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33539

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WORLD BANK

The World Bank Group

A Quarterly Publication of the West Bank and Gaza Office

WEST BANK AND GAZA UPDATE

June 2005

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Tertiary Education Project in the West Bank and Gaza

Challenges Faced by the Tertiary Education System in the West Bank and Gaza

The challenges faced by the West Bank & Gaza (WB&G) tertiary education system are similar to the challenges faced by most tertiary systems around the world. However, they are also unique. As in most countries, the system faces the need to satisfy the increasing demand from the growing population of secondary education graduates, while keeping the quality and relevance of programs offered capable of meeting the changing demands of the global economy. In addition, there is the challenge of competition for public funds, from within the sector and from the current emergency and critical economic situation faced by the PA..

Despite the many challenges and constraints, the Tertiary Education System in the WB&G has reached an important level of development, sharing indicators comparable to those with middle-income countries. Enrollment rates are much higher than the average for the MENA region, and comparable to middle-income countries such as Mexico, Costa Rica and Malaysia. The system is composed of 11 universities, 4 university colleges and 24 technical colleges, offering a variety of programs, from 2 year programs to higher level degrees.

Public support to Universities has historically been low and has declined since 1990. This has led Tertiary Education Institutions to rely on student fees, which currently account for 60% of university and college operating expenditures. Most Universities today are facing financial deficits. The financial crisis has been aggravated by the *intifada* and road closures imposed by Israel, as the economic crisis is felt not only by the PA but also has diminished the capacity of families to pay for student fees.

Objectives of the Project

The Tertiary Education Project is a US$10 million grant from the Trust Fund for Gaza and West Bank, to support the PA in contributing to the overall economic and social development of West Bank and Gaza. Specifically, the project will focus on: (i) improving the regulatory environment for tertiary education management, governance and quality assurance; (ii) increasing internal and external efficiency of the tertiary education system, as a first step towards achieving sustainability; and (iii) creating incentives and provide the basis for improvements in efficiency, quality and relevance of tertiary education institutions in order to meet the socioeconomic needs of the Palestinian population.

Consensus Building around vision for Tertiary Education Reform

Extensive consultations took place during the course of project preparation, and its conceptualization emerged from thorough analysis and strategic planning conducted by the MOEHE with technical assistance and support from the World Bank. The project components were defined based on the Palestinian Higher Education Financing Strategy, developed by MOEHE with Bank's support.

The project objectives are aligned with the overall Bank's strategy for the West Bank and Gaza in several domains:. They contribute to the medium-term development program and nation-building efforts, as tertiary education institutions and graduates play a key role in the process of reconstruction, nation-building and the promotion of a democratic society and political system. They also respond to the social and economic needs of the PA by enabling the tertiary education system to adapt to the human capital development needs in the current economic environment.

Project Components

Component 1: (US$ 2.4 million). **Strengthening the policy-making role of the Ministry of Education & Higher Education (MOEHE), Council for Higher Education (CHE) and Accreditation and Quality Assurance Commission (AQAC).**

The objective of this component is to strengthen the MOEHE, CHE, and AQAC to formulate, plan and monitor the tertiary education policy framework for the WB&G. To achieve these objectives, the project will provide support to:

1. Tertiary education policy development and management.
2. Accreditation and Quality Assurance Commission.
3. Establishment of the tertiary education management and information system.

Component 2: (US$ 1.3 million). **Increasing the internal and external efficiency of tertiary education institutions.** This will be achieved through the following activities:

1. Supporting Universities and Colleges to conduct institutional self-assessment and initiate strategic plans to improve their efficiency.
2. Conducting a comparative study about existing management and practices at Universities and Colleges, and establishing a set of standard management procedures and practices, including budgeting, program development, and human and financial resources management.

Component 3: (US$5.5 million). **Improving quality at tertiary education institutions**. Through a competitive funding mechanism, the Quality Improvement Fund (QIF) will provide grants to Universities and Colleges, to improve the quality and relevance of the programs they offer, and develop new programs, relevant for the Palestinian economic development, as stated in the Medium-Term Development Plan.

1. The main objectives of the QIF are to provide support to improve the quality of Palestinian TEIs and programs and facilitate a change of culture in the financing of tertiary education in WG&G. All TEIs in the WB&G which are licensed and accredited by the MOEHE are eligible to apply for QIF grants. A transparent mechanism for grant approval has been established, and a QIF Board with members from the West Bank and Gaza academic sector, private sector and civil society is in place.

Component 4: (US$ 0.8 million). **Building capacity to improve and expand the student aid program**. The current Student Loan Revolving Fund (SLRF) is a critical component of the financing strategy of Higher Education in WB/G. However, its management needs to be improved in order to make it a sustainable and equitable financing mechanism. The project will support the improvement of the management and performance of the student aid program by strengthening the current management and operating structure of the SRLF, and will introduce targeting mechanisms for allocation of grants and loans, with repayment collection and monitoring mechanisms, in order to improve loan performance. Through the project, a reformed student- aide program will be developed, aimed to optimize a variety of factors and a mix of instruments to achieve sustainability, equity and relevance.

Project Management and Implementation

The project will be launched in June 2005, and will be managed by MOEHE. It will have an implementation period of 4 years, at the end of which it is expected that the performance of the tertiary education system will be improved, measured by an increased efficiency. Co-financing for the project is expected from the European Commission. Given that the procedures for the QIF and for overall project implementation are in place, the project is well placed to receive financing from other donors.

The Humanitarian Situation in the occupied Palestinian territory (oPt): Year in Review 2004

By United Nations Office for the Coordination of Humanitarian Affairs (OCHA)

OCHA released its Review of 2004 in March 2005. This article summarises the main findings.

Humanitarian Trends in 2004 in the oPt

Throughout 2004, violence continued, particularly in the Gaza Strip, affecting the lives of thousands of Palestinians and Israelis. The year saw little significant easing of the underlying causes of crisis and the continuing construction of the Barrier resulted in further hardships.

The PA was planning for transition from crisis to recovery. This transition is crucial: Palestinians depend on humanitarian assistance, and it risks becoming a structural feature of the Palestinian economy. Yet, transition is only possible if conflict eases and Palestinian access within the oPt and to other countries improves. Progress on the political front must be translated into access improvements if the role of humanitarian assistance is to be reduced.

Humanitarian Needs

Impoverishment and Growing Dependency on Aid

In 2004, the number of poor persons reached more than 2.2 million[1]. The number of unemployed rose to 238,000 in 2004[2] - the unemployment rate stood at 28.7% in the West Bank and 41.3% in the Gaza Strip[3]. Each working individual supported 6.4 non-employed persons[4].

Expenditure of 58.2% Palestinians households dropped in 2004 and 71.8% of households confirmed a need for aid[5]. Furthermore, 600,000 Palestinians could not afford even the basic necessities for subsistence[6].

Falling agricultural production

Palestinian agricultural incomes fell as a result of loss of access to markets, movement restrictions, levelling of agricultural areas and the isolation of land and wells behind the Barrier.

In Beit Hanoun in the Gaza Strip for instance, 289 hectares of land – mainly citrus groves – were cleared in July 2004 in response to Palestinian militants firing rockets into Israeli towns. In the last four years, more than 50% of Beit Hanoun's agricultural land has been destroyed[7].

In areas close to the West Bank Barrier, agricultural production fell because of difficulty accessing land in the 'closed area' between the Barrier and the Green Line[8]. The isolation of 37 water wells further damaged agricultural productivity[9].

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[1] See *PCBS Second Quarter 2004 Report on Palestinian Socio-Economic Conditions*, December 2004

[2] See *PCBS Second Quarter 2004 Report on Palestinian Socio-Economic Conditions*, December 2004

[3] PCBS data .This definition of unemployment includes 'discouraged workers' – persons without jobs who, because of their pessimism about finding work, have stopped looking. The International Labour Organisation employs a stricter definition, only including those workers who are actively looking for work.

[4] See *PCBS Second Quarter 2004 Report on Palestinian Socio-Economic Conditions*, December 2004

[5] See *PCBS Second Quarter 2004 Report on Palestinian Socio-Economic Conditions*, December 2004

[6] See *Four Years – Intifada, Closure and Palestinian Economic Crisis*, World Bank, October 2004.

[7] OCHA analysis of satellite images 2000 to 2004.

[8] According to the plan for Barrier construction published by the IDF on 30 June 2004, a total 60,288 hectares of land will be confiscated for construction of the Barrier, and a further 15,586 hectares will be enclosed in enclaves between the Green Line and the Barrier (OCHA calculations, July 2004).

[9] See *Mid Year Review of the Consolidated Appeals Process for oPt*, United Nations, June 2004.

Preventing Fragmentation of Communities and Declining Humanitarian Services

In 2004, closures limited the ability to access health and education services.

Health

Access and quality assurance remained a problem:

- Thirty-nine percent of Palestinians reported that they had to find alternative health facilities[10].
- The number of home deliveries was higher in West Bank areas that were heavily affected by internal closures. Access to mental health services was limited[11].
- Outreach services in remote areas in Hebron, Bethlehem, and Nablus governorates could no longer be conducted due to Israeli restrictions on the Ministry of Health (MoH) staff. Gazans were not able to travel to Israel or a third country for medical services.
- Supervision and monitoring have decreased in frequency and timeliness. The Barrier rendered management of medical emergencies – e.g. obstetric complications – difficult[12].

Education

The quality of Palestinian education has fallen:

- The school day shortened in areas near the Barrier, because Barrier gate opening times prevented children from crossing freely[13].
- Teachers were often delayed, or unable to reach schools.
- Teaching quality suffered due to the recruitment of teachers living nearby – often not the best qualified.

Water and sanitation

The quality of water provision has been compromised:

- PA resources were diverted into repairing damage rather than maintaining and developing the water and sanitation network.
- Contamination of water supplies increased as a consequence of degraded infrastructure and the inability of the MoH to monitor water quality[14].

Assisting Areas of Acute Need

Palestinians in the Gaza Strip had acute needs.

The Gaza Strip

In 2004, IDF made military incursions into the Gaza Strip – Rafah (May), Beit Hanoun (July) and Jabalia (October). This was in response to Palestinian militants firing homemade rockets and mortars into the Israeli town of Sderot and settlements and the targeting of Israeli security forces at the main Gaza Strip crossing points resulting in Israeli deaths. The humanitarian implications of this outbreak in violence included:

House Demolitions and Homelessness

13,510 Gazans were made homeless in 2004 as a result of the demolition of 1,443 buildings[15]. In Rafah, for example, 298 buildings were destroyed and 270 buildings partially damaged during 'Operation Rainbow', as a part of an attempt to eliminate Palestinian smuggling tunnels between Rafah and Egypt, leaving almost 3,800 people homeless. Re-housing was difficult because land in the Gaza Strip was in short supply.

Access to Israel and the Rest of the World

Only Gazan workers, critical medical cases and senior officials in the PA[16] were able to cross in and out of the Gaza Strip at Erez Crossing (closed 156 days in 2004). Other Palestinians had to travel through Rafah Crossing (closed 82 days in 2004)[17]. Palestinian men between the ages of 16 and 35 were not able to use Rafah Crossing since April 2004[18].

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[8] According to the plan for Barrier construction published by the IDF on 30 June 2004, a total 60,288 hectares of land will be confiscated for construction of the Barrier, and a further 15,586 hectares will be enclosed in enclaves between the Green Line and the Barrier (OCHA calculations, July 2004).

[9] See *Mid Year Review of the Consolidated Appeals Process for oPt*, United Nations, June 2004.

[10] See *Palestinian Public Perceptions report VII*, August 2004.

[11] 71% of people seeking mental health care in the last six months did not receive any (IUED).

[12] Patients now need to use long deviations to get the appropriate services. Of the 210,000 inhabitants affected by the Barrier, one fifth (42,000) are children and almost the same number are women of childbearing age. The Barrier has severely impacted their ability to obtain antenatal, postnatal and well-baby services.

[13] Source: UNICEF.

[14] See *Four Years – Intifada, Closure and Palestinian Economic Crisis*, World Bank, October 2004.

[15] Source: UNRWA

[16] Source UNSCO and Al-Mezan. Figures through 11 December 2004. Erez Crossing has been closed since 31 August 2004, following the discovery by the IDF of an explosives belt on a worker.

[17] For more information, please see *"Rafah Terminal Situation Report"* OCHA http://www.ochaopt.org

[18] Source: UNSCO and Al-Mezan. Figures for Karni Crossing are through 11 December 2004, figures for Rafah Crossing are from Al-Mezan and are for the entire 2004 year.

Restrictions on the Gaza Strip coastline

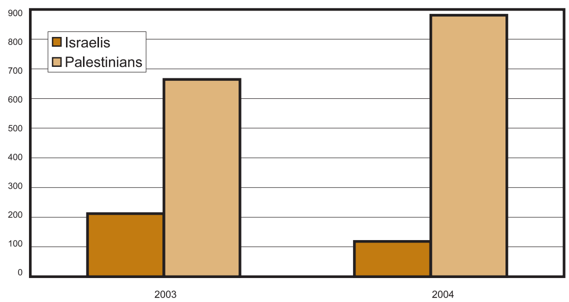
In 2004, the fishing area for Palestinian fishermen was limited to six nautical miles and no fishing was permitted along approximately 40% of the Gazan coastline.

Ensuring Protection of Civilians and Humanitarian Access

The need for physical and social protection

There was a marked increase in Palestinian casualties in 2004: 881 were killed compared with 664 in 2003[19]. 118 Israelis were killed - down from 212 in 2003[20]. Since September 2000, 625 Palestinian children and 104 Israeli children were killed as a result of the conflict[21].

Palestinians and Israelis Killed



Securing humanitarian access to affected populations[22]

Access for health workers

In 2004, ambulance operators reported 523 incidents in which the provision of first aid and/or medical evacuations was delayed, obstructed or prevented by the IDF or Israeli Border Police[23].

Access for relief agencies

Similarly, relief agencies filed 1,063 incident reports[24] in which the delivery of aid and/or the movement of personnel were obstructed.

19 Source: Palestinian Red Crescent Society

20 Sources: Harel, Amos *"Palestinian attacks kill 118 in 2004, down from 44% 2003"* 29 December 2004. http://www.haaretz.com (link for article is on the Israel Ministry of Foreign Affairs website); UN OCHA Humanitarian Briefing Notes http://www.ochaopt.org

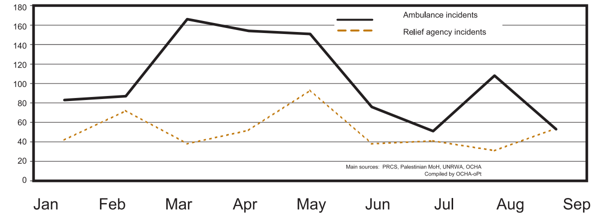
21 Source: for Palestinian children Palestinian Red Crescent Society; source for Israeli children UNICEF

22 Information from *The Monthly Humanitarian Monitoring Reports,* which are compiled by OCHA, and assess commitments regarding health, water, access for international organisations and issues regarding fishing and olive harvest made by the government of Israel to Ms Catherine Bertini, personal humanitarian envoy to UN Secretary-General Kofi Annan , during a mission to the region from 12 to 19 August 2002. To see the reports for individual months in 2004 please see *Humanitarian Monitoring Report* at http://www.ochaopt.org

23 Ambulance operators include PRCS, MoH and UNRWA, among other health operators that report incidents to OCHA

24 These figures apply only to the humanitarian aid organisations that reported incidents at checkpoints to OCHA.

Incident Reports
January-September 2004



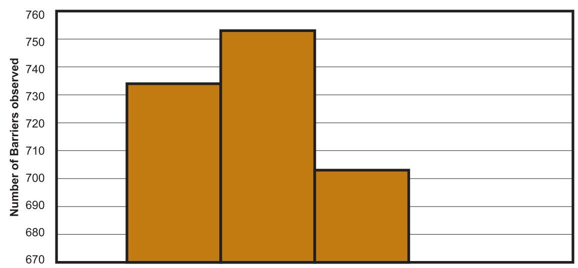
Closures of crossing points between the Gaza Strip and Israel prevented humanitarian agencies' staff movement and delayed or prevented the delivery of humanitarian food and medicine[25]. The international community, through its Task Force on Project Implementation[26] sought constructive dialogue with the GOI to resolve continuing access problems with little success.

The Humanitarian Crisis

West Bank Closures and the Barrier[27]

At the end of 2004, West Bank closures consisted of approximately 700 checkpoints and physical obstacles across roads, and the Barrier.

Checkpoints and Physical Barriers
Observed in the West Bank



The constructed Barrier was approximately 205 kilometres long, of which 24 kilometres were concrete slabs and 181 kilometres were fence. A further 72 kilometres was under construction. In total, the length of the completed Barrier was projected to be 621 kilometres[28]. The Barrier has lead to the emergence of a new underprivileged segment of the Palestinian community[29].

25 For further details see UNRWA/OCHA *'Rafah Humanitarian Needs Assessment'* June 2004, available at http://www.ochaopt.org.

26 The TFPI consist of USAID, UNSCO, The World Bank and the EC.

27 Military observation towers and Barrier gates are not included

28 UN OCHA Barrier Statistics November 2004. The advisory opinion of the International Court of Justice (ICJ) in July 2004 called for an immediate halt to construction of the Barrier, and dismantlement of the parts that had already been built. Israeli High Court of Justice decisions throughout 2004 and the positions taken by the Israeli Attorney General, led to the re-examination of many sections of the Barrier route, and in some cases, delayed and called for revisions of the route.

29 See Palestinian Public Perceptions report VII, August 2004.

Role of Humanitarian Assistance

The provision of food aid during 2004 to more than 1.4 million Palestinians stabilised food security, supplemented household incomes, lowered the proportion of those living in deep poverty[30] and contributed to a slight improvement in some health indicators[31].

The increasing role of emergency assistance was a necessary adaptation to the crisis. Needs existed and while closures and conflict continued, genuine economic and social development would have been difficult to achieve. Nonetheless, over the past two years, there has been a modest shift towards development assistance, although the humanitarian focus remains dominant.

There is a danger that external assistance becomes a structural feature of the Palestinian economy:

- UNRWA and the World Food Programme provide food aid to 1,480,000 beneficiaries – 39% of the Palestinian population. UNRWA supplies ten times more beneficiaries with food aid than before September 2000.
- Around 166,000 Palestinians are employed by the PA, UN agencies or NGOs.

Humanitarian agencies continue to face the dilemma as to whether to provide relief when Israel, as the occupying power, is obliged to provide services to the Palestinian population.

30 The World Bank estimates that, at the end of 2003, emergency relief had served to lower the proportion of those living in deep poverty from 22% to 16%. See Deep Palestinian Poverty in the midst of economic crisis, World Bank, October 2004.

31 For example, anaemia in children aged 9 months has fallen from 73.3% in 2002 to 40.5% in 2003, and the neonatal mortality rate has fallen from 14.1 (2002) to 11 (2003) per 1000 live births (Ministry of Health figures).

The Continuing Crisis: Opportunities for Transition?

Given these considerations, it is important to seize current opportunities for transition to recovery and reconstruction. By proposing a three-year Medium Term Development Plan, the PA is signaling its preparedness to manage this process.

However, for recovery to take place, the following conditions must change.

- **Closure** is still heavily imposed, limiting Palestinians' access to services and hindering economic activity.
- **Unemployment** is rising, and Palestinians are turning to subsistence agriculture and petty trading for survival.
- **House demolitions, land levelling and confiscation** contribute to homelessness and food insecurity.
- **Conditions in the Gaza Strip** deteriorated in 2004 because of frequent closure of the Gaza Strip, military operations and income loss.

Recent Economic Developments

Economic Output

Most recent economic data available (Palestinian imports from / exports to Israel for the last six months of 2004; Palestinian employment data through the first quarter of 2005 and in Israel through February; banking sector data through end-March; fiscal and price data through April) continue to provide evidence that the modest economic recovery that began in 2003 continues to extend into this year in the West Bank while in Gaza, due to closures imposed on Palestinian workers during the third and fourth quarter of 2004 that continued into the first half of the first quarter 2005, growth stalled and, quite possibly, declined.

Underlying this growth were diminished levels of violence, fewer curfews, and more predictable (albeit still intense) closures, as well as adaptation by Palestinian businesses to the contours of a constrained West Bank economy. Looking forward, the extent to which this admittedly fragile growth path can be sustained depends greatly upon the extent of Israeli disengagement from Gaza and the northern West Bank, the overall political/security situation, and the degree to which travel and transit restrictions elsewhere within the West Bank are eased or tightened. Of particular impact will be whether closures of Israeli labor markets to Palestinian workers persist (as Government of Israel policy statements suggest) or are relaxed.

Table 1. Macroeconomic Projections 2004-2007

	2004	2005	2006	2007
GDP (US$ million)	3,609	3,927	3,947	3,995
real growth rate	6.2%	5.7%	-0.2%	-0.6%
GDP per capita (US$)	1,064	1,119	1,086	1,063
real growth rate	2.5%	2.0%	-3.6%	-2.7%
GDI per capita (US$)	1,624	1,654	1,556	1,478
real growth rate	0.3%	1.8%	-5.9%	-5.0%
Unemployment Rate	27%	25%	29%	31%
Poverty Rate	46%	45%	48%	50%

World Bank staff projections, May 2005, "Disengagement" scenario. Gross Domestic Product (GDP) measures productive activity within West Bank and Gaza; Gross Disposable Income (GDI) measures total income, including workers' remittances, foreign aid, and other current transfers.

Under a "disengagement" scenario as outlined by Israeli government authorities, economic performance in the West Bank and Gaza will continue to be considerably below its previous (and potential) levels, with the domestic economy unable to generate the employment necessary to absorb the increasing number of new entrants to the labor force. Private investment will continue to be depressed and increased foreign investment unlikely (*Table 1*).

Foreign Trade

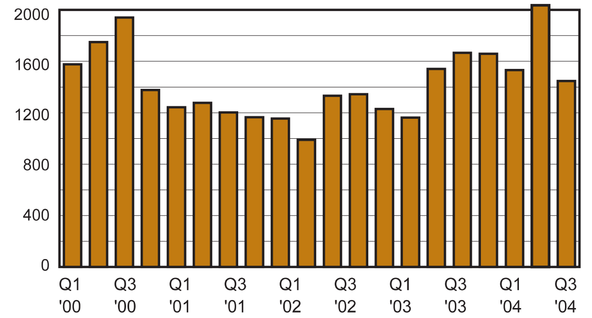
Trade traditionally played an important role in the small and open Palestinian economy. Throughout the past five years, imports of final goods, services, equipment and intermediate inputs represented approximately 70 percent of GDP, while exports of goods and services represented less than 20 percent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

Unfortunately trade is badly registered, as most of it takes place between the West Bank and Israel, where no custom stations exist (unlike trade between Gaza and Israel). The Israeli Central Bureau of Statistics nevertheless estimates such flows, and we rely on their data to depict the evolution of trade since 1998. This only covers Palestinian trade with Israel and not with the rest of the world. However, trade with Israel represents the bulk of total Palestinian trade[1]. Furthermore, significant shares of imported goods from Israel are actually originating from third countries – "indirect imports". In addition, it does not appear that these relationships are considerably impacted by exchange rate movements; neither the depreciation of the New Israeli Shekel in the first half of 2002 nor its subsequent appreciation during 2003 are thought to have significantly altered the composition of Palestinian imports in terms of trading partners. (*See Figure 13 for shekel-dollar exchange rate movements.*)

The impact of closures following the outbreak of the *Intifada* and their progressive tightening through summer 2002 were clearly reflected in the reduction of Palestinian imports from Israel. While both first and second quarter 2003 again witnessed reduction from the levels seen in the second half of 2002 (which, in turn, represented a rebound from the depressed second quarter 2002, the height of Israeli military operations in the West Bank), starting in the third quarter 2003 a strong upward trend in import levels was noted, which continued through the third quarter of 2004. By then imports (NIS 2,061 million; USD 457.6 million equivalent) actually surpassed their pre-*Intifada* level.

This strong performance was short-lived, however. Fourth quarter 2004 imports (NIS 1447 million; USD 329 million equivalent) declined considerably; compared to the pre-*Intifada* third quarter of 2000, the decline in imports is 25.5 percent (*Figure 1*).

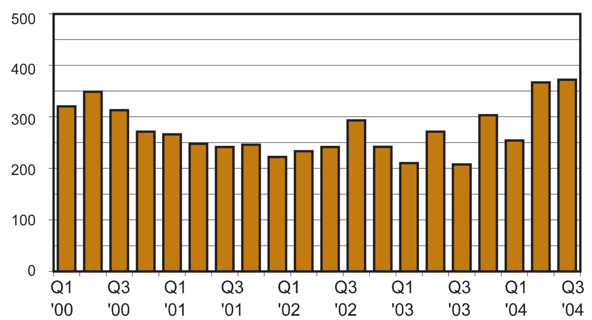
Figure 1. Merchandise Imports from Israel (million NI shekels)



Source : Israeli Central Bureau of Statistics.

Trends in merchandise exports to Israel have followed a similar pattern: decline through summer 2002; some rebound in the second half of that year; two consecutive quarters of decline in 2003, followed by an uptick in the third quarter. Unlike imports, fourth quarter 2003 saw a decline. But starting in the first quarter of 2004 exports continued to grow, surpassing pre-Intifada levels by the second half of the year. Fourth quarter exports (NIS 372 million, US$84.5 million equivalent) were 18.8 percent above third quarter 2000 (*Figure 2*).

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



Source : Israeli Central Bureau of Statistics.

At least three factors explained the reduction in exports witnessed during the first three years of the *Intifada*: increased costs in transportation resulting from closure making Palestinian products less competitive (*see Figure 14*); foreign purchasers switching to more reliable alternative sources of supply in the face of production and shipping interruptions; and Palestinian producers switching to service domestic markets. Looking forward, the degree of external access permitted by the Israeli authorities – particularly in Gaza – will determine whether recent export growth rates can be sustained.

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

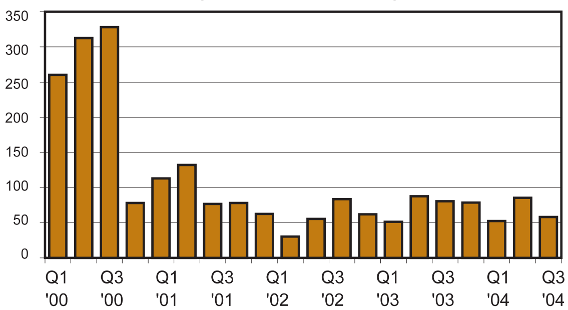
Labor Markets

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

At its low point during the second quarter of 2002 this number had fallen to 33,000 before rebounding in the following quarter to 53,000; since then, the number of Palestinian workers in Israel and settlements has been roughly stable, fluctuating in accordance with the extent of closure imposed in the wake of specific terror incidents. In first quarter 2005, the number of workers stood at 60,000 (with less than 1,000 coming from Gaza).

Fewer jobs in Israel translate directly into a decline in workers remittances. According to the Israeli Central Bureau of Statistics, third quarter 2000 remittances totaled US$328 million; in fourth quarter 2004, only $58million – a 82.0 percent decline (*see Figure 3*) – was remitted.

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



Source : Israeli Central Bureau of Statistics.

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

The negative impact that job losses in Israel has had on domestic employment was aggravated by the difficulties in conducting business within the West Bank and Gaza as a result of internal closures and curfews, particularly in 2002, which resulted in significant increases in transaction costs, disruptions in production cycles, losses of perishable output, and lower economies of scale.

By second quarter 2003 domestic employment had recovered to the extent that the number of Palestinians employed within the West Bank and Gaza surpassed the levels prior to the *Intifada*. At the same time, however, the number of unemployed has continued to grow, from 74,000 in the pre-*Intifada* third quarter 2000 to 208,000 currently (*see Table 2*).

In first quarter 2005 the number of Palestinians working inside the West Bank was 358,000 compared to 357,000 just before the *Intifada*. At its low point in second and third quarter 2002, their number had fallen to 288,000 and 281,000 respectively. Fourth quarter 2002 saw an increase in jobs in the West Bank to 323,000, but this growth was short-lived, concentrated in agriculture (related to the olive harvest and reversed in the first quarter of 2003) and some one-off infrastructure repair generating employment in construction.

From a first quarter 2003 decline to 290,000, second quarter 2003 saw strong growth (to 358,000), stability in the third (359,000) and some growth in the fourth quarter (367,000). 2004 witnessed similar patterns, with decline in the first quarter (largely reflecting seasonal factors in agriculture and construction, the sectors responsible for the growth witnessed in the latter half of 2003) followed by a pick up in employment in the second, third, and fourth quarters of 2004. Seasonal factors again led to a decline in first quarter 2005 (to 358,000).

In the Gaza Strip 158,000 Gazans were domestically employed during third quarter 2000. By third quarter 2002, the low point during the *Intifada*, this number had fallen to 106,000 (a 33 percent decline). Four quarters of continuous job growth found 171,000 Gazans employed domestically, before the decline registered during the fourth quarter of 2003 reduced the number of employed to 163,000. Since then job levels within Gaza have fluctuated, with the first quarter 2005 job level of 168,000 virtually unchanged from the level one year previous. In the interim, the deteriorating security environment in Gaza during spring 2004, coupled with the loss of income from closing Israel and Erez Industrial Estate to Gazan worker, were reflected in the worsening employment numbers witnessed in the second quarter (146,000) and only partial recovery in third and fourth quarter 2004 (154,000 and 163,000 respectively).

Despite the recent increases in employment, with population growing at approximately 4.3 percent per year, dependency ratios – the total population divided by the number of employed persons – have increased significantly over the *Intifada* period. Whereas in the third quarter of 2000 each job holder in the West Bank was supporting 4.3 persons, by the first quarter of 2005 each employed person was supporting 5.6 persons. In Gaza the dependency ratio increased more dramatically, from 5.9 to 8.2.

Growing population and labor force, declining levels of Palestinian employment in Israel and Israeli settlements, and a lack of domestic job creation during the first two years of the *Intifada*, led to dramatic increases in unemployment and unemployment rates. Despite the job growth in recent quarters, the absolute number of unemployed remains far in excess of pre-*Intifada* levels. (Under International Labor Organization (ILO) standard definitions, a person must be actively seeking work in order to be considered "unemployed".)

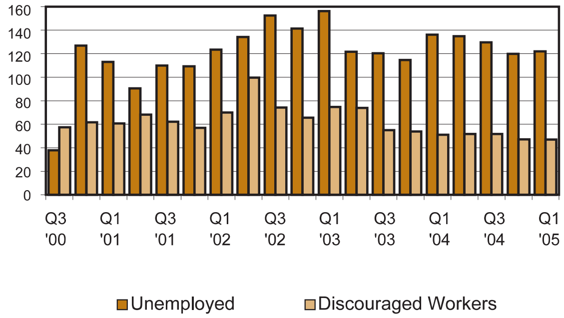
Following a decline in the unemployment rate in the West Bank in the fourth quarter of 2003 to 20.7 percent (down from its *Intifada* peak of 31.4 percent in first quarter 2003) first quarter 2004 again saw an increase, to 24.6 percent with 136,000 persons unemployed. Third and fourth quarters noted slight improvement, but the number grew again in first quarter 2005 with 122,000 persons without jobs – an unemployment rate of 22.6 percent (*see Figures 4 and 6*). (By contrast, during the third quarter of 2000 the number of West Bank unemployed was 37,900 and the unemployment rate stood at 7.5 percent.)

Table 2. Number of Palestinians Employed and Unemployed (thousands)

	Q-3 2000	Q-4 2000	Q-4 2001	Q-4 2002	Q-1 2003	Q-2 2003	Q-3 2003	Q-4 2003	Q-1 2004	Q-2 2004	Q-3 2004	Q-4 2004	Q-1 2005
Working in West Bank	357	319	313	323	290	358	359	367	349	367	371	394	358
Working in Gaza	158	116	130	144	163	167	171	163	167	146	154	163	168
Working in Israel – from West Bank	116	40	65	47	42	47	56	51	47	45	53	48	60
Working in Israel – from Gaza Strip	30	3	2	7	6	4	8	4	6	0	1	1	0
Total Employed	661	479	511	523	501	577	595	585	569	559	581	605	586
Unemployed (ILO)	74	189	181	196	218	185	184	188	202	224	212	208	208
"Discouraged Workers"	94	127	99	109	105	105	74	72	68	67	69	64	64
Total, Unemployed and Discouraged	167	316	280	305	323	291	258	260	271	291	281	272	272

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

Figure 4. West Bank Unemployment (thousands of persons)

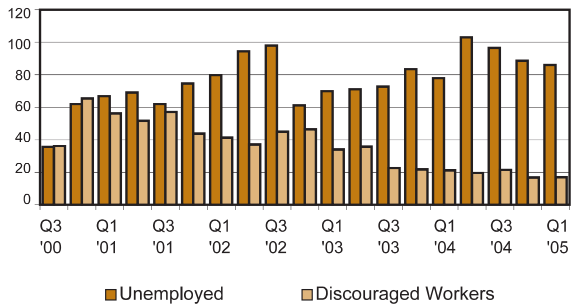


Source: PCBS. Data for West Bank includes East Jerusalem.

In Gaza, first quarter 2005 unemployment stood at 33.8 percent (86,000 individuals); the third quarter of modest improvement from second quarter 2004, when the unemployment rate stood at 39.7 percent, 96,600 persons – the highest number of unemployed ever recorded in Gaza). Prior to the *Intifada* the unemployment rate in Gaza was 15.4 percent (35,700 persons). (*Figures 5 and 7.*)

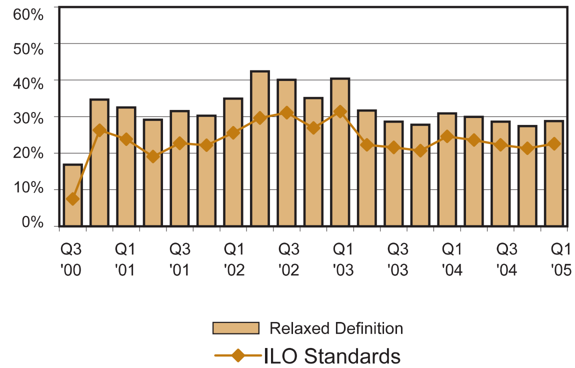
Including in the labor force "discouraged workers" – persons without jobs who, because of their pessimism regarding the prospect of actually finding work, have stopped looking – produces a "relaxed definition" of unemployment showing similar trends: the relaxed definition unemployment rate in the West Bank has increased from 16.9 percent (95,000 individuals) in third quarter 2000 to 28.8 percent (169,000) in first quarter 2005; in Gaza, from 27.1 percent (71,000 individuals) to 38.0 percent (103,000) over the same period (*see Figures 6 and 7*).

Figure 5. Gaza Strip Unemployment (thousands of persons)



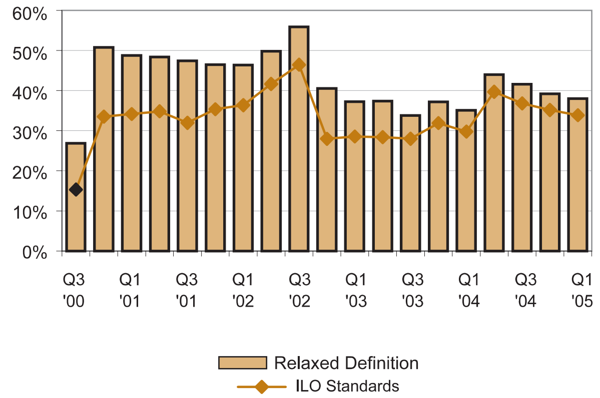
Source: PCBS.

Figure 6. West Bank Unemployment Rates



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

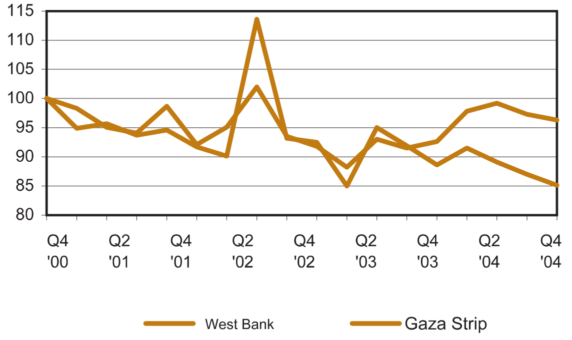
Figure 7. Gaza Strip Unemployment Rates



Source: PCBS.

For wage earners continuing to be employed, the impact of the increase in dependency ratios during the course of the Intifada (and the implied obligation of working Palestinians to support greater numbers of extended family member) is exacerbated by the decline in average real wages over much of the period of the Intifada, fairly consistently in both the West Bank and in Gaza. In the West Bank, real wages have declined 14.9 percent since fourth quarter 2000; in Gaza, they have decreased 3.7 percent (see Figure 8).

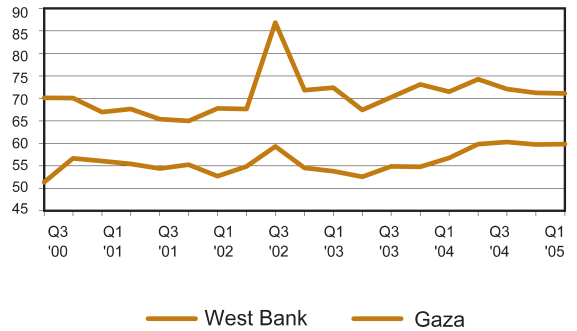
Figure 8. Real Wage Indices (Fourth Quarter 2000 = 100)



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

Average nominal wages have actually increased (3.2 percent in the West Bank and 10.3 percent in Gaza) over the 52 months since third quarter 2000 (*Figure 9*). The average daily wage in the West Bank stood at NIS 71.1 in first quarter 2005 and at NIS 59.8 in Gaza; these compare with an average daily wage of NIS 121.8 received by Palestinians working in Israel and Israeli settlements.

Figure 9. Average Daily Wages (NI shekels)



Source: PCBS. West Bank includes East Jerusalem.

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

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

Monthly labor force data from the Israeli Central Bureau of Statistics showed a growth in ("legal") Palestinian employment in Israel in February 2005, the second monthly increase following four months of decrease. January's monthly average of 9,500 workers and February's 11,200 compare with 15,200 and 14,900 in January and February 2004, respectively, and 16,900 in January 2003 (which was the highest level during the *Intifada*)[2]. Approximately one-half of these workers are employed in construction, while one-third are working in agriculture, and the remaining one-sixth in all other sectors. This distribution has been consistent throughout the *Intifada*, however, prior to its outbreak the relative shares of agriculture and service sectors were reversed.

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

Fiscal Developments

Ministry of Finance data through April shows that PA revenue collection is running approximately 5 percent below average monthly amounts projected in the 2005 budget. Domestic revenue has averaged NIS 120.2 million monthly (US$27.6 million equivalent) compared to the budgeted NIS 149.3 million – a 20 percent shortfall. However, gross clearance revenue (i.e., before deductions taken by the Government of Israel, primarily for municipalities' obligations due Israeli utility companies that are accounted for in the budget as "net lending") have averaged NIS 246.9 million (US$56.6 million equivalent), almost 3 percent above budgetary expectations of NIS 239.8 monthly. But after payments of tax refunds and "net lending" to municipalities (which so far this year is higher than anticipated), thus far in 2005 a monthly average of NIS 292.3 million (US$67.0 million equivalent) was available to meet PA expenditure – 13.3 percent below monthly anticipation in the budget (*Table 3*).

Just as available revenue has been below target, budgetary support from the international donor community over the first four months of 2005 has also fallen short of expectations. Anticipating US$654 million in foreign financing to cover recurrent expenditure (US$54.5 million monthly),

Table 3: PA revenue and expenditure – January-April 2005 (million NIS and million US$)

	Budget 2004 Monthly Average		Year to Date (January-September) Monthly Average		
	NIS	US$	NIS	US$	Percent
Total Gross Revenue	**389.13**	**88.46**	**367.07**	**84.16**	**94.3%**
Domestic Revenue	**149.30**	**34.32**	**120.19**	**27.57**	**80.5%**
Domestic tax revenue	*85.59*	*19.68*	*77.12*	*17.67*	*90.1%*
Domestic non-tax revenue	*63.71*	*14.65*	*43.07*	*9.89*	*67.6%*
Clearance Revenue	**239.84**	**55.13**	**246.88**	**56.59**	**102.9%**
Less: Tax Refunds	5.63	1.29	2.40	0.55	42.6%
Total Net Revenue	**383.51**	**88.16**	**364.67**	**83.61**	**95.1%**
Less: Deductions for "Net Lending"	47.08	10.82	72.37	16.58	153.7%
Total Available Net Revenue	**336.42**	**77.34**	**292.30**	**67.03**	**86.9%**
Total Expenditure	**660.36**	**151.81**	**487.38**	**111.73**	**73.8%**
Wages and Salaries	*339.22*	*77.98*	*344.01*	*78.86*	*101.4%*
Non-Wage Current Expenditure	*312.84*	*71.92*	*136.37*	*31.26*	*43.6%*
PA-financed Capital Expenditure	*8.30*	*1.91*	*7.01*	*1.61*	*84.4%*
Deficit Before Financing	**-323.94**	**-74.47**	**-195.08**	**-44.71**	**60.2%**

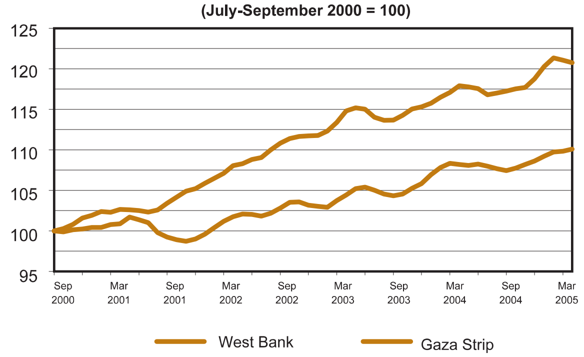
Source: Ministry of Finance website. February, March, and April data preliminary.
Note: Budget 2005 projected an average exchange rate of NIS 4.35/US$1; actual average exchange rate for period January-April was 4.362. US dollar equivalent of NIS revenue and expenditure year-to-date shown in above table calculated at actual average exchange rates each month, summed, and then averaged for four months. Percentage comparisons with budget forecasts are calculated in NIS to avoid impact of different exchange rates. Before transferring monthly clearance revenue to the PA, the Government of Israel deducts payments due Israeli utilities by Palestinian municipalities. These deductions are considered as "Net Lending" and have the effect of reducing revenue available to the PA to meet other expenditures. According to MOF, the US$20 million monthly "Social Safety Net" program will not be implemented in the absence of specific funding.

This tightening, however, has been limited to non-wage expenditures; wages and salaries, averaging NIS 344.0 million (US$78.9 million equivalent), are actually running 1.4 percent of the level projected in the 2005 budget. Non-wage current expenditures (transfers and operating expenditures), which averaged NIS 136.4 million (US$ 31.3 million) are being executed at only43.6 percent of budgetary expectation thus far this year. Even subtracting out the $20 million monthly budgeted (but unfunded social safety net program) from the budgetary expectation, non-wage current expenditures are but 60.4 percent of the forecast level.

Prices

Consumer prices, measured in NI shekels, increased in both the West Bank and Gaza in the twelve month period January-December 2004, by 2.9 percent in the West Bank and 3.2 percent in Gaza. For the West Bank, this represents a reduction from 2003's inflation rate of 4.3 percent, and a slight increase over the 2.5 percent recorded last year in Gaza. During the first four months of 2005, inflation in the West Bank has accelerated just slightly, to 3.0 percent, while in Gaza, it has fallen back to 1.7 percent, compared to the January-April 2004 level (*Figure 10*).

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



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

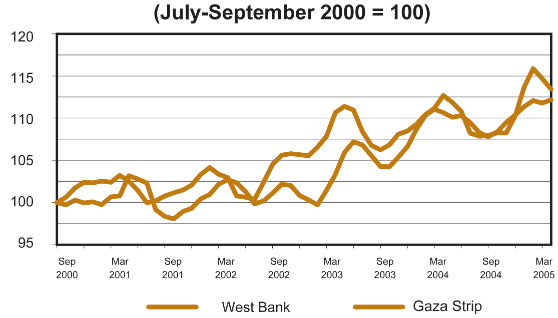
Leading the increase in 2003 in the West Bank was the Transport and Communications price index, up 7.9% last year (compared to 21.7 percent in 2002) and, somewhat surprisingly, Medical Care, up 8.0 percent. (In 2002, the Leading the increase in 2004 in the West Bank was the Transport and Communications price index, up 5.6% last year (compared to 7.9 percent in 2003) and Medical Care, up 5.4 percent. (In 2003, somewhat surprisingly, the West Bank Medical Care index up 8.0 percent; in the period from the beginning of the Intifada through December 2002, medical care prices rose only 0.5 percent.) For the January-April 2005 period, Beverages and Tobacco (up 5.4 percent), Furniture and Household Goods (up 5.2 percent), and Housing (up 4.9 percent) have driven West Bank inflation, with the largest increases compared to the similar four-month period in 2004.

Last year in Gaza, the Food Index represented the second largest increase among the components of the consumer price index, rising 4.8 percent (compared to a 3.5 percent increase in 2003.) Food costs decreased during the first four months of 2005, with the January-April average 1.3 percent above that one year ago. Leading the increases this year are Housing, up 6.9 percent; and Beverages and Tobacco, up 4.8 percent. Of all components, it was the Transport and Communications price index that rose the most in 2004 – up 5.7 percent. This represents a significant change from 2003, when Transport and Communications prices rose 3 percent. Thus far in 2005, Transport and Communications prices are up 3.7 percent – more than twice the rate of increase registered so far in the overall CPI for Gaza.

As Figure 10 indicates, much of 2004's increase in overall consumer prices occurred during the first quarter of 2004, followed by modest declines in mid-year and price increases in the last three months. The price increases during the last two quarters was driven by increases in Transport and Communications prices. Similar seasonality was observed in 2003.

Food prices generally exhibit strong seasonality effects, peaking during the first quarter (*see Figure 11*). Usually, food prices then decline in the third quarter before rising modestly in the fourth quarter of the year, a pattern likely to continue through 2005. Over the course of 2004, the Food price index increased 1.5 percent in the West Bank and 4.7 percent in Gaza; comparing January-April 2005 to the first four months of 2004, food prices have increased 2.2 percent in West Bank but only 1.3 percent in Gaza.

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

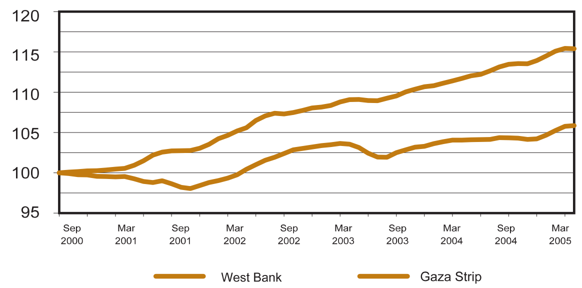


Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

Excluding food, the consumer price index in the West Bank has risen by 3.5 percent in the first four months of 2005; in Gaza, the non-food CPI increased 2.1 percent so far this year – rates similar to those in 2004, but below what were witnessed in previous years. (In 2001, non-food prices rose 4.6 percent in the West Bank and fell 0.3 percent in Gaza; in 2002, non-food prices rose 8.7 percent in the West Bank and by 2.8 percent in Gaza; in 2003, 4.0 percent in the West Bank and 1.8 percent in Gaza.)

When the Transportation and Communication price index is also excluded – transportation prices being most affected by changes in the closure regime (and also by changes in world energy prices, which can be quite erratic) – a clearer portrait of general price changes emerges. Non-food, non-transportation prices in the West Bank increased 3 percent in 2004 and by 1.2 percent in Gaza (*Figure 12*). In 2003, non-food, non-transportation prices rose 2.7 percent in the West Bank and 1.5 percent in Gaza (During 2002, non-food, non-transportation prices rose 4.6 percent in the West Bank and 2.6 percent in Gaza. In 2001, these prices rose 2.0 percent in the West Bank and fell 1.6 percent in Gaza.) During the first four months of 2005, this measure of "core inflation" increased 3.4 percent in the West Bank and 1.6 percent in Gaza.

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

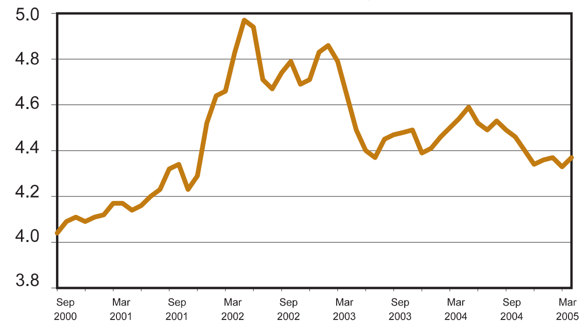


Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

There is also a relationship between price movements in the West Bank and Gaza and changes in the shekel-dollar exchange rate. The depreciation of the Israeli shekel in 2001 and early 2002 (particularly strong in the period November 2001-April 2002; depreciation is represented as an upward movement in Figure 13) and its subsequent appreciation, especially in the period February-July 2003 (downward movement in the figure) explains to a large extent the acceleration of inflation: during the 2002 and its subsequent slowing down in 2003.

From December 2000 to December 2001 the Shekel lost 4.9 percent of its value with respect to the US dollar; from December 2001 until May 2002 the Shekel weakened a further 15.9 percent. As a result, prices of goods, expressed in shekels, imported into Israel from overseas – and by extension, into the West Bank and Gaza – mechanically increased and the overall consumer price index, also measured in shekels, increased – not by the same amount, but to the extent that the CPI market basket consists of imported goods and of services priced in dollars (such as rents). With an appreciating shekel – from February 2003 through December 2003 the shekel strengthened 9.7 percent against the dollar (11.7 percent since the shekel's weakest point in May 2002) – imports become cheaper, and inflation measured in shekels lessens (to the extent that importers actually pass on these reductions to consumers). During 2004, the shekel first weakened against the dollar, depreciating by 4.6 percent through May, and then strengthened; by year's end, the shekel gained 1.2 percent. In the first four months of 2005 the shekel has weakened moderately, losing 0.7 percent in value against the dollar. Should NIS depreciation again accelerate, inflation tendencies might be expected to pick up.

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

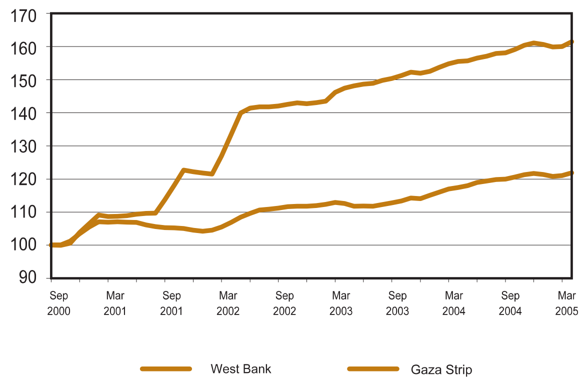


Source: Central Bank of Israel.

While exchange rate movements help explain basic trends in tradable consumer goods prices (particularly in non-food prices, which are less affected by seasonality) tightened closure during the *Intifada* period also impacted consumer prices overall. This effect came through both direct and indirect channels: changes in the transportation component of the consumer price index (which measures transportation prices that have increased directly as a result of heightened closure) and indirectly through increased costs of shipping for producers and distributors, which are in turn passed on as increases in the final price of all goods faced by consumers in the market place, and would be seen in increases in these components' price indices.

Thus the tightening of closure associated with the outbreak of the *Intifada* in fall 2000 affected both Gaza and the West Bank, while Israeli military interventions in the West Bank in autumn 2001 and spring 2002 explain the difference in movement in the transportation price index in the West Bank and Gaza during these years. In effect, these were negative shocks that raised the level of the West Bank transportation price index (seen as upward steps in *Figure 14*). In 2004, both West Bank and Gaza witnessed proportional increases in transportation prices: 5.6 percent in the West Bank, and 5.7 percent in Gaza. January-April 2005 has continued to show parallel increases of 3.7 percent in both Gaza and the West Bank, compared to the first four months of 2004.

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



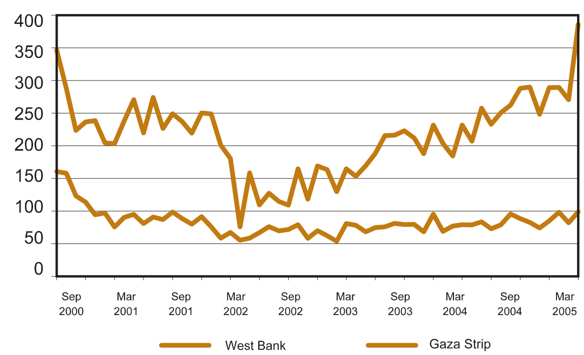
Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

Banking Sector

The decline in overall economic activity in the West Bank and Gaza since the beginning of the *Intifada* is clearly evident in the total value of checks cleared by banks operating in the West Bank and Gaza Strip, particularly in the periods of increased Israeli military operations. During the first nine months of 2000, i.e., prior to the *Intifada*, the value of checks presented for clearing averaged US$449 million (US$301 million in the West Bank, $148 million in Gaza) per month. During the twelve months of 2002, monthly values averaged less than half the pre-*Intifada* levels: US$148 million in the West Bank; $67 million in Gaza; total, US$216 million.

2004 saw US$289.2 million cleared in the West Bank and US$85 million in Gaza. Compared to the twelve months of 2003, the total value of checks cleared has increased 24 percent (30.6 percent in the West Bank and 7.5 percent in Gaza). However, this apparently strong increase in the West Bank is deceptive, reflecting the depressed volume in the January-April 2003 period. Indeed, the average monthly value cleared in the West Bank during the first four months of 2004 ($207 million) is below the monthly average for the July-December 2003 period ($214 million). Comparing the monthly average thus far in 2004 for Gaza with the average monthly level recorded during the second half of 2003 shows no change ($80 million).

Figure 15. Total Value of Checks Cleared (million US Dollars)

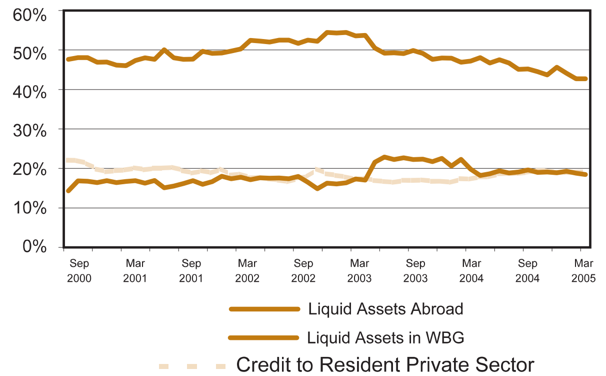


Source: Palestinian Monetary Authority (PMA).

The Palestinian banking sector weathered the difficult economic setting of recent years by maintaining their very conservative investment positions. To this day, banks remain very liquid with substantial placements overseas and in the West Bank and Gaza, increasing their liquidity ratios since September 2000 at the expense of lending to the resident private sector.

By end-March 2005, 18.5 percent of the combined assets of commercial banks operating in the West Bank and Gaza were held in cash or deposits with other Palestinian banks; a further 42.7 percent of assets were held as deposits in foreign banks. Lending to the private sector represented 19.2 percent of total assets. These represent significant changes in asset allocation compared to September 2000, when 14.3 percent of total assets were maintained in cash and local bank deposits, 47.6 percent were in deposits with foreign banks, and 22.1 percent in private sector loans (*Figure 16*). While it is quite probable that the quality of bank's loan portfolios suffered (with non-performing loans having increased and some collateral having been destroyed as the result of military operations), the low percentage of loans to total assets mitigated solvency concerns for most banks.

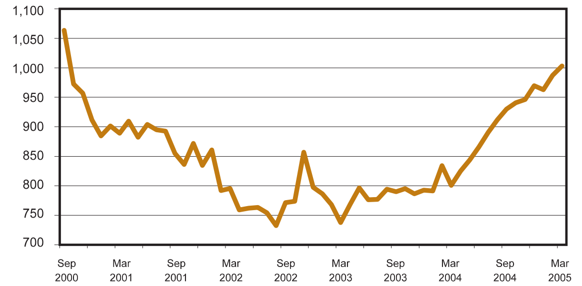
Figure 16. Composition of Bank Assets (percentage of Total Assets)



Source: Palestinian Monetary Authority (PMA).

Along with the increase in liquid assets, commercial bank lending activity declined considerably during the first two years of the *Intifada*, and is only recently beginning to climb. This reflected both lower demand on the part of borrowers and greater risk aversion on the part of bankers during a period of economic downturn and political uncertainty. In such a climate, the granting of new credits was scaled back and existing lending and overdraft facilities were rolled-over far less automatically. More recently, increases in lending to the resident private sector have been noted. From its low point in March 2003, when the stock of credit outstanding was US$737 million, lending has increased; at end-March 2005, the stock amounted to just over US$1 billion. Nevertheless this still represents a 5.7 percent decline from pre-*Intifada* September 2000, when US$1.06 billion in credit was outstanding (*Figure 17*).

Figure 17. Credit to Private Sector (million US Dollars equivalent)

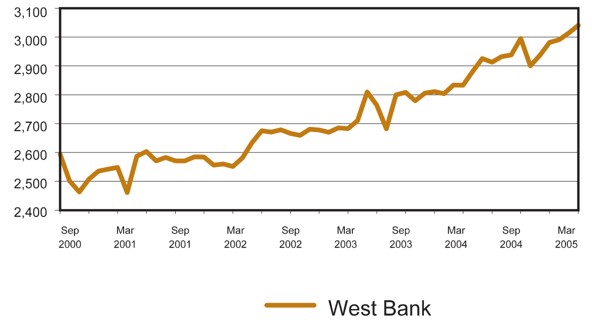


Source: Palestinian Monetary Authority (PMA).

Resident private sector deposits witnessed a considerable decline in the first two months of the Intifada in both the West Bank and Gaza; however in subsequent months different patterns emerged.

In the West Bank, deposits levels quickly recovered; from May 2001 to April 2002 their level was essentially as in September 2000. Further growth in the second quarter of 2002 was followed by another period of stability until April 2003; over the next twenty-three months deposits have continued to grow, crossing the $3.0 billion level in February 2005. By end-March deposits stood 17 percent above September 2000 (*Figure 18*).

Figure 18. Total Deposits -- West Bank (million US Dollars equivalent)



Source: Palestinian Monetary Authority (PMA).

In Gaza, deposits stood at $1.13 billion prior to the Intifada, declining to $1.0 billion at end-2000. In 2001, they fell an additional 18.5 percent to end the year at $814 million; 2002 saw further decline in the first quarter followed by relative stability, ending the year at $752 million. 2003 witnessed a return to deposit growth that continued largely uninterrupted through December 2004, closing that year at $976 million. The first quarter of 2005 has witnessed some fall-off; at end March, total deposits in Gaza were $952 million, an amount 15 percent below the pre-*Intifada* level at end-September 2000 (*Figure 19*).

The difference in deposit behavior between Gaza and the West Bank likely reflects the higher rates of unemployment and poverty, and hence lower savings, in Gaza as well as the fact that West Bank residents have greater family ties abroad (primarily Jordan), a source of financial transfers and support.

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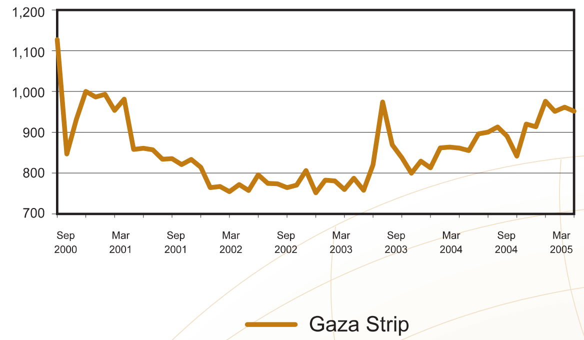
Figure 19. Total Deposits -- Gaza Strip (million US Dollars equivalent)



Source: Palestinian Monetary Authority (PMA).

WBG: The Economy and Fiscal Developments[1]

By the International Monetary Fund

The Economy and Monetary Sector

Developments

Economic activity in WBG remains volatile and is highly dependent on political and security developments, including closures by Israel and the impact of the separation wall. Real GDP growth in 2004 is estimated to have been modest at slightly above 3.0 percent, driven by the manufacturing sector, trade, and construction. However, growth remains constrained by closures and curfews, which have a direct impact on trade and private investment, as well as on the employment of Palestinian workers in Israel. Price developments in 2004 have followed those of economic activity. Mainly, prices in the housing sector, textiles, and household goods have increased, reflecting increased demand, while prices in the transport sector receded due to some improvement in security. However, given the predominance of imports in the CPI basket (49 percent) the appreciation of the New Israeli Shekel against the dollar acted to reduce the overall level of prices, such that the average inflation rate has fallen from 4.4 in 2003 to 3.0 percent in 2004.

In the labor market, although employment of Palestinian workers in Israel has fallen by 6 percent, employment in the WBG increased by 5.8 percent in 2004, mainly in manufacturing and other services. However, this increase in employment was lower than the growth in the labor force, which grew by 6.1 percent. As a result, unemployment continued to be high and slightly over its level in 2003, reaching 26.8 percent, with acute unemployment in Gaza, where it reached 36 percent. Here, it is important to note that employment in Gaza actually fell in 2004 by about 4 percentage points, partly because of the closure of the Eretz Industrial zone and a sharp reduction in access to the Israeli market of Gaza labor.

In the monetary sector, demand deposits with commercial banks grew by about 5 percent, while credit to the private sector rose significantly, by about 24 percent in 2004. The increase in credit has been mainly in response to an increase in demand for personal loans. Commercial banks have increased their lending to individuals, including real estate-related loans, using personal income streams (wages) along with other personal guarantees as collateral[2]. Although the increase in economic activity and the relative improvement in security have stimulated investment in housing, this has not been reflected in an increase in bank loans for investment projects. On the whole, the financial situation of commercial banks improved in 2004: banks' asset profitability and quality improved and the share of non performing loans at commercial banks has decreased from 22 percent at end-2003 to 11 percent in the third quarter of 2004.

Outlook

In 2005, the macroeconomic outlook will continue to depend on political developments. Real GDP growth is projected at 3.5 percent, slightly over its 2004 level. This growth assumes, on the one hand, a slight improvement in the security and political environments, and on the other hand, an increasingly adverse effect of the separation barrier on agriculture and on the flows of WBG labor to Israel. As a result, unemployment is expected to increase slightly. Finally, inflation is expected to continue declining to about 2 percent.

[1] Report prepared by the WBG team - Karim Nashashibi, Joel Toujas Bernate, Dominique Simard and Nisreen Farhan.

[2] This was facilitated by the 15 percent increase in public sector wages.

Fiscal developments, financing and reforms

The PA faces twin fiscal challenges: i) to stabilize the wage bill and eventually reduce it through the implementation of a civil service reform, and ii) to improve the quality of expenditures by redefining priorities and phasing out a number of activities that are hardly justified under the existing severe fiscal constraints.

Overall fiscal position in 2004

The fiscal stance has been constrained relative to the budget target because the strong revenue performance did not fully offset shortfalls in external budget support. The deficit excluding grants was 14.1 percent of GDP in 2004, 3 percentage points of GDP lower than budgeted, due to a strong revenue performance and expenditure compression. The grants-inclusive deficit, at 5.1 percent of GDP, was higher than the budget target by 5 percentage points of GDP, implying a higher resort to domestic financing than anticipated in the budget. Nonetheless, the grants-inclusive deficit was lower than the 2003 deficit of 7.4 percent of GDP.

It should be emphasized however, that fiscal consolidation per se is not an objective in the WBG at this time. On the contrary, if adequate financing were available, the deficit excluding grants and non-wage expenditures would have been higher, relieving some serious bottleneck in the PA administrations. The deficit would only narrow over time as PA revenue increases with the recovery in economic activity to its normal level.

Budgetary resources

Revenue performance in 2004 was very strong and exceeded budget expectations, mainly due to a large increase in indirect taxes collected by Israel on behalf of the Palestinian Authority (PA). Gross revenue, at US$ 965 million, increased by 27 percent, from 21.5 percent of GDP in 2003 to 25.4 percent in 2004, outperforming budget projections by about 3 percentage points of GDP. The increase in PA indirect tax revenue collected by Israel was mainly due to improvements in operation and governance at the petroleum agency, along with strengthened tax administration. Sales by the PA petroleum agency in the WBG expanded substantially due to a more competitive price policy. Petroleum excise revenue increased by 85 percent between 2003 and 2004, while customs and VAT revenue rose by 21 percent and 27 percent, respectively.

Direct tax collection registered a 37 percent increase over 2003, owing mostly to improvements in tax administration. Non-tax revenue also contributed to the strong revenue performance. In particular, profits transferred to the budget from the Palestinian Investment Fund (PIF) rose from US$ 39.2 million in 2003 to US$51.6 million in 2004, reflecting an advance of about US$16.6 million on 2005 profits on top of the $35 million envisaged in the 2004 budget. Excluding profit transfers from the PIF and the Palestinian Monetary Authority[3], non-tax revenue increased by 21 percent.

Expenditure

The wage bill exceeded budget projections only slightly, but wages of security personnel overshot their budget target by 0.4 percent of GDP. Overall, the wage bill increased by 17 percent relative to 2003, on account of a carry-over of wage increases linked to the new civil service law enacted in the last quarter of 2003, as well as to higher civil service and security personnel. As a result, the wage bill represented about 90 percent of total gross revenue in 2004, compared with 98 percent in 2003. Civil service employees increased by 3,497 between December 2003 and December 2004, which meets the 3,500 limit budgeted in 2004. However, the security forces incorporated 427 additional members, compared with an objective of zero net recruitment. This can be explained by a number of security employees who "reemerged" into the 2004 payroll, after having taken leave in 2003. The net increase in employment in the social sectors[4] was of 3,598 persons, including 3,553 for health and education, which represents an 8 percent increase since end-December 2003. Between December 2003 and October 2004, 90 percent of new PA employees joined the health and education sectors, bringing up employment in these sectors to 35 percent of total PA employees.

Non-wage expenditure was 13 percent below the budgeted amount, notwithstanding a 35 percent increase relative to 2003. Non-wage expenditure had to be contained because of shortfalls in financing. The bulk of the adjustment fell on operating expenditures, and to a lesser extent, on transfers. There was a steady increase in transfers from February to August and during the last quarter. One third of total transfers was allocated to Financial reserves[5], about 30 percent to social affairs

3 US$4.2 million in 2003 and US$5.9 million in 2004.

4 Includes the Ministries of Education, Health, Social Affairs Justice and the High Judiciary Council.

5 An account under the authority of the Ministry of Finance to meet unplanned expenditure contingencies. Much of these reserves were spent during the last quarter for relief efforts in Gaza following the Israeli incursions.

and education, and 22 percent to pensions and prisoners, in equal proportions.

Regarding net lending, the PA continued to cover utility bills of the municipalities for an amount of US$ 157 million in 2004, exceeding the budget target of US$ 120 million[6] by about 0.8 percent of GDP. This net lending to municipalities was, however, 9 percent lower than in 2003 It covered primarily outstanding utility payments owed by municipalities and public agencies to Israeli providers, which, if unpaid, accrue interest penalties and could give rise to power cuts.

Total VAT receipts rose by 20 percent in 2004, while VAT refunds remained at the 2003 level. In fact, the proportion of VAT refunded out of total VAT revenue declined from about 6 percent in 2003 to 3 percent in 2004. This is explained by the elimination of VAT deductions for foreign-financed projects, which is covered by the Authority since the beginning of 2004. This partly also indicates the possibility that the PA may have accumulated additional VAT refunds arrears in 2004, due to the scarcity of financing resources.

Capital spending financed by the PA (US$19 million) remained unchanged relative to the 2003 outturn. Incomplete data on capital spending by donors in 2004 and budgeted at $250 million for that year is not yet available.

Financing

External budget support, at US$352 million, fell short of the ambitious budget target of US$650 million, but was 35 percent higher than in 2003. The World Bank Trust Fund contributed the bulk of the budget support grants (US$ 118 million), and also disbursed US$ 67 million through the ESSP. The EU contributed with US$ 50 million and the United States with US$20 million. Saudi Arabia provided US$ 77 million, as it did in 2003, fulfilling all its commitments till end September 2004[7]. Many Arab countries which had granted budget support in 2003 (Algeria, Bahrain, the Emirates, Kuwait, Qatar) did not do so in 2004. In some cases, political constraints resulted in sluggish disbursements. For instance, the Kuwaiti parliament needs to approve any budgetary support to the Palestinian Authority.

Following favorable Israeli court decisions pertaining to court attachments of PA revenue on behalf of claimants, the Government of Israel released a net amount of US$ 97 million in withheld revenue, including gross disbursements of US$ 120 million in the last quarter. These disbursements allowed the Ministry of Finance to pay salaries at a time when external budget support was low. The stock of withheld revenue, which had reached US$ 245 million by end August 2004, was reduced to US$ 97 million at end-2004. An additional NIS50 million (US$11.5 million) were released at end February 2005. Further releases may take longer to occur, since the most contentious cases were left to the end.

A significant amount of additional financing was provided by banks, which extended US$ 134 million in new credit to the PA (about 3.5 percent of GDP), a 57 percent increase relative to 2003. This exceeds the range which commercial banks feel comfortable with, and they expect some repayment in 2005.

To compensate for shortfall in external budget support, financing was also provided by a buildup of arrears. The stock of arrears can be measured by uncashed checks issued by the Treasury (about US$400 million end 2004) and "unpaid bills" by line ministries (about US$40 million). The stock of uncashed checks increased in 2004 by US$118 million. Data on unpaid bills is not yet available but no significant increase was expected in 2004. Included in the stock of uncashed checks was about US$165 million of arrears due to the Gaza Pension and Insurance Corporation by end 2004, with a US$40 million increase over 2003. In addition, by end 2004, the MoF owed US$80 million to suppliers of fuel to the Gaza electricity generating company.

Key Reforms in the second half of 2004.

The PNA Cabinet's decision on retiring civil servants older than sixty years old continues to be implemented in accordance with the Civil Service Law. A draft Unified Pension Law approved by the Council of Ministers in August 2004 has been submitted to the PLC. The draft law sets out the parameters, institutions, and management of a unified and sustainable public scheme for both the civil service and the security forces. The law passed its first reading with substantive changes introduced by the PLC with the view of increasing benefits and tilting the balance between defined benefits and contributions toward defined benefits. Moreover, benefits were increased substantially by PLC members relative to the government submission with the result that the scheme envisaged in the revised law may be financially unsustainable. The next step will be for MOF to present to

6 An exchange rate of NIS 4.7 per dollar was used when the budget was published. At the actual exchange rate the budget would have been $128 million.

7 The Beirut Summit in March 2004 extended budget support for Arab League Countries till end September 2004. Beyond that date no commitment was made.

the PLC its own position and reach a compromise before the second reading. At the same time, a separate draft pension law for security personnel over 45 years old was adopted on December 1, 2004[8]. The new law provides for retirement benefits equivalent to almost 100 percent of salary for older security personnel in the 45 to 60 year old segment. This reform, considered by the authorities as essential in overhauling the security apparatus, is more costly than initially intended under the Unified Pension Law[9]. Its implementation will require funding from the donor community.

Improvements in internal audit procedures now allow the Minister of Finance to exercise tighter control over budgetary expenditures. In July 2004, the MoF issued an instruction manual detailing the criteria to be followed regarding procurement procedures for operations and maintenance spending. In September a cabinet decision placed all financial controllers of budgetary spending agencies under the authority of the MoF. In October, most ministries harmonized their ledgers following the distribution of a common computer software. Finally, Treasury regulations spelling out a reporting methodology for expenditure commitments and payments have been completed. The proposed codification of budgetary and treasury procedures is being reviewed by Fund staff.

The new income tax, which benefited from IMF input, became law effective January 1, 2005. It has only three rates (8, 12, and 16 percent) for individuals; corporations will be subject to the 16 percent rate. The new income tax has very few exemptions and is user friendly. It should broaden the tax base and result in higher income tax revenues in 2006. Other bills have been signed by Interim President Rawhi Fattouh toward the end of 2004, including a law governing financial institutions which has established a Financial Market Authority to regulate financial markets, insurance companies, and the use of various financial instruments.

8 Those under 45 years of age are covered by the Unified Pension Law.

9 Benefits are 2.867% of income per year of service in contrast to 2% for the Unified Pension Law.

Outlook for 2005

The 2005 budget assumes a continued strong revenue performance and a wage bill in line with the "wage bill containment plan". External budget support requested from the donors of about US$ 660 million assumes full funding of operational expenses and transfers including ongoing pension liabilities and the funding of substantial retirements by security personnel. In addition, Minister Fayyad is planning to establish a broad social safety net scheme following his discussions with various parties and international donors, for which he is requesting US$ 240 million. Actual spending on this scheme will only materialize to the extent external financing becomes available.

Total revenue is projected to increase by 8.4 percent relative to 2004 (in NIS terms), with a strong increase in domestic revenue (by about 10 percent) and a 7 percent increase in gross clearance revenue. The increase in domestic revenue would reflect the implementation of the new income tax law, as well as tax administration enhancements. The overall increase would be slightly larger than nominal GDP growth, therefore resulting in a further increase in the revenue to GDP ratio. It is expected that the administrative reforms in tax administration which took place in 2004 will yield further benefits in 2005.

On the expenditure side, the total wage bill is in line with the wage bill containment plan. It is projected to increase by 4.5 percent relative to 2004 (in NIS terms). Civil service employment is assumed to increase by 2,874 people. Assumptions underpinning budgetary appropriation for the security services wage bill (salary and employment) imply that there would not be any net increase in security employment and if there should be a salary increase, it would be offset by retirements. Minister Fayyad indicated in the budget speech that the salary increase for security personnel recently adopted by the PLC would be implemented only in the context of restructuring security services, including the retirement or retrenchment of enough people to at least offset the salary increase. Consistent with this view, the transfer component in the budget includes US$35 million of payments of pensions to security personnel. In any event, staying within the overall envelope of a 2,000 net increase in total PNA employment, as assumed in the wage bill containment plan, would require a net decline in security personnel of at least 900.

Non-wage spending is projected to increase by 43% relative to 2004. This is mainly driven by a 50% increase in transfers including US$ 35 million in new payments of pensions to security retirees but excluding the US$ 240 million on a social safety net for which MOF is seeking separate financing. This social safety net spending is meant to be quick disbursing, targeting the unemployed as a proxy for the poor. Given that, about half of the population has now fallen below the poverty line and that unemployment has risen to 26% after the closure of the Eretz Industrial Zone and the sharp reduction in work permits for Israel, Minister Fayyad feels that an extraordinary relief effort financed by donors needs to be made. However, no disbursement would be made under this program unless it is financed externally. In his budget speech, Minister Fayyad stressed that in subsequent years he did not want this social safety net to be dependent on external assistance or become a burden on budget resources. Consequently, the Ministry of Labor and Social Affairs will develop a self-financing unemployment compensation scheme through employee and employer contributions.

In its work on a possible new conditional cash transfer scheme, the World Bank estimates that a budget of about US$ 87 million in cash transfers would be sufficient to bring 15 percent of the population, currently living in poverty, above the poverty line. This scheme, if adopted, would be integrated with the unemployment compensation scheme.

The other category of nonwage expenditure, operations and maintenance, is at about the same level as in the 2004 budget (in NIS terms), which is about 32 percent above the 2004 outturn.

The 2005 budget includes a significant drop in net lending to cover bills of municipalities and the Gaza electricity distribution company. Its amount is projected to decline by about US$30 million (at constant exchange rate). Concrete policy measures to underpin this projection need to be adopted.

Finally, the budget projects the release of the remaining stock of previously withheld clearance revenue, for an amount of about US$90 million. It is assumed that these disbursements will be used to repay US$23 million of arrears and US$69 million of debt to commercial banks. About US$35 million of withheld tax revenues, however, are still attached by Israeli courts decisions.

On the reform side, budgetary policy aims at fully implementing the unified pension scheme and moving forward with harmonizing the computerization of all tax departments in the MOF. Together with the codification of all Treasury and budgetary operations through the adoption of the "Palestinian financial system", MOF has tendered contracts to international auditing firms, to conduct external audits of selected public expenditures. Bids by these firms have been already received. This is an unprecedented measure to fill in the gap in the auditing apparatus, until a fully functional external audit institution is established.

To the extent that the political environment continues to improve, further resources may be available relative to that of recent outturns, which would help cover additional liabilities. It is hoped that, based on assurances that President Abbas received from Gulf countries during his recent visit and the London Meeting on March 1, 2005 (and the follow-up visit by the Minister of Finance), support from Arab donors would increase significantly in 2005. In particular, Kuwait promised to discharge all of its commitment to the PNA under the Arab League scheme (estimated at US$ 150 million) before the March 22nd Arab Summit. It is estimated that the GCC countries (excluding Saudi Arabia), Libya and Algeria have undisbursed commitments of about $500 million. Larger contributions from Arab donors are particularly important considering that releases of withheld clearance revenue by Israel will be much lower, as indicated above. Moreover, banks are expecting net repayments of bridge loans to the PNA, unless prospects for external assistance improve significantly. Overall, this would leave limited resources to repay arrears, including those due to the Pension Fund.

The authorities are considering a set of measures to be implemented only if financing is identified. The key expenditure reforms pertain to pensions, restructuring of the security apparatus, and funding social safety nets. With respect to governance, the PNA is also committed to establishing a legal framework and systems to combat corruption more effectively. A restructuring of the General Control Institute and the appointment of a new Director should establish a professional, independent and transparent external audit institution. New directors are also expected to be appointed to the General Personnel Council, the Capital Markets Authority, and the Palestinian Monetary Authority. Other medium-term reforms may be identified following the conclusion of a Public Expenditure Review (PER) the PNA is committed to undertake with assistance from the World Bank. The PER will contribute to redefine expenditure priorities and improve the delivery of government services within a given budgetary envelope. In addition to the short-term financing required for these reforms, consideration should be given to their medium and long term impact on the fiscal position.

Table 1: West Bank and Gaza: Central Government Fiscal Operations, 2001-05
(in millions of U.S. dollars, unless otherwise stated)

	2001	2002	2003	2004		2005
				Budget 7/	Prel.	Budget
Revenue	275	296	762	858	965	1.078
Gross domestic	275	224	291	327	347	396
Tax revenues	183	141	167	172	191	...
Non-tax revenues	92	82	124	155	156	...
Gross monthly clearance 1/	0	72	472	531	618	682
Expenditure	1.117	1.017	1.104	1.384	1.344	1.592
Gross wages	678	642	743	866	871	938
Civilian	426	404	456	548	538	...
Security	225	239	288	318	333	...
Non-wage expenditure	417	352	324	500	437	629
o.w operating	...	...	124	235	180	244
o.w. transfers (incl pensions)	...	...	201	265	257	385
PA financed capital spending	22	23	36	19	36	25
Net lending 2/		0	173	125	157	130
VAT refunds	2	5	16	15	16	20
Balance	-845	-726	-531	-667	-551	664
External budget support excluding social safety net	530	467	261	680	353	664
External budget support including social safety net /3	530	467	261	680	353	903
Balance including budget support	-315	-259	-270	-3	-198	-1
Total other financing	315	259	270	3	198	0
Gross withheld clearance revenues 4/	0	82	300	188	97	92
Net change in arrears (- = repayment)	232	65	-115	-188	-32	-23
Net domestic bank financing	83	115	85	3	134	-69
	(in percent of GDP)					
Gross revenue	7.4	9.4	21.0	25.0	24.7	26.3
Expenditure 5/	29.9	32.4	30.3	40.4	34.4	44.6
wages	18.2	20.4	20.4	25.3	22.3	22.8
non wages	11.2	11.2	8.9	14.6	11.2	21.2
Net lending a nd VAT refunds	0.1	0.2	5.2	4.1	4.4	3.7
Deficit before grants	-22.6	-23.1	-14.6	-19.5	-14.1	-22.0
Deficit after grants	-8.4	-8.2	-7.4	-0.1	-5.1	0.0
Memorandum items						
Exchange rate NIS/$ (period average)	4.21	4.74	4.54	4.48	4.48	4.35
Government employment (end of period) 6/	123.450	122.329	129.182	...	134.595	
o.w. civilian	70.034	70.157	72.542	...	76.433	
o.w. security	53.416	52.172	56.640	...	58.162	

Ministry of Finance and IMF estimates
1/ Includes payments deducted for dues owed to the Israeli water company Mekorot, while the budget figure is on a net basis.
2/ Payments deducted at source by GOI from disbursements of withheld clearance revenue for owed bills by Palestinian municipalities.
3/ In 2005, includes US$240 million to finance unemployment compensation.
4/ Monthly figures include deductions by GOI for utility bills, while the budget figure is on a net basis.
5/ Comprised of gross wages, nonwage expenditure, and PA financed capital spending (excluding donor-financed).
6/ There is a break in the series between 2002 and 2003 due to computerization of the payroll and the elimination of double counting.
7/ Budget valued at actual exchange rate. The exchange rate initially used was NIS 4.70 per USD.

Table 2: Details of external budget support in 2003-05

May 6, 2005

	Quota as share in Arab League Budget	Yearly commitments	2003	2004	January - April 2005
	(percent)	(in millions of US dollars)			
Total budget support			261	352	198
Multilateral assistance			229	332	198
Arab countries	100	662.4	131	98	111
Saudi Arabia	14	92.4	77	77	…
Kuwait	14	92.4	15	…	40
UAE	7	46.8	21	…	…
Libya	12	79.2	1	14	…
Qatar	5	33.6	5	…	11
Bahrain	2	13.2	3	…	…
Algeria	8	52.8	9	…	60
Tunisia	2	9.6	…	2	…
Oman	2	13.2	…	…	…
Iraq	10	66.0	…	…	…
Egypt	9	60.0	…	…	…
Morocco	5	33.6	…	…	…
Other Arab	10	69.6	…	5	…
European Union			58	50	…
World Bank (ESSP)			39	67	13
World Bank Trust Fund			…	117	74
EU			…	56	25
WB			…	20	…
Norway			…	12	16
Canada			…	7	…
UK			…	12	…
Japan			…	10	30
France			…	…	3
Bilateral assistance			32	20	…

Source: IMF staff estimates and projections

Land Administration Project

Land and property in West Bank and Gaza (WBG), as in many parts of the developing world, is a common means of storing wealth. Over the years, secure land tenure and property rights have taken on greater historical and cultural significance for Palestinians. Nevertheless, it is estimated that nearly 25 percent of the court disputes in the West Bank today are land related. All of these factors have made land titling, registration and efficient administration a matter of paramount importance to Palestinians. Consequently, in the Palestine Development Plan (PDP), the PA emphasized that strengthening land management and surveying capacity is one of its top priorities. Similarly, the Socio-Economic Stabilization Plan sought donors' support for building the capacity of PA agencies in the areas of land policy and land planning and development.

Much still needs to be done in terms of land property rights registration in WBG. Although close to 90 percent of land in Gaza has been registered, only about 28 percent of the land in the West Bank is registered. A systematic land titling program is therefore critically needed in the West Bank. The problem, however, is that 53 percent of the land in the West Bank is under Israeli administrative control (Area C) and physical movement of Palestinians in the rest of the West Bank (Areas A and B) is constrained by movement restrictions. Moreover, currently only about ten percent of all transactions are registered with the Palestinian Land Authority (PLA), the main PA institution mandated of such role. The rest use the *"Kateb-el-Adel"*, which functions effectively as an expanded Notary Public (NP). One problem with the current reference law (decree) for the certification of the NP is that it does not require any legal qualifications for the job. The public appears to be using their services because of immediate convenience and because registration with the PLA is cumbersome and costly. As such, at this stage, the critical issues are building the necessary legal and technical capacity for titling adjudication, surveying and registration, improving the quality of services offered by the land registration offices, tackling any constraints limiting the public's use of the registry, and enhancing awareness of its benefits so as to activate demand for registration.

Currently, there is an abundance of laws governing land administration in WBG, which have been introduced over a long period of time following different legal regimes, and which have not been updated or consolidated since. Indeed, some laws date as far back as the 1920s and many laws come in two different sets for the WBG, including the law on eminent domain (Law No. 24 of 1943 for Gaza, Law No. 2 of 1953 for the West Bank, and Decree No. 73 of 1996) and property rights settlement (Law No. 9 of 1928 for Gaza). In addition, the legal bases of land and property registration in use in WBG are many: Settled (i.e. gone through the Jordanian *Taswieh* or titling settlement process), British (based on ground survey), Ottoman (Turkish Metes and Bounds Descriptions), Sporadic Land Registration (labeled as *Tasjeel Jedid*), and Condominium (new since the enactment of the new law No 1 of 1996). The result is a fragmented, incomplete and sometimes conflicting legal framework, which makes it difficult to operate an efficient and equitable land administration system. Over the past few years, there has been an effort to deal with this confusing legal situation, with some revised laws currently under the Palestinian Legislative Council (PLC) review (those dealing with land and buildings tax, notary public, and land survey), but much still needs to be done.

Until very recently, the registration and surveying functions used to be housed in two different executive cabinet level agencies: the Ministry of Justice dealing with land registration, and the Ministry of Housing dealing with land surveys. There was little coordination between both ministries, and this split was considered as one of the main obstacles of the land sector. The two functions were consolidated in mid-2003 under the Palestinian Land Authority, which was set up as an independent government agency reporting directly to the President's Office. The problem, however, is that the PLA is still without the necessary resources and capacity to undertake its expanded mandate and bring together various interests within the Government. Similarly, the Ministry of Planning (MOP), which is responsible for policy formulation including for land, has not yet effectively exercised its mandate in the land sector, with the result that there are no established efforts or procedures for policymaking in this area.

The objective of the **Land Administration Project** is to assess/learn the extent of commitment and readiness of the Palestinian Authority to reforming land administration by introducing policy, legal and institutional changes to achieve efficient procedures for the issuance of land titles and registration of property transactions, and transparent processes for the management and disposal of public land. It is the first phase of a long-term Land Administration Program, which aims at enhancing 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 and supported by an appropriate institutional structure.

The project will include the following components: **Component 1:** Land Policy Formulation and Development of Regulatory Framework: This component would support consensus building, though consultations and public hearings, for the formulation of a national land policy document and an action-plan for implementation, and the revision of the regulatory framework governing land administration. **Component 2:** Piloting of Systematic Land Registration and Modern Land Office: This will include: (i) piloting land surveying, systematic titling and registration in areas A or B under PA jurisdiction; and (ii) pilot establishment of modern PLA offices in two locations. **Component 3:** Piloting of Public Land Inventory and Management Strategy: This component would support the establishment of an inventory of public land in areas A and B in two municipalities and the development of a public land management strategy and instruments. **Component 4:** Institutional Development: This component would support: (i) institutional development to the PLA to be able to undertake its mandate efficiently and effectively; (ii) strengthening of education programs in land administration and management and surveying; (iii) strengthening private sector capacity in surveying; (iv) public awareness and community participation; and (v) project management support for both the MOP and the PLA.

This project is being financed by the World Bank (US$3.0 million), the Government of Finland (US$2.1 million – of which US$1.6 million will be administered by the Bank) and USAID (US$0.9 million at minimum). All parties have highlighted the need for a clear framework to ensure efficient and effective use of resources and activities.

The implementation of this project will be by both the MOP and the PLA, respectively through a Policy Research Unit at MOP and Project Management Team at the PLA. In particular, a Project Management and Coordination Committee (PMCC) at senior level of both institutions will oversee the implementation assisted by a Project Management Teams located in both institutions.

The MOP will be responsible for implementing Component 1 related to Land Policy Formulation and Development of Regulatory Framework, and will closely collaborate with the PLA in Component 3 related to the Inventorying of Public Land, given its capacity and ongoing efforts in this field. The policy formulation process will be overseen by a high-level **Land Policy Task Force**, which was established through a Cabinet decision on December 4, 2004 and will be chaired by MOP. The LPTF is comprised of representatives from Ministries of Local Government, Finance, National Economy, Agriculture, Public Works and Housing, Justice, and the PLA). The mandate of the Task Force is to review policy recommendations, oversee the policymaking process, its adoption and recommendations and take decisions to be forwarded to Cabinet for approval.

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A World Bank Funded Project Palestinian NGO Project – Phase II Developmental Grant

A Success Story

Launched in 2001, The Palestinian NGO Project (Phase II) is a USD 21 million initiative funded by the World Bank, the Governments of United Kingdom, and Italy. The Project is aimed at strengthening the capacity of the NGO sector to provide sustainable services to poor and marginalized Palestinians. PNGO II works in three main areas: **building strong community organizations; delivering needed and urgent services; and connecting people and organizations.**

One of the PNGO II's components is **the Development Grants Programs**; a Program aimed at supporting experienced NGOs manage and upscale medium-scale programs that have a strong sustainability potential. Amongst the nineteen recipients of development grants is the Amal Association for the Deaf. Attached is a snapshot on Mr. Mohammad Nazzal, the founder and Director of Al-Amal Association.

MUHAMMAD NAZAL FROM QALQILIA

Muhammad Nazzal, a citizen of Qalqilia is like every Palestinian man, except that he is also one of approximately 80,000 Palestinians who are physically disabled. To be more specific, Muhammad lives with a hearing disability

Muhammad's story is one of courage, passion, persistence and success. It shows us that everyone can make a difference in his/her own community, no matter what the obstacles are.

At the age of six, Muhammad traveled to Egypt where he stayed for 12 years.

He came back to Palestine with a Professional Diploma in sign language and printing.

Immediately after his return, he realized the importance of taking action to assist his fellowmen in becoming proud and productive citizens …..

Muhammad was able to:

Form an association called Al-Amal Association for the Deaf.

The Association was registered in 1994 after so many problems with the Israeli Civil Administration at the time. What distinguishes the Association is that the whole board is composed of deaf members.

Secure some initial funding from the local commercial enterprises

Encourage deaf members to start working on income generation for the Association through embroidery and handicrafts

Start a school and convince the Ministry of Education to assist them through supporting five teachers

Obtain a US$ 243,906 grant from the Welfare Association Consortium PNGO II for the construction and equipping of a vocational centre, based on a very well-prepared proposal

Start a kindergarten for 150 speaking children - a great source for income generation.

Where does he want to go?

His main objective now is to develop the vocational centre into a formal educational college that would provide higher educational opportunities to the deaf students.

Thanks to Muhammad and to Al-Amal Association for the Deaf, many deaf people in Qalqilia, can lead a "normal" life now.

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