

**The World Bank Group
in the
West Bank and Gaza Strip**

A Country Study



February 2009

What is the purpose of this paper?

This paper aims to provide you with information about the World Bank Group and its involvement in the West Bank and Gaza Strip and to help you understand how you might influence its activities. The World Bank Group, the most prominent of the international financial institutions (IFIs), is a public investment and development institution owned by its member governments that provides funding, technical assistance and policy advice, research and other non-financial support to governments in “developing” and “transition” countries. The World Bank also provides financing to companies investing in the developing world through its private sector arms.

In the following pages, this document analyzes trends in the Bank’s activities in West Bank & Gaza and poses questions and concerns that might be useful for you to think about, discuss with your colleagues and your constituency, or address in your future development programs or advocacy campaigns.

The paper briefly presents background information about the economic situation in West Bank & Gaza and some of the major development challenges that it faces. It then provides an overview of the Bank’s activities in West Bank & Gaza.

Why care about the World Bank’s involvement in West Bank & Gaza?

Everyone has the right to take part in the development decisions that affect his or her life, livelihood, and the environment. The World Bank’s activities in West Bank & Gaza may be affecting you directly through the projects and policies it finances, or indirectly through its influence on governments, investors, and the development discourse in general. Whether you agree or disagree with them, the policies they promote and the programs they finance may have direct effects on your daily life.

Through its engagement with the Palestinian Authority, the World Bank has influenced certain policies and public sector decisions such as prices of and access to basic goods and services, the number of public sector employees of the Palestinian Authority, the number and structure of the Authority’s civil and security agencies,

wage increases, taxes and tariff policies, banking systems, and the environment. Consequently, the Bank may represent an appropriate target of your advocacy efforts, as an institution whose actions affect you and your constituencies.

- **The Bank may be a good advocacy target.** The World Bank wields significant influence over actors in West Bank & Gaza, including the Palestinian Authority, but also other donors, development agencies and investors. Working on the Bank and influencing its operations in West Bank & Gaza may help you achieve some of the changes you and your organization seek at a local, national or international level.
- **The Bank may be an important source of information.** Whether or not you agree with the content of Bank documents and the policy recommendations they make, the information they generate can often be useful to civil society actors. It may be difficult to access similar data from other sources. And because the Bank has obligations to provide public access to information, civil society actors have grounds on which to assert their right to documentation about development projects and policies.
- **The Bank can be a “lightning rod” for international attention.** Because governments, private companies, civil society and media around the world pay attention to the activities of global institutions like the World Bank, exposing the link between the Bank’s activities and the issue on which you work may help to attract more attention than you might otherwise receive. Also, addressing the World Bank dimension of an issue that concerns you may help you form alliances with other organizations working on IFIs internationally. This access to transnational civil society advocacy networks can help amplify your message and strengthen your campaign.

What points of leverage does civil society have over the World Bank?

Over the years, civil society groups have found various ways to influence the programs and policies of the Bank; some are official channels, others are not.

- One way to engage the institution is through **participation in shaping its strategies for engagement in your country**, such as the World Bank’s Country Assistance Strategy. However, the Bank is not always obligated to consult the public, nor do they routinely disclose draft strategy documents for input from civil society. Sometimes, even finalized strategies are kept confidential.
- The World Bank also generally requires its clients, whether governments or private companies, to **consult with the communities that might be affected** by projects they finance. These consultations can provide opportunities for the public to influence how projects are designed and implemented, and what measures are taken to protect the interests and rights of the local population.
- The different arms of the World Bank Group each have their own **social and environmental “safeguard policies”** that establish mandatory standards and procedures that they and their clients must follow when preparing and implementing projects they finance. They also have internal accountability mechanisms through which **communities can complain** when those standards are violated.
- One of the most important tools that civil society groups have to influence the Bank is **the media**. Because these institutions are sensitive to their reputations, highlighting concerns in the press can often help civil society achieve remedies or prevent future harm.

To learn more about these and **other tools that civil society groups can use** to influence IFIs, see the following publications from the Bank Information Center:

- [“IFIs and the Middle East & North Africa: A Primer for NGOs”](#)
- [“Tools for Activists: An Information and Advocacy Guide to the World Bank Group”](#)

To find out more about the international financial institutions in the Middle East & North Africa region generally, visit BIC’s MENA webpage at: www.bicusa.org/mena

Introduction

Background

The economic situation in the West Bank & Gaza is severe, despite the financial assistance provided over the last 15 years, which has done little to address persistent poverty. Following are some statistics about the economic situation in West Bank & Gaza:

- **Gross Domestic Product (GDP):** \$5.03 billion (2006).
- **GDP per capita:** \$1100 (2006)
- **GDP Composition:** Agriculture 8%, Industries 13%, Services 79%
- **Inflation:** 3.6% (2006)
- **Population:** 2.7 million in West Bank, and 1.6 million in Gaza. 42 % are under the age of 15 (2006).
- **Population growth rate:** 2.9%
- **Population below the poverty line** (defined as \$2.50 per person per day)¹: 46% (2006).

Major challenges facing West Bank & Gaza

According to the World Bank, the development process in the Palestinian Territories faces the primary challenge of closure and sanctions, as well as the isolation of nearly half of the population in the Gaza Strip. In addition, the Bank illustrates that a combination of the Israeli restrictions on movement and access, and continued settlement expansion, will hamper any chance for the Palestinian economy to sustain itself.

The World Bank has identified the following as among the most pressing challenges that West Bank & Gaza faces in reducing poverty and achieving sustainable development:

- The ongoing conflict, closure, and restriction of movement of people and goods within West Bank & Gaza and between the territories and the outside world.
- Lack of control over water, natural resources, and borders.

¹ [West Bank and Gaza, World bank Country Brief, 2007](#)

- Poverty: 46% of Palestinians are living under the poverty line of \$2.50 a day. In Gaza, the poverty rate reached about 60% in the last quarter of 2007.
- Unemployment: Out of 197,000 unemployed workers in the West Bank & Gaza, 49% have been unemployed for more than a year and 32% for more than 2 years.
- Dependency on the Israeli economy: the private sector has suffered from its reliance on Israel for inputs and as an export market, especially as Israel has opened up its markets to low-cost imports from other countries. This has left Palestine with a very limited industrial sector, at the same time that the agricultural sector has stagnated.
- Most of the foreign aid was used for emergency purposes rather than creating strategic and long-term development outcomes.
- High public spending due to bloated public employment in both civil and security sectors, where 58% - nearly \$1 billion of annual public expenditure - goes to security agencies expenses, which is the highest percentage worldwide.

The World Bank

The World Bank was created in 1944, initially to help rebuild Europe after World War II. Today, the World Bank's professed mission is to fight poverty and promote economic growth and development in the world.

The World Bank is actually made of several institutions, which together constitute the "World Bank Group" (WBG). The separate arms of the World Bank Group are: the World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The World Bank lends money and provides grants to governments. It in turn is comprised of two separate arms, the International Bank for Reconstruction and Development (IBRD), which gives loans at near-market interest rates to middle-income countries, and the International Development Association (IDA), which gives grants and discounted loans to low-income countries. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are the World Bank Group's two private sector arms, providing loans, investments and insurance to companies.

Trust Fund for Gaza and West Bank

The World Bank's engagement in Palestine is directed primarily through the [Trust Fund for Gaza and West Bank](#) (TFGWB), which it established in 1993 following the signing of the Oslo Accords. The trust fund was created as the technical solution to the legal status of the West Bank & Gaza, since only sovereign states are eligible for membership of the World Bank and to receive direct Bank financing. Since the TFGWB's establishment, the Bank has committed a total of \$593 million toward projects and programs in West Bank & Gaza, mostly in the form of grants. The Trust Fund has been replenished six times since its inception, primarily from the interest generated from Bank loans. According to the Bank, roughly 60 percent of TFGWB funds have been directed at the West Bank, and the remaining 40 percent to Gaza.

In addition to the TFGWB, the World Bank has administered a number of multi-donor trust funds over the years, leveraging donor funds to the tune of roughly \$850 million. The Bank was thrust into the position of coordinating donor aid to the Palestinian Authority in 1994, a position it accepted with reluctance in large part because of significant reputational risks. The Bank's early performance received mixed reviews, due partly to delays in disbursements, though even today the Bank continues to play a key role in coordinating donor money and administering trust funds.

The Palestinian Reform and Development Plan (PRDP)

The World Bank typically prepares a Country Assistance Strategy (CAS) (or equivalent document) for each country to which it lends. The CAS outlines Bank lending and technical assistance plans in a country over a three- to five-year period. In the case of West Bank & Gaza, an interim strategy was approved in early 2008 covering mid-2008 through mid-2011, and includes an application for replenishment of the TFGWB.

The Bank's interim strategy is explicitly aligned with the objectives of the Palestinian Reform and Development Plan (PRDP), which was presented to donors in December 2007 in Paris. The PRDP is the Palestinian Authority's three-year economic reform program that was designed to attract donor support. Its objectives are to:

- Improve governance and support fiscal reform;
- Promote human development in health, education, and social safety nets;
- Support economic and private sector development;
- Invest in public infrastructure.

After receiving a favorable assessment of the PRDP from the World Bank, donors at the Paris Conference pledged \$7.7 billion, the vast majority of which was earmarked for specific projects that largely bypasses the PA altogether, leaving a significant funding shortfall in the PA's budget.

In line with donor priorities, the PRDP anticipates major cuts in the wage bill in the security, health and education sectors. While security represents a large part of the civil service, these reforms could also have serious impacts on teachers and medical personnel in public facilities. Some experts, including the IMF, recognize that cutting the wage bill will be difficult to achieve. Given the fact that the economic condition is now more severe than ever before, primarily due to closures, restrictions on movement, and weak investment in the private sector, any steps toward cutting of jobs in the public workforce could be a disaster. Because the private sector is insufficient to absorb large numbers of retrenched civil servants whose households rely on that income, such a policy would exacerbate conditions and create further social upheaval.

The suggested spending cuts laid out in the PRDP - including plans to remove subsidies on electricity – that have received the full backing of the World Bank, could have serious consequences on the quality of life and the PA's ability to provide basic services. While the Palestinian Authority has promised to put in place a "safety net" to protect the poorest segments of the population, the details of its plan are not clear.

In March 2008, the World Bank was selected to administer the PRDP Trust Fund to channel donor contributions toward budget support for the Palestinian Authority. In establishing the Trust Fund, the World Bank and International Monetary Fund (IMF) were tasked with assessing the PA's progress under the PRDP before approving disbursements. During 2008, donors disbursed \$1.5 billion in budget support to the Palestinian Authority, \$245 million

of which was disbursed through the Trust Fund. However, this still left a budget gap of over \$300 million. At the same time, the irregularity of donor disbursements led to a crisis in mid-2008 when the PA was unable to pay salaries, and turned to the World Bank for help in attracting private financing.

In its assessment in September 2008 of progress under the PRDP, the IMF found that “reforms undertaken by the PA are broadly in line with the PRDP,” though noted that additional budget support would need to be found to fund the PA’s budget in 2009 and 2010, and suggested that donors redirect project finance to budget support.

The Bank’s Portfolio

As of January 2009, the World Bank had 18 active projects in its West Bank & Gaza portfolio, representing a total commitment of \$300 million.

The composition of the World Bank’s lending portfolio to the West Bank & Gaza has changed over time. When it first engaged in the mid-1990’s, the Bank financed primarily infrastructure projects, before then devoting its attention to employment generating projects in 1996 in response to Israel’s border closures. Since 2000, however, the Bank has increasingly financed projects on an emergency basis as the situation in West Bank & Gaza deteriorated.

The Bank has channeled much of this support through a series of Emergency Services Support Projects (ESSP), which it initiated in 2002. It has since committed \$70 million to three successive ESSP projects, which have attracted over \$170 million from other donors, to finance non-salary costs associated primarily with expanded services in education and health, as well as support to the Ministry of Social Affairs. Despite the long-running nature of these projects – they began in 2002 and are expected to run at least through 2009 – the Bank has approved these operations on an “emergency basis,” which reduced project preparation time to as short as a few weeks and allows for a waiver of the application of social and environmental policies in order to facilitate rapid disbursement of funds.

In part through its ongoing emergency projects, the Bank has invested in utilities such as electricity, water supply and sanitation in the West Bank & Gaza. The World Bank is currently piloting a pre-paid meter system in certain municipalities in Palestine “to enhance local revenue collection and thus improve cost recovery.”² Pre-paid meter systems are highly controversial in many parts of the world for the negative impacts they typically have on the poor. This issue is of particular importance in Palestine, which has one of the world’s lowest per capita water availability rates. Another ongoing World Bank project in Gaza supports “renewed and enhanced private sector participation to manage, operate and maintain the water and wastewater services.”³

Find out more about the World Bank from a civil society perspective on BIC’s website at: www.bicusa.org/wb.

The World Bank’s West Bank & Gaza webpage provides background information about the Bank’s activities in the Palestine, its interim assistance strategy, and reports on trends in West Bank & Gaza (many available in Arabic):
www.worldbank.org/westbankandgaza.

You can also visit any of the following three World Bank **Public Information Centers** in West Bank & Gaza:

- **The World Bank**
Dahiat Al Barid, Jerusalem
Tel: +972-2-2366500
Hour of operation: Monday – Friday (8:30 A.M – 4:00 P.M)
- **Birzeit University main library**
Yusuf Ahmed Alghanim Library
Birzeit, West Bank
Tel: +972-2-2982006
Hours of operation: Monday – Thursday & Saturday (8:00 A.M – 4:00 P.M)
- **Al-Najah National University main library**
Nablus, West Bank
Tel: +972-9-2394983
Hours of operation: Saturday – Wednesday (8:00 A.M – 4:00 P.M and Thursday 8:00 A.M – 1:00 P.M)

² [Emergency Municipal Services Rehabilitation Project](#), World Bank.

³ [Gaza Water and Sanitation Project](#), World Bank.

International Finance Corporation (IFC)

IFC began investing in the West Bank & Gaza in 1996, and since then it has committed \$160 million in investments in a variety of sectors including trade and finance facilities and commercial banks, and others. Most recently, the IFC approved \$75 million as a loan to support the new \$500 million Affordable Housing Initiative, and invested \$30 million in Wataniya Palestine, a mobile phone company. Along with a 5% equity stake in the Bank of Palestine, these projects represent the first IFC investments in the West Bank & Gaza since 1999. The Bank's interim strategy for West Bank & Gaza also mentions the possibility of IFC investment in offshore gas development along the Gazan coast.

To find out more about the role of the IFC in the West Bank & Gaza, can visit the [IFC webpage for West Bank & Gaza](#), as well as a [list of its projects](#).

Multilateral Investment Guarantee Agency (MIGA)

MIGA is another private arm of the World Bank Group. It provides private companies with political risk insurance to encourage them to invest in developing countries. It also assists host governments with legal services and strategic advice about attracting private investment. In November 2008, MIGA launched a new trust fund to provide political risk guarantees to companies investing in West Bank & Gaza.

About the Bank Information Center

The Bank Information Center (BIC) partners with civil society in developing and transition countries to influence the World Bank and other international financial institutions (IFIs) in the interest of social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency and public accountability in the governance and operations of IFIs.

BIC is supported by private foundations and organizations that work in the fields of environment and development. Although based in Washington, D.C., in proximity to the headquarters of the World Bank and the International Monetary Fund (IMF), BIC is neither affiliated with nor funded by any of the IFIs or the United States government.

Bank Information Center
1100 H Street NW
Suite 650
Washington, DC 20005
Tel: +1-202-737-7752
Fax: +1-202-737-1155
Website: www.bicusa.org