

## In This Issue

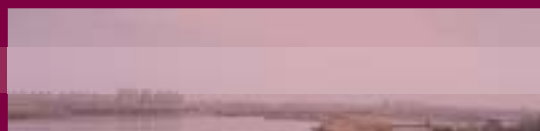
1. Money Won't Fix Things Here /3
2. Justice Sector in West Bank and Gaza /6
3. Recent Economic Developments /9
4. Update on World Bank Portfolio /20
5. North Gaza Emergency Sewage Treatment Project /28
6. Global Development Marketplace /30
7. Announcement: Appointment of New Country Director /31



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# WEST BANK AND GAZA UPDATE



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# "Money Won't Fix Things Here"

**Nigel Roberts, World Bank Country Director for the West Bank and Gaza, discusses the Bank's work in West Bank and Gaza in a frank interview.**

***Some people wonder why the Bank is spending so much effort on the border crossings in Gaza rather than looking at the bigger issues of final status and statehood. Can you answer this?***

Final status and statehood are issues that need to be taken up at a political level in the context of the Roadmap. Right now, though, it is necessary to move out of the intifada period and to help foster re-engagement and cooperation between Palestinians and Israelis. As we have pointed out for the last year and a half, an essential first step is to get the Palestinian economy moving again and to try to restore the status quo that pertained on the eve of the intifada. The work we've been doing on border crossings and on restoring Palestinian movement in general is very much part of this process. If you are contemplating the recovery of Gaza, this cannot happen unless the borders are working---unless people and cargo flow in a regular manner and in much larger quantities than during the past few years. We estimate that about 150 trucks of exports need to exit Gaza on a given day to support a healthy level of economic activity. In September and October this year the total flow was about a dozen trucks a day, down from 25 a day in the months leading up to disengagement. There is no way that Gaza can earn its living on this basis. Unless you restore movement, you cannot revive the economy---and without that it will be very difficult to create an environment in which the PA can succeed and final status negotiations move into the foreground.

***Following Israel's withdrawal from Gaza, the Palestinians face huge challenges in Gaza, which is one of the most densely populated and turbulent places in the world. Can it be done?***

There are no easy answers to Gaza. There is an urgent need to stabilize the social and the economic situation, and donors are doing what they can to help with additional project financing. This is why Jim Wolfensohn concentrated on developing a Day After Program, which is an attempt to accelerate donor contributions and

create jobs and a sense of optimism quickly. But Gaza's economic prospects are not insurmountable. There is serious poverty, problems of social dislocation and a high population growth rate. But Gaza also has an excellent location, a long tradition of openness to the world, a host of potential entrepreneurs, access to serious amounts of donor assistance and privileged access to European and American markets. Capitalizing on this potential, though, means meeting a number of preconditions. Gaza can not develop in an atmosphere compromised by violence---you simply cannot contemplate normal development under fire. Second, Gaza's borders must be opened up, or it will wither and become ungovernable. And third, Palestinian administration has to improve. Investors will not come and work in an environment they see as chaotic, corrupt and ineptly governed.

***Is the Bank involved in supporting Palestinian legal reform and anti-corruption activity?***

Yes, we are. When it comes to law and order, Palestinians need a legal system which works, where clean and efficient courts deliver proper judgments and where the police act as an agency of the people, not of private interests. This is important for general social stability, of course---but also for investment. If you are a businessman you need to be confident that your assets will be protected, and that if you get into a dispute there is a system to protect you. The Bank and a number of other donors (including the EU and USAID) are very keen to support legal reform and have been for many years; unfortunately this is an area in which the PA has shown little ability to deliver improvements.

Corruption is a serious problem, and it doesn't take the latest Transparency International report to tell you that. Palestinians themselves are the harshest critics of the PA. Consistently over past years, 80% or more of the Palestinian population is reported in opinion polls as believing the PA is seriously corrupt, and demanding change. We

and others can help the PA address this problem—one of perceptions and reality— if it really wishes to do so. Attacking corruption is very difficult, though, and requires a combination of measures. One is transparency, with the activities of the PA much more open to public scrutiny. This in turn requires more freedom of information, so concerned citizens can help hold public officials accountable. Another is to have a clear legal definition of what constitutes corruption, with clear penalties for violators. And then you need a willingness by the PA to indict and punish those officials who have been abusing their office over the last few years, however high up the system they may be.

***The PA's estimated financing gap at the beginning of year 2004 was \$650 million. It seems to be growing.***

The PA has created a serious fiscal crisis for itself, with salary expenditure essentially out of control. In spite of the efforts of the Finance Minister to maintain discipline, the PLC and Cabinet have shown little appreciation of the need for restraint, and have given in to pressure by various groups in the security and civil service. I can understand why public servants have been demanding pay rises—when an average PA salary is distributed to all those who depend on it, there is little enough for anyone. On the other hand, public sector salaries have increased by over 7% per year throughout the intifada, a time when the private sector has absorbed the pain of rising unemployment, underemployment and stagnant salary levels. The result of raising salaries this way is that the general public suffers: there is less money to pay the running costs of schools and hospitals and to maintain public facilities. On the eve of the intifada, the budget was in balance and no external support was needed. Now, although revenues have—quite remarkably—climbed back to pre-intifada levels, the PA is looking at a deficit for next year of perhaps US\$800 million. I do not see the donors financing a gap of this size—the total received in budget support in 2004 was about US\$350 million, and a similar amount is expected this year. The PA now faces some unpleasant choices. It will either have to cut public sector salaries, or cut staff, both of which are treacherous options. If you cut staff, much of this would need to come from the security services. This you cannot do these days by putting young, relatively untrained men out onto the street again, because there is a good chance that unemployment will remain high in the next few years (in the upper 20%, and over 30% in Gaza). This suggests an approach to “downsizing” that goes beyond simply providing cash retirement packages. These people need retraining, and they need opportunities to start their own businesses and to reintegrate into civilian life. This means a different retrenchment approach from one you might adopt in an economy in which unemployment is low. I

would also add another thing: if the PA is not exercising fiscal restraint, it becomes very difficult for some donors to justify continued budget support. What is needed now is clear fiscal leadership from the top of the PA, and the definition of a multi-year adjustment program which gradually reduces the fiscal deficit. If the PA shows real commitment here, then I believe the donors should step up and support the adjustment process—with higher levels of budget support than in the past three years.

***The World Bank was requested by the AHLC to monitor economic progress, in particular in relation to the lifting of closure and improvements in Palestinian governance. We haven't seen anything this year yet.***

Due to the various other demands we faced throughout this year, including our intense involvement in disengagement and the negotiations this summer, we did not have time to produce the quarterly reports we planned to. Now, though, we are close to finishing a report on the economic outcome of the first six months of this year, and on the progress made so far in dismantling closure and strengthening Palestinian reform. This will be presented to the AHLC in December and will help us all reach a consensus on what has happened over the last year and as a result of disengagement, and what our response as donors should be in the coming year.

***You have been World Bank Country Director for nearly five years now, and are about to return to Washington for another assignment. Are you satisfied with what you have managed to do here?***

No, I'm not. No-one who has been working as long on the peace process as I have can leave here with much sense of achievement. We are a very long way away from peace, and I carry my own share of blame for that. I could and should have done more. I missed opportunities. I made bad judgments. My courage often failed me.

I have been working on the Israeli/Palestinian conflict for almost twelve years now, first in Washington and more recently here. It would be inappropriate to suggest that this has become my conflict too, because I can and will soon leave. But I have lived with it for a long time now.

One thing I *am* pleased about is that there is a clear consensus on the Palestinian economy. On its importance, and on how to revive it. Most people accept without question now that a prosperous Palestinian economy is vital if you are to achieve sustainable security for Palestinians and Israelis, and to maintain any sort of political process. It is also clear what it will take to bring back economic stability and prosperity. I think we all got this right last December. You need an end to violence. You need a dismantling of closure. You need

proper Palestinian governance. And, if and only if you achieve these things, you need even more donor money than has been provided over the past four years. Such a combination will without much doubt bring double-digit GDP growth, a rapid fall in unemployment and a major reduction in poverty, and all in a relatively few years. The problem is that these things will not happen unless there is also a political process which Palestinians believe is leading them to independence and statehood---and there is little such belief right now.

I am happy about the work we have done on closure over the last three years. Some people feel we have been quite obsessive about this, but I don't agree with them. If an elimination of violence is the ultimate key to Palestinian prosperity, closure is the door. We set out to reassure Israel that it is possible under today's realities to do away with most movement restrictions without endangering Israel, and we have shown that in the context of border management you can have Palestinian prosperity and Israeli security, and that continuing to close and restrict the borders the way that Israel has been doing does not promote sustainable security. Jim Wolfensohn took the work the Bank has done on this subject as the heart of his agenda, an agenda he took to the political level in a way the Bank could never have done. He also had the guts to do this. It was one thing for the Bank to analyze what needed to be done, quite another for him to say "judge me on whether or not I deliver on this". This clarity, and the pressure it creates on everyone to avoid failure has resulted in more external pressure for change than we have seen here in many years.

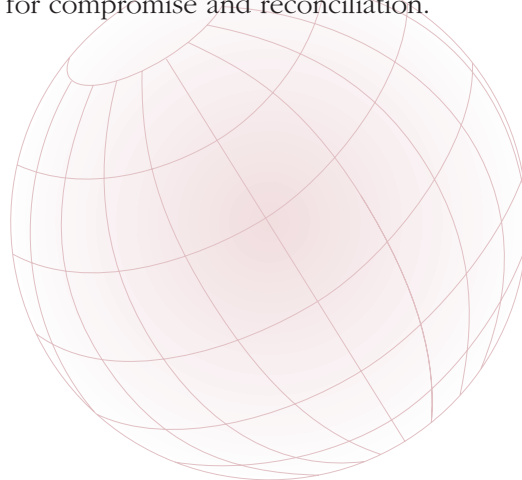
After twelve years I am still struck by the strength and the resilience of both peoples. But in this strength is also a great shared weakness. I don't believe either "sees" the other clearly. Blood and trauma have distorted the mental landscape. Each demonizes and underestimates his enemy, and this leads some to believe that 'victory' is possible, and that dangerous political myths can still be sustained. You might say this is a conflict which cries out for a strong and neutral third party. Be that as it may, there is no third party willing to take on such an interventionist role. That's the reality. So the answers have to come from the Palestinians and the Israelis, through the pressure they put on their leaderships for change. As yet, though, I'm not sure there's much of a domestic market for the type of leadership needed to end this long and bitter war.

***What would you have done differently if you had your time again?***

I would probably have spent more time on our project portfolio than I have. On the other hand, my colleagues have done fine without much help from me. Our

projects have an excellent track-record and have made a real contribution here. We have disbursed about 6% of the funds that have been spent since 1993, and have administered another 14% on behalf of other donors. These funds have financed more infrastructure projects---in sheer numbers---than any other single donor has. I counted over 2,000 when I looked into this last week, and that I am sure this is an underestimate. Wells, paved streets, bridges, schools, rehabilitated stretches of land, water projects. These are all projects that have made a difference to someone, however fleeting and imperfect. Our water and municipal projects, due to the excellence of my sector colleagues, have helped fashion the way that business is now done in those key sectors. We have played a major part in helping keep the PA from collapse, though the budget support we provided under the Holst Fund in the '90s and the Reform Fund today. We were the pre-eminent donor during the job creation initiative of the late '90s, and managed funds that created 35,000 job-years of temporary work. As this will tell you, this program has attracted some of the best and most dedicated of the Bank's technical staff. These are the people that define our institution. Quiet competence---no frills, no press, no noise; real craftsmen and professionals. It's been a real privilege to serve with such people for so long.

But I don't regret spending a lot of time on policy and strategy. In the end it isn't the lack of projects and the lack of donor money that has stunted the economy and made so many Palestinians poor; money won't fix things here. We were asked to come here twelve years ago in a collective attempt to put an end to occupation and conflict, and to do so in a way that worked both for Palestinians and Israelis. I said earlier that any solution must build on Palestinian economic stability and growth. As our December 2004 report states, prosperity is no guarantee of peace---but the converse is certainly true. If you have a collapsing economy, high levels of youth unemployment, prevalent poverty and social hopelessness, there is little basis for compromise and reconciliation.



# WEST BANK AND GAZA: JUSTICE<sup>1</sup>

## Background

The need for legal and judicial reform in WBG remains strong. The legal framework applicable in WBG is based on a mix of Ottoman, British Mandate and PA legislation, as well Israeli military orders. In addition, Jordanian legislation remains in effect in the West Bank, and Egyptian Administration regulations in Gaza, making the frameworks somewhat incompatible. Although some legislative harmonization has taken place, further reform is needed, particularly in regards to commercial legislation. Following the signing of the Oslo Accords, the PA was granted limited jurisdiction in certain parts of WBG. This jurisdiction was to be gradually expanded pursuant to the Accords, however, no such steps have been taken. Despite certain positive developments, such as the adoption and subsequent amendment of the Basic Law, after the outbreak of the recent *intifada* in 2000 progress on legal and judicial reform remained slow.

Recent events have brought legal and judicial reform to the forefront. After the death of President Arafat, on January 9, 2005, Mahmoud Abbas (Abu Mazen) won presidential elections held under the auspices of the Palestinian Central Election Committee. The elections were perceived to be free and fair according to international observers. Municipal elections were held in December of 2004, and January and May of 2005. Elections for the Palestinian Legislative Council are to be held in January of 2006. The renewed focus on legal and judicial reform is apparent in the policies and actions of the PA in recent months. Emphasis on legal and judicial reform has become all the more important in light of the planned Israeli disengagement from Gaza, as it put to the test the ability of the PA to govern effectively. Provision of an adequate legal framework, and enforcement of laws and judicial decisions, will be paramount to PA efforts. There

is also a sense that legal reform should progress in order to ensure the West Bank and Gaza as a single legal unit, which will be made more difficult by the continued Israeli occupation of the West Bank.

## Key Issues

**Judicial Reform.** To further the *Four Month Plan*, in March 2005 President Abbas signed a presidential decree establishing the Steering Committee for the Development of the Judiciary. The Steering Committee includes the Supreme Judicial Council (SJC); the Ministries of Justice (MoJ), Planning, Finance and the Interior; the Legal Committee of the PLC; the Attorney General; the Lawyer's Union; the Reform Coordination Support Unit; and the Palestinian Independent Commission for Citizens' Rights. The Committee has drafted amendments to the *Judicial Authority Law*, which have been adopted by the Council of Ministers (CoM) and submitted to the Palestinian Legislative Council (PLC). These amendments address the most serious obstacles to the functioning of the judiciary, including: clarification of the mandates of the SJC and MoJ in court administration; establishment of criteria for the appointment and promotion of judges; and clarification of the relationship between the MoJ and Office of the Attorney General. The mandate of the Committee, to last one year, also encompasses: finalizing the by-laws of legal and judicial bodies; proposing measures to foster the independence of the judiciary; proposing the necessary legislation for establishment of a judicial training center and administrative courts; recommending measures for improving the relationship between the police and

<sup>1</sup> Written by Paul Prettitore, Legal Advisor

public prosecutors, case management bottlenecks, and implementation of judicial decisions; and to determine needs for human resources and infrastructure.

**Legislative Reform.** In January 2005 the Special Interim Committee of the PLC submitted its status report on progress towards the report *Reform and Development of the Palestinian Legislative Council*. The status report highlighted progress made during the initial phase of the reform process, which includes assessments and studies on the current situation of the PLC, and makes recommendations for moving the reform process forward, including the organizational restructuring of the PLC. Although a number of key laws have been passed, there is still a strong need for reform of existing legislation, particularly in regards to commercial laws.

**Anti-Corruption.** On the anti-corruption front, in February 2005 the PLC adopted the *Law on Illicit Gains*, which is applicable to high and medium-level PA officials. The Law creates a Commissioner's Office to investigate complaints and inspect financial and property statements submitted by those covered by the *Law*. The PA recently appointed the former Speaker of the PLC to act as Commissioner. While not a full-fledged specialized anti-corruption agency, the appointment of the Commissioner, and the Law itself, are steps in the development of a comprehensive anti-corruption strategy. The PA has also shown a willingness to confront officials involved in corruption, as investigations of officials have been launched and some illegal activities, such as confiscation of land, have been reversed.

**Security Services.** The process of establishing civilian control over the security services has been initiated. Thus far the numerous security forces have been amalgamated under the central command of the Ministry of Interior into three service departments – the National Security, General Security and Palestinian General Intelligence Services. Though the security courts have been *de facto* abolished, there remains a need for their *de jure* abolishment.

**Establishment of Courts.** There has been little progress in establishment of courts as prescribed in the *Basic Law*. In particular, the Constitutional Court has yet to be established, although the law necessary for its establishment is currently before the PLC. Establishment of the Constitutional Court would help resolve questions regarding the separation of powers among the branches of government. Neither the administrative nor labor court systems are fully functional.

## World Bank Recommendations

The Bank has provided numerous recommendations to the PA on legal and judicial reform in regards to development of a legal reform project and assistance with the Gaza Disengagement. In regards to Gaza Disengagement, the Bank has offered recommendations on legislation relating to land and management of other assets. Most recently, the Bank provided the PA with a list of recommended next steps to be taken in relation to the development of a comprehensive anti-corruption strategy (see "Governance" page 2).

## Government Program

The Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict called on the PA to complete steps to ensure the separation of powers and meet certain benchmarks on judicial reform. The PA adopted the *One Year Reform Action Plan* to cover the period September 2004 to September 2005. This plan was drafted by the Reform Coordination Support Unit of the Office of the Prime Minister. This Action Plan obligates the PA to, *inter alia*, the following tasks: tackling corruption; improving the conditions for the establishment and functioning of a market economy; and supporting judicial reform and improving rule of law, including ensuring implementation of court decisions. At the London Meeting of donors in March 2005 the PA committed itself to further steps in judicial reform. The *Medium Term Development Plan for Palestinian Reform* (2005-2006), also produced by the Reform Coordination Support Unit, states as a priority reform and capacity-building of both the Ministry of Justice and the judiciary. Finally, the *Four Month Plan* adopted by the Government of Mahmoud Abbas, as a component of the PA's larger reform agenda, also covers legal and judicial reform. Its objectives include: strengthening the judiciary by ensuring its competence and independence; ensuring respect for implementation of judicial decisions; finalizing a plan for reinvigorating and fully reforming the judiciary; and addressing economic reform to support the private sector in order to promote investment.

## World Bank Lending/AAA

The Bank has allocated US\$5 million for a Legal Reform Project to be presented to the Board in FY07. This project will focus on three key areas: anti-corruption; access to justice; and commercial law reform. Anti-corruption activities would include capacity-building support to the Commissioner under the Law on Illicit Wealth and support in the development of a comprehensive anti-corruption strategy. Access to justice activities will include mapping the justice sector and supporting a development strategy and providing analysis of obstacles to justice faced by indigenous and vulnerable persons, including women. Commercial law reform will support updating and harmonizing commercial legislation.

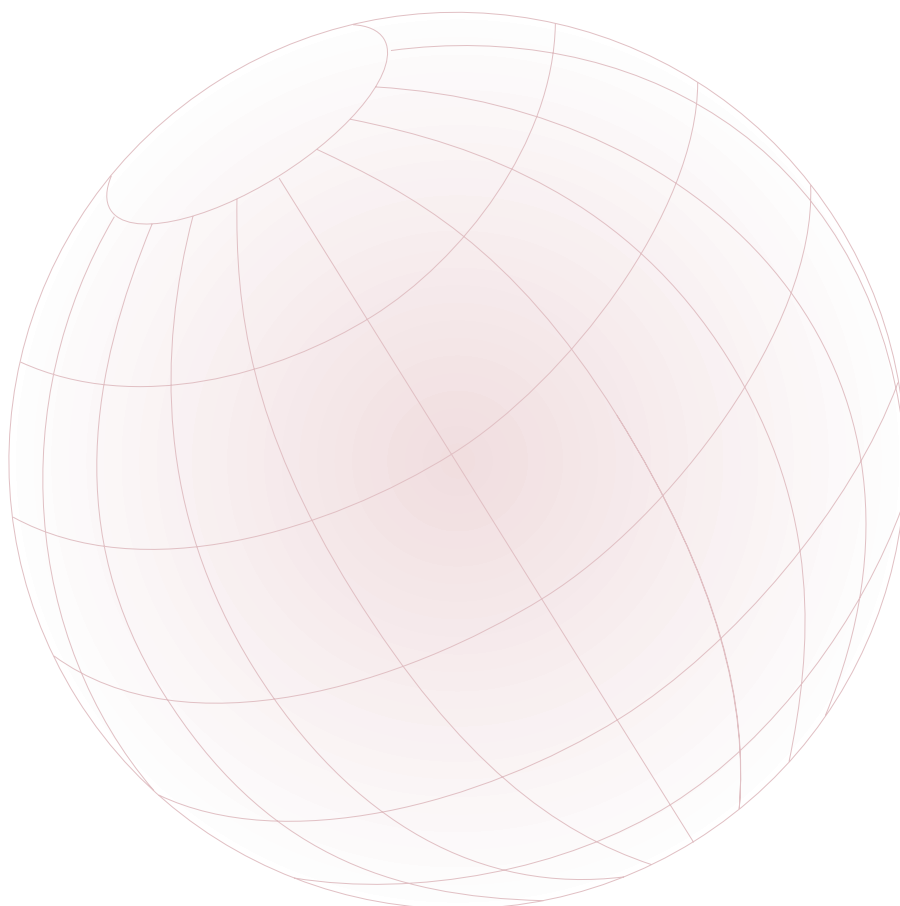
## Status of the Dialogue

Dialogue with the PA is ongoing, particularly in regards to anti-corruption on which the Bank has had several meetings with the Office of the Prime Minister, the Ministers of Planning and Social Welfare, the Attorney

General and the Reform Coordination Support Unit. As the key areas to be addressed by the Bank are developed, further dialogue will focus on designating PA counterparts for Bank-funded activities. The Bank also continues to provide advice on legal issues related to the Gaza Disengagement.

## Donor Activities/Partnerships

The European Commission began in mid-2005 a €7 million project focusing on establishment of the Judicial Training Center, construction of courthouses and provision of IT to court structures. USAID-funded programs on judicial and legal reform ended in late 2004, and follow-on programs are currently under development. They will likely focus on courthouse construction, assistance to law schools and the Palestinian Bar Association, technical assistance to the PLC and enforcement of judicial decisions. The Japanese, Italian and Dutch Governments have provided funding for additional courthouse construction, and the Saudi Fund for Development is considering recommitting previous funds for courthouse construction, one in the West Bank and one in Gaza.



# Recent Economic Developments

## Economic Output

Recent economic data from a variety of sources (Palestinian imports from / exports to Israel for the first three months of 2005; Palestinian employment data through the second quarter of 2005 and in Israel through Jun; banking sector data through end-Jun; fiscal and price data through Aug) suggest that the modest economic recovery that began in 2003 may continue to extend into this year in the West Bank. In Gaza, however, due to closures imposed on Palestinian workers during the third and fourth quarter of 2004 that continued into the first and second quarter 2005, growth stalled and, quite possibly, declined.

Underlying this growth in the West Bank 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 and felt in Gaza depends greatly upon the resolution of border passages for goods and people in Gaza. 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 recent data 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, Sep 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, 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

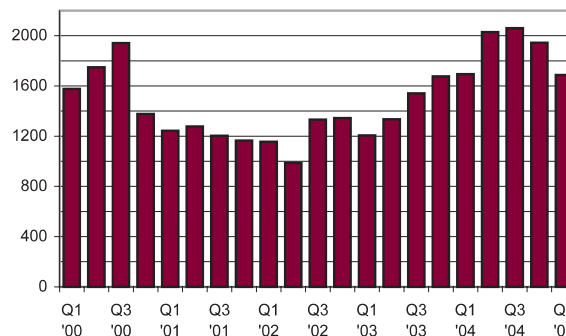
Trade will play an ever increasing role in the future. Throughout the past five years, imports of final goods, services, equipment and intermediate inputs represented approximately 70 percent of GDP, while exports of goods and services represented less than 20 percent of GDP [PCBS].

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<sup>1</sup>. 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. (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 trade with Israel. Looking at imports, while the first 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 second 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. First quarter 2005 imports (NIS 1688 million; USD 388 million equivalent) declined considerably; compared to the pre-Intifada third quarter of 2000, the decline in imports is 13.1 percent (Figure 1).

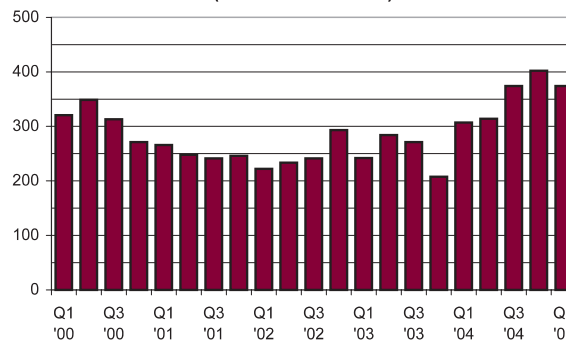
**Figure 1. Merchandise Imports from Israel**  
(million NI shekels)



Source: Israeli Central Bureau of Statistics.

Trends in merchandise exports to Israel have followed a similar trend: decline through summer 2002; some rebound in the second half of that year; decline in the first quarter of 2003, followed by an increase in the second quarter. Unlike imports, fourth quarter 2003 saw a decline of exports. Starting in the first quarter of 2004 exports continued to grow, surpassing pre-Intifada levels by the second half of 2004. First quarter exports of 2005 (NIS 374 million, US\$86 million equivalent) were 19.4 percent above third quarter 2000 although seasonally lower than Q3-2004 (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.

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

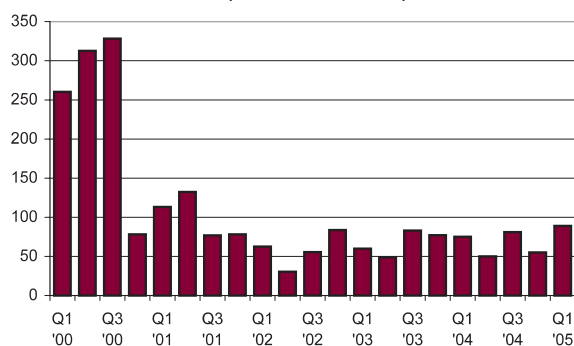
## Labor Markets

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 Second quarter 2005, the number of workers stood at 67,000 (65,000 from the West Bank, incl. East Jerusalem, and 2,000 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 first quarter 2005, only \$89million – a 73.0 percent decline (see Figure 3) – was remitted. The correlation coefficient of workers remittances and number of Palestinian working in Israel is 0.98, analyzed over the period 2000-2004.

**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.

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 177,000 currently (see Table 2).

In second quarter 2005 the number of Palestinians working inside the West Bank was 412,000 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) followed by increase in employment in second quarter (412,000).

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 second quarter 2005 job level of 177,000 virtually 21.2 percent increase 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). Following disengagement labor flows to Israel are zero

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 second quarter of 2005 each employed person was supporting 5.0 persons. In Gaza the dependency ratio increased more dramatically, from 5.9 to 7.7.

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”).

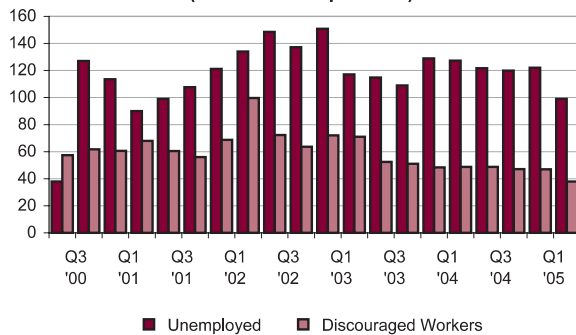
Following a decline in the unemployment rate in the West Bank in the fourth quarter of 2003 to 20.7 percent (down from its *Intifada* peak of 31.4 percent in first quarter 2003) first quarter 2004 again saw an increase, to 24.6 percent with 129,000 persons unemployed. Third and fourth quarters noted slight improvement, but the number grew again in first quarter 2005 with 122,000 persons without jobs – an unemployment rate of 22.6 percent. Second quarter back to saw improvement with 99,000 persons unemployed and a lower unemployment rate since the beginning of the *Intifada* (17.2 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	Q-2 2005
Working in West Bank	357	319	313	323	290	358	359	367	349	367	371	394	358	412
Working in Gaza	158	116	130	144	163	167	171	163	167	146	154	163	168	177
Working in Israel – from West Bank	116	40	65	47	42	47	56	51	47	45	53	48	60	65
Working in Israel – from Gaza Strip	30	3	2	7	6	4	8	4	6	0	1	1	0	2
<b>Total Employed</b>	<b>661</b>	<b>479</b>	<b>511</b>	<b>523</b>	<b>501</b>	<b>577</b>	<b>595</b>	<b>585</b>	<b>569</b>	<b>559</b>	<b>581</b>	<b>605</b>	<b>586</b>	<b>656</b>
<b>Unemployed (ILO)</b>	<b>74</b>	<b>189</b>	<b>181</b>	<b>196</b>	<b>218</b>	<b>185</b>	<b>184</b>	<b>188</b>	<b>202</b>	<b>224</b>	<b>212</b>	<b>208</b>	<b>208</b>	<b>177</b>
"Discouraged Workers"	94	127	99	109	105	105	74	72	68	67	69	64	64	59
<b>Total, Unemployed and Discouraged</b>	<b>167</b>	<b>316</b>	<b>280</b>	<b>305</b>	<b>323</b>	<b>291</b>	<b>258</b>	<b>260</b>	<b>271</b>	<b>291</b>	<b>281</b>	<b>272</b>	<b>272</b>	<b>236</b>

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)**

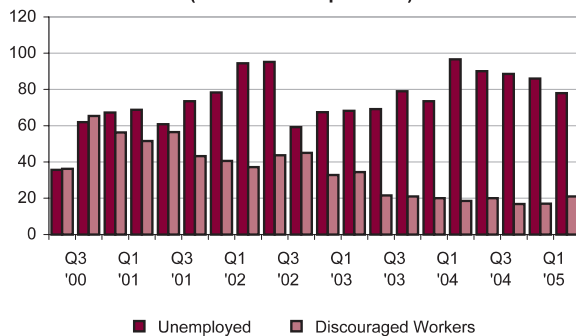


Source: PCBS. Data for West Bank includes East Jerusalem.

In Gaza, Second quarter 2005 unemployment stood at 33.3 percent (78,000 individuals); the fourth 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.)

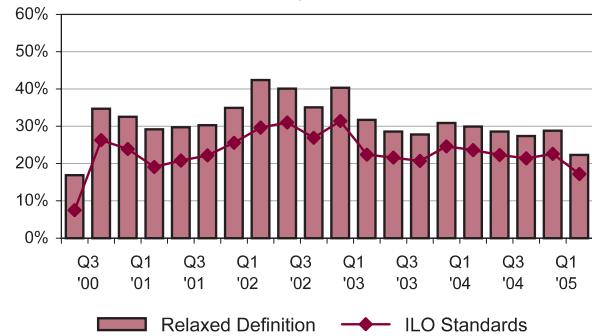
Including in the labor force “discouraged workers” – persons without jobs who, because of their pessimism regarding the prospect of actually finding work, have stopped looking – produces a “relaxed definition” of unemployment showing similar trends: the relaxed definition unemployment rate in the West Bank has increased from 16.9 percent (95,000 individuals) in third quarter 2000 to 22.3 percent (137,000) in Second quarter 2005; in Gaza, from 27.1 percent (71,000 individuals) to 35.6 percent (99,000) over the same period (see Figures 6 and 7).

**Figure 5. Gaza Strip Unemployment  
(thousands of persons)**



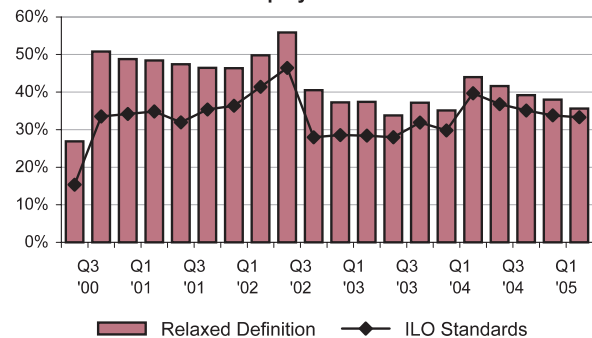
Source: PCBS

**Figure 6. West Bank  
Unemployment Rates**



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

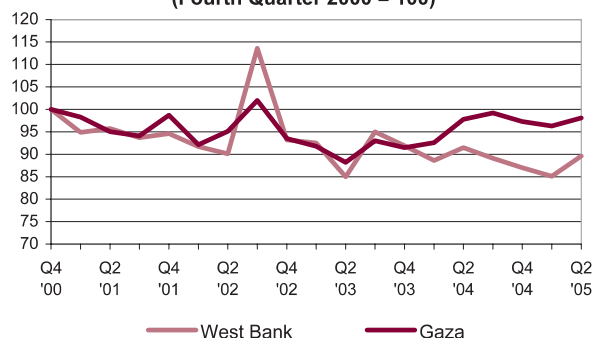
**Figure 7. Gaza Strip  
Unemployment Rates**



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 10.4 percent since fourth quarter 2000; in Gaza, they have decreased 2.0 percent (see Figure 8).

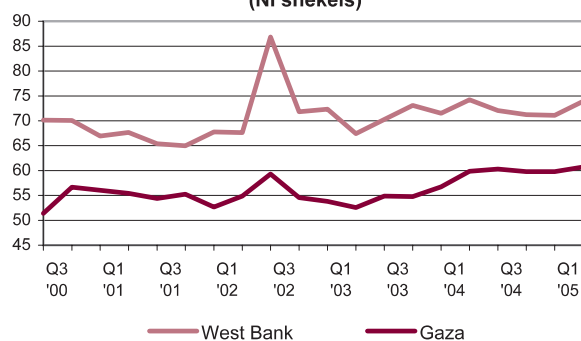
**Figure 8. Real Wage Indices**  
(Fourth Quarter 2000 = 100)



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 73.9 in second quarter 2005 and at NIS 60.7 in Gaza; these compare with an average daily wage of NIS 125.6 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 June 2005, the third monthly increase following the decrease recorded in March. May's monthly average of 16,170 workers and June's 16,920 – above the level recorded in January 2003 (which was the highest level during the *Intifada*), compare with 2,550 and 6,800 in May (the lowest level recorded since June 2002) and June 2004, respectively<sup>2</sup>.

## Fiscal Developments

Ministry of Finance data through August shows that PA revenue collection is running approximately 12.5 percent above average monthly amounts projected in the 2005 budget. Domestic revenue has averaged NIS 168.74 million monthly (US\$38.19 million equivalent) compared to the budgeted NIS 149.3 million – a 13 percent surplus. 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 268.98 million (US\$60.87 million equivalent), almost 12 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 310.34 million (US\$70.23 million equivalent) was available to meet PA expenditure – 7.8 percent below monthly anticipation in the budget (Table 3).

<sup>2</sup> 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.

While revenue has been on target, budgetary support from the international donor community over the first eight months of 2005 has fallen well below expectations. Anticipating US\$654 million in foreign financing to cover recurrent expenditure (US\$54.5 million monthly), plus an additional US\$240 million (US\$20 million monthly) to finance a new “social safety net” program, through end-August only US\$248.54 million has been received – a monthly average of US\$31.06 million.

Thus far, US\$79.2 million has come through the multi-donor “Budget Trust Fund” established by the World Bank (\$30.0 million from Japan; US\$25.1 million from the European Union; \$20.8 million from Norway; \$3.3 million from France). Arab states have contributed \$148.45 million in 2005 (US\$77.7 million from Algeria; \$40.0 million from Kuwait; \$17.72 million from Kingdom of Saudi Arabia; \$11.0

million from Qatar; \$1.0 million from Oman). US\$20 million has been received through the World Bank’s Emergency Services Support Program (ESSP), designed to

safeguard critical non-wage current expenditures in the Ministries of Health, Education, and Social Affairs.

As a consequence of shortfalls in donor support (and the inability of the PA to increase its borrowing from Palestinian commercial banks), current expenditures have been constrained – and the new social safety net program not yet implemented.

This tightening, however, has been limited to non-wage expenditures; wages and salaries, averaging NIS 353.96 million (US\$80.10 million equivalent), are actually running 4.1 percent of the level projected in the 2005 budget. Non-wage current expenditures (transfers and operating expenditures), which averaged NIS 188.93 million (US\$ 42.75 million) are being executed at only 39.6 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 79.0 percent of the forecast level.

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

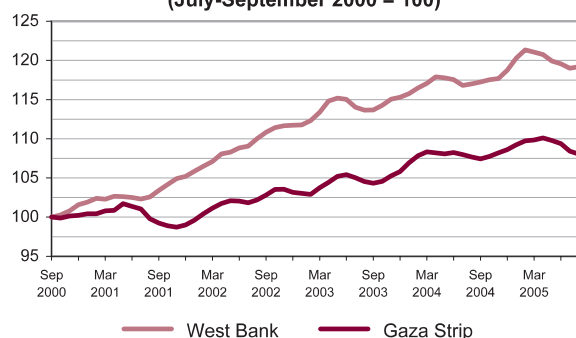
	Budget 2005 Monthly Average		Year to Date (January-August) Monthly Average		Percent
	NIS	US\$	NIS	US\$	
<b>Total Gross Revenue</b>	<b>389.13</b>	<b>88.46</b>	<b>437.72</b>	<b>99.05</b>	<b>112.5%</b>
<b>Domestic Revenue</b>	<b>149.30</b>	<b>34.32</b>	<b>168.74</b>	<b>38.19</b>	<b>113.0%</b>
Domestic tax revenue	85.59	19.68	91.10	20.62	106.5%
Domestic non-tax revenue	63.71	14.65	77.65	17.57	121.9%
<b>Clearance Revenue</b>	<b>239.84</b>	<b>55.13</b>	<b>268.98</b>	<b>60.87</b>	<b>112.1%</b>
Less: Tax Refunds	5.63	1.29	9.77	2.21	173.5%
<b>Total Net Revenue</b>	<b>383.51</b>	<b>88.16</b>	<b>427.95</b>	<b>96.84</b>	<b>111.6%</b>
Less: Deductions for "Net Lending"	47.08	10.82	117.61	26.61	249.8%
<b>Total Available Net Revenue</b>	<b>336.42</b>	<b>77.34</b>	<b>310.34</b>	<b>70.23</b>	<b>92.2%</b>
<b>Total Expenditure</b>	<b>660.36</b>	<b>151.81</b>	<b>542.89</b>	<b>122.85</b>	<b>82.2%</b>
Wages and Salaries	339.22	77.98	353.96	80.10	104.1%
Non-Wage Current Expenditure	312.84	71.92	188.93	42.75.26	60.4%
<b>Deficit Before Financing</b>	<b>-323.94</b>	<b>-74.47</b>	<b>-232.55</b>	<b>-52.63</b>	<b>71.8%</b>

Source: Ministry of Finance. Jul and Aug data preliminary. Note: Budget 2005 projected an average exchange rate of NIS 4.35 / US\$ 1 for the year 2005; actual average exchange rate for period January-August was 4.419. 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 eight 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.

## 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 eight months of 2005, inflation in the West Bank has accelerated just slightly, to 2.4 percent, while in Gaza, it has fallen back to 1.08 percent, compared to the January-Aug 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 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-Aug 2005 period, Beverages and Tobacco (up 4.8 percent), Furniture and Household Goods (up 4.2 percent), and Housing (up 3.9 percent) have driven West Bank inflation, with the largest increases compared to the similar eight-month period in 2004.

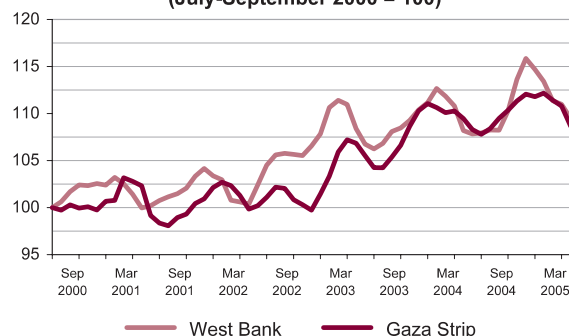
Last year in Gaza, the Food Index represented the second largest increase among the components of the consumer price index, rising 4.8 percent (compared to a 3.5 percent increase in 2003.) Food costs decreased during the first eight months of 2005, with the January-Aug average 0.5 percent above that one year ago. Leading the increases this year are Housing, up 5.4 percent; and Beverages and Tobacco, up 4.5 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 2.8 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 decreases during the last two quarters was driven by decreases in Food 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-Aug 2005 to the first eight months of 2004, food prices have increased 1.7 percent in West Bank but only 0.5 percent in Gaza.

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

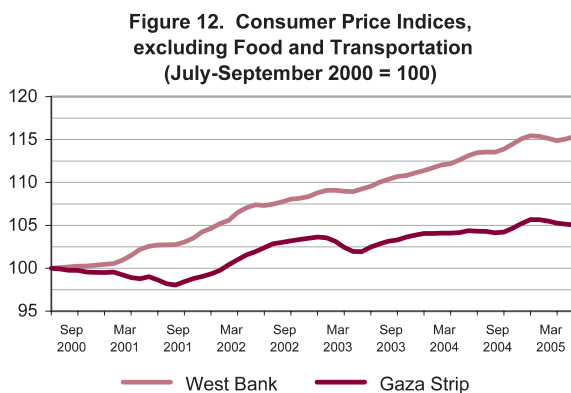


Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

Excluding food, the consumer price index in the West Bank has risen by 2.8 percent in the first eight months of 2005; in Gaza, the non-food CPI increased 1.5 percent so far this year – rates below what were witnessed in previous years. (In 2001, non-food prices rose 4.6 percent in the West Bank and fell 0.3 percent in Gaza; in 2002, non-food prices rose 8.7 percent in the West Bank and by 2.8 percent in Gaza; 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 eight months of 2005, this measure of “core inflation” increased 2.7 percent in the West Bank and 1.2 percent in Gaza.



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 eight months of 2005 the shekel has weakened, losing 3.7 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-Aug 2005 has continued to show parallel increases

of 3.0 percent in both Gaza and the West Bank, compared to the first eight months of 2004.

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



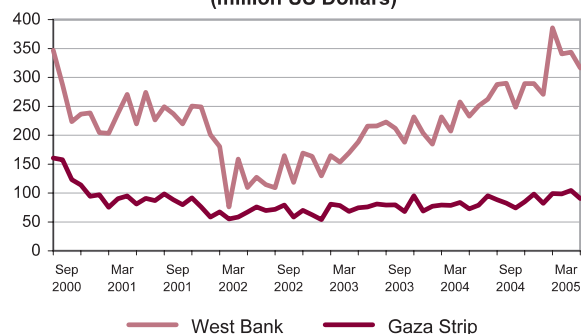
Source: World Bank calculations based on PCBS data. Figure shows three-month moving averages, re-based to Third Quarter (July-September) 2000 = 100.

## 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)**

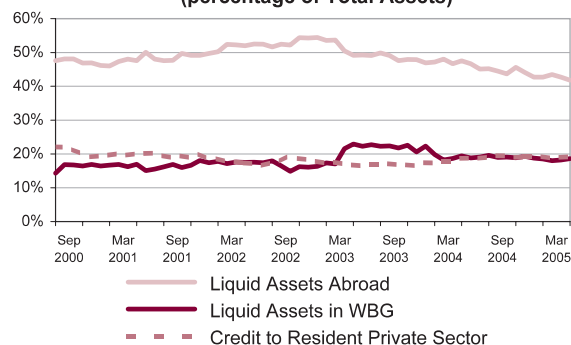


Source: Palestinian Monetary Authority (PMA).

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-Jun 2005, 18.6 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 41.8 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-Jun 2005, the stock amounted to just over US\$1.04 billion. Nevertheless this still represents a 2 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)

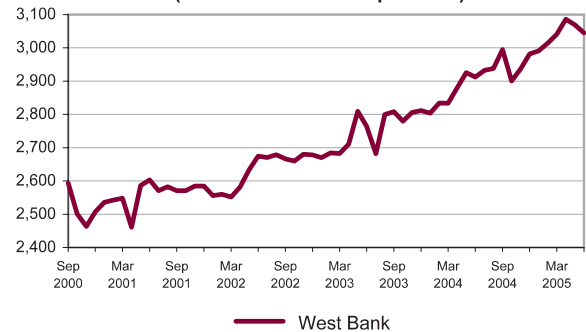


Source: Palestinian Monetary Authority (PMA).

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-Jun deposits stood 17.4 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 second quarter of 2005 has witnessed some increase; at end Jun, total deposits in Gaza were \$1.07 billion, an amount 5.0 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.

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



Source: Palestinian Monetary Authority (PMA).

# Update on World Bank Portfolio in the West Bank and Gaza

## (Information as of October 2005)

World Bank assistance since September 2000 has aimed to strike a balance between maintaining medium-term developmental activity where feasible and providing emergency assistance designed to sustain Palestinian institutions and mitigate poverty.

In response to economic hardship and fiscal crisis, the Bank – like other donors – has placed increasing emphasis on emergency operations. In total, the Bank has committed US\$152 million to various emergency projects since the beginning of the current *Intifada*.

The World Bank has currently 13 ongoing projects in the West Bank and Gaza (Table 1), for a total commitment of US\$153.8 million, of which US\$86 million has been disbursed to-date. Almost 40 percent of the World Bank current commitments are made towards emergency projects, while the remaining commitments are being channeled toward more traditional developments projects in a wide array of sectors.

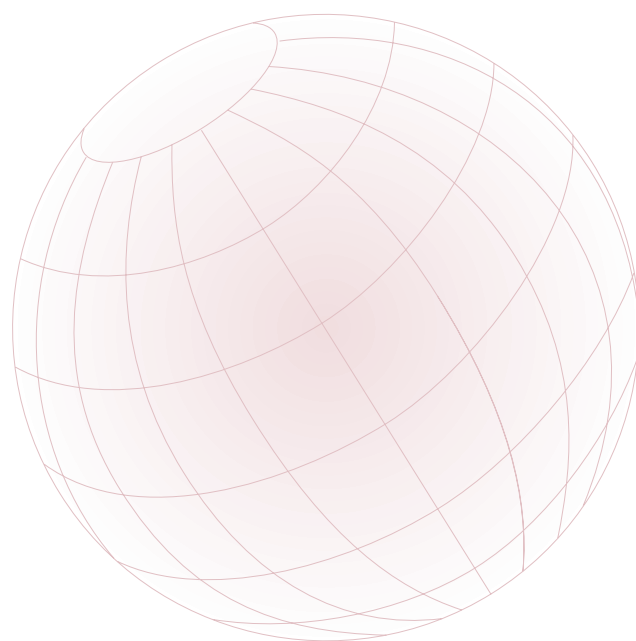
Since the last edition of the *West Bank and Gaza Update*, four new projects have become operational; the Land Administration Project, the Tertiary Education Project, the Gaza II Emergency Water Project, and the Emergency Water Project.

Other projects expected to be approved in the course of fiscal year 2006 include a Palestinian Trade Corridor Facilitation Pilot Project, an Emergency Technical Assistance Project, a Pension Reform Project, a Municipal Management and Service Delivery Project, a Structural Adjustment Operation and a Legal Reform and Development Project.

As of October 2005, the Public Financial Management Reform Trust Fund has disbursed US\$231.4 million to the Ministry of Finance's Single Treasury Account (STA): Norway (US\$33 million), Canada (US\$7 million), DFID (US\$21.3 million), EC (US\$122.8 million), Japan (US\$40 million), France (US\$3.3 million), Korea (US\$600,000)

and Australia (US\$2.4 million). The Bank's US\$20 million Public Financial Management Structural Adjustment Operation was disbursed separately to the STA. Other donors considering a contribution to the Reform Fund include Spain, the Netherlands, and New Zealand.

The Bank also performs analytical sector work on various policy issues and subjects of topical concern. The December 2004 report "*Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects*" analyzes the potential impact of Israel's Disengagement Plan on the Palestinian economy. It argues that rapid economic can only come about if there is a drastic improvement in the security environment; a dismantling of the various post-*intifada* restrictions on the movement of Palestinian people and goods; and dynamic progress on Palestinian governance reform and institution-building. If these preconditions for economic revival emerge, it is argued that a major increase in donor assistance levels could have a transformational effect.



On-going Bank Group Operations	
Project Name & Details	Description
<b><i>Education Action Project (EAP).</i></b> World Bank: US\$7 million. Borrower (PA): US\$0.63 million. Approval Date: July 18, 2001. Closing Date: September 30, 2005. Task Team Leader: Arun Joshi	The Education Action Project (EAP) supports the work already undertaken by the Ministry of Education (MOE) in the development of its Five Year Plan (2001-2005) and long-term education strategy. The EAP primarily aims to strengthen the capacity of the MOE to manage the education system more effectively through improving policy-making, planning and budgeting at central and district levels. It supports the implementation of activities in targeted domains included in agreed annual departmental work plans derived from the Five-Year Education Plan. This should lead to improved utilization of funding from the budget and international donors.
<b><i>Solid Waste and Environmental Management Project (SWEMP).</i></b> World Bank: US\$9.5 million Approval Date: October 10, 2000. Closing Date: December 31, 2007. Task Team Leader: Allan Rotman	The Project is financing interventions in solid waste collection, transfer, and disposal of waste for the District of Jenin. The Project is managed by the Joint Services Council for Solid Waste Management (JSU). The Project is assisting in strengthening capacity building of the Environmental Quality Authority. The EC is financing the supply of collection vehicles and transfer stations relation set-ups.
<b><i>Palestinian NGO Project (PNGO II).</i></b> World Bank: US\$8 million. UK/DFID: US\$7.8 million. Italy: US\$2.4 million. Approval Date: June 21, 2001. Closing Date: August 31, 2006. Task Team Leader: Sima Kanaan	The Project is aimed at strengthening the capacity of NGOs to deliver sustainable services to the poor and marginalized, while supporting the overall professional and strategic development of the Palestinian NGO sector. The Project has three main components: a Partnership Grants Program, a Development Grants Program and a Sector Support Program aimed at supporting information exchange and capacity building support to umbrella NGO networks. A sub-component of the Project involves the establishment of a Center for Women in Difficult Circumstances. The Project is being implemented by the Welfare Association Consortium, consisting of the Welfare Association, the British Council, and the Charities Aid Foundation (CAF).
<b><i>Electric Sector Investment and Management Project (ESIMP).</i></b> World Bank: US\$15 million. EIB: US\$38 million. Italy: US\$35 million. PA: US\$3 million. Approval Date: August 31, 1999. Closing Date: December 31, 2005. Task Team Leader: Somin Mukherji	The objectives of this US\$91 million Project are to rehabilitate the power distribution systems in the central and southern West Bank, and to address the institutional structure for longer-term sector management.
<b><i>Emergency Water Project (EWP).</i></b> World Bank: US\$12.5 million Approval Date: February 2004 Closing Date: June 30, 2006 Task Team Leader: Suhail Jme'An.	The main objective of the project is to support investments that would help alleviate the chronic shortages of safe water supplies; reduce water costs and health risks; and conserve scarce water resources by reducing system losses. The Project includes the following components: (a) emergency water supply repair and rehabilitation in remote rural areas of the southern West Bank; (b) repair and rehabilitation necessary to maintain water and sanitation service levels in the Gaza Strip at the high levels achieved under the Gaza Water and Sanitation Project despite the deteriorating economic and security conditions; and (c) Technical Assistance and Capacity Building provided to the Palestinian Water Authority and the recently established Coastal Municipal Water Utility in the Gaza Strip and to form pilot joint services councils for smaller towns in the southern West Bank.

Project Name & Details	Description
<p><b><i>Social Safety Net Reform Project (SSNRP)</i></b></p> <p>World Bank: US\$10.0 million  Approval Date: July 19, 2004  Closing Date: December 31, 2008  Task Team Leader: Sima Kanaan</p>	<p>The objectives of the Project are to mitigate the impact of the present social and economic crisis on the most vulnerable, and to protect the human capital of poor children in the West Bank and Gaza. This objective is achieved through enhancing and modifying the existing Special Hardship Case (SHC) program of MOSA to include a component that will make eligible households' receipt of assistance conditional upon their compliance with a set of pre-determined criteria related to school attendance, attendance at scheduled health check-ups, and attendance at awareness session on pertinent social issues. The Project also aims to strengthen the institutional capacity of PA agencies involved in the implementation of the proposed project, in particular in Ministry of Social Affairs.</p>
<p><b><i>The Integrated Community Development Project (ICDP).</i></b></p> <p>World Bank: US\$10 million.  Approval Date: May 23, 2002.  Closing Date: June 30, 2006.  Task Team Leader: Husam Abu Dagga</p>	<p>The Project seeks to improve the quality and availability of basic social and economic services in poor and marginalized communities of West Bank and Gaza. It succeeds previous community development operations financed through the Bank under Community Development Projects I &amp; II. The project finances the rehabilitation of roads, water supply and sanitation systems, schools, clinics, thereby preserving and extending the capital stock of villages and small municipalities. It also finances agricultural activities, including the rehabilitation of wells, roads, and terraces. Lastly, the project is piloting new Information and Communication Technology (ICT) initiatives by funding the creation of Multipurpose Tele-centers, thereby improving access to information and training for the poor and marginalized</p>
<p><b><i>Emergency Municipal Services Rehabilitation Project (EMSRP).</i></b></p> <p>Total estimated cost: US\$70 million.  World Bank: US\$20 million.  EU: US\$30.5 million. Belgium: US\$7.2 million.  PA: US\$3 million.  Approval Date: December 17, 2002  Closing Date: March 31, 2006.  Task Team Leader: Ibrahim Dajani.</p>	<p>The Project objectives are to: (i) mitigate further deterioration in the quality and coverage of municipal services, particularly solid waste collection, electricity, water, and sanitation services; (ii) generate temporary employment opportunities for unemployed workers who have lost jobs inside Israel, or due to the economic contraction in WBG; and (iii) introduce a mechanism – a Municipal Fund – to link central and local government budgetary planning processes to strengthen Palestinian emergency response capacity, enhance mobilization of donor assistance, and improve the efficiency and equity of resource transfers to local governments.</p>
<p><b><i>North Gaza Emergency Sewage Treatment Project.</i></b></p> <p>World Bank: US\$7.5 million  Approval Date: September 9, 2004  Closing Date: June 30, 2010  Task Team Leader: : Suhail Jme'An.</p>	<p>The North Gaza Emergency Sewage Treatment project is the fourth in a series of Bank-funded water and sanitation projects since 1994. The Project is addressing the immediate and impending health, environmental and safety hazards to the communities near the poorly-treated and rapidly growing sewage lake in the Beit Lahia area of North Gaza. The project is also part of a long-term solution for the adequate treatment and disposal of wastewater in North Gaza, which entails the construction of a new wastewater treatment plant expected to be financed by various donors. Approximately 300,000 people living in North Gaza will benefit from this project.</p>

<p><b><i>Gaza Water and Sanitation Services Project (GWSSP II).</i></b></p> <p>World Bank: US\$25 million</p> <p>Approval Date: June 7, 2005</p> <p>Closing Date: January 31, 2009</p> <p>Task Team Leader: Suhail Jme'an</p>	<p>This Project is a follow-up to the previous GWSSP. The development objectives of this Project are: (a) to develop a sustainable institutional structure of the water and wastewater sector in Gaza by supporting the functional establishment of a Coastal Municipalities Water Utility, as well as by enhancing and deepening the involvement of the private sector through an eight-year operating contract and strengthening the regulatory and institutional capacity of the Palestinian Water Authority; and (b) to continue improving the water and sanitation services by rehabilitation, upgrading and expansion of existing systems and facilities. Like the GWSSP, this Project is part of a larger parallel capital program to improve water and sanitation services in Gaza. The Project includes substantial investments in the establishment of a bulk water supply network connecting the various municipalities in Gaza, in the sewerage network, and in wastewater treatment plants. These investments, totaling about US\$340 million for 2000-2005, will be financed by soft loans and grants from EIB, USAID, and KfW.</p>
<p><b><i>Tertiary Education Project</i></b></p> <p>World Bank: US\$10 million</p> <p>Approval Date: April 26, 2005</p> <p>Task Team Leader: Adriana Jaramillo</p>	<p>The project development objectives are: 1) to improve the regulatory environment for tertiary education management, relevance and quality assurance; 2) increase internal and external efficiency of the tertiary education system, as a first step towards seeking sustainability; and 3) to create incentives and provide the basis for improvements in efficiency, quality and relevance of tertiary education institutions in order to meet the socioeconomic needs of the Palestinian population. The project provides technical assistance on defining policies consistent with increasing the financial sustainability of the sector and improving the capacity to respond to labor market needs. It also provides incentive mechanisms to improve quality and relevance of the programs offered. On a competitive basis, Institutions will apply for quality and management grants, administered by a Fund mechanism. In addition the project will provide technical assistance to improve the management of the current student loans program managed by the MOEHE, and will set the basis for expansion of the financial resources available for funding the student aid programs. Co-financing from the EC is expected.</p>
<p><b><i>Land Administration Project</i></b></p> <p>World Bank: US\$3 million</p> <p>Approval Date: January 26, 2005</p> <p>Closing Date: December 31, 2007</p> <p>Task Team Leader: Ibrahim Dajani</p>	<p>The objective of this project is to assess/learn the extent of commitment and readiness of the PA to reforming land administration by introducing policy, legal and institutional changes to achieve efficient procedures for the issuance of land titles and registration of property transactions, and transparent processes for the management and disposal of public land. The project 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.</p>

Multi-Donor Trust Funds	
Name of Fund	Description
<b><i>Public Financial Management Reform Trust Fund</i></b> <b><i>Contributions:</i></b> World Bank: \$20 million EC: \$164.8 million Norway: \$33 million United Kingdom: \$30.3 million Canada: \$7 million Japan: \$40 million Australia: \$2.4 million Korea: \$0.6 million France \$3.3 million Approval Date: April 22, 2004 Closing Date: December 31, 2005 Task Team Leader: Claus Astrup	In response to the perilous fiscal situation facing the Palestinian Authority, the Bank was asked by the PA and the donors to create a new mechanism through which donors would be encouraged to provide pooled contributions, to be disbursed into the Single Treasury Account (STA) of the Ministry of Finance (MOF). The Fund's main focus is to support improved PA financial management within a broader national reform agenda. Disbursements from the Reform Fund are made based upon the achievement of certain benchmarks, a number of which have been derived from the Bank's June 2004 Country Financial Accountability Assessment (CFAA). As of November, the Reform Fund has disbursed US\$231.4 million to MOF's Single Treasury Account

World Bank Projects Under Preparation	
Project Name & Details	Description
<b><i>Second Health System Development Project (HSDP II).</i></b> World Bank: US\$10 million Task Team Leader: Anne Johansen	The Project objectives are to improve the quality, access, and cost-effectiveness of essential secondary and tertiary care health services for populations in the northern Gaza and West Bank regions. In the original plan, the Project intended to replace and upgrade two hospital systems: Al Shifa Hospital in Gaza and Al Watani Hospital in Nablus, and to also build upon the experience of the First Health System Development Project to extend the development of integrated information and management systems to improve the productivity and quality of health care services in the targeted hospitals. Due to the current political situation, the preparation work for the Second Health System Development Project (HSDP II) has been considerably delayed. In addition, the amount of financing available, both from the Bank and from co-financing sources, has been significantly reduced as a result of the crisis. Consequently, the scope of the Project has been reduced. The following components from the original plan will be retained in the revised plan for the HSDP II: (a) a regional Hospital Rationalization Plan for the Northern West Bank; (b) hospital master plans for Shifa Hospital in Gaza City and New Watani Hospital in Nablus; (c) a waste management pilot program; (d) a management information system; and (e) quality improvement.
<b><i>Palestinian Trade Corridor Facilitation Pilot Project</i></b> World Bank: US\$10 million Task Team Leader: Josephine Bassinette	This project is being devised pursuant to the insight that trade is a condition sine qua non for Palestinian economic recovery and growth. Thus, the project's objectives are to (i) facilitate efficient and predictable trade between Gaza and the West Bank, between Gaza and Israel, and between Gaza and the rest of the world; (ii) create an approach that can be replicated for other crossings; (iii) through improved movement of goods, add to economic growth.

<b><i>Emergency Technical Assistance Project</i></b> World Bank: US\$5 million Task Team Leader: Markus Kostner	The project aims to (i) assist the PA develop and operate the institutional set-up for the transfer, management and disposal (TMD) of settlement assets (including issues regarding land) and (ii) support the PA in carrying out other tasks that will foster economic recovery following disengagement.
<b><i>Pension Reform Project</i></b> World Bank: US\$5 million Task Team Leader: Josephine Bassinette	The objectives of the project are to (i) assist the PA in establishing a new independent pension institution, the Palestinian Pension Agency (PPA) and (ii) support the PPA through the beginning of implementation of a unified, financially sustainable pension system for the Palestinian civil service and security services. This will entail unifying and rationalizing the existing schemes and by creating a single system for all public sector workers, which in turn will strengthen the fiscal position of the PA by reducing the pressure on government finances of current pension arrangements.
<b><i>Municipal Management and Service Delivery Project</i></b> World Bank: US\$15 million Task Team Leader: Stephen Karam	This project aims at (i) supporting local government units in sustaining the provision of essential municipal services and (ii) building institutions that will increase efficiency and transparency in the intergovernmental system
<b><i>Public Financial Management Reform Structural Adjustment Operation</i></b> World Bank: US\$20 million Task Team Leader: Robert P. Beschel	The Bank's second Public Financial Management Reform SOA is aimed to: i) provide budgetary support to the PA during a period of acute economic and fiscal crisis; (ii) help leverage additional donor support for the Public Financial Management Reform Fund; and (iii) help strengthen the PA's financial management reform agenda.
<b><i>Legal Reform and Development Project</i></b> World Bank: US\$5 million Task Team Leader: Markus Kostner	This project has the objective to support the legal and judicial reform necessary to promote a climate for the re-invigoration of the Palestinian economy.

### IFC

Prior to the resurgence of the Intifada, IFC had one of the largest programs relative to the size of the economy in the West Bank and Gaza. During the past five years, IFC worked with existing clients to manage the investment portfolio. IFC committed US\$4 million and US\$9 million, respectively, to the Housing Project and the Gaza Industrial Estate Project, both of which closed during FY05. All IFC-financed projects have been affected by the ongoing political crisis. Most private sector activity has been noticeably reduced, and most companies are facing liquidity and severe operational difficulties due to the internal border closure. With the withdrawal of settlers from the Gaza Strip, IFC is looking for ways to re-engage in the financial sector, business tourism, industrial estate, health care, and off-shore gas.

### IFC Technical Assistance:

IFC, through PEP-MENA, is also engaging with a number of programs including SME management training, work with the Palestinian Banking Association and Palestinian Monetary Authority on corporate governance, an SME sector analysis and an assessment of the microfinance sector.

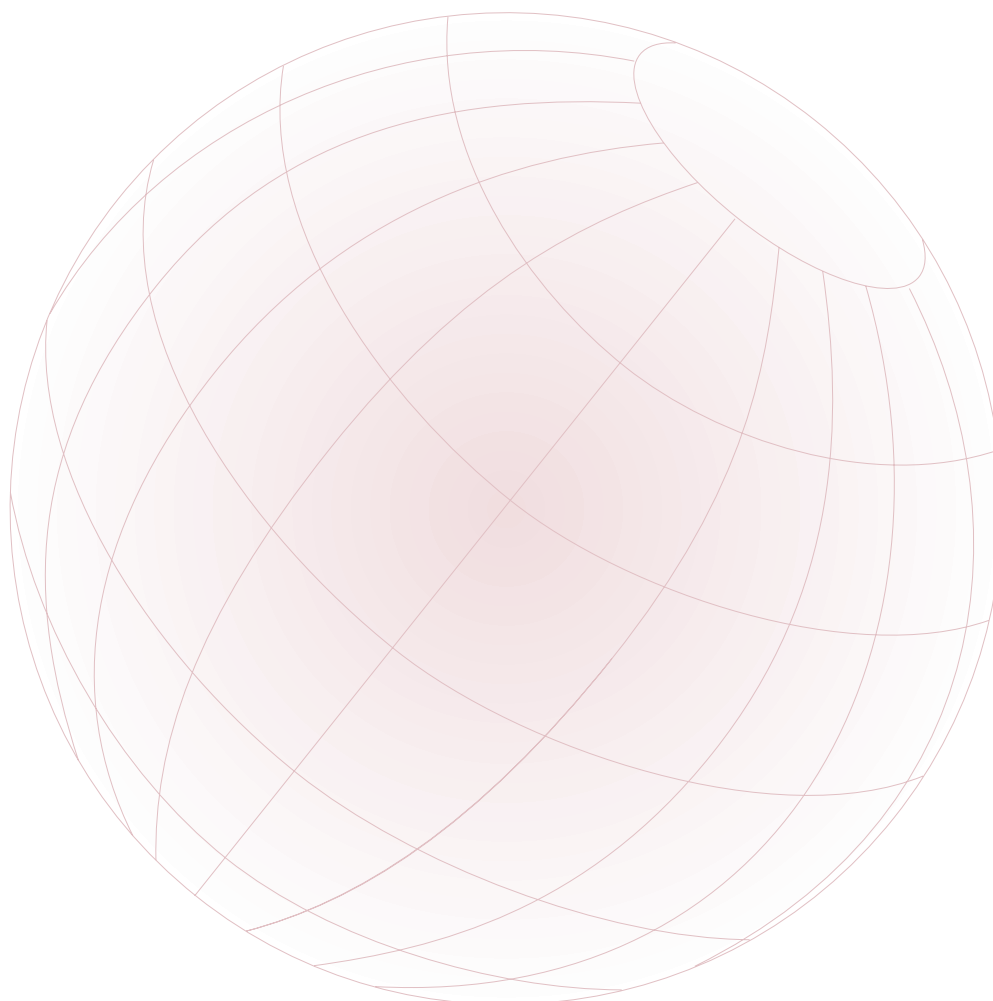
## West Bank and Gaza Portfolio, October 2005

	Allocated Amounts		Disbursed		Tot al
CURRENT PROJECTS	TFGWB	JOINT	TFGWB	Joint	Disbursed
99 Southern Area Water and Sanitation Project	21.00		20.31		20.31
00 Electricity Sector Management Project	15.00		13.63		13.63
01 Solid Waste and Environmental Management Project	9.50		4.07		4.07
01 Education Action Project	7.00		6.61		6.61
01 Palestinian NGO II Project	8.00	11.62	7.71	8.01	15.72
02 Integrated Community Development Project	10.00		6.99		6.99
03 Emergency Municipal Services Rehabilitation Project	20.00		19.15		19.15
03 Emergency Water Project	12.50		3.74		3.74
04 Social Safety Net Project	10.00		1.05		1.05
05 North Gaza Emergency Sewage Treatment Project	7.80		1.50		1.50
05 Land Administration Project	3.00		0.30		0.30
05 Tertiary Education Project	10.00		1.00		1.00
05 Gaza II Emergency Water Project	20.00		0.00		0.00
<b>Total</b>	<b>153.80</b>	<b>11.62</b>	<b>84.76</b>	<b>8.01</b>	<b>92.77</b>
COMPLETED PROJECTS					
95 Emergency Rehabilitation Project	30.00	63.94	30.00	63.48	93.48
97 MIGA Fund	10.00		10.00		10.00
96 Emergency Rehabilitation Project II	20.00	3.50	20.00	3.50	23.50
97 Community Development Project	10.00	2.81	10.00	2.81	12.81
97 Microenterprise Project	2.19		2.19		2.19
01 Emergency Response Program*	12.00				12.00
99 Community Development Project II	8.00		8.00		8.00
95 Education and Health and Rehabilitation Project	20.00	29.10	20.00	28.90	48.90
97 Gaza Water and Sanitation Project	31.00		31.00		31.00
98 Palestinian NGO Project	10.00	4.60	10.00	4.96	14.96
96 Municipal Infrastructure and Development Project	40.00	5.41	40.00	5.51	45.51
97 Legal Development Program	2.79		2.49		2.49
99 Bethlehem 2000	25.00	3.61	24.85	3.41	28.27
97 Palestinian Housing Project	17.40		17.36		17.36
97 Palestinian Expatriate Professional Program	3.00	0.32	2.30	0.32	2.62
98 Gaza Industrial Estate	10.00		7.12		7.12
02 Emergency Services Support Project I	20.00	36.87	20.00	37.46	57.46
03 Emergency Services Support Project II	40.00	39.28	40.00	40.39	80.39
04 Public Financial Reform SAO	20.00		20.00		20.00
00 Health System Development Project	7.90		7.90		7.90
01 Municipal Infrastructure and Development Project II	7.50		7.34		7.34
<b>TOTAL (Current &amp; Completed)</b>	<b>500.58</b>	<b>124.59</b>	<b>293.29</b>	<b>120.59</b>	<b>425.88</b>

## Multi Donor Trust Funds

	Amount Allocated	Total Disbursed
The Holst Fund (closed)	285.72	285.72
Technical Assistance Trust Fund (closed)	22.77	23.60
PEACE Facility (closed)	24.78	24.70
Public Financial Management Reform Fund	231.49	231.49
<b>TOTAL</b>	<b>564.75</b>	<b>565.51</b>

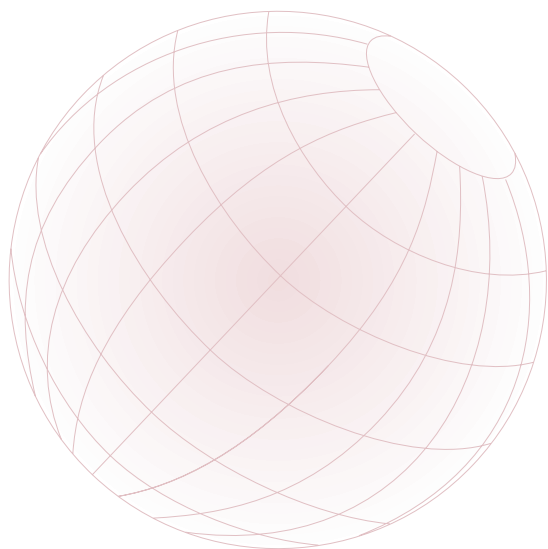
\* The Bank's \$12 million grant was channeled through the Holst Fund



# North Gaza Emergency Sewage Treatment Project

The North Gaza Emergency Sewage Treatment Project (NGEST) is the fourth intervention to the Bank giving high priority to improve water and sanitation services in the Palestinian territories of Gaza and the West Bank.

Back in 1976, Beit Lahia wastewater treatment plant (BLWWTP) was constructed as an initial attempt to improve the sanitation conditions of the northern Gaza. The initial capacity of the plant was limited to 5,000 m<sup>3</sup>/day. However, demand was increasing and the daily sewage inflow is currently around 13,000 m<sup>3</sup>. The combination of increasing volume of sewage inflows and insufficient capacity to properly handle it has led to poorly treated effluent overflowing from the treatment plant into the surrounding sand dunes, creating a lake of nearly 1.5 million CM of foul water, which now covers over 35 hectares (350 donums). The water level in this poorly treated effluent lake continues to rise and is threatening to hydraulically overflow the whole sewage collection system and flood the neighboring communities. In 1992 3 people died as they were flooded after the breakdown of the emergency pond sand embankments.



Upon request from the Palestinian Water Authority, the Bank responded positively to participate in solving the problems associated with BLWWTP. Further in June 2004 negotiated and signed with the Palestinian Authority the terms of NGEST aiming at: i) Mitigating the immediate and gathering health and environmental safety threats to the communities surrounding the effluent lake at BLWWTP and ii) Providing a satisfactory long-term solution to the treatment of wastewater for the Northern Governorate in Gaza.

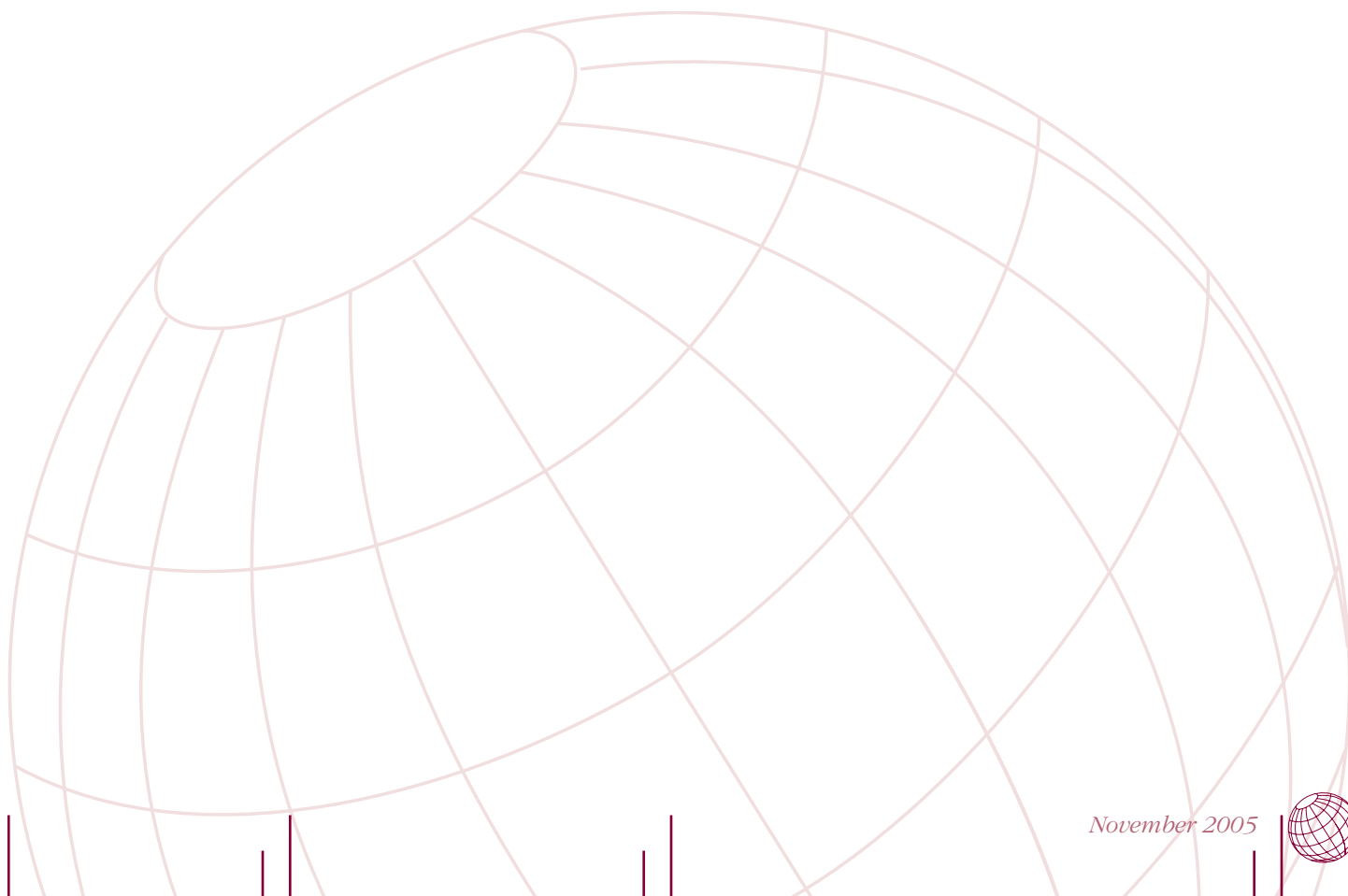
Due to the lack of funding at the initial stage, the implementation of the project was split into two parts. Part A has started since November 2004 and. It is designed to drain the lake and thus alleviate the environmental and health threats associated with the existing wastewater treatment plant. The effluent would be transferred to another site, where new infiltration basins will be built. This will ensure that the immediate threat of flooding posed to the communities that are neighboring the BLWWTP and backflows of raw sewage in the sewerage system are eliminated. Part A is fully funded under Grant Agreement with the World Bank and the European Investment Bank, EIB. Part B will provide the medium/longer-term solution to the wastewater treatment issue in northern Gaza area by commissioning a new wastewater treatment facility with improved effluent quality standards.

The Bank support, commitment and good partnership with the PA enabled such a unique environment to attract various donors like *Agence Française de Développement* (AFD) (Euro 12 million), Swedish International Development Agency (SIDA) (USD 5.0 million), the European Investment Bank (EIB) (USD 5.4 million) and Belgium (Euro 4.0 million). It can be safely concluded that the financing plan of the total budget of 45.72 is adequately complete when the World Bank contribution of USD 12.8 million and the PA contribution of USD 3.32 million are considered. The budget of the various components under both parts A and B can be summarized as:

Part	Components	ESTIMATED COST (USD)
<b>Part A</b>		
1	<b>Effluent Transfer:</b> Pumps, transmission, Infiltration basins and maintenance	11,313,000
2	Technical Assistance	1,083,000
	<b>Sub-Total cost for Part A</b>	<b>12,396,000</b>
<b>Part B</b>		
1	Construction of WWTP	27,111,000.00
2	O&M of WWTP	2,604,000.00
3	Implementation of Remedial Works	350,000.00
4	Technical Assistance	3,252,000.00
	<b>Sub-Total cost for Part B</b>	<b>33,317,000.00</b>
<b>TOTAL COST FOR the Project</b>		<b>45,720,000.00</b>

All contracts related to the implementation of Part A are in place while contracts for Part B are under completion. The works of part A are expected to be finalized by September 2006 and the works of part B in June 2008 when the new site will be operational and the treated effluent will be safe to be reused and infiltrated in such and economic feasible manner. It is then the moment when the Palestinians in Gaza will feel that an essential portion of the water

sector strategic plan was implemented and citizens of the Northern Gaza enjoy the great improvement in the quality of their life, the environment and the level of service. More over the treated effluent is expected to play such an important role in supplementing the available water resources and thus decreasing the gap between water supply and demand.



# Global Development Marketplace

## APPLY NOW!

**US\$4 million in awards**

**Maximum award size of US\$200,000**

**Proposals due by November 30, 2005**

The World Bank will hold a competition to award \$4 million to the best ideas to provide clean water, sanitation, and energy to local communities in developing countries lacking these basic services.

Entitled, «Innovation in Water, Sanitation, and Energy Services for Poor People,» this year's Development Marketplace competition seeks proposals for local, small-scale projects with the potential to be scaled up. The winners will be selected by an international jury of World Bank and independent development experts at the Development Marketplace event on May 9, 2006 in Washington DC.

Previous winning projects include building children's merry-go-rounds that doubled as village water-pumps in South Africa, reusing mosque water to irrigate dry fields in Yemen and constructing portable solar energy generators for remote Laotian households to rent.

Development Marketplace 2006 is open to all - civil society groups, social entrepreneurs, youth organizations, private foundations, academia, private sector corporations - with unique ideas that may not attract funding from traditional sources of finance. The maximum award will be \$200,000 per proposal.

Proposals will be accepted until November 30, 2005 and should address one of the following categories:

- Service Delivery: Sustainable delivery of water supply, sanitation, and/or energy services to poor households
- Environment: Renewable energy, clean water technologies, energy efficiency, and/or

environmentally sustainable sanitation solutions to poor households and to small enterprises

- Health: Protecting health from environmental risk factors (indoor air pollution, contaminated drinking water, unsafe sanitation), including innovative programs for hygiene promotion and behavioral change
- Natural Resources: Sustainable management of natural resources (land, water, forest) specifically for the provision of water supply, sanitation and energy to the poor

The Development Marketplace complements the World Bank's work by giving grassroots ideas a chance to solve local problems and by working directly with organizations that implement these projects.

The World Bank is the world's largest external financier of water supply and sanitation and, and the largest public financier of clean energy services.

The Development Marketplace is a World Bank program that uses a competitive and transparent process to support grassroots initiatives with innovative approaches to solving challenging development issues. The program has awarded nearly \$34 million to roughly 800 small-scale projects over the last seven years.

Last year's Development Marketplace awarded \$4 million in grants and attracted 2,638 proposals from 136 countries. Of these proposals, the biggest share, at 58 percent, were from non-governmental organizations. The second biggest share, at 14 percent, was from the private sector.

More information about the competition is available at [www.developmentmarketplace.org](http://www.developmentmarketplace.org) in Arabic. Or contact the Development Marketplace team at [DMinfo@worldbank.org](mailto:DMinfo@worldbank.org).

## Announcement: Appointment of New World Bank Country Director for the West Bank and Gaza

Mr. A. David Craig, a New Zealand national, holds an engineering degree from his home country and a doctorate in economics from the University of Grenoble, France. He joined the World Bank in 1984 as an Energy Economist after holding similar positions in New Zealand and Papua New Guinea. His career in the World Bank has been concentrated in Russia, Eastern Europe and Western Africa, his most recent assignment being as Director for a group of six countries in West Africa.

Married with three children, Mr. Craig has been a regular private visitor to the region. He will take up his position as Director for the West Bank and Gaza starting mid January 2006.



## إعلان: تعيين مدير وممثل مقيم للبنك الدولي في الضفة الغربية وقطاع غزة.

السيد أ. ديفيد كريغ، نيوزيلاندي الجنسية، ويحمل درجة جامعية في الهندسة من بلده الأصلي، وشهادة دكتوراه في الاقتصاد من جامعة غرينوبل في فرنسا. التحق الدكتور كريغ بالبنك الدولي عام ١٩٨٤ كخبير اقتصادي في مجال الطاقة بعد أن شغل مناصب مماثلة لذلك المنصب في نيوزيلندا وبابوا غينيا الجديدة. وقد تركّز مساره المهني لدى البنك الدولي في العمل في روسيا وأوروبا الشرقية وغرب إفريقيا، وفي آخر تعيين له شغل منصب «مدير» مجموعة مؤلفة من ست دول في غرب إفريقيا.

السيد كريغ متزوج ولديه ثلاثة أطفال، وكان يزور المنطقة بصفة خاصة بصورة دورية. وسيتولى منصبه الجديد كمدير وممثل مقيم للبنك الدولي في الضفة الغربية وقطاع غزة ابتداءً من منتصف كانون الثاني/يناير ٢٠٠٦.