6	19.0	15.6	16.9	16.8	14.0	16.6	18.1	22.0
Commitment At Risk	12,539.2	17,385.4	14,141.5	14,742.1	12,552.7	10,849.8	15,175.6	18,179.3	19,539.0
Percent of Commitment at Risk	11.8	16.9	14.9	15.9	13.5	11.7	15.5	17.5	15.2

Source: World Bank internal database. July 2010.

Table A10. West Bank and Gaza - Commitments and Disbursements (US$ million), FY2001–2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of Projects	19	20	19	18	20	13	12	17	18
Commitment Amount	238.8	259.4	296.4	283.1	267.2	153.8	127.8	329.3	351.4
Commitment At Risk	38.0	64.9	29.5	30.8	39.7	64.0	50.3	40.0	44.8
Commitment IP/DO Problem	38.0	47.0	26.5	30.8	22.3	64.0	37.8	10.0	12.3
Undisbursed Balance at FY	124.3	136.4	117.9	112.4	74.2	71.5	53.9	125.5	288.1
Total Undisbursed Balance	95.4	107.9	97.4	64.8	56.4	54.0	59.9	67.5	59.8
Total Disbursed	142.4	147.8	184.8	197.0	182.5	99.8	67.9	286.5	459.2
Disbursed in FY	28.9	25.7	55.1	105.3	37.9	17.5	24.0	216.3	227.7
Total Cancelled	1.0	3.7	14.1	11.3	8.3	0.0	0.0	0.0	0.7
Cancelled in FY	0.0	2.7	10.4	0.0	0.7	0.0	0.0	0.0	0.7
Source: World Bank internal database. July 2010. *Notes:* FY= fiscal year; DO= Development Objective; IP= Implementation Progress.									

Appendix B

Governance—Statistical Supplement

Table B.1. PA Fiscal Operations - Revenues , Expenditures and Financing Sources (Commitment Basis), 2001–2009

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Est.
	(In percent of GDP)											
Gross revenue 1/	20.4	20.8	21.1	7.3	9.4	21.0	23.4	27.5	25	24.7	25.7	26.1
Expenditure and net lending	19.7	20.9	27.0	30.0	32.5	35.6	37.4	44.5	49.6	48.7	47.2	52.1
Expenditure (Recurrent since 2005)	19.7	20.9	27.0	29.9	32.3	30.4	33.2	36.9	42.3	38.4	39.9	46.1
Wages	11.0	11.5	14.0	18.1	20.4	20.5	21.3	22.4	26	24.9	23.8	24.0
Non-wages	8.7	9.3	13.0	11.1	11.2	8.9	11.0	14.5	16.3	13.5	16.1	22.1
Net lending 2/	…	…	…	0.1	0.2	5.2	4.2	7.7	7.3	10.4	7.3	6.1
Capital Expenditures	5.5	5.3	0.3	0.6	0.3	n.a.	n.a.	n.a.	5.7	1.9	3.5	6.5
Overall balance (before external support)	-4.9	-5.3	-6.2	-22.6	-23.0	-14.6	-14.1	-17	-30.2	-26.0	-25.1	-29.0
External budgetary support including capital expenditures	5.6	5.4	1.2	14.2	14.8	7.2	8.7	7.8	21.8	21.6	32.4	28.7
Overall balance	0.7	0.1	-5.0	-8.4	-8.2	-7.4	-5.4	-9.2	-8.4	-4.4	7.3	-0.3
Memorandum items:												
Nominal GDP in NIS (1998–2000) and U.S. dollar (2001–2009)	16,180	18,698	18,110	3,742	3,153	3,628	4,083	4,478	4,594	5,147	6,108	6,117
Exchange rate NIS/$ (period average) 3/	3.80	4.14	4.08	4.21	4.74	4.54	4.48	n.a.	4.46	n.a.	3.6	4
Government employment (end of period)	92,400	103,554	114,940	123,450	122,329	129,182	133,106	151,000	167,000	n.a.	n.a.	n.a.

Sources:

IMF, *West Bank and Gaza: Economic Performance and Reform under Conflict Conditions*, September 15, 2003 for 1998–2000

IMF, *Macroeconomic Developments and Outlook in the West Bank and Gaza, Ad Hoc Liaison Committee Meeting*, London, December 14, 2005, Table 3 for 2001–2004

IMF, *Medium-Term Macroeconomic and Fiscal Framework for the West Bank and Gaza,* Report for the Donors' Conference Paris, December 17, 2007 Table 2, for 2005

IMF, Macroeconomic and Fiscal Framework for the West Bank and Gaza, Fourth Review of Progress, Staff Report for the Meeting of the Ad-Hoc Liaison Committee, New York, September 22, 2009, Table 1 for 2006–07

IMF, Macroeconomic and Fiscal Framework for the West Bank and Gaza, Fifth Review of Progress, Staff Report for the Meeting of the Ad-Hoc Liaison Committee, Madrid, April 13, 2010, Tables 1 and 2 for 2008 and 2009

1/ Excludes accrued clearance revenue not transferred by Israel in 2001 and 2002 and transfers from accumulated stock in 2003 and 2004.

2/ It includes VAT refunds for 2, 5, 16, and 16 US million dollars in 2001, 2002, 2003, and 2004 (in percent of GDP they are equal to 0.05, 0.16, 0.44, and 0.39)

3/ For 1998-2000 the exchange rate is calculated implicitly, by dividing revenues in NIS by revenues in dollars as reported in Table 4.2 of IMF 2003

Notes: GDP= gross domestic product; n.a.= not available; NIS= new Israeli shekel; PA= Palestinian Authority.

Table B.2. Governance Pillar—Bank Financial Support to West Bank and Gaza, 2001–2010

Strategy of 2002 (2001–2003)	Strategy of 2003 (2004–2005)	Strategy of 2005 (2006–2007)	Strategy for FY08–FY10
1. Macroeconomic management and budget support			
	Public Financial Management Reform Trust Fund (FY04)		Multi Donor Trust Fund for Budget Support
Economic Management Capacity Building Project	Reform Structural Adjustment Operation Public Sector Financial Management Structural Adjustment Operation (FY04) for $20 million	Public Sector Management Project II	Budget Support for Economic Recovery (PRDP-DPG) PRDP Support I - Support for Fiscal Sustainability and PFM (FY08) for $40 million PRDP Support II (FY09) for $40 million Electric Utility Management Additional Financing (FY09) for $2.5 million
	Pension Reform Project (not delivered)	Pension Reform Project for $5 million (not delivered)	
2. Municipal development and land administration			
Municipal Management Project	Municipal Finance and Land Titling Project 1/	Second Municipal Management Service Delivery Project	Land Administration Project
Municipal Infrastructure Development project II (FY00) for $7.5 million Emergency Municipal Services Rehabilitation Project (FY03) for $20 million	Municipal Finance Project for $10 million (FY05) 1/	Emergency Municipal Services Rehabilitation Project II (FY07) for $10 million	Emergency Municipal Services (Rehab. II) - Additional Financing (FY09) for $3 million
	Land Administration Project (FY05) for $3 million 1/		

Source: Derived from the Status Reports on the Trust Fund for Gaza and the West Bank and the Strategic Outlook for 2002, 2003, 2005, 2009, and the Interim Strategy for 2008–2009.
1/ The Municipal Finance and Land Titling Project was split in two projects – the Land Administration Project (effective on 1-26-2005), and the Municipal Finance Project
Notes: DPG= Development Policy Grant; PFM= public financial management; PRDP= Palestinian Reform and Development Program;

Table B.3. Governance Pillar—Analytical and Advisory Activities, 2001–2010

Strategy of 2002 (2001–03)	Strategy of 2003 (2004–05)	Strategy of 2005 (2006–07)	Strategy for FY08–FY10
1. Macro, financial management, intergovernmental fiscal relations			
Strengthening Public Sector Management Review of policy options and challenges …. and the importance of sustainable fiscal management		Strategic Partnership on Governance with DFID	Policy advice on key reforms the PA had identified, including net lending, pensions, municipal sector and overall energy sector reform/public sector management Electricity net lending
Reform of the PA Pension System (FY03)			Pension Reform TA
Country Financial Accountability Assessment (CFAA, delivered 6/04)		CFAA (to assess in detail the progress and outstanding issues in PFM)	
	Country Procurement Assessment Report (CPAR, December 2004)		Country Procurement Assessment follow-up
		PER (2007)	Work with PA to advance the recommendations of the PER
		Intergovernmental Fiscal Relations and Municipal Finance (to devise strategy for the most effective use of the PA's scarce fiscal resources)	
		Country Economic Memorandum (CEM)	Continue support for PMA to modernize its payments system [Payment Systems TA]/Financial Sector Review
2. Institutional Development TA			
IDF-Strengthening Public Invest. Mgt. (FY00) for $0.4 million	IDF- Public Procurement Reform Support (FY04) for $0.4 million	Institutional Development Project (IDP) Develop and implement with PA an anti-corruption strategy for the PA	
3. Trade			
	Trade Facilitation Study (Delivered Dec. 05)		
4. Ongoing activities			
Economic Monitoring	Economic Monitoring	Economic Monitoring	Economic Monitoring

Source: World Bank.
Notes: DIFD= Department for International Development (UK); IDF= Institutional Development Fund; PA= Palestinian Authority; PER= Public Expenditure Review; PFM=public financial management; PMA= Palestinian Monetary Authority; TA= technical assistance.

Table B.4. Reforms for Transparency and Financial Accountability, June 2002–July 2003

1. Revenue Consolidation
- Consolidate all Palestinian Authority (PA) revenue into the Single Treasury Account (STA)
- Transfer income from PA commercial activities into the STA
- Consolidate all PA commercial activities into the Palestinian Investment Fund (PIF), value its assets and assess transparency.

2. Tax Administration
- Take steps to unify tax administration and computer systems in the West Bank and Gaza.
- Revise the income tax law based on international best practices – effective with the 2004 budget.

3. Expenditure Controls
- Consolidate expenditure management in Gaza and the West Bank by unifying the accounting system, treasury operations, and submitting West Bank expenditures to budgetary approval.
- Establish a modern Internal Audit Department.
- Prohibit ministries from incurring advances from commercial banks.
- Pay salaries of security personnel directly into bank accounts instead of by cash.
- Strengthen external auditing procedures by drafting a new external auditing law by the Palestinian Legislative Council (PLC) to ensure full independence of the office; submit regular reports to the PLC covering all PA institutions.
- Establish an independent procurement agency within the Ministry of Finance.

4. PA Employment Expansion
- Adhere to additional civil service positions as specified in the budget.
- Enforce budgetary appropriation limits on an increase in security personnel.
- Enforce retirement of civil service employees at age 60.

5. Budget Reform
- Design a fully-financed 2003 budget based on realistic assumptions, and without resort to public indebtedness.
- Repay arrears to the private sector.
- Take steps to integrate into the PA budget for 2003 and 2004 the donor-financed public investment budget.
- Enhance transparency by meeting the budget calendar and publishing all budgetary accounts.

6. Pension Reform
- Take steps toward unifying the pension system and include security personnel in pension coverage.
- Close the West Bank pension scheme to new entrants as of May 2001.
- Resume transfers of employee and government contributions in 2003.
- Agree on parameters of a unified pension system in the fall of 2003.

7. Monopolies Reform
- Ministry of Finance takes over Petroleum Authority to ensure transparency and accountability, and to restore market share and tax revenues.
- Restructure price policies for cement and petroleum products by eliminating monopolistic rents.

Source: IMF (2003), Box 5.2, page 102.

Table B.5. Budget Institutions Index for Selected Countries - Score for its Components by Budget Stages

	Egypt, Arab Rep. of	Jordan	Morocco	Turkey	West Bank and Gaza	Yemen, Rep. of

Stage I. Budget Planning and Negotiation							
Centralization	Legal vesting of power	4.0	4.0	4.0	4.0	0.0	0.0
	Agenda setting	0.0	4.0	4.0	4.0	1.3	4.0
Rules and Controls	Numerical fiscal rules	4.0	4.0	4.0	0.0	2.0	2.0
	Procedural rules	4.0	4.0	2.0	4.0	4.0	2.0
Sustainability and Credibility	Medium-term planning and integration	1.3	4.0	0.0	4.0	1.3	1.3
	Macroeconomic and fiscal forecasting	0.7	2.7	2.7	0.0	0.7	0.0
	Costed sector strategies	1.3	4.0	2.0	0.0	0.0	4.0
Comprehensiveness	Dual budgeting	0.0	0.0	0.0	4.0	0.0	4.0
	Extra budgetary expenditure	2.0	2.7	2.7	4.0	4.0	4.0
	Inclusion donor projects	2.0	2.0	4.0	4.0	2.0	2.0
	Inclusion of debt	4.0	4.0	0.0	0.0	0.0	0.0
	Overview fiscal risks	2.0	2.0	2.0	2.0	0.0	0.0
Transparency	Classification of budget	4.0	4.0	2.0	4.0	0.0	0.0
	Publication of draft budget	4.0	4.0	4.0	4.0	4.0	0.0
Stage II. Budget Approval							
Centralization	Amendments by legislative	2.0	2.0	4.0	2.0	4.0	0.0
	voting sequence	4.0	4.0	4.0	0.0	4.0	4.0
Rules	Time limit	4.0	0.0	2.0	2.0	2.0	4.0
Sustainability and Credibility	Scope of legislative scrutiny	1.3	4.0	1.3	2.7	2.7	1.3
Comprehensiveness	Information in document	4.0	4.0	2.0	4.0	2.0	4.0
Transparency	Public hearings	0.0	2.0	0.0	2.0	0.0	0.0
Stage III. Budget Implementation							
Centralization	Disbursement	0.0	2.0	2.0	0.0	4.0	4.0
Rules and Control	Internal controls	2.0	2.0	2.0	0.0	2.0	2.0
	Internal audit	0.0	2.0	2.0	0.0	2.0	0.0
	Audit body	2.0	2.0	2.0	0.0	0.0	2.0
	In year amendments	2.7	4.0	2.7	4.0	1.3	1.3
Sustainability and Credibility	Expenditure out-turn	2.0	4.0	4.0	2.0	0.0	2.0
	Stock and monitoring of arrears	0.0	0.0	2.0	0.0	0.0	0.0
	Monitoring of debt	2.0	4.0	4.0	4.0	0.0	4.0
Transparency	Legislative scrutiny of external audit	2.0	2.0	2.0	4.0	0.0	2.0
	Scope and timeliness of in-year reports	2.0	2.0	2.0	2.0	2.0	2.0
	Government accounting system	2.0	4.0	4.0	4.0	2.0	2.0
	Completeness and timeliness of financial statements	2.0	2.0	2.0	2.0	2.0	4.0
	Publication and scope of year-end reports	0.0	0.0	0.0	2.0	0.0	0.0

Source: IMF direct information from the authors (Era Dabla-Norris, Richard Allen, Luis-Felipe Zanna and others) of the paper on *Budget Institutions and Fiscal Performance in Low-Income Countries,* IMF Working Paper, WP10/10/80, March 2010.

Table B.6. Budget Institutions Index for Selected Countries by Budget Stages

Countries	**Budget Stages**			
	Planning	Approval	Implementation	All
West Bank and Gaza	1.4	2.4	1.2	1.7
Egypt, Arab Rep. of	2.4	2.6	1.4	2.1
Jordan	3.2	2.7	2.3	2.7
Morocco	2.4	2.2	2.4	2.3
Turkey	2.7	2.1	1.8	2.2
Yemen, Rep. of	1.7	2.2	1.9	1.9
Peru	3.4	3.3	2.7	3.1
Low Income Countries	1.95	1.99	1.73	1.89
Middle Income Countries	2.28	2.01	2.02	2.10

Source: IMF database as of May 2010.
Note: Higher number in the index indicates better performance.

Table B.7. Budget Institutions Index for Selected Countries by Budget Categories

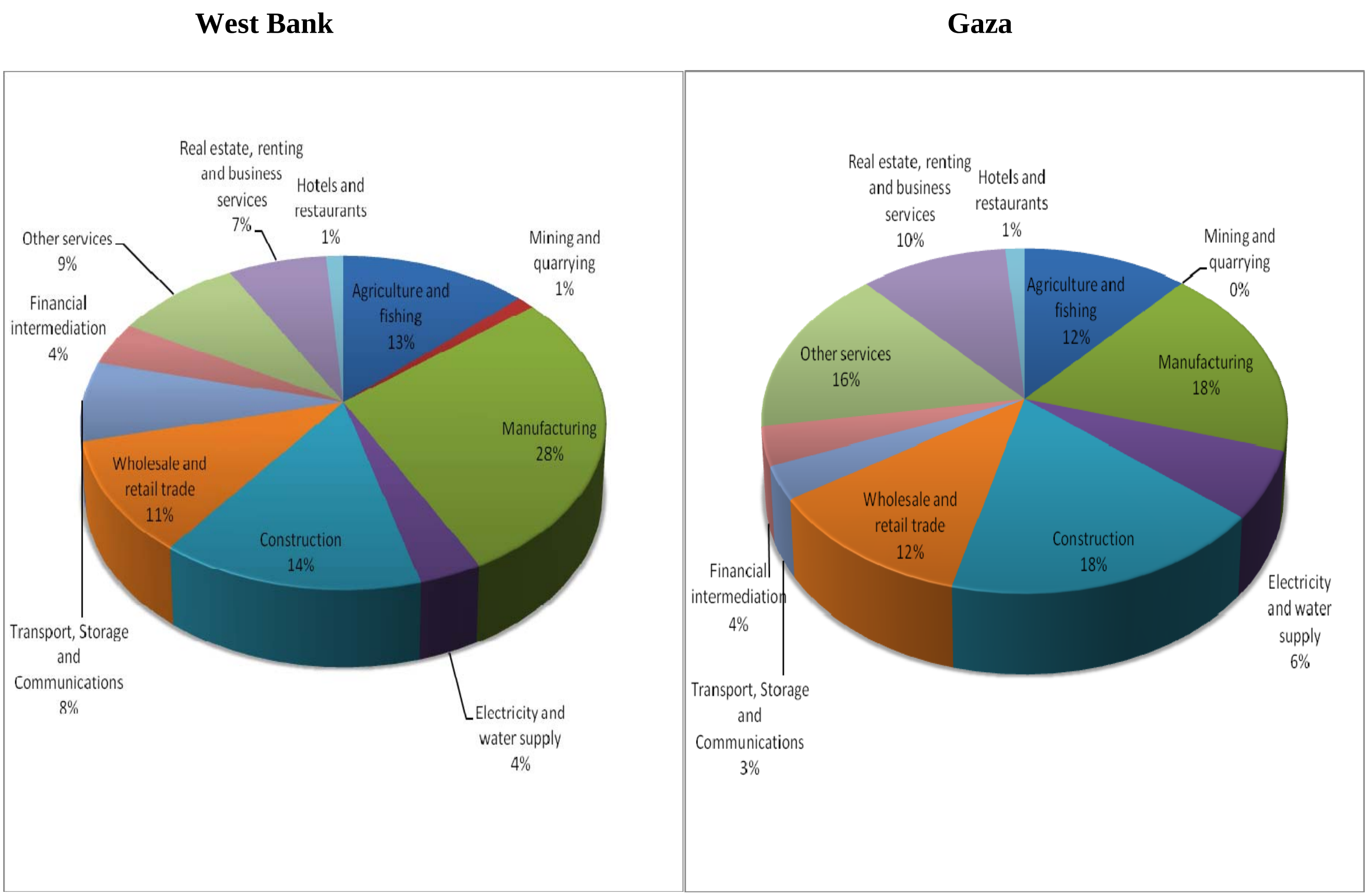
	Budget Categories					
	Top down Procedures	Rules and Controls	Sustainability and Credi-bility	Comprehen-siveness	Transparency	All
West Bank and Gaza	2.7	1.9	0.7	1.3	1.3	1.6
Egypt, Arab Rep. of	2.0	2.7	1.2	2.3	2.0	2.0
Jordan	3.2	2.6	3.2	2.4	2.5	2.8
Morocco	3.6	2.4	2.3	1.8	2.0	2.4
Turkey	2.0	1.4	1.8	3.0	3.0	2.2
Yemen, Rep. of	2.4	1.9	1.8	2.3	1.3	1.9
Peru	3.2	3.2	2.8	3.7	2.8	3.1
Low Income Countries	2.3	1.9	1.7	1.9	1.7	1.9
Middle Income Countries	2.4	2.1	1.9	2.2	2.1	2.1

Source: IMF database as of May 2010

Appendix C

Private Sector Development—Statistical Supplement

Figure C.1. Structure of the Economy (2000-2007 average)



Source: Palestinian Central Bureau of Statistics

Table C.1. Doing Business Ratings for West Bank and Gaza, 2004-2009

Year	Ease of Doing Business Rank	Starting a Business: Rank	Procedures (number)	Time (days)	Cost (% of income per capita)	Min. capital (% of income per capita)	Dealing with Construction Permits: Rank	Procedures (number)	Time (days)	Cost (% of income per capita)	Employing Workers: Rank	Difficulty of hiring index (0-100)	Rigidity of hours index (0-100)	Difficulty of redundancy index (0-100)
2004	..	..	..	..	..	..	..	..	..	..	..	..	..	..
2005	..	..	12	106	81.7	63.0	..	..	..	..	..	33	40	20
2006	..	..	12	93	82.7	56.4	..	21	192	467.4	..	33	40	20
2007	..	..	12	93	108.7	75.6	..	21	192	1,388.2	..	33	40	20
2008	..	..	12	92	96.6	63.0	..	21	199	1,180.8	..	33	40	20
2009	137	167	11	49	69.1	56.1	149	21	199	1,399.9	132	33	40	20
2010	139	176	11	49	55.0	220.4	157	21	199	1,110.6	135	33	40	20

Year	Ease of Doing Business Rank	Getting Credit: Rank	Strength of legal rights index (0-10)	Depth of credit information index (0-6)	Public registry coverage (% of adults)	Private bureau coverage (% of adults)	Registering Property: Rank	Procedures (number)	Time (days)	Cost (% of property value)	Paying Taxes: Rank	Payments (number per year)	Time (hours per year)	Profit tax (%)
2004	..	..	..	..	..	..	..	..	..	..	..	..	..	..
2005	..	..	0	..	..	..	..	..	..	..	..	..	..	..
2006	..	..	0	0	0.0	0.0	..	7	68	1.3	..	27	154	..
2007	..	..	0	2	0.7	0.0	..	7	68	1.3	..	27	154	..
2008	..	..	0	3	1.8	0.0	..	7	68	1.3	..	27	154	..
2009	137	165	0	3	7.8	0.0	80	7	63	0.9	26	27	154	..
2010	139	167	0	3	6.5	0.0	73	7	47	0.7	28	27	154	16.2

Year	Ease of Doing Business Rank	Protecting Investors: Rank	Extent of disclosure index (0-10)	Extent of director liability index (0-10)	Ease of shareholder suits index (0-10)	Strength of investor protection index (0-10)	Enforcing Contracts: Rank	Procedures (number)	Time (days)	Cost (% of claim)	Trading Across Borde: Rank	Documents to export (number)	Time to export (days)	Cost to export (US$ per container)
2004	..	..	..	..	..	..	..	..	..	0.0	..	..	..	..
2005	..	..	..	..	..	..	..	44	700	21.2	..	..	..	..
2006	..	..	6	5	7	6.0	..	44	700	21.2	..	6	25	830
2007	..	..	6	5	7	6.0	..	44	700	21.2	..	6	25	830
2008	..	..	6	5	7	6.0	..	44	700	21.2	..	6	25	830
2009	137	38	6	5	7	6.0	123	44	700	21.2	92	6	25	835
2010	139	41	6	5	7	6.0	111	44	600	21.2	92	6	25	835

Source: Doing Business, IFC

Table C.2. Outputs by Economic Activity at Constant Prices, 1999-2007

Value In US$ Million

Economic Activity	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Remaining West Bank* and Gaza Strip								
Agriculture and fishing	**784.5**	**746.8**	**677.0**	**631.6**	**720.4**	**619.5**	**698.0**	**649.7**	**581.9**
Mining and quarrying	53.8	66.8	43.1	46.1	38.1	63.4	48.0	35.8	30.0
Manufacturing	1,317.6	1,537.5	1,398.3	1,217.5	1,237.6	1,348.9	1,499.3	1,485.2	1,209.2
Construction	**1,467.8**	**1,179.4**	**799.1**	**623.6**	**792.2**	**771.9**	**693.3**	**586.5**	**598.4**
Wholesale and retail trade	**675.4**	**628.2**	**532.2**	**533.2**	**551.5**	**633.7**	**666.0**	**630.6**	**609.5**
Transport, Storage and Communications	**334.7**	**356.2**	**282.9**	**249.4**	**249.1**	**347.6**	**414.0**	**423.7**	**454.3**
Financial intermediation	**213.2**	**235.8**	**174.7**	**175.9**	**189.3**	**194.3**	**263.8**	**226.7**	**276.7**
Other services	**1,071.8**	**1,093.5**	**965.6**	**886.9**	**1,016.1**	**1,141.5**	**1,310.5**	**1,046.2**	**1,176.5**
Real estate, renting and business services	438.0	525.2	413.9	370.2	402.0	460.9	493.5	324.1	371.0
Hotels and restaurants	105.8	72.3	44.8	26.6	45.0	68.5	98.2	97.9	47.6
Gross Output	**7,716.6**	**7,880.3**	**6,810.2**	**6,017.6**	**6,584.1**	**7,262.5**	**7,825.2**	**7,204.2**	**7,254.2**

Value In US$ Million

Economic Activity	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Remaining West Bank*								
Agriculture and fishing	**587.1**	**555.9**	**477.2**	**468.6**	**530.6**	**440.3**	**511.0**	**475.4**	**433.8**
Mining and quarrying	53.8	66.8	43.1	46.1	38.1	63.4	48.0	35.8	30.0
Manufacturing	937.0	1,264.6	1,116.1	940.7	947.6	1,049.7	1,136.8	1,198.1	1,067.3
Electricity and water supply	128.5	120.8	139.3	126.1	141.1	145.8	148.2	115.9	135.1
Construction	**989.5**	**774.2**	**528.0**	**416.0**	**519.1**	**485.9**	**425.0**	**391.8**	**443.6**
Wholesale and retail trade	**480.6**	**459.2**	**392.1**	**360.8**	**370.0**	**423.5**	**412.0**	**437.4**	**448.1**
Transport, Storage and Communications	**251.7**	**311.1**	**253.1**	**205.4**	**211.3**	**305.2**	**323.5**	**382.6**	**420.8**
Financial intermediation	**162.5**	**179.8**	**133.2**	**134.1**	**146.5**	**150.4**	**184.9**	**158.9**	**194.0**
Other services	**656.2**	**674.9**	**577.6**	**527.0**	**598.1**	**685.5**	**770.7**	**624.5**	**680.8**
Real estate, renting and business services	277.9	316.8	257.9	224.1	243.1	282.0	296.9	211.1	233.7
Hotels and restaurants	82.2	55.1	32.2	16.0	27.6	45.7	63.2	65.9	30.8
Gross Output	**5,268.9**	**5,517.1**	**4,728.3**	**4,134.7**	**4,402.5**	**4,877.4**	**5,074.2**	**5,057.6**	**5,265.1**

Value In US$ Million

Economic Activity	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Gaza Strip								
Agriculture and fishing	**197.4**	**190.9**	**199.8**	**163.0**	**189.8**	**179.2**	**187.0**	**174.3**	**148.1**
Mining and quarrying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	380.6	272.9	282.2	276.8	290.0	299.2	362.5	287.1	141.9
Construction	**478.3**	**405.2**	**271.1**	**207.6**	**273.1**	**286.0**	**268.3**	**194.7**	**154.8**
Wholesale and retail trade	**194.8**	**169.0**	**140.1**	**172.4**	**181.5**	**210.2**	**254.0**	**193.2**	**161.4**
Transport, Storage and Communications	**83.0**	**45.1**	**29.8**	**44.0**	**37.8**	**42.4**	**90.5**	**41.1**	**33.5**
Financial intermediation	**50.7**	**56.0**	**41.5**	**41.8**	**42.8**	**43.9**	**78.9**	**67.8**	**82.7**
Other services	**415.6**	**418.6**	**388.0**	**359.9**	**418.0**	**456.0**	**539.8**	**421.7**	**495.7**
Real estate, renting and business services	160.1	208.4	156.0	146.1	158.9	178.9	196.6	113.0	137.3
Hotels and restaurants	23.6	17.2	12.6	10.6	17.4	22.8	35.0	32.0	16.8
Gross Output	**2,447.7**	**2,363.2**	**2,081.9**	**1,882.9**	**2,181.6**	**2,385.1**	**2,751.0**	**2,146.6**	**1,989.1**

***** The West Bank excluding that part of Jerusalem, which was annexed after the 1967 occupation by Israel

(-) The data is not available.

1997 is the Base Year for the Period 1994-2003, 2004 is the Base Year for the Period 2004-2007

Source: Paltrade.

Table C.3. Total Value of Imports, Exports, Net Balance, and Transaction Trade for Remaining West Bank and Gaza, 1999–2007 (thousand US$)

Year	*Total Value of Imports*	*Total Value of Exports*	*Net Balance Trade*	*Transaction Trade*
1999	3.007.227	372.148	-2.635.079	3.379.375
2000	2.382.807	400.857	-1.981.950	2.783.664
2001	2.033.647	290.349	-1.743.298	2.323.996
2002	1.515.608	240.867	-1.274.741	1.756.475
2003	1.800.268	279.680	-1.520.588	2.079.948
2004	2.373.248	312.688	-2.060.560	2.685.936
2005	2.667.592	335.443	-2.332.149	3.003.036
2006	2.758.726	366.709	-2.392.017	3.125.435
2007	3.141.297	512.979	-2.628.318	3.654.276

Source: Paltrade.

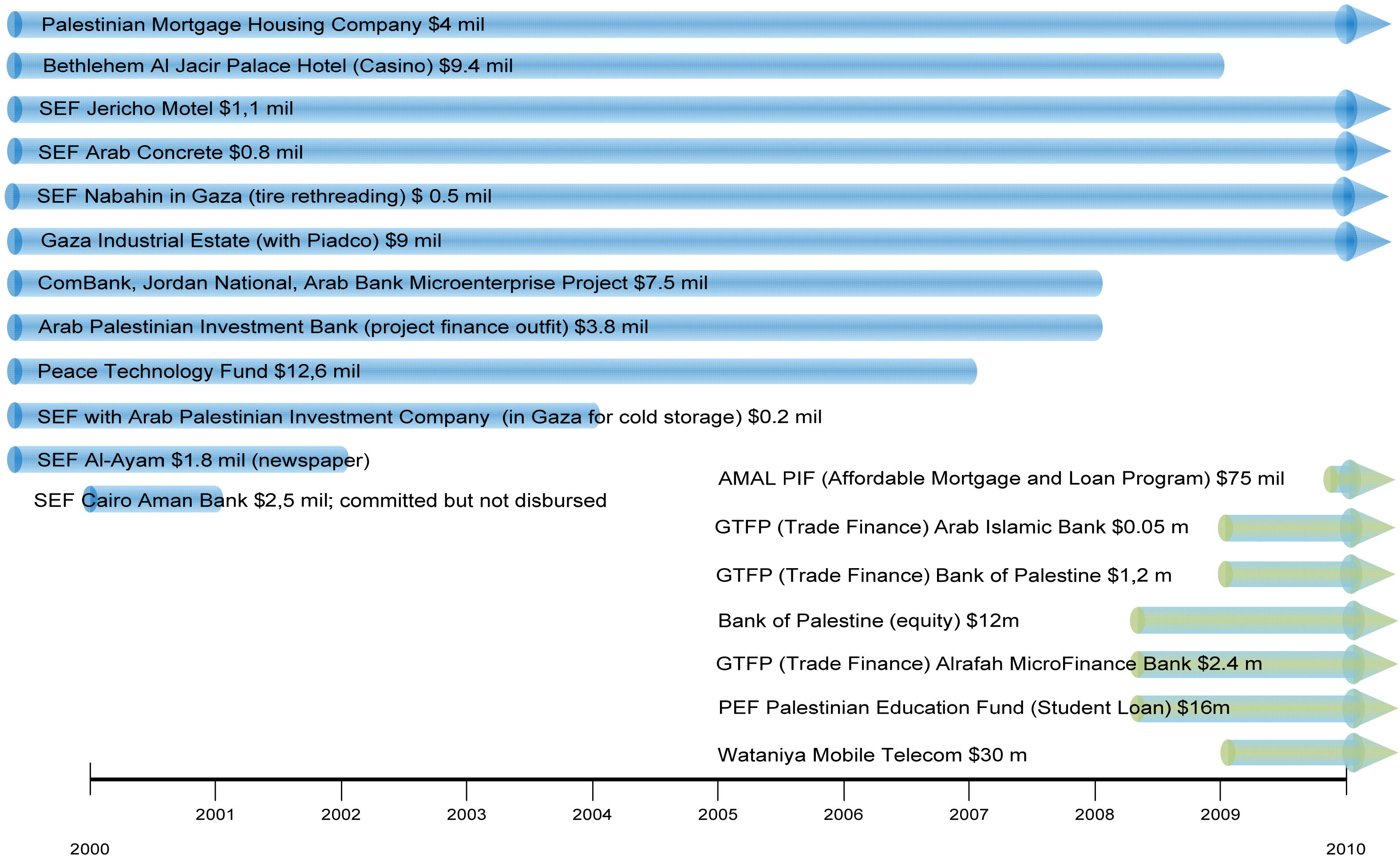
Table C.4. List of IFC Investment Activities, 2001–2009

Project Name	*Approval FY*
Arab Palestinian Investment Bank	1994
ComBank Micro	1997
Jordan National	1997
Arab Bank Microfinance	1997
Gaza Industrial	1997
SEF Nabahin	1997
SEF Arab Concrete	1997
SEF Pharmacare	1998
SEF Al-Ayyam	1998
PTF Peace Technology Fund	1998
PTF - Management Co.	1998
SEF Cold Storage	1999
SEF Jericho Mote	1999
Bethlehem Jericho Palace Hotel	1999
Palestine Mortgage and Housing Corporation	1999
SEF CAB-AL	2000
PEF Student Loan	2008
GTFP Alrafah MicroFinance Bank	2008
Bank of Palestine	2008
Al- Wataniya Palestine	2009
GTFP Bank of Palestine	2009
GTFP Arab Islamic Bank	2009

Source: IFC.

Notes: CAB-AL= Cairo-Amman Bank; FY= fiscal year; GTFP=Global Trade Finance Program; IFC= International Finance Corporation; PTF= Peace Technology Fund; SEF= Small Enterprise Fund.

Figure C.2. IFC Portfolio Investment Operations in West Bank and Gaza, FY2001–09 Timeline



Source: IFC MIS
Notes : GTFP= Global Trade Finance Program ; IFC= International Finance Corporation; PIF=Palestine Investment Fund; SEF= Small Enterprise Fund. ;

Table C.5. IFC Original Commitments, 1999–2010

Original Commitment Activity	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*Summary Date*
25620-Al- Wataniya Palestine- Wataniya Palestine Mobile Telecommunications Company	0	0	0	0	0	0	0	0	0	0	30,000,000	0	30,000,000
26766-Palestine Education Fund- Student Loan	0	0	0	0	0	0	0	0	0	16,000,000	0	0	16,000,000
26844-GTFP Alrafah MFB	0	0	0	0	0	0	0	0	0	62,710	2,375,397	3,787,243	6,225,350
26847-GTFP Bank of Palestine	0	0	0	0	0	0	0	0	0	0	1,254,797	4,450,642	5,705,439
27016-WBG	0	0	0	0	0	0	0	0	0	0	0	75,400,000	75,400,000
27017-Bank of Palestine	0	0	0	0	0	0	0	0	0	0	12,500,000	0	12,500,000
27035-GTFP Arab Islamic	0	0	0	0	0	0	0	0	0	0	49,188	0	49,188
4450-APIB	3,800,000	0	0	0	0	0	0	0	0	0	0	0	3,800,000
7668-Jordan National	0	0	0	0	0	0	0	0	0	0	0	0	0
7669-Arab Bank Micro	0	0	0	0	0	0	0	0	0	0	0	0	0
7670-ComBank Micro	7,500,000	0	0	0	0	0	0	0	0	0	0	0	7,500,000
7706-Gaza Industrial Estate (GIE)	9,000,000	0	0	0	0	0	0	0	0	0	0	0	9,000,000
8239-SEF Nabahin Industry and Trading Company	500,000	0	0	0	0	0	0	0	0	0	0	0	500,000
8240-SEF Arab Concrete Products Co.	800,000	0	0	0	0	0	0	0	0	0	0	0	800,000
8335-SEF Pharmacare	450,000	0	0	0	0	0	0	0	0	0	0	0	450,000
8388-SEF Jericho Mote	1,170,000	0	0	0	0	0	0	0	0	0	0	0	1,170,000
8618-SEF Cold Storage	200,000	0	0	0	0	0	0	0	0	0	0	0	200,000
8649-Bethlehem Jacir Palace Hotel	9,350,000	0	0	0	0	0	0	0	0	0	0	0	9,350,000
8698-PTF	11,900,000	700,000	0	0	0	0	0	0	0	0	0	0	12,600,000
8911-PTF - Mgt Co.	200,000	0	0	0	0	0	0	0	0	0	0	0	200,000
8914-PMHC	4,000,000	0	0	0	0	0	0	0	0	0	0	0	4,000,000
8925-SEF Al-Ayyam Printing Company	1,800,000	0	0	0	0	0	0	0	0	0	0	0	1,800,000
9237-SEF CAB-AL	0	2,500,000	0	0	0	0	0	0	0	0	0	0	2,500,000
West Bank and Gaza	50,670,000	3,200,000	0	0	0	0	0	0	0	16,062,710	46,179,382	83,637,885	199,749,977

Source: IFC data as of July 2010.

Notes: APIB= Arab Palestinian Investment Bank; CAB-AL= Cairo Amman Bank; GTFP= Global Trade Finance Program; IFC= International Finance Corporation; PMHC=Palestine Mortgage and Housing Corporation; PTF=Peace Technology Fund; SEF= Small Enterprise Fund; WBG= Program for affordable home loans.

Table C.6. IFC Exposure, 1999–2010

Committed – IFC	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
25620-Wataniya Palestine	0	0	0	0	0	0	0	0	0	0	30,000,000
26766-PEF Student Loan	0	0	0	0	0	0	0	0	0	16,000,000	16,000,000
26844-GTFP Alrafah Microfinance Bank	0	0	0	0	0	0	0	0	0	62,856	1,625,682
26847-GTFP Bank of Palestine	0	0	0	0	0	0	0	0	0	0	477,009
27016-WBG	0	0	0	0	0	0	0	0	0	0	0
27017-Bank of Palestine	0	0	0	0	0	0	0	0	0	0	11,441,746
27035-GTFP Arab Islamic	0	0	0	0	0	0	0	0	0	0	49,188
4450-APIB	3,800,000	3,734,859	3,734,859	3,734,859	3,734,859	3,734,859	1,867,430	1,867,430	1,867,430	0	0
7668-Jordan National	3,000,000	3,000,000	3,000,000	3,000,000	900,000	426,267	296,267	181,267	181,267	154,029	129,309
7669-Arab Bank Micro	3,000,000	3,000,000	3,000,000	3,000,000	147,581	64,401	30,246	30,246	22,562	15,885	12,327
7670-ComBank Micro	1,500,000	1,500,000	1,500,000	1,500,000	147,532	147,532	83,203	10,467	10,449	10,449	0
7706-Gaza Industrial Estate (GIE)	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	2,000,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
8239-SEF Nabahin Industry and Trading Co.	500,000	500,000	0	0	0	0	0	0	0	0	0
8240-SEF Arab Concrete Products Co.	800,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000	800,000
8335-SEF Pharmacare	405,000	315,000	0	0	0	0	0	0	0	0	0
8388-SEF Jericho Mote	1,170,000	1,101,176	1,101,176	1,101,176	1,101,176	1,101,176	1,101,176	1,101,176	1,101,176	1,101,176	1,101,176
8618-SEF Cold Storage	200,000	200,000	175,000	125,000	100,000	0	0	0	0	0	0
8649-Bethlehem Jacir Palace Hotel	9,350,000	9,350,000	9,350,000	9,350,000	7,150,000	494,350	49,435	49,435	49,435	10,638	10,638
8698-PTF	11,900,000	12,600,000	12,600,000	12,600,000	12,600,000	12,555,332	8,268,454	8,046,855	8,046,855	0	0
8911-PTF - Mgt Co.	200,000	200,000	200,000	200,000	200,000	200,000	160,001	160,001	160,001	0	0
8914-PMHC	4,000,000	4,000,000	4,000,000	4,000,000	3,000,000	3,000,000	1,326,563	1,326,563	1,301,563	1,190,400	803,568
8925-SEF Al-Ayyam Printing Company	1,800,000	1,800,000	1,650,000	0	0	0	0	0	0	0	0
9237-SEF CAB-AL	0	2,500,000	0	0	0	0	0	0	0	0	0
West Bank and Gaza	50,625,000	53,601,036	50,111,036	48,411,036	38,881,149	24,523,919	15,082,775	14,673,440	14,640,738	20,445,433	63,550,643

Source: IFC data as of July 2010.

Notes: APIB= Arab Palestinian Investment Bank; CAB-AL=Cairo Amman Bank-Agency Line; GTFP= Global Trade Finance Program; IFC= International Finance Corporation; PEF= Palestinian Education F
PMHC= Palestine Mortgage and Housing Corporation; PTF=Peace Technology Fund; SEF=Small Enterprise Fund; WBG= Program for affordable home loans.

Table C.7. List of IFC Advisory Services, 2001–2009

Project Name	*Start Date*	*End Date*
Microfinance Project - Final Phase	2000	
Assistance for Gaza Industrial Estate (GIE)	2000	
Development of Aquaculture/ Mariculture Systems	2000	
TA to undertake sector studies of the Leather, Granite & Marble sectors to be presented at a private sector conference (PSD)	2000	
Study on Pharmaceutical , Textiles, Trade and Tourism Sectors of Palestinian Economy and PSD Conference	2000	
Initiative to Explore the Growth Potential of the Private Sector	2000	
Private Sector Development Conference	2000	
Diagnostic	2002	
Corporate Governance Event for West Bank & Gaza	19-Aug-05	28-Sep-05
West Bank and Gaza CG Code	15-Dec-05	31-Dec-08
West Bank and Gaza: Sector analysis - CEM	22-Dec-05	31-Mar-06
Al Rafah Microfinance Bank TA	1-Apr-06	1-Sep-07
West Bank/Gaza Microfinance Market Study	12-Jul-06	30-Jun-09
Olive Oil Supply Chain Development	1-Aug-06	31-Dec-08
West Bank and Gaza Leasing Development	1-Jan-08	1-Jun-09
West Bank and Gaza Housing Finance Training	1-Mar-09	30-Jun-09

Source: IFC.
Notes: CEM= Country Economic Memorandum; CG=corporate governance; PSD= private sector development; TA= technical assistance.

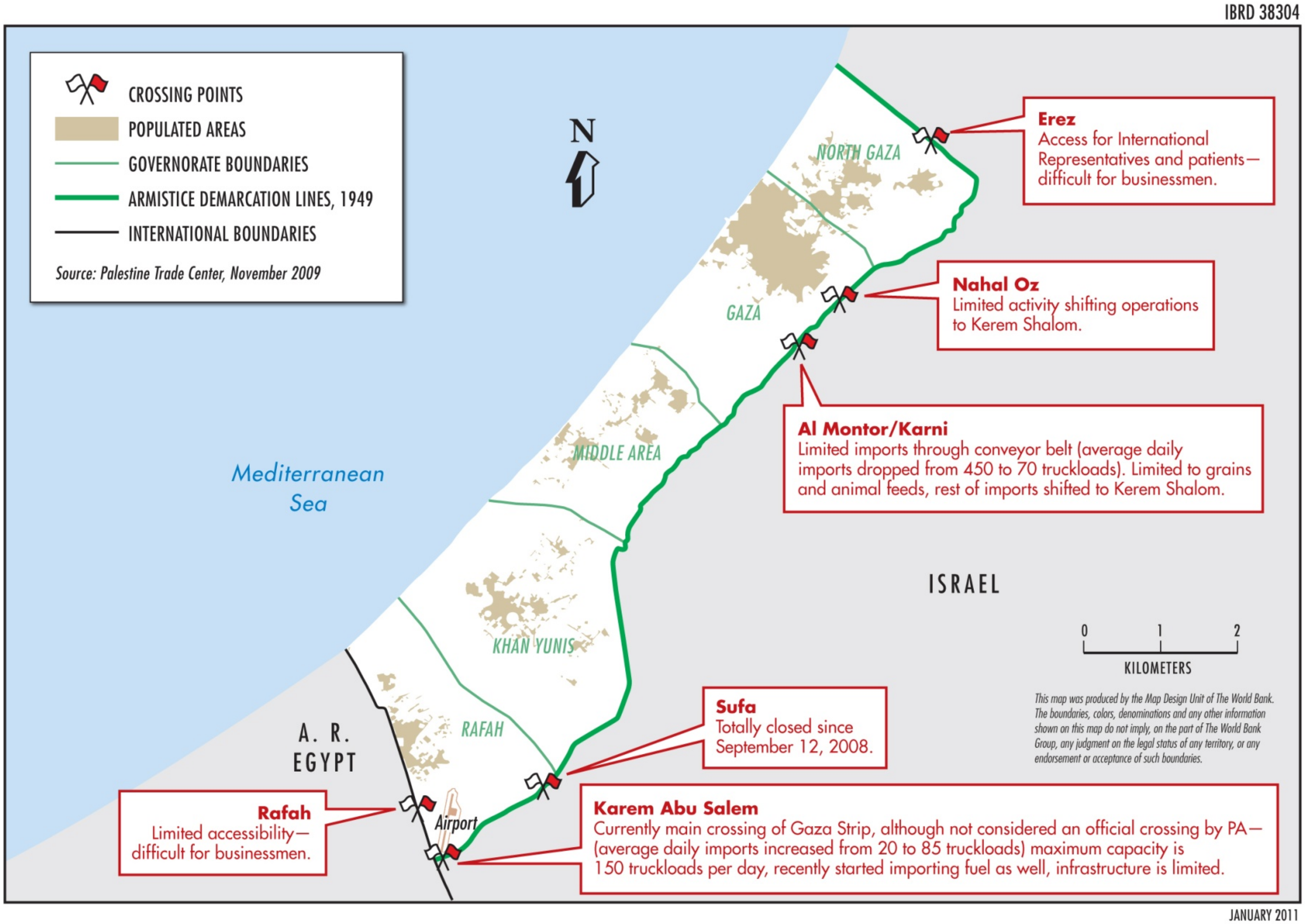
Table C.8. List of World Bank TA and ESW

Project Name	**FY**	**Output Type**	**Prod Line**	**Status**	**Delivery Date**
GZ-West Bank and Gaza Poverty Review	2001	Report	ESW	Actual	1/26/2001
EPS Model - Economics of Permanent Status (EPS) Workshops and Analysis	2001	Conference/Workshop	ESW	Actual	12/29/2000
WBG - Transition to Statehood	2001	Policy Note	ESW	Actual	12/29/2000
WBG-LONG TERM POLICY OPTIONS	2002	Report	ESW	Actual	3/29/2002
GZ-SME/PSD Strategy (informal)	2001	Report	ESW	Actual	6/29/2001
GZ-ICT Strategy	2003	Report	ESW	Actual	1/17/2003
GZ-PSD STRATEGY (PHASE II)	2003	Report	ESW	Actual	12/30/2002
GZ- Update of Economic Assessment	2003	Policy Note	ESW	Actual	6/19/2003
WB/G Economic Road Map	2004	Report	ESW	Actual	12/4/2003
WB/G - Poverty Update	2004	Report	ESW	Actual	6/28/2004
GZ- Update of Economic Assessment	2005	Report	ESW	Actual	8/2/2004
Gaza Recovery	2005	Report	ESW	Actual	3/1/2005

WBG PASSAGES AND TRADE FACILITATION TA	2006	"How-To" Guidance	TA	Actual	12/13/2005
GZ-PALESTINIAN RECOVERY PROGRAM	2006	Client Document Review	TA	Actual	10/7/2005
WBG Sources of Growth and CEM	2006	Report	ESW	Actual	6/29/2006
WBG - Second Economic Monitoring Report	2006	Report	ESW	Actual	5/2/2006
GZ-INVESTMENT CLIMATE ASSESSMENT	2007	Report	ESW	Actual	3/20/2007
GZ-PASSAGES & TRADE FACILITATION (Phase 2)	2007	"How-To" Guidance	TA	Actual	3/23/2007
WBG Telecommunications TA	2007	"How-To" Guidance	TA	Actual	6/27/2007
WBG Telecommunications Institutional TA	2008	"How-To" Guidance	TA	Actual	4/1/2008
GZ-Electricity Net lending	2008	"How-To" Guidance	TA	Actual	5/1/2008
Support for WBG Payments System	2008	"How-To" Guidance	TA	Actual	5/15/2008
Phase III: Palestinian Trade Facilitation	2009	"How-To" Guidance	TA	Actual	3/2/2009
Economic Impacts of Access to Land	2009	Report	ESW	Actual	10/6/2008
WBG Financial Sector Review	2009	Report	ESW	Actual	9/24/2008
WBG Housing Finance Sector	2009	Report	ESW	Actual	9/24/2008
Support to WBG Payment Systems II	2010	"How-To" Guidance	TA	Forecast	3/31/2010
FIRST# 8140 - WBG Estab. of a Deposit In	2010	"How-To" Guidance	TA	Forecast	12/30/2009
Assisted BCP self-assessment - WBG	2010	Report	ESW	Basic	9/30/2009
WBG - CMA & PMA - TA supervision	2010	Institutional Devt Plan	TA	Basic	6/30/2010

Source: World Bank.
Notes: CEM= Country Economic Memorandum; CMA= Capital Markets Authority; ESW= economic and sector work; FIRST= Financial Sector Reform and Strengthening Initiative; FY= fiscal year; GZ= Gaza; PMA= Palestinian Monetary Authority; PSD= private sector development; SME= small and medium enterprise; TA= technical assistance; WBG= West Bank and Gaza.

Figure C.3. Gaza – Current Status of Crossings



Source of information about crossings: Palestine Trade Center, November 2009.

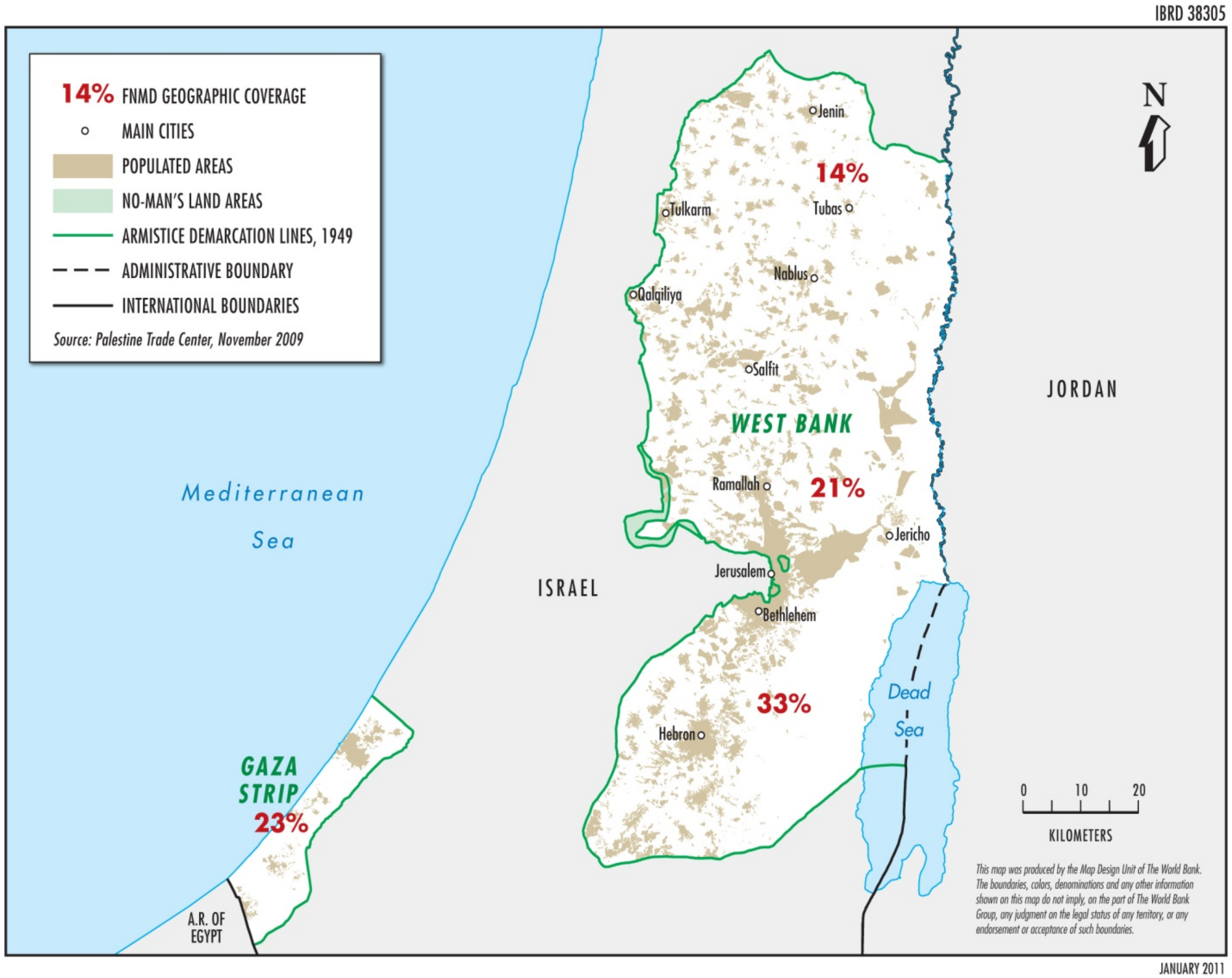
Table C.10. Facility for New Market Development (FNMD) Geographic Coverage and Achievements

Client Portfolio

-One hundred sixty-three companies from the West Bank and Gaza signed up since the launch of the grant scheme in July 2008.
-Over 80 percent of FNMD client companies are small and medium-sized enterprises, with an average of 29 employees.
-The portfolio encompasses a wide range of sectors, including manufacturing (34 percent), agribusiness (18 percent), ICT companies (14 percent), stone and marble (9 percent), service companies (9 percent), and tourism businesses (7 percent).
-Thirty-one percent of FNMD client firms are owned or managed by women.
-Over 63 percent of FNMD clients have never participated in a donor program before.

Business Expansion Plans

-85 projects focus on entering new export markets.
-65 projects aim at entering new local markets.
-20 projects target both local and export markets.
-28 projects include new product development plans.
-47 projects include product improvement plans.



Average projects size – US$37,000. Project length is usually 6 months. FNMD supports the development and implementation of comprehensive new market and product development plans. Typically, FNMD co-finances market research, trade show participation, know-how transfer, sales training, product testing and certifications, and product launches.

Results Achieved To Date — 58 projects completed.

Five million dollars in incremental export and local sales from market development plans supported by FNMD. Firms entered 26 new markets on 5 continents, with export sales achieved in Asia, Europe, North America, the Middle East, and Africa.

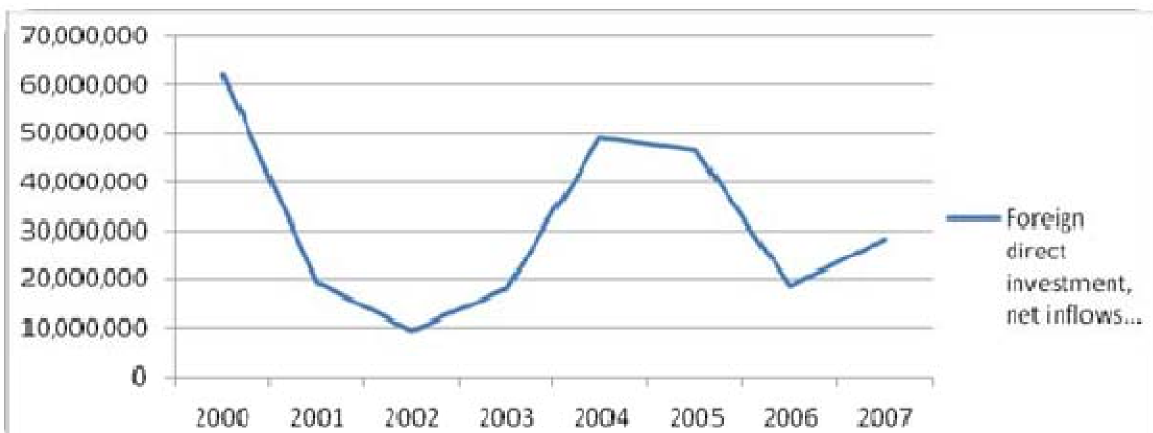
Sixteen products have been improved, including 10 products that are now certified by international and local standards' bodies.

Thirteen new products have been developed.

Seventy-six people have been hired to help with business expansion.

Sixty-five business service providers offer their services through the FNMD Online Roster.

Figure C.4. Net Inflows of Foreign Direct Investment, 2000–2007, (US$ current)



Source: World Bank Data Catalogue

The PA has not yet compiled a complete listing of foreign direct investments, but PCBS statistics indicate that foreign direct investment (FDI) in 2009 amounted to US$50 million, up from US$20 million in 2006. Limited foreign investment flows began in 1994-95, with the majority of funds coming from Palestinian investors. The largest foreign company in the West Bank/Gaza is the Palestine Development and Investment Company (PADICO), which has invested over US$500 million in the economy. PADICO has made significant investments in telecommunications, housing, and the establishment of the Palestinian Securities Exchange. Another large foreign investment group active in West Bank with authorized capital of over US$100 million is the Arab Palestinian Investment Company (APIC), which is headquartered in Amman, Jordan. Other significant potential foreign investments include Qatari mobile operator QTel's projected US$600 million investment in Wataniya Mobile over a 10-year period, and Qatari Diar's projected US$500 million investment in Rawabi, a mixed use/affordable housing real estate development.

Appendix D

Infrastructure—Statistical Supplement

Table D.1. Principal Water Distributors – Performance Trends, 1998–2008 (Municipal and Industrial Water Supply)

Entity/Area	Number of Consumers			Water Supplied (liters per capita per day)			percentage of supply unaccounted for			Collections as a percentage of billings		
West Bank	**1999**	**2006**	**2008**	**1999**	**2006**	**2008**	**1999**	**2006**	**2008**	**1999**	**2006**	**2008**
Jenin	6,973	8,737	8,596	190	107	114	43	21	44	55	32	24
Jenin SC			5,232			36			21			60
Tubas	1,406	2,008	2,307	71	72	64	27	42	27	109	64	51
Tulkarem	8,626	11,043	11,707	285	210	212	46	50	42	145	37	29
Nablus	28,022	36,437	39,102	184	107	97	31	36	30	101	51	74
Qalqilia	5,416	6,779	7,380	185	185	213	27	28	25	84	55	56
Salfeet	1,301	1,772	1,912	132	113	120	43	36	29	83	45	59
JWU	34,472	48,000	51,657	148	129	137	24	27	30	92	74	81
Jericho	2,000	3,788	4,485	405	381	327	40	15	19	71	46	54
WSSA	10,500	12,077	12,492	140	152	142	41	43	41	109	66	59
Sub-total	98,716	130,636	144,870									
Gaza	**2000**	**2005**	**2009**	**2000**	**2005**	**2009**	**2000**	**2005**	**2009**	**2000**	**2005**	**2009**
North	11,095	18,437	19,887	155	210	209	43	44	47	80	38	45

Gaza	32,055	35,798	37,250	179	159	174	38	33	36	71	49	26
Middle	15,480	19,995	23,121	101	130	156	39	41	37	75	47	40
Khan You-nis	21,530	23,344	21,211	112	136	122	47	46	36	50	44	51
Rafah	11,327	15,005	17,396	102	106	121	52	34	34	79	35	54
Sub-total	91,487	112,579	118,865									

Source: Palestinian Water Authority Financial Department for West Bank companies and municipalities, and CMWU for Gaza.
Notes: JWU=Jerusalem Water Undertaking; WSSA=Water Supply and Sewage Authority.
Water used for agricultural purposes not included. Figures of water supplied are before deduction of the loss percentages shown in the following set of columns. Figures included are for Gaza City (part of Gaza Governorate) for 2009 in fact relate to 2008, unlike the rest of the figures supplied by CMWU of Gaza.

Appendix E

Human and Social Development—Statistical Supplement

Table E.1. Bank Projects in Human and Social Development, 2001–2009

Project Name (issues to investigate)	**Fiscal Year**	**Amount (US$ millions)**
Education Support Action	2001	7
Health System Support Development I	2000	7.9
Palestinian NGO II	2001	8
Integrated Community Development Project AF	2002	15
Emergency Services Support Project	2002	20
Emergency Services Support Project II + AF	2003	40
Emergency Services Support Project III	2008	15
Social Safety Net Reform + Supplement	2004/09	20
Tertiary Education Project + AF	2005/09	15
Food Crisis Response	2009	5
Total		147.9

Source: World Bank
Notes: AF= additional financing; NGO= nongovernmental organization.

Table E.2. List of Economic and Sector Work in Human and Social Development, 2001–2009

ESW Name	**Sector Board**	**FY**
Higher Education Sector Study – WBG	Education	2002
WBG Pensions Reform	Social Protection	2003
WBG Social Safety Nets	Social Protection	2003
WBG Higher Education Policy Dialogue	Education	2003
GZ-Displaced Persons	Social Protection	2003
WBG Vulnerable Children Assessment	Social Protection	2004
WBG HD Sector Work	Health, Nutrition and Population	2005
Community Studies	Social Development	2005
WBG Private Sector Pensions	Social Protection	2005
GZ Education Sector Analysis	Education	2006
GZ-Social Inclusion and Gender	Social Development	2009
WBG Health Policy Report	Health, Nutrition and Population	2009

Source: World Bank
Notes: GZ= Gaza; HD= human development; WBG= West Bank and Gaza.

Table E.3. Distribution of Bank Financing, 2001–2009 (US$ millions)

Sector	Non-Salary Recurrent Costs	Cash transfers	PIU costs	Other	Total
Education	21.2	0	0.3	4.3	25.8
Health	52.1	0	1.1	10.9	64.1
Other	2.3	0	0	6.4	8.7
Social Welfare	6.8	17.5	0.9	1.6	26.8
Total	82.4	17.5	2.3	23.2	125.4
% of Total	65.7	13.3	2	19	100

Source: World Bank,
Note: This is a rough estimate. Some components of the ESSP, the NGO II, and the ICDP projects supported other sectors
PIU= project implementation unit.

Table E.4. Number of Schools, Students, Teachers, Classes between 2000 and 2005

Year	Schools	Students	Teachers	Classrooms	Students per Teacher
2000–2001	1343	621,285	26,173	17,338	24
2001–2002	1406	653,650	28,015	18,279	23
2002–2003	1490	686,507	29,930	19,381	23
2003–2004	1577	711,541	31,858	20,382	22
2004–2005	1659	733,735	33,398	21,292	22
2005–2006	1725	757,615	35,013	22,082	22

Source: Ministry of Education and Higher Education Webpage.

Table E.5. Enrollment and Completion Rates, 2000/01 and 2006/07

(Primary Level)

Year	2000/2001 (percentage)	2006/2007 (percentage)
Net Enrollment Rates (Primary)	92	84
Gross Enrollment Rates (Primary)	81	75
Completion Rates (Primary)	103	83

Source: Palestinian Central Statistical Bureau, Millennium Development Goal Indicators

Table E.6. Key Services Provided by NGOs under the Second Phase NGO Project

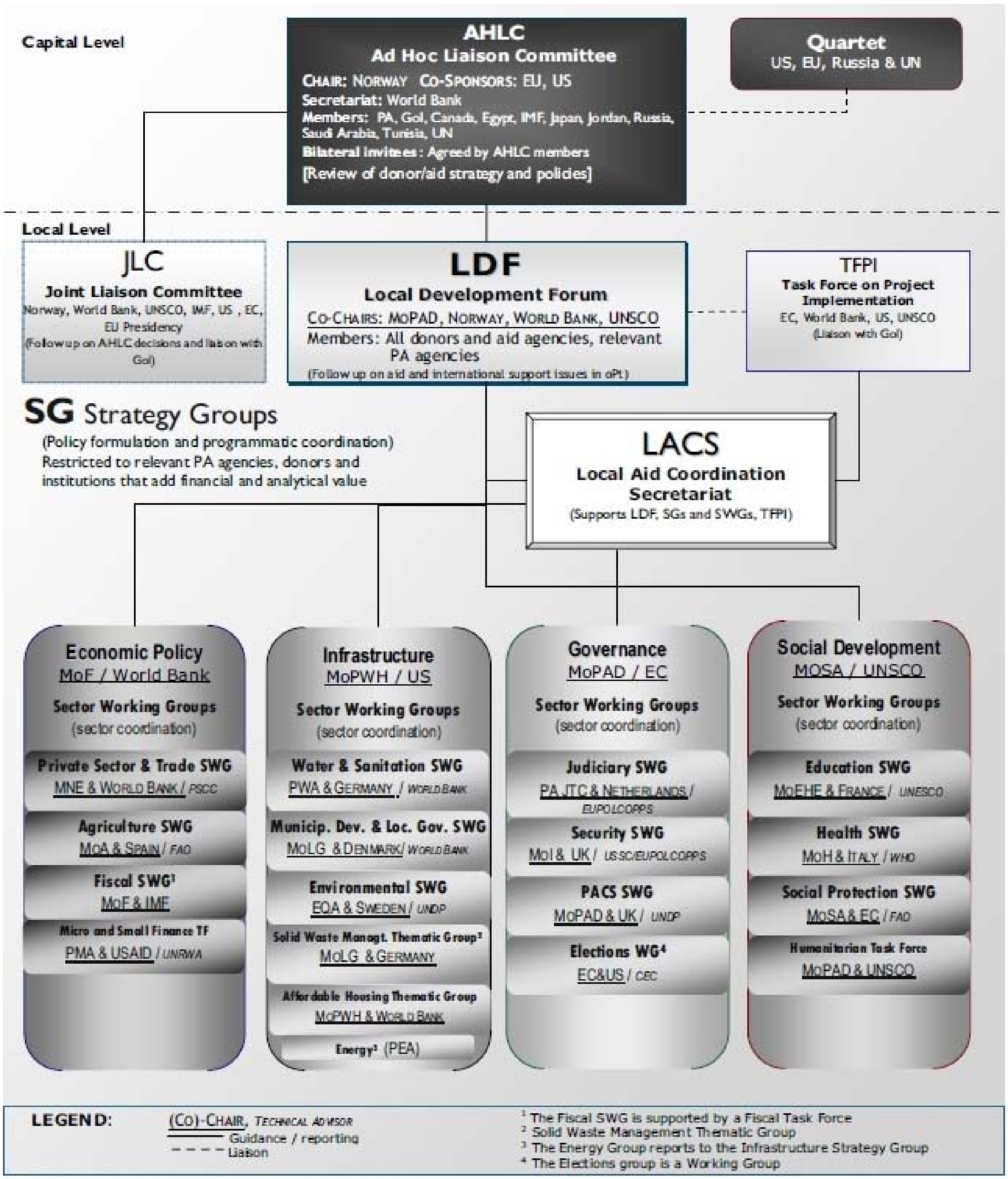
NGO II project	**Percentage of total project funding**	**Average sub-project cost**
Rehabilitated People with Special Needs	17	109,610
Non-formal education	10	50,381
Health and Social Services	16	62,006
Youth	13	61,260
Other	18	132,000

Source: World Bank

Note: NGO= nongovernmental organization.

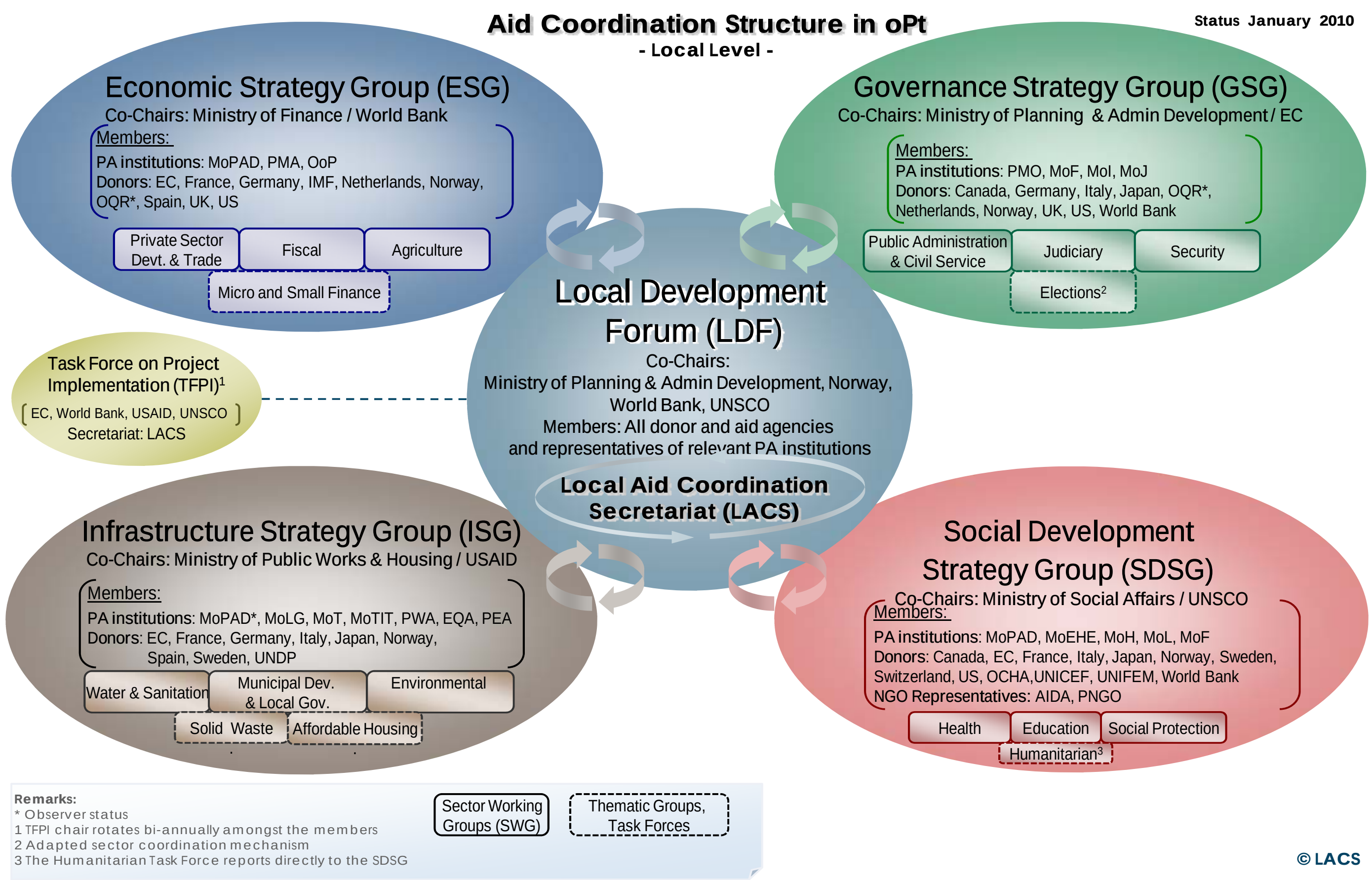
Appendix F
Donor Coordination

Figure F.1. Aid Management Structure in West Bank and Gaza, 2010



Source: Local Development Forum, January 2010.

Figure F.2. Aid Coordination Structure in West Bank and Gaza, 2010



Source: Local Development Forum as of January, 2010

Table F.1. Bank Projects/AAA Financed through Bank-administered Trust Funds, 2001–09

Trust Fund/Bank Project	Donor	Year	Amount (in US$ millions)	Disbursements as of 3/2010 (%)
Budget Support				
Public Financial Management Reform	Multi-donor	2004–06	273.19	100
Palestinian Recovery and Development Plan MDTF	Multi-donor	2008–11	367.91	100
Emergency Response				
Emergency Services Support Project	Multi-donor	2002–04	59.17	100
Emergency Services Support Project II	Multi-donor	2003–04	115.56	100
Emergency Services Support Project MDTF	Multi-donor	2006–10	82.15	100
Northern Gaza Emergency Sewage Treatment Project	Sweden, EC	2004–12	75.97	0
Emergency Municipal Services Rehabilitation Project II	Sweden	2007–11	21.29	65
Development Projects				
The Palestinian NGO Project II	Italy, UK	2001–06	22.40	100
Land Administration Project	Finland	2005–08	3.58	100
Tertiary Education Project	EU	2005–12	21.97	74
AAA				
Aid Coordination	Norway	2002–09	1.95	93
Public Expenditure Review	UK	2005–08	1.05	91
Local Government Capacity Building	Denmark	2005–10	10.10	43
Business Incubation – PICTI	Japan	2006–07	0.13	100
Business Incubation - Islamic University	Japan	2006–07	0.13	100
Social Inclusion and Gender	Multi-donor	2007–10	0.23	90
Support for Palestine Central Bureau of Statistics Master Plan	Multi-donor	2007–10	0.22	100
Strategic Partnership on Governance – Governance Advisor	UK	2008–10	0.50	62
Private Pension Regulatory Capacity Building	Multi-donor	2008–10	0.25	19

Source: World Bank data as of March 2010.

Notes: AAA= analytic and advisory activities; EC= European Commission; MDTF=Multi-Donor Trust Fund; NGO=nongovernmental organization; PICTI=Palestine Information and Communications Technology Incubator; UK= United Kingdom.

Appendix G

West Bank and Gaza—Chronology of Main Events, 2000–2010

July 2000	The Prime Minister of Israel, Ehud Barak, and the chairman of the Palestinian Authority, Yasser Arafat, meet at Camp David (USA) to structure a peace agreement between Israel and the Palestinians. Although some progress is made on the issue of Jerusalem and Palestinian refugees, Palestinians and Israelis fail to strike a peace deal. Talks on a permanent status agreement continue with the mediation of the US, Jordan, and Egypt.
September 2000	Likud leader, Ariel Sharon, visits the Temple Mount/Haram al-Sharif in Jerusalem, unleashing Palestinian anger. Violent clashes erupt between Israeli forces and Palestinians, and eventually evolve into a second Palestinian *intifada* (uprising), ending hopes that the Camp David talks could pave the way for a full settlement.
October 2000	Israeli Arab demonstrations in support of the uprising deteriorate into clashes leading to the death of 13 protesters. A US-mediated summit at Sharm el-Sheikh (Egypt) fails to quell the violence, but leads to the formation of an international commission led by former US senator, George Mitchell. Israel imposes closures on the West Bank and Gaza, barring the free movement of goods and people within the region and abroad.
February 2001	Likud leader, Ariel Sharon, is elected Prime Minister in special prime ministerial elections in Israel. A national unity government is formed.
May-June 2001	The Mitchell committee issues its report calling for a ceasefire, an end to Palestinian “terrorism” and incitement, a lifting of the Israeli closure of the West Bank and Gaza, a freezing of Israeli settlements in the West Bank and Gaza, and immediate resumption of negotiations. International mediation efforts intensify. Both sides commit to a ceasefire that soon begins to fall apart.
September 2001	Israeli and Palestinian negotiations agree on a series of confidence-building measures aimed at ending a year of fighting.
October-December 2001	Israeli forces occupy six towns in PA-controlled areas in the month after an Israeli cabinet minister, Rehavam Ze''evi, is killed by a Popular Front for the Liberation of Palestine (PFLP) gunman. Israeli troops withdraw in late November, but a resurgence of Palestinian suicide attacks against Israelis prompts further incursions.
January 2002	Israel discovers a Palestinian ship, the *Karine-A*, loaded with arms and explosives, claiming the anti-tank missiles and Katyusha rockets on board are en route from Iran.
February 2002	Sharon and Arafat agree to resume peace talks as interest grows in a peace plan proposed by Saudi Arabia's Crown Prince Abdullah--a 'land-for-peace' deal offering recognition, trade and security to Israel in return for giving up the West Bank, Gaza and part of Jerusalem.
March-April 2002	A resurgence of Palestinian attacks prompts Prime Minister Sharon to order a massive military incursion, known as “Operation Defensive Shield,” into Palestinian towns. The Israeli army destroys civil and state institutions, including police stations, broadcasting offices and the security apparatus in the West Bank and Gaza, as well as most of President Arafat''s headquarters in Ramallah. A siege around the Church of the Nativity in Bethlehem is resolved when EU member states agree to take some of the militants inside the church. Israeli forces begin to withdraw in late April and May.

June-September 2002	The US president, George W. Bush, outlines a vision of the Palestinian state, calling for 'new leadership,' and better institutions and security arrangements. President Arafat begins reforms to the PA. Israeli forces reoccupy Palestinian areas and storm President Arafat's Ramallah compound following continued Palestinian attacks against Israelis.
October 2002	The first 70 km of a "security fence" between the West Bank and Israel is completed. Palestinians claim it is a "land grab" as it cuts away from the 1967 border deep into West Bank territory. Israel agrees to transfer NIS 2bn (US$422m) of frozen tax revenues to the PA following an agreement with the US on financial supervision.
December 2002	The Quartet on the Middle East (US, Russia, UN and EU) completes a peace plan known as the "'road map," calling for reciprocal, phased steps leading to a Palestinian state by 2005. Its presentation is delayed at Israel's request until after the end of the war in Iraq.
January 2003	Ariel Sharon wins a second term as Prime Minister.
February 2003	Yasser Arafat agrees to appoint a prime minister following intense diplomatic efforts to further Palestinian political reform. President Arafat reaches agreement with Mahmoud Abbas (Abu Mazen), the new prime minister, over a new cabinet allowing Abu Mazen to take office in April.
April-June 2003	The road map is formally presented to Prime Ministers Sharon and Abbas. The Israeli cabinet narrowly backs the road map after winning a US promise to consider Israeli reservations, and the plan is formally launched at a trilateral summit of President Bush, Prime Minister Sharon and Prime Minister Abbas in the Jordanian port city of Aqaba.
September-October 2003	Mr. Abbas quits as prime minister after a power struggle with President Arafat over control of the security forces. Ahmed Qureia, known as Abu Ala, formerly the speaker of the parliament, is sworn in as the new prime minister in October.
April 2004	President George W. Bush endorses Prime Minister Sharon's plan to withdraw from the Gaza Strip (a plan rejected by Sharon's own Likud party), and angers Palestinians by indicating Israel can hold on to parts of the West Bank. Three days later, Israel assassinates the Hamas leader, Abdel-Aziz Rantissi, the successor of Sheikh Ahmed Yassin.
June 2004	Marwan Barghouthi, the jailed Fatah West Bank leader, is given five life sentences by an Israeli court for murder, and two additional 20-year terms for his membership in a "banned terrorist organization," the al-Aqsa Martyrs' Brigades.
July 2004	The International Court of Justice in The Hague rules that the West Bank barrier is 'illegal,' saying it must be torn down in places where it was built on Palestinian lands, as it amounts to '*de facto* annexation.'
November 2004	In deteriorating health, the Israeli authorities allow President Arafat to leave his compound for the first time in almost three years. He is flown to Paris, where he dies after being unsuccessfully treated for an undisclosed blood disorder. The little-known parliamentary speaker, Rawhi Fattouh, is appointed PA President for a 60-day interim period until elections. Mahmoud Abbas, the former Prime Minister, is named PLO chairman.
December 2004	For the first time since 1976, local elections are held in 26 municipalities in the West Bank and Gaza. Hamas wins nine seats, with Fatah gaining twelve.
January 2005	Mahmoud Abbas wins the Palestinian presidential election. The Quartet expresses its increased commitment to the peace process, and Prime Minister Sharon welcomes his appointment.
February 2005	The PLC approves a new 24-member cabinet after a week of political infighting over the make-up of the cabinet and after Mr Qureia yielded to pressure from the Fatah bloc to remove most of the 'old guard' members who made up the majority of the original candidates submitted.

March 2005	Prime Minister Abbas attends a conference in London, hosted by the British Prime Minister, Tony Blair, organized 'in support of the Palestinian Authority.' The conference is designed to show renewed international commitment to the peace process, and to help the PA strengthen its political and economic institutions and prepare itself for the Israeli withdrawal from parts of Palestinian territory.
May 2005	Hamas improves its political credentials by an improved showing in the second round of municipal elections, winning 30 out of some 84 contested seats. Fatah won the bulk of the remainder.
August 2005	The Israeli government completes withdrawal of its military outposts and settlers from the Gaza Strip
November 2005	Facing stiff opposition to this policy within the Likud, in November 2005 Prime Minister Sharon leaves Likud to form a new Kadima political party.
January 2006	Hamas wins the election to the Palestinian Legislative Council (PLC), and forms a government that is politically and economically ostracized outside of the Islamic world. Israeli Prime Minister Sharon suffers a major stroke that left him in a persistent vegetative state.
March 2006	The Kadima Party, led by Ehud Olmert following Sharon's stroke, wins elections in Israel.
March 2007	After prolonged internal clashes between Fatah and Hamas in the Gaza Strip, a ceasefire is brokered in Mecca, Saudi Arabia. The two factions agree to form a Unity Government. International sanctions, however, remain in place.
June 2007	Hamas ousts Fatah-led security forces from the Gaza Strip, and in response President Abbas dismisses the Unity Government and appoints his own emergency (caretaker) government in Ramallah in the West Bank to replace the Hamas-led Palestinian Authority (PA). Salaam Fayyad, former Minister of Finance and a well-known and respected technocrat, is appointed Prime Minister.
November 2007	A US-sponsored international Middle East peace conference takes place in Annapolis. For the first time, officials from Syria and Saudi Arabia participate. Despite the formal re-launch of the stalled peace process, the conference fails to produce any firm commitments regarding the so-called final-status issues.
April 2008	Teachers and civil servants in the West Bank strike over pay. The strikes also indicate tension between parts of Fatah (which dominates the trade unions) and the government.
June 2008	Hamas and Israel agree to a ceasefire in Gaza, the first mutual truce in eight years.
July-September 2008	Inter-factional tension rises between Fatah and Hamas. Hamas closes Fatah-affiliated non-governmental organizations (NGOs) in Gaza, and Hamas members and NGOs are similarly targeted in the West Bank. Teachers and health workers go on strike in Gaza, encouraged by Prime Minister Salaam Fayyad's PA government.
December 2008	Israel launches a full-scale invasion of Gaza following the formal expiration of a six-month ceasefire with Hamas (Operation Cast Lead). The armed confrontation leads to numerous Palestinian casualties, aggravation of the ongoing siege of Gaza Strip, and devastation of its economy. Some 1,100–1,400 Palestinians die and tens of thousands of people become homeless.
January 2009	President Abbas' presidential mandate, under the Palestinian Basic Law, expires but he unilaterally extends his term with the political backing of the Palestine Liberation Organization (PLO) and the Arab League. Israel declares a unilateral ceasefire in Gaza, and Hamas enforces it on other militant groups.
February-March 2009	Likud leader, Benjamin Netanyahu, is elected in prime ministerial elections in Israel.
July 2009	Egypt mediates the unity talks between Hamas and Fatah and suggests that the parliamentary and presidential elections be delayed until 2010 to allow more time for

	reconciliation.
August 2009	Fatah's Sixth Party Congress was held in Bethlehem, 20 years after the previous one in Tunis in 1989. President Abbas approved the program of PM Fayyad, entitled 'Palestine: Ending the Occupation, Establishing the State.' The program anticipated creating of a Palestinian state in 2011, and detailed a two year working plan for building the infrastructure and institutions of a future Palestinian State.
September 2009	The US president, Barack Obama, President Abbas, and Prime Minister Netanyahu met for a brief trilateral meeting on the sidelines of the U.N. General Assembly meeting in New York. After the three-way meeting, President Obama emphasized that final-status talks must begin soon.
March 2010	The Israeli Government announces further construction plans in East Jerusalem during the visit of the US Vice President Joseph Biden, leading to international criticism.
May 2010	Israeli commandos raid a flotilla of civilian ships heading to Gaza, resulting in the deaths of ten people aboard the flotilla.

Source: Economist Intelligence Unit, World Bank and IMF reports.

Appendix H

List of People Interviewed

Palestinian Authority

Name	*Title*
Abdel-Latif, Fida’	Manager of the Institutional Development and Technical Assistance Department, Municipal Development and Lending Fund (MDLF)
Abdou, Ali	Technical Consultant, Nablus Municipality
Abu al-Humus, Naim	Secretary General of the Prime Minister's Cabinet
Abu Aljaraish, Haj-Issa	Mayor, Kharas Municipality
Abu Ghosh, Jamal	Director PMU Energy Sector Assistance Phase V, Palestinian Energy Authority
Abu Khadija, Imad	Ministry of Social Welfare
Abu Laban, Inas	Policy Advisor, Negotiations Support Unit (NSU), Negotiations Affairs Department, Palestine Liberation Organization
Abu Moghil, Fathi	Minister of Health, Ministry of Health
Abu Ramadan, Maged Awni	Chairman, Coastal Municipalities Water Utility
Abu Ras, Soheel	Inspector of Teachers, Ministry of Education
Abu Rubbe, Shereen	International Relations, Ministry of Women's Affairs
Abu Slimi, Tahseen	Mayor, Salfeet Municipality, Ministry of Local Government
Adu Taha, Hitham	Procurement Officer, Higher Council for Solid Waste Management, Hebron and Bethlehem Governorates
Abu Yousef, Ziad	Mayor, Halhul Municipality
Abu Zarour, Bashar	General Manager Research and Development Directorate, Palestine Capital Market Authority
Abuoun, Husain	Procurement Specialist, Ministry of Local Government
Afranji, Farouk	Pension Authority, Gaza
Aiymann, Mr.	Ministry of Social Welfare
Al Astal, Mahmoud	Disbursement Officer, Ministry of Finance
Al Attili, Shaddad	Head of Palestine Water Authority
Al-Dweik, Yasser	Executive Director, Higher Council for Solid Waste Management, Hebron and Bethlehem Governorates
Al-Herbawi, Jawad Sayyed	Mayor’s Advisor, International Relations, Business Development and Management Issues, Hebron Municipality
Al-Khatib, Ghassan	Former Minister of Planning and of Labor; currently Spokesperson for the PLO; Director of Jerusalem Media and Communications Centre;
Al Najjar, Maher	Deputy Director and Chief Engineer, Coastal Municipalities Water Utility
Al-Rahim, Farouq Abel	Director, Road Safety Council, Ministry of Transport
Al-Sari’, Majed	Environmental Specialist, Higher Council for Solid Waste Management, Hebron and Bethlehem Governorates
Al Shartaf, Mahmoud	Financial Management Specialist, ESSP Project Implementation Unit, Gaza
Al-Walthaefi, Fatina	Director General of Policies, Planning and Studies Department, Minis-

Name	*Title*
	try of Women's Affairs
Al-Wazir, Jihad	Governor, Palestinian Monetary Authority
Al-Zamour, Yousef	Treasurer, Ministry of Finance
Alabweh, Qamar W.	Projects Coordinator, Union Charitable Societies, Northern Governorates of West Bank, Palestinian National Authority
Aldogi, Ayman	Pension Authority, Gaza
Ali, Sadi R.	Director, Project Management Unit (PMU), Palestinian Water Authority, Gaza
Anepat, Mohammad	Pension Authority, Gaza
Arafat, Cairo	Former Director General of Aid Management and Coordination, Ministry of Planning and International Cooperation, Palestinian National Authority; currently Advisor, Ministry of Finance
Atallah, Asri	Director of Surveying Department, Palestinian Land Authority
Attallah, Issa	Project Management Unit, Palestine Water Authority
Atwa, Yousef	Procurement Officer, ESSP Project Implementation Unit, Gaza
Awad, Ola	Acting President, Palestinian Central Bureau of Statistics (PCBS)
Awawda, Akram	Engineering Management G. Supervisor, Ministry of Transport
Bannourah, Ikhlas	Finance Manager, Higher Council for Solid Waste Management, Hebron and Bethlehem Governorates
Barghotti, Khalid	Deputy of Combating Poverty Dept., Ministry of Social Welfare
Bateh, Fuad	Advisor to Head of Palestinian Water Authority
Dagah, Yousef	Coordinator, World Bank Projects, Palestinian Central Bureau of Statistics (PCBS)
Dass, Mostafa	Mayor, Bidya Municipality, Ministry of Local Government
Deek, Fayeq	Assistant Deputy Minister for Technical Affairs, Ministry of Public Works & Housing
Dranghi, Yunus	Public Transport Sector Department, Ministry of Transport
Dweikat, Ashraf	Database Manager, Palestine Water Authority
El Krunz, Saadi	Minister of Transport, Palestinian National Authority
El Nims, Hami	Contracts Officer, ESSP Project Implementation Unit, Gaza
El Sheikh, Abdel Ra'of	General Director, Hebron Electric Power Co.
Fayyad, Salam	Prime Minister of the Palestinian National Authority
Ghannam, Fharid	Assistant Deputy Director Minister/General Director for Central Budget Department, Ministry of Finance
Ghbeish, Lina M.	General Manager, Palestine Capital Market Authority
Ghunaim, Mazen	Deputy Minister, Ministry of Local Government
Haddad , Jamal	Advisor to the President , Palestine Investment Fund (PIF)
Hadi, Mahmoud Abdel	Senior Policy Expert, Ministry of Social Welfare
Hajhasan, Ahmad R.	General Manager, Palestine Capital Market Authority
Halayqa, Walid	Minister Advisor and General Director of Directorate for Joint Council Services Planning and Development, Ministry of Local Government
Hatem, Yousef	Adviser of Prime Minister for Institution and Economic Development, Palestinian National Authority
Issa, Kamal	Tariff Department, Palestine Water Authority
Jabir, Moqbel	Director of Systematic Registration Department, Palestinian Land Authority
Jadallah, Mazen	Deputy Assistant, International Relations and Projects Department, Palestinian National Authority Ministry of Finance
Jallad, Saher	Advisor, Palestinian Land Authority
Jaloudi, Hussein	Director of International Agreements, General Directorate of Interna-

Name	*Title*
	tional Relations and Projects, Ministry of Finance
Jaradat, Abedel Hadi	Administrative Assistant, Higher Council for Solid Waste Management, Hebron and Bethlehem Governorates
Jarrar, M. Aiman J.	General Director, Projects Management Unit, Palestine Water Authority
Juma'a, Bashar	Director General, Geographic Center and Technical Support, Ministry of Planning, Palestinian National Authority
Kayyed, Hani	General Director, Ministry of Local Government
Khalili, Suha	Project Coordination Unit Director, Ministry of Education and Higher Education
Kharoof, Samer	Director, Palestinian Economic Council for Development and Reconstruction (PECDAR)
Kittaneh, Omar	Minister and Chairman, Palestinian Energy and Natural Resources Authority
Maani MD, Qasem A.	Director of International Cooperation Development, Ministry of Health
Madhoun, Tahani	Executive Manager, Ministry of Social Welfare
Mohaison, Mohamed	Pension Authority, Gaza
Nofal, Abdel-Hafiz	Deputy Minister, PA Ministry of National Economy
Nofal, Abdel Mughni	Director General, Municipal Development and Lending Fund (MDLF)
Nofal, Mahmoud	Director General, Property Tax, Ministry of Finance
Nijem, Nadira	Project Coordinator, International Projects Department, Ministry of Finance
Nshtayi, Jamil	Director of International Relations and Public Relations, Ministry of Education and Higher Education
Osaily, Khaled	Mayor of Hebron, Hebron Municipality
Pearson, Alan	Advisor (DFID financed), Ministry of Finance
Qasem, Hani	Financial Department, Palestine Water Authority
Rajab, Khaled W.	Acting General Director of Operations, Municipal Development and Lending Fund (MDLF)
Ramahi, Mohammad	Chief Financial and Administrative Officer, Municipal Development and Lending Fund (MDLF)
Ramal, Iyad	Former General Manager of Operations, Municipal Development and Lending Fund (MDLF), on secondment to Ministry of Finance
Rida, Hadem	Mayor of Jenin
Saeel, Haleema	Deputy Director of International Relations, Palestinian Central Bureau of Statistics (PCBS)
Saidam, Sabri	President's Adviser for Telecom, Information Technology and Technical Education, Office of the President
Salameh, Estephan	Special Advisor to the Minister, Ministry of Planning, Palestinian National Authority
Saleh, Basri	Assistant Deputy Minister, Ministry of Education and Higher Education
Sharif, Munshir H.	Manager of Accounting Department, Ministry of Education and Higher Education
Shatat, Omar	Mechanical Maintenance of Water Facilities and Systems Development Manager, Coastal Municipalities Water Utility
Shawa, Hashim	Chairman and General Manager, Bank Of Palestine
Shawahneh, Hani	Executive Director, Joint Service Council for Jenin Solid Waste Management Project and Sanitary Landfill
Shoblak, Monther I.	General Director, Coastal Municipalities Water Utility, and Director of

Name	Title
	Gaza Emergency Water Project
Sulaiman, Alaa	Salfeet Information and Communication Tel Center (SIRAJ), Salfeet Municipality
Sokar, Ahmed	Social Specialist, Higher Council for Solid Waste Management, Hebron and Bethlehem Governorates
Suleiman, Munjeid	Head, Division of Statistics, Ministry of Education and Higher Education
Zaaror, Mahmood	Director, Financial Comptroller, Ministry of Finance
Ziad, Mai	Deputy of Cash Management and Debt Department, Ministry of Finance
Zuhairi, Suleiman M.	Deputy Minister, Ministry of Telecom and Information Technology

Government of Israel

Name	Title
Cooper, Emily	Advisor, The Department For International Agreements & Litigation, Ministry of Justice
Finkelstein, Michal	Chief of Staff and Senior Advisor, Director General Office, Ministry of Finance
Fischer, Stanley	Governor of the Bank of Israel
Golan, Yehudit	Senior Economist, International Affairs, Bank of Israel
Ravia-Zadok, Yael	Head of Bureau, Middle Eastern Economic Affairs, Ministry of Foreign Affairs

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Alami, Muhammad	Public Administration Development Specialist, CHF International
Aranki-Batato, Sawsan	Health Policy Development Officer, Italy Consulate General/Office of Development Cooperation
Barghothi, Ihab	Aid Coordination Officer (Infrastructure), Local Aid Coordination Secretariat (LACS)
Beltrame, Letizia	Program Officer, Italy Consulate General/Office of Development Cooperation
Berggrav, Erik	Second Secretary, Representative Office of Norway to the Palestinian Authority
Bessonne, Fabienne	Counsellor/Head of Social Sectors, European Commission Technical Assistance Office, European Union
Breivik, Signe Marie	Program Advisor, Representative Office of Norway
Choraria, Smita	Governance Adviser, Department for International Development (DFID)

Name	*Title*
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Dickinson, Roy	Head of Operations, European Commission Technical Assistance Office, European Union
Dolphin, Raymond	Humanitarian Affairs Officer/Barrier Specialist, Office for the Coordination of Humanitarian Affairs (OCHA), United Nations
Engelhardt, Marc	Director KfW Office Al Bireh, KfW Development Bank, Germany
Frangos, Anastasios	Task Manager, Infrastructure, European Commission Technical Assistance Office, European Union
Gallagher, Mark	Head of the Economic and Financial Cooperation Section, Institutional Reforms, European Commission Technical Assistance Office, European Union
Goutner, Simon	Program Officer, Agence Francaise de Development
Hasan, Nidal	Democratic Local Government Specialist, CHF International
Jalloud, Dawoud A.	Functional Team, ASYCUDA (computerized customs management system covering foreign trade- developed by United Nations Conference on Trade and Development [UNCTAD])
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Kanaan, Oussama	Mission Chief and Resident Representative, International Monetary Fund (IMF)
Kumail, Ali	Private Sector Development Specialist, The Quartet, Gaza
Laloge, Michel	Head of Sector - Infrastructure, Water, Energy, Environment, Agriculture, Food Security and UNRWA, European Commission Technical Assistance Office, Jerusalem
Lebegue, Quentin	Project Officer, Agence Francaise de Development
Majaj, Rima	Local Programme Officer, Danish Representative Office
Misyef, Jameel	National Project Director, ASYCUDA
Mizutani, Tetsuya	Director of Japan International Cooperation Agency (JICA) Office, Tel Aviv
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Raad, Firas	Development Advisor, World Bank Representative, Office of the Quartet Representative, Jerusalem
Rasmussen, Soren Skou	Senior Adviser, Royal Danish Representative Office
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Saarikoski, Outi	Deputy Representative, Representative Office of Finland to the Palestinian Authority
Saed, Imad	Chief Technical Advisor, Local Governance Support Programme, Pro-

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Stefanini, Angelo	Health Program Coordinator, Italy Consulate General/Office of Development Cooperation
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Toyberg-Frandzen, Jens	Special Representative of the Administrator, Programme of Assistance to the Palestinian People, UNDP
Valent, Roberto	Deputy Special Representative, Programme of Assistance to the Palestinian People, UNDP
Williams, Tim	Movement & Access Adviser, Office of the Quartet Representative, Jerusalem
Wood, Glenn	Customs and Tax Advisor, Chemonics

Civil Society, Academia, and Private Sector

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Abu Hasish, Abed-Rabbo	Head, Palestinian German Diagnostic Center in Gaza
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Agaha, Samy I.	Professor of Radiology, Palestinian German Diagnostic Center in Gaza
Al-Atrash, Saeda	Director in charge, The Counseling Center for Women in Difficult Circumstances (CCWDC), Bethlehem
Al-Hilo, Amina	The Counseling Center for Women in Difficult Circumstances (CCWDC), Bethlehem
Amad, Zuhayr H.	Director, Company in Jericho
Arnon, Arie	Professor, Department of Economics, Ben-Gurion University of Negev, Israel
Awad, Mohammed Fadel	Director of Outreach Program, The Edward Said National Conservatory of Music
El Amad, Farida	Ina'sh El-Usra NGO
El Bana, Marwan	Specialist School Teacher, El Nazla Primary School
El Bana, Saher	Cultural Specialist, El Beet El Samed School

Name	*Title*
El Zaa'noon, Ayda	Manager, El Beet El Samed School
Fares, Dalal	Deputy Manager, El Beet El Samed School
Farhan, Khadija	Chairperson, Kalandiya Camp Women's Handicrafts Cooperative
Halawen, Rima	Director, Kindergarten, Nablus
Hamdan, Maher	Chief Executive Officer, Paltrade Palestine Trade Center
Hijjawi, Mohanad	Economic Analyst, Palestinian Development and Investment Limited (PADICO)
Ibrahim, Irsan	Director, Saint Luke’s Hospital, Nablus
Jabr, Kamal A	Consultant Radiologist, Palestinian German Diagnostic Center in Gaza
Jamal, Judeh	Chairman and General Manager, Holy Land Co., Agricultural Marketing and Investment
Kasabreh, Ghassan	Director, NGO Development Center (NDC)
Kassis, Laith I.	CEO, Palestinian IT Association of Companies (PITA)
Kassis, Nabeel	President of the Birzeit University, Palestine
Kawn, Mazen	Administrative Director, Saint Luke’s Hospital, Nablus
Khader, Mohamad	General Manager, Lausanne Trading Consultants
Khader, Mr.	Director, Salfeet Secondary Industrial School
Khayyo, Samia	Monitoring and Evaluation Specialist, NGO Development Center (NDC)
Khouri, Zahl W.	Chairman, Palestine Tourism Investment Company
Khoury, Bassim S.	CEO, Pharmacare PLC
Khoury, Salwa	Public Relationship Director, Saint Luke’s Hospital, Nablus
Kumkam, Mousa	Deputy Regional Manager, Jordan Ahli Bank
Madai, Karim	Association Manager, Kalandiya Camp Women's Handicrafts Cooperative
Mana’a, Rana	International Relations Coordinator, Nablus Association of the Development and Community / DARNA Center
Manasrah, Zuhair	Chairman and CEO, Manasrah Development and Investment Company
Mansour, Moa'een	Head Master, El Nazla Primary School
Nedal, Ismail	General Manager, Palestine Industrial Estate Development Company
Nesnas, Joseph	Deputy General Manager Regional Manager, Cairo Amman Bank
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Rock, Bader	Trade Advisor
Saidi, Sami	General Manager, Alrafah Microfinance Bank
Sinokrot, Mazen T.	Chairman and CEO, Sinokrot Global Group
Taha-Rayyan, Hanan	Executive Manager, Paltrade Palestine Trade Center
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Zimmo, Omar	Assistant Professor Environmental Engineering and Chairman, Civil Engineering Department, Birzeit University

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Seibold, Juliette	Gender Specialist, Independent Consultant, World Bank
Sherman, Mariam	Country Director, MNC04
Tanatar, Selcuk	Operations Officer, CMECA, IFC, Cairo

World Bank Group (Washington, D.C.) Current and Former Staff

Name	*Title*
Al Issa, Sufyan	Advisor to Executive Director, EDS11 (Bahrain/Egypt/Iraq/Jordan)
Astrup, Claus Pram	Senior Country Officer, AFCS1
Balaj, Barbara	Consultant, IEGCS
Bassinette, Josephine M.	Lead Operations Officer, SACAF
Dessus, Sebastien C.	Lead Economist, AFTP4
Fawaz, Nabil	Sector Leader, MIGOP
Gonnet, Laurent	Senior Financial Sector Specialist, MNSFP
Gressani, Daniela	Deputy to Director-General and Senior Adviser, IEGDG
Hadad-Zervos, Faris H.	Adviser, OPCFC
Hanna, James C.	Consultant, SASFP
Higashi, Mariko	Manager, CMEDR, IFC
Jagannathan, N. Vijay	Sector Manager, EASIN
Kanaan, Sima	Manager, WBIFC
Karam, Stephen George	Lead Urban Economist, ECSS6
Kastlerova, Elena	Country Program Coordinator, MNCA4
Khadr, Ali Mahmoud	Senior Manager, IEGCR
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Lenard, Beata	Senior Evaluation Officer, CEXEG, IFC
Maeda, Akiko	Sector Manager, Health, Nutrition and Population, MNSHD
Mantovani, Pier Francesco	Lead Water and Sanitation Specialist, ECSS6
Peschka, Mary Porter	Manager, CLALA, IFC
Pollard, Richard W.	Senior Water and Sanitation Specialist, MNSWA
Poortman, Christiaan	Former Bank staff, MNA Regional Vice President, 2003-2006

Raad, Firas	Senior Health Specialist, MNSHH and Development Advisor, World Bank Representative to The Quartet
Roberts, Nigel	Country Director, DECWD
Sewell, David	Former Bank staff (Lead Economist, MNSED)
Singh, Priyamvada	Principal Trade Finance Officer, CGFTF, IFC
Wade, Hege Hope	Operations Officer, AFMUG
Zarcone, Fabrizio	Senior Country Officer, MNCA4

Annex I

Guide to IEGWB's Country Program Evaluation Methodology

This methodological note describes the key elements of IEG-WB's Country Program Evaluation (CPE) methodology.[1]

CPEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress.

A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a subset of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by development partners, stakeholders, and the government itself. In CPEs, IEGWB rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

The experience gained in CPEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CPEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes for Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes for Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same.

By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (for example, events of nature, international economic shocks, and so on). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

IEG-WB measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other analytic and advisory activities (AAA), the consistency of the Bank's lending with its nonlending work and with its safeguard policies, and the Bank's partnership activities.

Rating Assistance Program Outcome

In rating the outcome (expected development impact) of an assistance program, IEG-WB gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The Country Assistance Strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG-WB's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

For each of the main objectives, the CPE evaluates the relevance of the objective, the relevance of the Bank's strategy toward meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other development partners, the government and exogenous factors.

Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

IEG-WB utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

Highly Satisfactory:	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
Satisfactory:	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
Moderately Satisfactory:	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
Moderately Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives,

	or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Highly Unsatisfactory:	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

The **institutional development impact (IDI)** can be rated at the project level as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building capacity in nongovernmental organizations; and,
  the level of social and environmental capital.

IEG is, however, increasingly factoring IDI impact ratings into program outcome ratings, rather than rating them separately.

Sustainability can be rated at the project level as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country program over time, taking into account eight factors:

- technical resilience;

- financial resilience (including policies on cost recovery);
  economic resilience;
- social support (including conditions subject to safeguard policies);
  environmental resilience;
- ownership by governments and other key stakeholders;
  institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and, resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

At the program level, IEG is increasingly factoring sustainability into program outcome ratings, rather than rating them separately.

Risk to Development Outcome. According to the 2006 harmonized guidelines, sustainability has been replaced with a "risk to development outcome," defined as the risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). The risk to development outcome can be rated at the project level as *high, significant, moderate, negligible to low, non-evaluable*

Attachment: Comments from the Palestinian Authority

Palestinian National Authority
Ministry of Finance
Office of the Minister

السلطة الوطنية الفلسطينية
وزارة المالية
مكتب الوزير

No. : MoF/IEG/521/2010 .... الرقم :

Date : 16/9/2010 .... التاريخ :

Mr. Ali M. Khadr
Senior Manager
Country Evaluation and Regional Relations
Independent Evaluation Group

Subject: West Bank and Gaza – Country Program Evaluation

Dear Mr. Khadr,

With reference to your letter of August 23, 2010, I would like to commend you and your team for the comprehensive assessment report on the assistance of the World Bank Group to the West Bank and Gaza for the period 2001 to 2009.

Also, I would like to inform you that we have no comments on the draft report. However, it is worth mentioning that the Pension Action Plan which was developed with the assistance of the World Bank has been ratified by the Cabinet on August 19, 2010. Likewise, progress has been achieved in the deliberations of the Procurement Law which will be endorsed before the end of this year.

Thank you for your remarkable efforts.

With my best personal regards

Sincerely,

Salam Fayyad
Minister of Finance

Ramallah Tel: 00970-2-2978846/7/8 Fax: 00970-2-2978845
Gaza Tel: 00970-8-2826188 Fax: 00970-8-2820696
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Endnotes

West Bank and Gaza: Summary of World Bank Group Program Outcome Ratings

1 The goals of World Bank Group assistance may be distinct from those of the client's own development objectives, although the two are usually consistent.

2 The World Bank Group program outcome subratings and overall rating assess the extent to which the Bank program achieved the results targeted in the relevant strategy documents(s) and/or the documents for individual operations. They do not attempt to assess the extent to which the client was satisfied with the World Bank Group program, nor do they try to measure the extent (in an absolute sense) to which the program contributed to the country's development goals. Equally, they are not synonymous with World Bank Group performance.

3 In aggregating sub-ratings under the Private Sector Development pillar, larger weight is given to the first outcome rating ("reducing barriers to private sector development"), given its strategic importance in achieving all other outcomes under this pillar.

4 In aggregating sub-ratings under the infrastructure pillar, larger weight is given to the Water and Sanitation subsector given its strategic importance and prominent place in the Bank program (40 percent of the Bank's investment portfolio in infrastructure).

Chapter 1

1 The Quartet on the Middle East—comprised of the United States, Russia, the European Union, and the United Nations—was established in Madrid in 2002. Former British Prime Minister Tony Blair is the Quartet's current Special Envoy. The World Bank is the economic adviser to the Special Envoy.

2 Border with Jordan is controlled by Israel.

3 CIA World Fact Book – West Bank, July 2010 estimated.

4 CIA World Fact Book – Gaza Strip, July 2010 estimated.

5 United Nations Special Committee on Palestine (UNSCOP) Report, 1947.

6 The Oslo Accords are a series of agreements, with the framework agreement signed in September 1993, and subsequent stages through 1995.

7 The Palestinian Liberation Organization (PLO) was founded in 1964. Yasser Arafat was the leader of the PLO from 1968 until his death in 2004.

8 The Oslo Accords made no formal commitment to Palestinian statehood.

9 The Paris Protocol (April 1994) gave the PA "administrative autonomy over the Palestinian Territories in terms of public service delivery, and formalized policies of economic cooperation and integration with Israel relating to the exchange of goods, fiscal policy, currency arrangements, and labor services" (World Bank, *Long-Term Policy Options for the Palestinian Economy*, 2002, Jerusalem, 2002, p. xi). However, the Government of Israel continued to hold exclusive control over crucial aspects, such as land and population registers, entry/residence, water extraction, access to external markets, telecommunications, and monetary supply.

10 Territorial division under Oslo II was modified in subsequent agreements at the Wye River (1998) and Sharm El-Sheikh (1999).

11 The first *intifada* was a civil disobedience movement launched by Palestinian youth in 1987.

12 About 1,100–1,400 Palestinians died and tens of thousands of people became homeless. *CIA World Fact Book – Gaza Strip*, July 2010.

[13] West Bank and Gaza – World Bank Country Brief, September 2008.

[14] The Economist Intelligence Unit – Palestinian Territories, Country Report, April 2010.

[15] World Bank data, June 2010. These numbers do not include the hundreds of millions of UN aid and some bilateral aid.

[16] IMF Staff Report on the West Bank and Gaza, April 2010.

[17] IMF Staff Report on the West Bank and Gaza, April 2010.

[18] IMF Staff Report on the West Bank and Gaza, April 2010.

[19] World Bank data, February 2010.

[20] IMF Staff Report on the West Bank and Gaza, April 2010.

[21] *Developing the Occupied Territories: An Investment in Peace*, September 1993. World Bank (Report no. 12360).

[22] West Bank and Gaza Update, World Bank, July 2009.

[23] Total donor assistance in the same period was $13.8 billion.

[24] In June 2010, the Bank's Board approved a new replenishment of the TFGWB in the amount of $55 million.

[25] The Holst Fund was established by the Bank in 1994 with the objective of financing start– up and recurrent costs of the PA (26 bilateral donors contributed). From 1994 to 2001, it disbursed a total of $286 million.

[26] In FY2010, IFC committed another $84 million for three projects (one new and two Trade Finance expansions), increasing IFC's exposure to $140 million at the end of FY2010, up from $64 million in FY2009.

[27] All funding has been provided on grant terms since 2002.

[28] All funding has been provided on grant terms since 2002.

[29] The Bank's *"Four Years—Intifada, Closures and Palestinian Economic Crisis-An Assessment, 2004* provided comprehensive analysis of the impact of the ongoing conflict (after the *intifada*) and stimulated multi-donor technical assistance programs to assist the PA in reorganizing and strengthening the core economic ministries—Finance, Planning, and Trade. Other important reports of that period, particularly in the areas of economic policy and social development, included a forward-looking macroeconomic policy review of the *Long-term Policy Options for the Palestinian Economy* (2002) and *Transition to Statehood* (2001), and policy notes on *Social Safety Nets* (2002), *Pensions* (2002) and *Civil Service Reform* (2003).

[30] Major AAA work included the *Socio-Economic Stabilization Plan* (2004), *Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects* (2004), *Palestinian Recovery Program* (2005), *Growth in the West Bank and Gaza: Opportunities and Constraints* (CEM, 2006), annual economic assessments and monitoring reports, as well as key sector studies. The Bank's sector advisory services primarily covered infrastructure (assessments and policy documents on energy, transport, water and wastewater sectors), social protection and human development (poverty assessments, NGO and community studies, human development strategy, and education policy note), and financial and private sector development (reports on local governance and financial accountability, investment climate and trade facilitation).

[31] During the Paris donor conference in 2007, the international donor community pledged $7.7 billion in assistance to the PA and the Palestinian people over the 2008–10 period to support the implementation of the PRDP.

[32] Three critical reports provided sector analysis in the light of the Israeli closure regime and movement and access restrictions: (i) *Checkpoints and Barriers: Searching for Livelihoods in the West Bank and Gaza—Gender Dimensions of Economic Collapse* study (2010) analyzed gender implications of the restrictions on the labor market; (ii) *Reforming Prudently Under Pressure: Health Financing Reform and the Rationalization of Public Sector Health Expenditures* report (2008) provided advice in reforming key areas of the health sector; and (iii) *Assessment of Restrictions in Water Sector Development* (2009) identified shortcomings in water resource development and management and recommended the adoption of an agenda addressing these issues.

Chapter 2

[1] *Developing the Occupied Territories: An Investment in Peace*, September 1993 (Report no 12360)

[2] This section draws on the IMF report, *West Bank and Gaza, Economic Performance and Reform under Conflict Conditions*, September 15, 2003, Chapters IV and V.

[3] IMF 2003, page 88.

[4] Transfers resumed in 2003.

[5] The amount the Israeli government deducted from the taxes it collects on behalf of the PA is to compensate for underpayment for public services by Palestinian municipalities.

[6] World Bank, *West Bank and Gaza: An Evaluation of Bank Assistance*, 2002.

[7] The years 2001–02 are not used for calculating baseline values because in these years the Israeli government did not transfer revenues to the PA; using the 2000–2002 averages instead of the average for 2000 and 2003–04 would distort the information on revenues, deficits, and financing.

[8] Net lending increased after a drastic halt in external financing funds for the municipalities following the Hamas victory in the December 2005 elections. The local governments were not able to pay for electricity, and the Israeli government deducted the bills from PA clearance revenues. Net lending peaked in 2007 and is on the decline. However, in 2009, it was still twice the level of 2004.

[9] *West Bank and Gaza Public Expenditure Review: From Crisis to Greater Fiscal Independence* (2007), p. iv, World Bank.

[10] The discussion for the years 2000–2004 draws on the World Bank's *Country Financial Accountability Assessment*, West Bank and Gaza, Report No. 28990-GZ, June 2004, and the IMF's *Economic Performance and Reform under Conflict Conditions*, September 15, 2003, pp. 96-107.

[11] See the full list in Annex B, Table 4.

[12] In a Presidential decree of January 10, 2000 the government committed to establishing the PIF, which was formally established in October 2002 with the appointment of a board of directors chaired by the Minister of Finance

[13] According to IMF estimates, the total amount of off-budget revenues was $898 million during 1995–2000, of which about $307 million corresponded to profits of the Palestine Commercial Services Company (PCSC).

[14] The implementation of the entire reform package was monitored by an International Task Force on Palestinian Reform formed by the Quartet, the World Bank, and the IMF.

[15] Since mid-2008 a Bank staff member, based in the Resident Mission, is working full-time on PFM issues in general, and the accounting system in particular. This work is based on the PFM initiatives that were part of the PRDP grants reforms matrix.

[16] In the first half of 2000s, budgets produced by Ministry of Planning and Ministry of Finance were not integrated. In 2005–06, integration of budgeting and planning was attempted with the help of DFID, but the political problems in these years prevented advance in that direction.

[17] Era Dabla-Norris, Richard Allen, Luis-Felipe Zanna, and others, *Budget Institutions and Fiscal Performance in Low-Income Countries*, IMF Working Paper, WP10/10/80, March 2010.

[18] To build the index the paper identifies three stages in the budget process: planning and negotiation, approval, and implementation. Each stage consists of five cross-cutting categories: (i) top-down procedures; (ii) rules and controls; (iii) sustainability and credibility; (iv) comprehensiveness; and (v) transparency. Most of the data used in constructing the index are qualitative in nature, and the scores assigned to each category and subcategory fall between 0 and 4, with a higher score reflecting better performance.

[19] The totals in the two tables may differ because of problems of aggregation over the categories; the differences are small to affect the rankings or the conclusions derived from the numbers.

[20] Several recommendations of the action plan were not carried out, including: (i) establishing an independent public procurement agency; (ii) using standard bidding documents; (iii) issuing a user's manual and guidelines; (iv) assessing training needs on procurement and developing a national training program; (v) establishing a general register for procurement information; and (vi) establishing mechanisms to ensure availability of funds before any procurement process is commenced.

[21] Country Procurement Issues Paper, p. vii.

[22] *West Bank and Gaza Civil Service Reform Activity Completion Note* (P084674), FY04, p. 1.

[23] IEG mission interviews, March 2010.

[24] According to the 1999 PER: "*Palestinian intergovernmental system was not created by design. Rather, it has been shaped over time by a variety of factors, including legal ordinances issued by various administrative regimes pre-dating the Palestinian Authority (PA), ongoing practices, adopted policies and, eventually, an overarching legal framework reflected in the Law on Local Authorities (LLA 1997). This piecemeal evolution of the system has left many legal and policy gaps and contradictions, particularly relating to the way local governments understand and perform their functions and authorities*" (p. 88) …., and "*The flaws of the intergovernmental fiscal system are not surprising given the rapid emergence of the PA. Little attention was devoted to harmonizing facts on the ground with principles of governance and fiscal policy*." (p. 90).

[25] Notably "West Bank and Gaza: Strengthening Public Sector Management" in 1999, and "West Bank and Gaza: Intergovernmental and Municipal Finance, Sector Study Report" in 2000.

[26] The main trigger for the establishment of the MDF was the Emergency Municipal Services Rehabilitation Project (EMSRP). The Fund was created in 2003 as the Municipal Development Fund, and was reorganized into the Municipal Development and Lending Fund (MDLF) in September 2005.

[27] Public Expenditure Review, World Bank, 2007, page 92.

[28] The Land Administration Program financed by the Land Administration Project (LAP, 2005, $3 million).The program aimed to enhance economic growth by improving land tenure security and facilitating the development of efficient land and property markets in rural and urban areas through the development of an efficient system of land titling and registration based on clear, transparent and coherent policies and laws, supported by an appropriate institutional structure.

[29] The project design included a crucial component of conducting land aerial photography that was not allowed by the Israeli authorities.

[30] This position is cofinanced by the UK's DFID.

Chapter 3

[1] "One Year After the Military Operation, An Outlook on Gaza Strip Crossings & Damaged Industrial Establishments", Paltrade 2010.

[2] PCBS online data (www.pcbs.gov.ps).

[3] According to the relevant Chambers of Commerce, Industry and Agriculture, industries in the West Bank include textiles, food processing, cement manufacturing, and the manufacture of toys, furniture, clothing, and shoes. In Gaza, industries include textiles and garments, plastic and rubber, food processing and woodworking.

[4] Palestinian Exports, The Portland Trust, 2008.

[5] The 2003 IFC *corporate* strategy called for focus on improving the investment climate and building capacity through advisory work. This approach was refined in the 2004 c*orporate* strategy that foresaw a future role for IFC Advisory Services in the West Bank and Gaza in improving the business and regulatory environment, strengthening financial institutions and markets, stimulating the growth of SMEs, and assisting with the restructuring and privatization of state-owned enterprises. The 2007 *corporate* strategy defined the following priorities: (i) financial sector development; (ii) infrastructure development; and (iii) enterprise development in key sectors such as agribusiness and construction to create employment opportunities, and other opportunities to underprivileged segments of the population. Although the 2007 *regional* strategy defined the West Bank and

Gaza as lower priority, it contained the following objectives: (i) investments in infrastructure, services, communications and information technologies, financial markets, leasing and housing; and (ii) advisory services in microfinance, housing finance, leasing, and banking to support SMEs in target industries. The 2008 *regional* strategy focused on "separating out" new investments in the West Bank and Gaza, and subsequent *corporate* strategies reinforced IFC focus in conflict-affected countries (including the West Bank and Gaza).

[6] See list of Technical Assistance and Economic and Sector Work in Table 8, Annex C.

[7] See Table 7, Annex C: List of IFC Advisory Services.

[8] Among the projects were: the Jericho Motel, a project in tourism ($1.1 million, with a prominent Palestinian tourism operator); Al Ayam Printing, Publishing and Distribution Company for a newly established newspaper ($1.8 million – currently one of the two major newspapers in the West Bank and Gaza); a cold storage facility in Gaza (Arab Palestinian Investment Company, $0.2 million); a tire retreading operation in Gaza (Nabahin, $0.5 million); a ready mix concrete facility in Nablus ($0.8 million), and others.

[9] The loan component was never committed.

[10] Yasser Arafat, representing the PA; Shimon Peres, President of the Peres Center; Hani Masri for the Capital Group; Jacob Burak for the Evergreen Group; and James Wolfensohn, President of the World Bank Group on behalf of IFC signed the Peace Technology Fund (PTF) Memorandum in Paris. The PTF was structured on a representational basis, bringing together international Palestinian and Israeli private sector investors and managers. The committed capital from the private sector would be $100 million, with 30 percent from Palestinian and Arab investors, 30 percent from Israeli investors, 30 percent from international investors, and a minimum 10 percent commitment from IFC. The PTF would invest in SMEs across a broad range of high tech/high value-added industrial sectors (computer hardware, software and information technology training, publishing and consultancy; electronic and electric office equipment; telecom equipment and software) in the West Bank and Gaza, including companies located in the Gaza Industrial Estate. The Evergreen Partners investment company managed the fund and raised $65 million for it. The fund has invested $20 million in enterprises, including shares of PalTel, the Ramallah shopping mall, and a Palestinian mortgage bank. In 2005, PTF sold all its holdings, and decided to return the money to its investors, and liquidate its activity.

[11] *Long-Term Policy Options for the Palestinian Economy* (2002); *Private Sector Development Strategy* (2001).

[12] The olive oil supply chain development project was particularly successful (IFC reports a 35 percent increase in exports of olive oil). It offered TA and advisory services to seven olive oil bottling companies in the West Bank, and improved the quality of olive oil produced by bottling companies and strengthened the supply chain and quality management processes (ISO certifications) while increasing the export capacity of olive oil bottling companies.

[13] *The Passages and Trade Facilitation TA*, World Bank (2007) argued that sustainable economic recovery would remain elusive if large areas of the West Bank remained inaccessible for economic purposes and restricted movement remained the norm for the vast majority of Palestinians and expatriate Palestinian investors.

[14] Wataniya Palestine Telecommunications Limited, a PIFs subsidiary, has obtained the license, through a competitive international tender, to operate as the second mobile carrier in the West Bank and Gaza. Watanyia started with the construction and operation of a GSM digital cellular network in the West Bank, and the roll-out of the network into Gaza when the security situation improves.

[15] The Bank contributed to financial sector reform by managing the Financial Reform Sector Strengthening (FIRST) initiative. FIRST was launched in 2002 by the Canadian International Development Agency (CIDA), DFID, IMF, the Dutch Ministry of Foreign Affairs, the State Secretariat for Economic Affairs of Switzerland (SECO), the Swedish International Development Cooperation Agency (SIDA), and the World Bank). FIRST has been recently extended to 2012 with funding of $100 million in total, based on its success in the first four years of its operations. Under the FIRST initiative, four projects were completed in the areas of housing finance, capital market development, deposit insurance, and private pension regulatory capacity building.

[16] TA in the telecommunications sector provided guidance for deregulation. The sector was characterized by the presence of a private regulated monopoly, unauthorized competition, and overall weak governance and regulation. Increasing competition and efficiency in the telecommunications sector was expected to have far– reaching effects on the Palestinian economy. Greater competition would reduce the telecommunications rates, and the entry of Watanyia into the mobile telephone market would improve business communications, thus lowering the cost of doing business. Furthermore, taxing the new operators would help the government raise revenues.

[17] The Housing Finance TA complemented IFC's contribution to the Affordable Mortgage and Loan (AMAL) project. The Affordable Mortgage and Loan Corporation (AMAL - which means "hope" in Arabic) is a PIF subsidiary that together with the Overseas Private Investment Corporation (OPIC), IFC, DFID and the Bank of Palestine launched a $500 million program that provides loans to low- and middle-income Palestinian households ($325 million comes from OPIC, $75million from an IFC guarantee, $20 million from DFID, and $75 million from the PIF). AMAL is expected to be effective in 2011, and to contribute to increased activity in construction and job creation.

[18] This proposition was initially accepted by the Israeli government. However, the corridor was closed again in June 2006.

[19] The Facility for New Market Development (FNMD) offers grants (maximum of $50,000) on a reimbursement basis for up to 50 percent of the requested assistance. The facility supports enterprises in developing and improving skills for marketing, packaging, labeling products and participating in trade fares. By all accounts a successful operation, the FNMD is expected to end in 2010, yet both the EU and DFID expressed interest in financing the extension of its operation.

[20] World Bank Doing Business Reports, 2004–09.

[21] The Gaza Industrial Estate was immediately affected by violence. The project suffered closures and direct mortar attacks, and many tenants closed their businesses and left. At project closing, the direct value added (using wages as a proxy) was about $4.4 million (against an appraisal target of $38.4 million (Source: Gaza Industrial: IEG evaluation report, 2006). The Small Enterprise Funds were all hit negatively by the *intifada* and all (but the newspaper Al Ayam) did not financially survive. The same holds for the Peace Technology Fund that had to close down due to reduced activity and high managerial costs. A delayed start and the unsuccessful development of its business meant that the Arab-Palestine Investment Bank financed only 24 businesses and $11 million in loans (instead of the $24 million expected).

[22] See Annex C, Table 10.

[23] Typically, the FNMD cofinances market research, trade show participation, know-how transfer, sales training, product testing and certifications, and product launches. The average project size is small ($37,000), and the project length is about 6 months. The FNMD built capacity in 163 companies, 23 percent of which came from Gaza.

[24] The telecommunications sector previously received institutional and capacity building technical assistance from the World Bank on the regulatory side. This led to the formation of the Watanyia Mobile company when a new license for a second mobile telephone operator in the West Bank and Gaza was issued.

Chapter 4

[1] Additional amounts went to this subsector through various mechanisms channeling support to local (principally municipal governments') infrastructure services.

[2] World Bank, December 2004. West Bank and Gaza Infrastructure Assessment.

[3] World Bank, May 2007. West Bank and Gaza: Energy Sector Review.

[4] World Bank, May 2009. West Bank and Gaza: Assessment of Restrictions on Palestinian Water Sector Development, Sector Note.

[5] World Bank, January 2008. West Bank and Gaza Telecommunications Sector Note: Introducing Competition in the Palestinian Telecommunications Sector.

[6] World Bank 2007. West Bank and Gaza: Transport Sector Strategy Note.

[7] The contract was awarded to a partnership between the French *Lyonnaise des Eaux* and a Palestinian firm.

[8] Environmental Audit, 2008. "An Audit of the Operations and Projects of the Palestinian Water Authority: The Strategic Refocusing of the Water Sector in Palestine (Draft Report funded by the Norwegian Representative Office in Palestine). Among the larger bodies operating in the sector, the CMWU (Coastal Municipalities Water Utility, covering all of Gaza Strip) appears to have done a better job of maintaining its data systems despite the special difficulties faced in Gaza.

[9] World Bank, 2009. "West Bank and Gaza: Assessment of Restrictions on Palestinian Water Sector Development, Sector Note."

[10] See the Palestinian Central Bureau of Statistics. "Percentage of Households in the Palestinian Territory by the Main Means of Obtaining Water and Region, 2009" www.pcbs.gov.ps

[11] See World Bank 2009, West Bank and Gaza: Assessment of Restrictions on Palestinian Water Sector Development, Sector Note, page 39.

[12] See the PCBS: "Percentage Distribution of Households in the Palestinian Territory by Wastewater Disposal Method and Region, 2009." www.pcbs.gov.ps

[13] See World Bank 2009, "West Bank and Gaza: Assessment of Restrictions on Palestinian Water Sector Development, Sector Note."

[14] In June 2007, the Bank followed up on a third-party complaint of inconsistency between the specifications of a well pumping station (East Herodion 2, which was to supply water for most of the facilities built) pump which had been offered for this well and the pump delivered. In September 2008, following an investigation by the Bank's Integrity Department (INT), the Bank declared a misprocurement and cancelled from the grant the value of the pumping station contract ($3.12 million).

[15] The Oslo II agreement (September 1995) divided the West Bank into three zones of control: (i) Area A, where the PA had full responsibility for internal security, public order, and civilian affairs; (ii) Area B, where the PA governed public order and civilian affairs, but the Government of Israel retained over-riding security control; and (iii) Area C, where the Government of Israel retained full responsibility for security, public order, and certain civil affairs.

[16] World Bank April 2009. "West Bank and Gaza: Assessment of Restrictions on Palestinian Water Sector Development" Report No. 47657-GZ. Pages vii and ix.

[17] Germany's KfW has been helping to build the inter-municipal cooperation needed to move a proposed project forward to serve the Ramallah area. A smaller-scale initiative to serve the less heavily populated area of Jericho and surroundings has been assisted by the Japan International Cooperation Agency (JICA). The European Commission was sufficiently satisfied with its experience with the Bank in Jenin to join in a Bank initiative, approved in 2009, for a very similar project run by a Joint Service Council (JSC) to serve the Bethlehem and Hebron Governorates.

[18] The municipalities have not been able to adhere to the hard budget constraint as recommended by the Bank. Consequently, a substantial number failed to pay bills to the Israeli bulk suppliers of electricity and water. The Israeli Ministry of Finance deducted the sums due from the import-duty and VAT revenues that it paid to the PA, imposing the municipal defaults on the central Palestinian budget. Estimates for 2007 indicate that nearly two-thirds of all municipalities (and 84 percent of those in Gaza) were running unsustainable budgetary deficits.

[19] World Bank April 2010. "Towards a Palestinian State: Reforms for Fiscal Strengthening," Economic Monitoring Report to the Ad Hoc Liaison Committee, p. 20.

[20] Palestine Central Bureau of Statistics: "Percentage Distribution of Households in the Palestinian Territory by Region and Type of Electricity Meter Used." Such meters are not yet used in Gaza. www.pcbs.gov.ps

[21] The subsidy will be offered in the form of a monthly block of electricity provided at less than the normal tariff or for free when pre-paid meter cards are recharged. The cost of the subsidies envisaged is expected to amount to up to 5 per cent of total billings for electricity and would be transferred directly from the PA Ministry of Finance to the power utilities.

[22] Interviews with traders indicate that the premium for a 40-foot container leaving from (or destined for) the West Bank rather than Israel has increased by $1,000.

[23] The West Bank has another 1,000 km of roads which are the responsibility of Israel. They are generally in good condition, but are reserved for use by vehicles registered in Israel, East Jerusalem, or in Israeli settlements in the West Bank.

[24] Strongly encouraged by the Ad Hoc Liaison Committee (AHLC) which brings together representatives of Israel, the Palestine Authority and other key countries, the Bank undertook a large amount of work on trade facilitation in 2004–07. The work started in connection with a review of Israeli proposals for disengagement from Gaza, and ways to ensure good economic consequences from such a move. Discussions with both Israelis and Palestinians were sufficiently promising that, in early 2005, the Bank moved cautiously into a phase focused on the Trade Corridor Project Design, thinking mainly of Gaza potential. It was in November 2005 that the Government of Israel and the Palestinian Authority signed an "Agreement on Movement and Access" (AMA) that had been strongly promoted by the Quartet Special Envoy, James Wolfensohn, and the U.S. government. The Agreement clarified and supplemented aspects of the Oslo accords referring to these subjects. From 2006-2008, the Bank's trade facilitation work moved into a third phase with a broader focus (not only for Gaza) on Facilitation Applications Promotion and Support. A large number of studies and papers were generated by these efforts, and were widely distributed in Israel and the West Bank and Gaza, and made available on the World Bank website. Among the most important from the second phase were: *An Assessment of Progress in Improving Passages and Trade Facilitation* (June 2005), *Managing Transit and Trade across the Israeli/Palestinian Borders: Technical Negotiations* (October 2005), and; from the third phase: *Potential Alternatives for Palestinian Trade: Developing the Rafah Trade Corridor* (March 2007), *Movement and Access Restrictions in the West Bank: Uncertainty and Inefficiency in the Palestinian Economy* (May 2007) and *Palestinian Trade: West Bank Routes* (December 2008).

[25] *oPt Humanitarian Overview*, OCHA, February 2010.

[26] More than half of the Bank funding committed in 2000 for the Second Municipal Infrastructure Development Project (MIDP-2) had been assigned to roads, partly rehabilitation of regional roads and partly capacity development of the Ministry of Public Works and Housing, especially development and introduction of a Road Maintenance Management System (RMMS).

[27] *West Bank and Gaza: Infrastructure Assessment*, World Bank, December 2004.

[28] *West Bank and Gaza: Infrastructure Assessment*, World Bank, December 2004, p. 34.

[29] Standard procedures required that the President approve also the members of the Telecommunications Regulatory Authority Board before the end of February 2010, to avoid the law lapsing. Sufficient consensus on the appointments was not reached in time, so the proposed law will have to be reconsidered. Needed improvements – including clarification of criteria defining anti-competitive behavior – are already being worked on, and it is hoped that a revised law and renewed appointment will proceed quite rapidly.

Chapter 5

[1] Giacaman et al. (2009). "Health status and health services in the occupied Palestinian territory." Lancet 373: 837-49; Human Development Report 2009/10 Investing in Human Security for a Future State, UNDP.

[2] Social Safety Net Reform Paper, World Bank (2008) Supra, pg. 11-12.

[3] Ibid.

[4] World Bank data, February 2010.

[5] IMF Staff Report on the West Bank and Gaza, April 2010.

[6] Overall, "UNRWA provides assistance, protection and advocacy for some 4.7 million registered Palestine refugees in Jordan, Lebanon, Syria and the occupied Palestinian territory." (www.unrwa.org).

[7] One serious issue/weakness encountered by the Bank was related to the procurement of drugs. The 1993 Paris Protocol Trade Agreement between Israel and the PLO required all pharmaceutical goods entering the West Bank and Gaza to comply with Israeli standards and to be pre-registered in Israel. This requirement led to significant delays in the delivery of drugs in 2004–05. In the aftermath, the Bank preferred not to finance procurement of drugs.

[8] Another Bank project – the Tertiary Education Project (approved in 2005) has activities directed toward achieving results in this area through QIFs (quality improvement funds). The project is still active (estimated closing in 2012), and is not included in this evaluation.

[9] These are the Implementation Completion Report (ICR) conclusions, based on two three-hour workshops held with school supervisors from all district offices in both the West Bank and Gaza during ICR preparation.

[10] According to the Education Action Project Implementation Completion Report: "Both suffer from lack of essential facilities (sanitary units, drinking fountains, store rooms, administration and teachers' rooms, benches and rest areas, shaded areas, and playgrounds) due to the original design which assumed that the built units would be part of existing schools that had such facilities. The physical separation of the vocational schools rendered it necessary to employ administrative and custodian staff as well as a number of teachers for the academic subjects, transforming the envisaged efficiency gains into efficiency losses. While school supervisors continue to provide supervision to vocational schools, the supervision process is not considered to be formal thus vocational school teachers' performance reviews are not systemized. Moreover, technical supervision of workshop engineers is virtually non-existent due to the lack of adequate supervision resources for Vocational Education. Furthermore, the field visits indicated that the facilities have little or no resources to upgrade the equipment being used and rely entirely on donor support to maintain quality services."

[11] In 2000, referrals for outside tertiary cares services reported by the Ministry of Health slightly exceeded 5,000 cases. By 2008 this figure exceeded 43,047. Health Status in Palestine, Annual Report, Ministry of Health, 2008.

[12] A Beneficiary Impact Assessment was conducted for the NGO II project in 2005 with the following objectives: (i) assessing the nature and degree of beneficiary satisfaction (availability, accessibility and quality of services) with the Palestinian NGO II projects and subprojects; (ii) determining the degree, and increasing the rate of participation; and (iii) determining the level of awareness of the existence and nature of the Palestinian NGO II fund and the ways to relate to it. The total number of institutions that received support from Palestinian NGO fund during the second project cycle was 216. The assessment involved 46 NGOs/grants selected through a stratified random sampling methodology. The findings mainly reflect the perception of both the providers and beneficiaries of the Palestinian NGO's supported projects. The findings are used for purposes of triangulation.

[13] The poverty pattern in the West Bank and Gaza is characterized by sharp disparity between the West Bank and Gaza, where about 70 percent of households rely on social assistance. This situation has been exacerbated by the armed conflict between Israel and Hamas-controlled Gaza in December 2008 - January 2009, and subsequent severe restrictions on access to Gaza.

[14] *Impressive Achievements Under Harsh Conditions And The Way Forward To Consolidate A Quality Education System*, World Bank West Bank and Gaza Education Sector Analysis (2007).

[15] According to interviews conducted in the field, since the report provided a menu of financing options indicating the advantages and disadvantages for each one of them, the Ministry of Health was unable to move forward with its preferred option because its detractors cited the disadvantages mentioned in the report to thwart progress.

[16] The 2005 World Bank draft note on the West Bank and Gaza: Framework for a Medium Term Human Development Strategy had noted that: "the PA immediately apply clear and transparent criteria and processes for selecting beneficiaries and linking benefits to conditions that reinforce school attendance, particularly within the secondary education age group, regular health checkups for children and possibly pregnant and lactating mothers, and to participation, for older students, in vocational training."

[17] Some progress has been achieved in this area after this evaluation was completed.

Chapter 6

[1] See Table 1.1.

[2] The AHLC was established in 1993 to coordinate and promote donor assistance to the Palestinian people. Since the beginning of the *intifada* in late 2000, the AHLC's responsibilities have been expanded to reflect the reality on the ground, including specific issues such as the fiscal situation and budgetary support to the PA, damage assessment, emergency needs and repair, the socio-economic and humanitarian situation, project implementation, and institutional reform. The AHLC is presently charged with reviewing donor activities and aid strategies and policies. It liaises with the Quartet and guides the Joint Liaison Committee and the Local Development Forum. The AHLC structure includes: Chair—Norway; Co-sponsors—EU and US; Secretariat—The World Bank; Members—PA, Government of Israel, Canada, Egypt, the IMF, Japan, Jordan, Russia, Saudi Arabia, Tunisia, and the UN; Bilateral invitees are agreed by AHLC members.

[3]The Joint Liaison Committee (JLC) was set up in 1994 as a tripartite body (donors-West Bank and Gaza-Israel) and as the local counterpart of the AHLC to address donor-recipient relations issues at the country-level. The JLC follows up on AHLC decisions and liaison with the Government of Israel. The committee comprises Norway as chair, the World Bank, the United Nations Special Special Coordinator (UNSCO), IMF, US, EC, and EU. Israel's withdrawal from the formal aid coordination structure at the local level at the onset of *intifada* undermined the JLC's raison d'être as a tripartite body. The JLC had met last in 2002 in an informal donor-JLC form, after which it did not function until its reactivation in the end of 2008.

[4]The Task Force on Project Implementation (TFPI) was established in 1997 to address project implementation issues with both Palestinian and Israeli authorities, and to speed up the process of funds disbursements. The TFPI was established by the JLC to ensure effective implementation of donor– funded projects. It liaises with the Government of Israel on issues of project implementation and comprises the USAID, UNSCO, EC, and the World Bank. The TFPI has a rotating chairperson with each member taking on the position of Chair for a six–month period. The TFPI recommended to the JLC actions to resolve implementation problems, identifying sector strategic and fiscal issues.

[5] The Quartet comprises the UN, the US, the EU, and Russia. The group came into being in September 2001 as the UN Secretary General informally convened in his office the Principals of the US, EU, and Russia to discuss the Middle East situation. As this group met again several times in 2002, the Quartet progressively became institutionalized. It meets on a regular basis with three Arab countries (Egypt, Jordan, and Saudi Arabia).

[6] The Task Force on Palestinian Reform (TFPR) was established by the Quartet in 2002 to guide, monitor and support the implementation of Palestinian civil reforms.

[7] In the context of the PA reform process, the Reform Support Groups (RSGs) worked with PA line ministries and linked the possibility of political progress directly to institutional reform, covering financial accountability, local government, market economy, ministerial and civil service reform, judiciary, elections, and civil society.

[8] The Humanitarian and Emergency Policy Group (HEPG) was established in 2002 to develop and update a coherent donor strategy for dealing with the socio-economic and humanitarian emergency, consider relevant policy options, and reinforce the linkages between development, institutional reform, and humanitarian/emergency initiatives, while ensuring that longer– term strategic goals are not ignored. The HEPG reported to the Local Aid Coordination Committee (LACC).

[9] The Local Aid Coordination Committee (LACC) was co-chaired by the Office of the United Nations Special Coordinator for Middle East Peace Process (UNSCO) and the World Bank. It served as a forum for regular coordination at the operational level and for follow-up of issues between AHLC meetings. It is the most inclusive local body, however, it lacks real decision-making power. The LACC included four Sector Working Groups (SWGs)—infrastructure, the productive sector, the social sector, and institution building,—each with a shepherd (donor representative), gavel holder (PA chair), and secretariat (a UN agency, including the World Bank and the IMF).

[10] Only a few LACC and SWGs meetings included the PA.

[11] Stephen Lister and Anne Le More, *Aid Management and Coordination During the Intifada: Report to the LACC Co-Chairs*, Mokoro Ltd, June 2003.

[12] OECD, 2008. The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. Aid effectiveness refers to the degree of implementation of the five principles adopted at the Paris High-Level Forum on Aid Effectiveness in 2005. Sixty partner countries, 30 donor countries, and 30 development agencies, including the World Bank, committed to specific actions to further the five principles, that is country ownership, harmonization of procedures and interventions, alignment with national priorities, managing for development results, and mutual accountability for the use of aid. This commitment reflects the development community's determination to increase the effectiveness of aid and achieve lasting development results. To this end, it contains a monitoring mechanism: For partner countries, the indicators cover good national development strategies, reliable country systems for procurement and public financial management, the development and use of results frameworks, and mutual assessment of progress. For donors, the indicators cover such areas as alignment with country priorities, joint analytic work, use of common arrangements and strengthened country systems, harmonized support for capacity building, and more predictable aid flows.

[13] Other members of the AHLC would consist of the PA, Israel, Canada, Egypt, IMF, Japan, Jordan, Russia, Saudi Arabia, Tunisia, UNSCO, and bilateral invitees subject to the agreement of AHLC members.

[14] The local-level forum for the Task Force on Palestinian Reform.

[15] The Economic Strategy Croup (ESC) is co-chaired by the Ministry of Finance and the World Bank (it includes four SWGs: Private Sector and Trade, Agriculture, Fiscal, and Micro and Small Finance). The Infrastructure Strategy Group (ISG) is co-chaired by the Ministry of Housing and Public Works and USAID and includes 5 SWGs: Water and Sanitation, Municipality Development and Local Government, Solid Waste Management, Affordable Housing Thematic, and Energy. The Governance Strategy Group (GSG) is co-chaired by the Ministry of Planning and the EC, and includes 4 SWGs: Judiciary, Security, Public Administration and Civil Service (PACS), and Elections. The Social Development Strategy Group (SDSG) is co-chaired by the Ministry of Social Affairs and UNSCO, and includes 4 SWGs: Education, Health, Social Protection, and Humanitarian Aid.

[16] The Local Aid Coordination Secretariat (LACS), which replaced the Local Aid Coordination Committee (LACC) in 2005, promotes transparency and synergy by serving as an information hub, (for example, by collecting and presenting information on ongoing and envisaged donor support, by providing and disseminating information on aid coordination activities, and by disseminating minutes of meetings, reports and other relevant information).

[17] The Task Force on Project Implementation liaises with the Government of Israel on issues of project implementation.

[18] *Developing the Occupied Territories: An Investment in Peace*, September 1993. World Bank. (Report no. 12360).

[19] *Aid Effectiveness in the West Bank and Gaza* (1999) was undertaken jointly by Japan and the World Bank, with the financial support of the Government of Japan and UNDP.

[20] Managed by the World Bank, the PRDP trust fund aimed to support the PA policy agenda as expressed in the Palestinian Reform and Development Plan (PRDP), by channeling budget support for its implementation over the three year period of 2008–2010.

[21] *Assessment of Restrictions on Palestinian Water Sector Development* (2009), World Bank Report No. 47657.

[22] *Aid Management and Coordination During the Intifada—Report to the LACC Co-chairs*. Mokoro Ltd, UK, 2003.

[23] Out of total 34 Bank-administered Trust Funds in all areas, 29 Trust Funds (85 percent) were recipient executed, equivalent to $893.87 million (99 percent of the total Trust Funds amount).

[24] The PRDP (2008–2010) was presented by the PA at the December 2007 Paris Donor Conference.

[25] The P071040 Palestinian NGO Project 2 (approved FY01).

[26] The P080892 Land Administration Project (approved FY05).

[27] The P083767 Tertiary Education Project (approved FY05).

[28] *Aid Effectiveness in the West Bank and Gaza* (1999) was undertaken jointly by Japan and the World Bank, with the financial support of the Government of Japan and UNDP.

[29] IEG mission interviews, March 2010.

[30] The Harmonized Approach to Cash Transfers, launched by the UN in 2005, is designed to reduce cash transfer transaction costs for both the implementing agencies and the donors.

[31] The World Bank. *A Palestinian State in Two Years: Institutions for Economic Revival*, Economic Monitoring Report to the Ad Hoc Liaison Committee. September 22, 2009, p. 26.

[32] The Government of Kuwait made its first contribution to the PRDP trust fund in the amount of $80 million in August 2008, and provided second contribution in the amount of $50 million in May 2010.

Chapter 7

[1] World Bank, *Emergency Assistance to the Occupied Territories - Volume l: Investment Program*, March 1994, Washington D.C., p. 1.

[2] The World Bank. Articles of Agreement. 1944. Article IV, Section 10: "*The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially*..." http://www.worldbank.org

[3] Resolution 1397 (2002), Adopted by the U.N. Security Council at its 4489th meeting, on 12 March 2002, Security Council S/RES/1397 (2002). http://unispal.un.org/unispal.nsf/0/4721362DD7BA3DEA85256B7B00536C7F

[4] "Assuming the PA maintains its performance in institution-building and delivery of public services that began with the Oslo Accords in 1993, it is well-positioned for the establishment of a Palestinian state at any point in the near future." *The World Bank, A Palestinian State in Two Years: Institutions for Economic Revival, Economic Monitoring Report to the Ad Hoc Liaison Committee September 22, 2009, p. 6.*

[5] "The West Bank and Gaza economy is dramatically failing to fulfill its potential, even in periods of relative stability in the security situation… As a result of the Israeli security regime, the Palestinian economy has hollowed out, with the productive sectors declining and the public sector growing, as more of the population looks to the public sector for employment and assistance in coping with the impact of unemployment. The PA's wage bill alone is equivalent to 22 percent of GDP. The result is a growing dependency on donor aid for the prevention of fiscal collapse. In 2008, external aid to the PA amounted to nearly 30 percent of GDP." *World Bank report to the Ad Hoc Liaison Committee (AHLC), June 2009.*

Annex I

[1.] In this note, *assistance program* refers to products and services generated in support of the economic development of a client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

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