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Dates: 09/20/1993 – 07/12/1996

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Washington, D.C.

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Conference Call - Odin Knudsen - Resident Rep from West Bank and Gaza Mission

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A. CLASSIFICATION

- ☒ Meeting Material
- ☐ Trips
- ☐ Speeches

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- ☐ Corporate Management
- ☐ Communications with Staff

- ☐ Phone Logs
- ☐ Calendar
- ☐ Press Clippings/Photos

- ☐ JDW Transcripts
- ☐ Social Events
- ☐ Other

B. SUBJECT: (CONFERENCE CALL) : ODIN KNUDSEN, RESIDENT REP.,
FROM WEST BANK AND GAZA MISSION (B)
VENUE: KALORAMA RESIDENCE
PARTICIPANTS: JDW, KNUDSEN, DERSIS, (ATSUKO)
EXC: ATSUKO

DATE: 06/08/96

C. VPU

Corporate

- ☐ CTR
- ☐ EXT
- ☐ LEG
- ☐ MPS
- ☐ OED
- ☐ SEC/Board
- ☐ TRE

Regional

- ☐ AFR
- ☐ EAP
- ☐ ECA
- ☐ LAC
- ☒ MNA
- ☐ SAS

Central

- ☐ CFS
- ☐ DEC
- ☐ ESD
- ☐ FPD
- ☐ FPR
- ☐ HRO

Affiliates

- ☐ GEF
- ☐ ICSID
- ☐ IFC
- ☐ Inspection Panel
- ☐ Kennedy Center
- ☐ MIGA

D. EXTERNAL PARTNER

- ☐ IMF
- ☐ UN
- ☐ MDB/Other IO
- ☐ NGO
- ☐ Private Sector

- ☐ Part I
- ☒ Part II
- ☐ Other

E. COMMENTS:

ATT 800-
conf 800-555-1212 (direct. asst
(coordinator) → • will give you
confirmation #

• If they need
card # use
848-132-6017-
6888
} in this
order
me 1st, then
Leila ...

11am 9:30 Sat

202-951-3895 Atsuko

972-50-368-824 Odie

972-50-317-954 Leila

301-365-4947 Kemal

202-9265-8511 JDW*

* check w/ Jane +
make sure this is
OK.

CONFERENCE CALL

Saturday, June 8, 1996 @ 9:45 am

Atsuko Horiguchi	202-957-3895
Leila	011-972-50-317-954
Odin	011-972-50-368-824
Kemal	301-365-4947
JDW	202-265-8511

Confirmation Number CR76201

AT&T operator (1-800-232-1234) will start calling at 9:39 a.m.

Charged to card# 848-132-6017-6888

Informed
Leila &
Kemal.
JDW

Copy for
Archive

Atsuko

* Informed Allison
6/7 1:20 p.m.

A L L - I N - 1 N O T E

DATE: 07-Jun-1996 11:42am

TO: Jane Holden

(JANE HOLDEN)

FROM: Atsuko Horiguchi, EXC

(ATSUKO HORIGUCHI)

EXT.: 84256

SUBJECT: Weekend Conference Call with Odin Knudsen

Jane

I am arranging the conference call with Odin for Saturday this weekend, not Sunday.

Please confirm that ^{9:45} 9:30 am tomorrow morning (inbetween the Australian breakfast and the 10 am meeting at his home) is OK. We will arrange for the conference call for his home number unless he wants to take it at his cellular phone number or car phone number. Please note that Kemal cannot do it after 10 am.

ASK
JDW

JDW might want to see the letter from Mr Arafat and the memo from Kemal on trust funds for this call. I will ask Mala to put these in one folder.

JDW
wants
to see

Thanks

Atsuko

CC: ALLISON TSATSAKIS
CC: DEANA CANLAS
CC: Kemal Dervis
CC: Nathalie Tavernier
CC: Khin Mala U

(ALLISON TSATSAKIS @A1@WBHQB)
(DEANA CANLAS @A1@WBHQB)
(KEMAL DERVIS)
(NATHALIE TAVERNIER)
(KHIN MALA U)

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Atsuko

CC: ALLISON TSATSAKIS
CC: DEANA CANLAS
CC: Kemal Dervis
CC: Nathalie Tavernier
CC: Khin Mala U

(ALLISON TSATSAKIS @A1@WBHQB)
(DEANA CANLAS @A1@WBHQB)
(KEMAL DERVIS)
(NATHALIE TAVERNIER)
(KHIN MALA U)

The World Bank
Washington, D.C. 20433
U.S.A.

JAMES D. WOLFENSOHN
President

June 3, 1996

His Excellency Yasser Arafat
President
Palestinian National Council

Dear President Arafat,

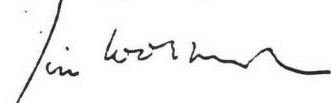
As the whole process of peace making in the Middle East now enters a new and even more critical phase, let me assure you of the World Bank's and of my own personal unwavering and continued support for the economic and social dimensions of the undertaking to which you have already contributed so much. I am sending you this message on the anniversary of my first year at the helm of the World Bank. Working together with you during this first year, I have gained a deeper understanding of the challenges you face, but also of the tremendous opportunities that lie before the Palestinian people and all their neighbors in the region.

By the end of June we will have committed almost all of the \$140 million in special funds from the World Bank's surplus, that we were able to secure for projects in support of Palestinian development. The most immediate joint challenge we face, therefore, is to ensure speedy and satisfactory implementation of these projects with maximum impact on the welfare and hopes of the Palestinian people. This will then, very soon I hope, allow us to mobilize new funds for new projects, many already under active preparation in such sectors as housing, private enterprise development and electricity distribution.

The next weeks and months are going to be difficult. Economic considerations will be at the heart of the next phase of peace negotiations. The donor community also will have to be informed of developments, and the international donor effort needs to be reinvigorated. As I have also conveyed to Prime Minister elect Netanyahu, we stand ready to help in whatever way we can.

With best personal regards.

Sincerely yours,



James D. Wolfensohn

A. Horiguchi

THE WORLD BANK GROUP

COPY

ROUTING SLIP		DATE: June 7, 1996	
NAME			ROOM. NO.
Correspondence Unit (EXC)			E 12 047
cc: Messrs./Mmes Kaji, Koch-Weser, Sandstrom, Lomax, EXC			
	URGENT		PER YOUR REQUEST
	FOR COMMENT		PER OUR CONVERSATION
	FOR ACTION		NOTE AND FILE
	FOR APPROVAL/CLEARANCE		FOR INFORMATION
	FOR SIGNATURE		PREPARE REPLY
	NOTE AND CIRCULATE		NOTE AND RETURN
RE:			
REMARKS:			
<p>Please find attached a letter addressed to Mr. Wolfensohn which President Arafat passed on to Mr. Knudsen today in Gaza. Original will follow.</p>			
FROM Kemal Dervis		ROOM NO. H 7-065	EXTENSION 3-2776

FYI

PALESTINE LIBERATION ORGANIZATION
Palestine National Authority
The President



منظمة التحرير الفلسطينية
السلطة الوطنية الفلسطينية
الرئيس

فخامة السيد جيمس د. ونفنسون

يطيب لي أن أتوجه إليكم بالشكر على رسالتكم التي أرسلتموها لنا في تاريخ ١٩٩٦/٦/٣ ، وقد كان لعبارات التشجيع والدعم المستمر التي تضمنتها رسالتكم هذه أطيّب الأثر في نفوسنا.

إن عملية السلام تدخل مرحلة بالغة الصعوبة بعد الانتخابات الإسرائيلية، وعانى الشعب الفلسطيني بشدة خلال فترة الإغلاق المستمرة، فقد وصلت معدلات البطالة إلى مستوى تجاوز كل التوقعات والحدود. كما واصل الاقتصاد الفلسطيني تدهوره بشكل متصاعد برغم الجهود المبذولة من المانحين. فهناك أناس كثيرون ليس لديهم دخلاً كافياً لشراء احتياجاتهم الأساسية.

إننا نواجه أوقاتاً صعبة آتية، حيث سنكون بحاجة مستمرة لدعمكم والتزامكم الشخصي بعملية السلام. إنني أعرب لكم عن سروري بالطريقة التي استجاب فيها البنك الدولي لمواجهة هذه الأزمات، ومبادرتكم الشخصية بعد زيارتكم لمدينة غزة في شهر أبريل الماضي.

إنني أعرب لكم عن شكري على برنامج إعادة تأهيل البنى التحتية وإيجاد فرص عمل للفلسطينيين، وقد شرعنا حالياً في المرحلة الثانية لمشروع إعادة التأهيل الطارئ ومشروع البنى التحتية البلدية. إنني أمل أن يوافق البنك الدولي على مشروع مياه غزة والصحة المقرر في ١٩٩٦/٧/٢، إن الالتزام السريع للبنك الدولي بهذه المشاريع لقي ترحيباً كبيراً من طرفنا، معبراً لكم عن امتنائي الكبير لدعمكم هذا. إنني أدرك مدى أهمية الموافقة على هذه المشاريع الثلاث التي استنفذت تقريباً مبلغ التسعين مليون دولار والتي تم اعتمادها في صندوق الإئتمان الخاص بالصفة الغربية وغزة في السنة الماضية.

PALESTINE LIBERATION ORGANIZATION
Palestine National Authority
The President



منظمة التحرير الفلسطينية
السلطة الوطنية الفلسطينية
الرئيس

إن لدينا الآن مجالات عديدة تتطلب مواصلة دعم قيادة البنك الدولي لنا وتقديم الدعم المالي، وتشمل هذه المجالات مشاريع الإسكان، وإنتاج وتوزيع الطاقة الكهربائية، وإقامة المشروعات الصناعية، ومشروعات المياه والصحة في الضفة الغربية، وكذلك تنمية القطاع المالي والقطاع الخاص. إن دعم البنك الدولي لهذه المشاريع يشجع على تعبئة الجهود ويحفز المتاحين الآخرين لتقديم الدعم لهذه المجالات التنموية.

إنني أمل بأن يتمكن البنك الدولي من القيام بتزويد صندوق الائتمان الخاص بالضفة الغربية وغزة بالأموال مجدداً، وذلك رغم تأرجح عملية السلام. وبالنظر إلى عدد المشاريع الهامة التي هي في حاجة إلى تمويل، فإبني أمل أن يتمكن البنك الدولي من تزويد صندوق الائتمان بمساهمة لا تقل عن مئة وعشرين مليون دولار.

أجدد لفخامتكم شكري على دعمكم الثابت لعملية السلام، كما أن شعبنا الفلسطيني يثمن عالياً الدعم الذي يقدمه البنك الدولي ومساهماتكم الشخصية بشكل خاص في هذا المجال.

مع تحياتي الطيبة لفخامتكم

وتفضلوا بقبول فائق الاحترام والتقدير

غزة في: ١٩٩٦/٦/٦

ياسر عرفات

رئيس اللجنة التنفيذية لمنظمة التحرير الفلسطينية
رئيس السلطة الوطنية الفلسطينية

فخامة السيد جيمس د. ولفنسون
رئيس البنك الدولي
واشنطن - الولايات المتحدة الأمريكية

PALESTINE LIBERATION ORGANIZATION
Palestine National Authority
Office of the President



منظمة التحرير الفلسطينية
السلطة الوطنية الفلسطينية
مكتب الرئيس

Unofficial Translation

**Mr. James D. Wolfensohn
President
The World Bank
1818 H Street NW
Washington DC 20433
USA**

Your Excellency,

Thank you for your letter of June 3, 1996. Your kind words of encouragement and continued support were very welcome.

After the Israeli elections, the Peace Process is entering a potentially difficult period. The Palestinian people have suffered considerably during the ongoing closure. Unemployment has reached a level which is unacceptable. The Palestinian economy has progressively deteriorated despite the efforts of the donors. Many people do not have sufficient income to buy basic needs.

We face difficult times ahead where we will continue to need your personal support and commitment to the Peace Process. I am pleased with how the World Bank has responded to the crisis and your personal initiatives after your visit to Gaza in April. I am grateful for the Bank's programs to rehabilitate infrastructure and create jobs. We have now launched the Second Emergency Rehabilitation Project and the Municipal Infrastructure Project. I understand that the Gaza Water and Sanitation Project will be approved by the World Bank on July 2. This very rapid commitment of World Bank projects has been well received and I am most grateful for your support.

My understanding is that the approval of these three projects has nearly exhausted the \$90 million replenishment which was authorized last year for the West Bank and Gaza Trust Fund.

PALESTINE LIBERATION ORGANIZATION

Palestine National Authority

Office of the President



منظمة التحرير الفلسطينية
السلطة الوطنية الفلسطينية
مكتب الرئيس

Yet we have many areas where we continue to seek the World Bank's leadership and financial support. Projects include Housing, Electrical Distribution and Power, Industrial Estates, Water and Sanitation on the West Bank, and Private and Financial Sector Development. The Bank's support to these projects would be catalytic in mobilizing other donors to support these areas of development.

I would hope that, with the Peace Process hanging in the balance, the World Bank can make another replenishment to the West Bank and Gaza Trust Fund. Given the number of important projects that are in need of financing, I would hope that the World Bank could replenish the Trust Fund with a contribution of at least \$ 120 million.

Again thank you for your unwavering commitment to the Peace Process. The World Bank's support and your personal involvement are well appreciated and recognized by the Palestinian People.

Gaza: 6/6/1996

Yaser Arafat

Chairman Of The Executive Committee
Of Palestine Liberation Organization
President Of The Palestinian National Authority

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

→ FOR Rachel
re: net y

E1225

Int. 1624

DATE: June 6, 1996

TO: Mr. Sven Sandstrom, Managing Director, EXC

FROM: Kemal Dervis, Vice President, MNAV 

EXTENSION: 3-2776

SUBJECT: **West Bank and Gaza**

As discussed over the phone yesterday, I think it would be very desirable to include an allocation for West Bank and Gaza in the paper for informal Board discussion on Utilization of Surplus. As you know, by July 2, we will have committed all but \$5 million of the two first Trust Funds. On instructions from Mr. Wolfensohn, following his visit in March, and given the crisis situation prevailing this spring, we accelerated project preparation with an emphasis on immediate as well as medium-term job creations.

We are also making a big effort on disbursement and procurement issues, and we are finally making progress. My recommendation, therefore, in agreement with Odin Knudsen, and along the lines we discussed with Jim, would be to ask for another \$100 million or so for West Bank and Gaza. We would go to the Board with a formal proposal in October or November. By that time, disbursements will have picked up sufficiently to demonstrate that implementation is well under way. We need another allocation if our work program is to continue. Important projects such as housing, electricity distribution, and industrial estates are under active preparation on the assumption that we will have another replenishment of the Trust Fund. Please do flag this to the Board on Monday, perhaps after having a word with Jim. As you will see from the attached, there is nothing specific in the Board papers relating to future replenishment.

I am going to be at the MENA Region Professional Development Seminar today, but I will be in the office tomorrow morning.

Attachment

cc: Messrs./Mmes: Lomax, Horiguchi, Kaji, Koch-Weser (o/r) (EXC); WBG Team; Files.

International Bank for Reconstruction and Development
International Development Association

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WBG ARCHIVES

R93-163
IDA/R93-134

FROM: Vice President and Secretary

September 20, 1993

World Bank Assistance to the West Bank and the Gaza Strip

The attached memorandum from the President entitled "World Bank Assistance to the West Bank and the Gaza Strip" dated September 20, 1993 will be scheduled for consideration after the Annual Meetings on a date to be determined.

Questions on this document should be referred to Mr. Shihata (ext. 81601) or Mr. Koch-Weser (ext. 35250).

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to their countries for
study before Board discussion.

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LEWIS T. PRESTON
President

September 20, 1993

MEMORANDUM TO THE EXECUTIVE DIRECTORS OF IBRD AND IDA

WORLD BANK ASSISTANCE TO THE WEST BANK AND THE GAZA STRIP

I. Introduction

1. The Executive Directors have been kept briefed on developments, including the status of work undertaken by the World Bank (the Bank)¹ in the Multilateral Working Groups (MWGs), in conjunction with the ongoing Middle East Multilateral Peace talks (the Peace Talks). At the request of the Co-Sponsors of the Peace Talks, Russia and the United States, the Bank had initially provided support to the MWGs on Water, Environment, and Regional Economic Development. Subsequently, in November 1992, the MWG on Regional Economic Development requested the Bank to expand its contribution to include: first, a more in-depth assessment of the development needs of select economies of the region, including the West Bank and the Gaza Strip (the Territories); and, second, an analysis of the current financial flows into the region and estimates of future financial needs to support reforms needed to accelerate economic development as well as regional projects.² In response to this request, the Bank has completed a number of reports and discussed them with the parties directly involved. The cost of preparing these studies and reports has been financed under a trust fund supported by the Commission of the European Communities, the United States Agency for International Development and the Swedish International Development Authority, and administered by the Bank.

2. In the light of the historic developments over the past two weeks, culminating in the signing on September 13, 1993 in Washington, D.C. of a Declaration of Principles on Interim Self-Governing Arrangements (the Declaration), details of which are provided in the Legal Memorandum attached hereto as Annex 1, the Co-Sponsors of the Peace Talks have asked the international donor community to consider providing urgently needed financial assistance for the development of the Territories. In particular, the Bank has been asked by the Co-Sponsors, the Israelis and the Palestinians to provide technical and financial assistance to the Territories.

¹ The term "Bank," wherever used in this paper, refers collectively to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

² "Request for Bank Economic Work in Support of the Middle East Multilateral Peace Talks," SecM92-1523, December 3, 1992.

3. Although the entity envisaged under the recent agreement between Israel and the Palestine Liberation Organization (PLO) is not a member of the Bank, its economic circumstances and those of the Territories generally may have significant consequences for the Bank's members, in view of their possible decisive effect on the success of recent efforts towards establishing peace in the Middle East and the possible effects of such a peace on regional and international economic cooperation and growth. The proposed assistance programs have the potential, in view of recent developments, to make a valuable contribution to further economic development in the Territories and thereby improve the conditions of life in these areas. Such an improvement, with tangible effects in the near future, could foster international relationships conducive to the maintenance of peace and world prosperity, which are among the considerations that led to the establishment of both the IBRD and IDA, and underlie their purposes. The benefits which the membership of the IBRD and IDA will derive if the program succeeds justify, in the judgement of Management, the measures proposed in this paper to ensure that assistance can be provided at the required speed and scale.

II. Development Strategy and Financing Needs for the Territories: Proposals for Bank Assistance in the Immediate Future

4. The proposed development strategy for, and the investment and technical assistance needs of, the Territories are more fully discussed in "Developing the Occupied Territories: An Investment in Peace" (SecM93-944, September 10, 1993). The legal issues associated with the consideration by the Bank of financial and other forms of assistance to the Territories are examined in the attached Legal Memorandum which concludes that there is a legal basis for the Bank to consider some forms of such assistance.³ In the light of this conclusion, Management hereby submits two initial proposals for Bank assistance to the Territories:

A. A PROPOSED FUND TO FINANCE AN EMERGENCY REHABILITATION PROGRAM IN GAZA

5. On September 24, 1992, the Board of Governors approved the retention of US\$ 1,095 million of net income of the IBRD for FY92 as surplus, provided that an amount equivalent to US\$ 375 million be transferred, by way of grant, to IDA when the Tenth Replenishment of IDA becomes effective. As the Tenth Replenishment has not yet become effective, this US\$ 375 million is still being held by IBRD in surplus earmarked for that purpose. (R92-138/1, July 22, 1992). Attached for consideration is a draft recommendation to the Board of Governors to amend its prior resolution by transferring from surplus US\$ 50 million of the US\$ 375 million

³ See Annex 1, "Legal Memorandum Concerning Possible World Bank Assistance to the West Bank and the Gaza Strip."

authorized to be transferred to the IDA to a trust fund to be administered by IDA for an emergency rehabilitation program for Gaza (Attachment A).

6. The establishment of a trust fund which provides assistance to a non-member for purposes deemed to be beneficial to the Bank's membership as a whole has a recent precedent in the trust fund established in August 1991 to finance technical assistance to the Soviet Union before its former republics became members of the Bank.⁴ As explained in paragraph 13 of this paper and in greater detail in Annex 1, the alternative approach of providing a direct Bank loan (or IDA credit, if possible) to Gaza requires its identification as a territory dependent on, or associated with, a member and a guarantee (in the case of a Bank loan) from such member. Neither of these requirements can be met readily under present circumstances and awaiting their fulfillment would defeat the purpose of a timely contribution by the Bank. In the present case, the trust fund approach presents itself as a valid and timely solution. It is proposed to have IDA administer the resources of this trust fund. The conditions in Gaza, including the provision of public services and physical infrastructure, especially in the refugee camps, make it appropriate that assistance be provided on highly concessional terms at this time. As administrator of the trust fund, IDA would thus use the fund's resources to provide credits, denominated in United States Dollars, but otherwise extended according to the standard terms of the credits provided to IDA-only countries. The repayments of such credits would accrue to IDA as part of its resources.⁵

7. On approval of the attached resolution by the Board of Governors, the Bank would be authorized to effect the proposed transfer as needed to the trust fund (Attachment B) which would be established by the Executive Directors for the purpose of administering the assistance program. The trust fund resources would finance the costs of carrying out the agreed assistance. Any funds remaining in the trust fund on completion of the program would be transferred to IDA.

8. Discussions will be held with the appropriate public or private entities in Gaza on the appropriate content and modalities of an assistance program. It is the objective of Management to negotiate, as soon as possible, an emergency rehabilitation program for Gaza to be funded out of the proposed trust fund and to submit this, along with a broader work program for Gaza, for approval by the Executive Directors. In addition to the elaboration of the proposed program and its financing, confirmation from Israel with any appropriate supporting arrangements from the PLO will also be needed on the privileges and immunities of IDA staff and on full access by the members of IDA to reports prepared in the course of assistance activities.

⁴ "Proposed Transfer from Surplus to Fund Technical Assistance to the USSR," Doc. R91-184, July 30, 1991.

⁵ The above proposal has no bearing on the possible eligibility of Gaza or the Territories for IDA borrowing as the lending in this case would not be from IDA's own resources and neither Gaza nor the Territories are members of IDA.

9. The development of satisfactory arrangements for ensuring that the overall program of assistance to the Territories is well-coordinated and that agencies complement each other's activities will be a matter of high priority. The Bank will undertake discussions to this end with the interested parties and keep the Executive Directors informed of developments.

10. The provision of assistance to Gaza represents an important contribution which the Bank can make in using its expertise and resources to assist in the development of the economies of the Territories. The IBRD's and IDA's membership has a significant stake in the success of this process.

B. A PROPOSED FUND FOR FEASIBILITY AND PRE-FEASIBILITY STUDIES TO BE ADMINISTERED BY THE BANK

11. In order to finance the cost of feasibility and pre-feasibility studies for priority economic and social infrastructure projects and to provide technical assistance for institution-building and training in the Territories, it is proposed that the Bank also establish a new trust fund and mobilize for it contributions from bilateral, multilateral and other donors. In the light of the financing needs identified for this purpose, the target amount set for such a trust fund is about US\$ 35 million. Such a trust fund may be patterned after the trust fund established earlier this year to finance the recently completed studies in respect of the Territories.

12. In addition to the resources to be mobilized from other donors for the new trust fund, Management proposes that the Bank's contribution take the form of an allocation of US\$ 4 million over a two year period which would be used to finance related expenses such as aid coordination and project preparation. Such support will include the establishment of a small team in Country Department II of the Middle East and North Africa Region. The resources required to be allocated for this purpose to the Middle East and North Africa Region in the remainder of FY94 will be provided from the President's contingency.

III. Possibilities for Further Action

13. The question of whether the IBRD or IDA may make direct loans or extend guarantees to the Territories will be further considered in light of the analysis provided in the Legal Memorandum in Annex 1.⁶ Further analysis will be influenced to some degree by the precise

⁶ The IBRD Articles of Agreement assume that its loans will finance projects in the territories of its members and require, if the borrower is not the member itself, that the loan be guaranteed by the member "in whose territories the project is located." The IDA Articles require that IDA credits finance projects "in the less-developed areas of the world included within the Association's membership." There are precedents both for IBRD loans and IDA credits, where the loan was made to a "dependent" or

political and legal developments which are expected to take place in the Territories over the next several months within the framework of the recent Declaration. Management will revert to the Executive Directors when it is in a better position to make specific recommendations. In the meantime, Management proposes to embark on project preparatory work to be financed from the trust fund (referred to in Section II. B above) in anticipation of possible future lending by the Bank or other lenders.

IV. Recommendations

14. In the light of the foregoing, the President recommends that the Executive Directors approve the following:

(a) the attached documents providing for the amendment of the Resolution of the Board of Governors dated September 24, 1992, by transferring US\$ 50 million from IBRD surplus to a trust fund, administered by IDA, to finance an emergency rehabilitation program in the Gaza Strip; and

(b) the establishment of a trust fund to receive contributions from bilateral, multilateral and other donors to finance feasibility and pre-feasibility studies for priority economic and social infrastructure projects and to provide technical assistance for institution-building and training in the Territories.

With the approval of these proposals, the President will allocate from the President's contingency to the Middle East and North Africa Region the required amount for the administration of these funds in the remainder of FY94, including the expenses of aid coordination and project preparation.



"associated" territory with the guarantee of the member on which such territory was dependent (or to which it was associated as a protectorate or trust territory). Under the IDA Articles, such a guarantee may be obtained but is not legally required. Future developments may allow the IBRD (and IDA, if eligibility is established) to lend to entities in the Territories with the guarantee (necessarily in the case of the IBRD and optionally in the case of IDA) of a member of which the territory where the project is located could be considered, for the purposes of the loan and without prejudice to its final legal status, a dependent or associated territory. For further details, see the Legal Memorandum attached as Annex 1.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

(DRAFT)

REPORT OF THE EXECUTIVE DIRECTORS

Transfer from Surplus to Fund
Emergency Rehabilitation Program for Gaza

1. On September 24, 1992, by the terms of Resolution No. 478, the Board of Governors approved the retention of US\$ 1,095 million of net income of the Bank for FY92 as surplus, provided that an amount equivalent to US\$ 375 million be transferred, by way of grant, to the International Development Association when the Tenth Replenishment of the Association becomes effective. As the Tenth Replenishment has not yet become effective, this US\$ 375 million is still being held as surplus of the Bank. In view of recent developments which provide a promising opportunity to provide quick assistance for the rehabilitation of Gaza and thereby foster international relationships conducive to the maintenance of peace and world prosperity, and in order to promote the purposes of the Bank in these circumstances, the Executive Directors consider that a program of assistance by the Bank for Gaza should be undertaken forthwith as an initiative for the benefit of Bank members. They recommend that the Board of Governors authorize the transfer from surplus of US\$ 50 million (out of the US\$ 375 million authorized in 1992 to be transferred to the Association upon effectiveness of the Tenth Replenishment of the Association) to a trust fund to be administered by the Association for the financing of an emergency rehabilitation program in Gaza, and that Resolution No. 478 of the Board of Governors be amended accordingly.
2. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft Resolution attached hereto.

Draft Resolution of the
Board of Governors

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

DRAFT RESOLUTION FOR SUBMISSION
TO THE BOARD OF GOVERNORS

RESOLUTION No. _

RESOLVED:

That the Bank transfer from surplus, by way of grant, US\$ 50 million to the Trust Fund for Gaza (TFG), to be administered by the Association, such transfer to be drawn down by the Association as needed; provided, however, that the amount of such grant may at any time be changed by the Association into an equivalent amount in other currencies. Resolution No. 478 is amended accordingly.

Draft Resolution of the
Executive Directors

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

(DRAFT)

RESOLUTION No. 93 - __

RESOLUTION No. IDA 93 - __

TRUST FUND FOR GAZA

WHEREAS:

(A) It is desirable to promote the purposes of the Bank and the Association by establishing a Trust Fund for Gaza (TFG), administered by the Association, in order to finance an emergency rehabilitation program for Gaza;

(B) The Executive Directors of the Bank are proposing to the Board of Governors of the Bank to adopt a resolution authorizing the transfer from surplus, by way of grant, to the TFG of US\$ 50 million out of the US\$ 375 million that the Board of Governors authorized to be transferred to the Association when the Tenth Replenishment of the Association become effective;

(C) The Association agrees to the amendment of the proposed transfer to the Association and is prepared to establish the TFG, to be trustee thereof and administer it on the terms and conditions set forth in this Resolution;

NOW THEREFORE it is hereby resolved that, subject to the adoption by the Board of Governors of the Bank of the proposed resolution referred to in paragraph B of the Preamble:

1. The TFG is hereby established, constituted of the funds which shall from time to time be contributed in accordance with the provisions of this Resolution, and any other assets and receipts of the TFG.

2. The Association shall hold and administer such funds, assets and receipts in trust (in such capacity, the Trustee) for the benefit of the member countries of the Association by providing financial assistance to Gaza consistently with the Association's purposes; the Trustee shall manage and use them

only for the purpose of, and in accordance with, the applicable provisions of the Articles of Agreement of the Association and the provisions of this Resolution, keeping them separate and apart from all other accounts and assets of the Association. The Trustee shall exercise the same care in the discharge of its functions under this Resolution as it exercises with respect to its own affairs and shall have no further liability in respect thereof. The privileges and immunities accorded to the Trustee shall apply to the property, assets, archives, income, operations and transactions of the TFG.

3. The Trustee is authorized to accept contributions to the TFG from contributors other than the Bank for the general purposes of the TFG, or for specific programs, on terms to be agreed between the Trustee and each contributor. Contributions shall be denominated in United States Dollars or other currencies acceptable to the Association and shall be used, in accordance with the agreement reached between a contributor and the Association, consistent with the Articles of Agreement of the Association.

4. All amounts credited to the TFG from the grant of the Bank shall be used by the Trustee exclusively for the purpose of financing rehabilitation projects in Gaza in the form of credits on the standard terms of the Association for IDA-only borrowers, (including forty years maturity, ten years grace period, no interest) and shall be denominated in United States Dollars. Repayment of such credits shall accrue to the Association as part of its resources.

5. The Association shall enter into agreements with the appropriate public or private entities in Gaza, to be identified as the recipients of credits, pursuant to such terms and conditions as provided in this Resolution.

6. The Trustee shall establish and maintain appropriate records and accounts to identify the resources of the TFG, the commitments and the reimbursement of expenditures to be financed out of the TFG, and the receipts and disbursements of funds in the TFG.

7. On the termination of the TFG pursuant to paragraph 11 of this Resolution, any surplus assets including the right to repayment of credits of the TFG shall be forthwith transferred to the Association.

8. (a) The Trustee shall, as soon as practicable after the end of each fiscal year of the Association, furnish to the Executive Directors of the Association and to other contributors, if any: (i) a report on projects financed from the TFG; and (ii) a detailed financial statement for the TFG, together with an opinion of the Association's external auditors on such statement.

(b) After all commitments and reimbursement of expenditures from the TFG shall have been fully disbursed, the Trustee shall as soon as practicable, furnish to the Bank and other contributors, if any, a report on the operations financed from the TFG.

9. The Trustee is authorized to enter into arrangements, on such terms as shall be determined by the Trustee, with members of the Bank and other donors in order to co-finance assistance activities on a parallel basis with the TFG.

10. The functions of the Association as Trustee of the TFG shall terminate, except for action necessary for winding up the activities of the TFG, in an expeditious and orderly manner, as the Executive Directors of the Association may decide.

LEGAL DEPARTMENT
September 20, 1993

**LEGAL MEMORANDUM CONCERNING POSSIBLE WORLD BANK ASSISTANCE
TO THE WEST BANK AND THE GAZA STRIP**

I. Introduction

On September 9, 1993, the Prime Minister of Israel signed a letter stating that the Government of Israel had decided to recognize the Palestine Liberation Organization (PLO) as the representative of the Palestinian people and, on the same day, the Chairman of the PLO signed a letter declaring that the PLO recognizes the right of the State of Israel to exist in peace and security. On September 13, 1993, the Government of Israel and the PLO signed a "Declaration of Principles on Interim Self-Government Arrangements" (the Declaration) in Washington, D.C. providing for Palestinian self-rule in the Gaza Strip and the Jericho area in the West Bank (Gaza-Jericho). The Declaration states that one aim of the Israeli-Palestinian negotiations in the Middle East peace process is to establish a Palestinian interim self-government authority -- an elected council (the Council) -- for the Palestinian people in the West Bank and the Gaza Strip (the Territories), for a transitional period not exceeding five years from the date of Israeli withdrawal from Gaza-Jericho, leading to a permanent settlement based on UN Security Council Resolutions 242 and 338. Permanent status negotiations are to commence not later than the beginning of the third year of the interim period, and will cover issues such as Jerusalem, refugees, settlements, security arrangements, borders, relations and cooperation with neighbors, and other issues of common interest. The Declaration confirms that other than the agreed arrangements, Gaza-Jericho will continue to be an integral part of the Territories and its status will not be changed in the interim period.

The Declaration then sets forth the framework for the interim period. It provides that elections for the Council will be held within nine months after entry into force of the Declaration. (The Declaration enters into force one month after its signature.) Jurisdiction of the Council will cover the entire West Bank and the Gaza Strip.

The two parties will conclude within two months from the date of entry into force of the Declaration an agreement on the withdrawal of Israeli forces from Gaza-Jericho. Israel will withdraw its military forces from Gaza-Jericho within four months of the signature of that agreement. Thereafter, authority will be transferred from the Israeli military government and its Civil Administration to Palestinian representatives in such areas as education and culture, health, social welfare, direct taxation and tourism (but not in areas such as external security, settlements, Israelis and foreign relations). This power will in turn be transferred to the Council, once elected.

Upon its inauguration, the Council will establish a Palestinian Electricity Authority, a Gaza Sea Port Authority, a Palestinian Development Bank, a Palestinian Export Promotion Board, a Palestinian Environmental Authority, a Palestinian Land Authority and a Palestinian Water Administration Authority. After inauguration of the Council, the Civil Administration will be dissolved, and the Israeli military government will be withdrawn. The Council will establish a police force, but Israel will continue to be responsible for external security and for the "overall security of Israelis for the purpose of safeguarding their internal security and public order." The Council will be empowered to legislate within all authorities transferred to it, and both parties will jointly review laws and military orders presently in effect in remaining spheres.

It is envisaged that the details concerning much of the above, especially regarding the transfer of powers to the Council, will be spelled out in an "Interim Agreement" to be negotiated between the parties. In order to facilitate implementation of the Declaration and any subsequent agreements relating to the interim period, a Joint Israeli-Palestinian Liaison Committee will be established upon entry into force of the Declaration.

The Declaration also provides that an Israeli-Palestinian Economic Cooperation Committee will be established. It will institutionalize cooperation in the fields of water, electricity, energy, finance (including the creation of a Palestinian Development Bank), transport and communications, trade, industry, labor relations and social welfare, human resources development, environmental protection, and communications and media. The Economic Cooperation Committee will also promote a Development Program for the region, comprising (a) an Economic Development Program for the West Bank and Gaza and (b) a Regional Economic Development Program. The Declaration states that the latter may include the establishment of a Middle East Development Fund, as a first step, and a Middle East Development Bank, as a second step. It is contemplated that the Development Program will be initiated by the G-7, who will be requested to seek the participation of other interested states, such as members of the Organisation for Economic Co-operation and Development and regional Arab states and institutions.

In the light of these historic developments in the Middle East Multilateral Peace Talks (the Peace Talks), questions have been raised about the possibility of the Bank extending financial and other forms of assistance to, or for the benefit of, the Territories. More specifically, a number of participants in the Peace Talks (including particularly Israel and the Palestinians) have proposed that the Bank consider:

(a) providing assistance in establishing and administering a trust fund, where the funds are provided by various bilateral, multilateral and other donors to finance the cost of feasibility and pre-feasibility studies for priority economic and social infrastructure projects for the Territories; and

(b) providing direct financial assistance from the Bank's own resources (i.e., loans, credits, grants or guarantees) to finance technical assistance and investment projects in the Territories.

This memorandum examines some of the legal issues associated with the consideration by the IBRD and IDA of the possibility of providing financial assistance to the Territories.

II. Legal Status of the Territories

The legal status of the Territories has remained unresolved for many years. The Territories have been occupied and governed by Israel since the 1967 War. Neither Israel nor Jordan claim legal title to the Territories, except for the Israeli claim to East Jerusalem. On the other hand, the Palestinians have laid historical claims to the Territories which they regard as the territory of the "State of Palestine" proclaimed by the PLO in 1988.

In the case of the West Bank, Jordan is the country which asserted and exercised sovereignty and control over the territory prior to the 1967 war. The West Bank was placed under the control of the then Transjordan in 1948 and was proclaimed an integral part of the Hashemite Kingdom of Jordan in 1950. Between 1950 and 1967, Jordan exercised full sovereign and governmental functions over both the East and West Banks. Israel has physically occupied the West Bank since June 1967 without interruption. Before June 1967, the World Bank (as well as the rest of the international community) acted on the assumption that the West Bank was part of Jordan's territory (since 1950) and maps used by the Bank showed the West Bank as part of Jordan's territory.¹ Under one IDA Credit to Jordan (Credit No. 43-JO), IDA financed works in the municipalities of Ramallah and El Bira and certain neighboring towns and villages in the West Bank. The IBRD also took steps after June 1967 to ensure that its loans to Israel did not finance projects in the West Bank; in fact, specific requests from Israel to use IBRD loans in the West Bank were denied.²

Even after the Israeli occupation of the West Bank in 1967, Jordan continued to exercise limited governmental functions (municipal rather than central governmental functions) with the acquiescence of Israel, and with the support of the PLO (from 1974). Subsequently, on July 31, 1988, King Hussein of Jordan announced that Jordan was "dismantling" its legal and administrative links with the West Bank in response to a request from the PLO which wanted to establish an independent Palestinian state. This unilateral dismantling was thus explicitly made

¹ All maps used by the Bank include the following disclaimer: "The denominations used and the boundaries shown on this map do not imply, on the part of The World Bank Group, any judgement on the legal status of any territory or any endorsement or acceptance of such boundaries."

² For further details, see Attachment A.

in favor of the "State of Palestine" to be represented by the PLO. In November 1988, the Palestine National Council (PNC) of the PLO declared the Territories to be the "State of Palestine;" however, the PNC has not been able to exercise governmental functions in the Territories in view of the Israeli occupation.

In spite of the Israeli control of the West Bank since June 1967, the bridges across the River Jordan have remained open for the most part and movement of peoples and commercial activities across the two banks continued. There have also been continued services concerning civil registration such as issuing birth, death, marriage and divorce certificates, and the issuance of Jordanian passports to inhabitants of the West Bank (although this no longer confers Jordanian nationality on the holders). Israel has not asserted sovereignty over the West Bank except for East Jerusalem which was unilaterally annexed by Israel in 1967.

In the case of the Gaza Strip, Egypt administered this territory from 1948 to 1967. During that period, Egypt did not claim sovereignty over the Gaza Strip. Israel has been the administrator of this territory since it was occupied by Israel in June 1967, and has not asserted claims to sovereignty over the Gaza Strip.

Neither the "State of Palestine" nor the PLO have been admitted to membership in the United Nations and its specialized agencies (including the Bank and the International Monetary Fund (IMF)). However, a number of Bank members have recognized "Palestine" as a State and have accepted ambassadors of this state. "Palestine" (represented by the PLO) is also a member of the League of Arab States and its affiliated agencies as well as the Arab Fund for Economic and Social Development and the Arab Bank for Economic Development in Africa.

The recently concluded accords provide for recognition by Israel of the PLO as the representative of the Palestinian people but does not include a recognition of the State of Palestine. As indicated above, the Declaration gives a special status to Gaza-Jericho, but provides that, other than the agreed arrangements, Gaza-Jericho will continue to be an integral part of the West Bank and the Gaza Strip, and its status will not be changed in the interim period.

III. Eligibility of the Territories to Receive Bank Assistance

The eligibility of the Territories to receive financial and other forms of assistance from the Bank will be examined in two different contexts: first, in the context of the general provisions of the IBRD's and IDA's Articles of Agreement; and, second, in the context of the specific issues raised in Section I of this memorandum.

A. General Requirements for Extension of Bank Assistance

In order to determine the eligibility of the Territories to receive or benefit indirectly from loans, credits, guarantees, or technical assistance extended by the Bank, it would be useful to examine the "conditions" for the making of Bank loans or guarantees as set out in the IBRD's and IDA's Articles of Agreement.

The first purpose of IBRD, as stated in paragraph (i) of Article I of the IBRD's Articles of Agreement is:

To assist in the reconstruction and development *of territories of members* by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries. (Emphasis added.)

Article III, Section 1(a) of the IBRD Articles further provides as follows:

The resources and the facilities of the Bank shall be used exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike. (Emphasis added.)

Article III, Section 4 of the IBRD's Articles provides that "the IBRD may guarantee, participate in, or make loans to any member or any political subdivision thereof and any business, industrial and agricultural enterprise in the territories of a member." This power to guarantee, participate in or make loans is subject to a number of conditions, the most relevant of which is the following:

When the member in whose territories the project is located is not itself the borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan. (Article III, Section 4(i).)

The other "conditions" for IBRD lending and guarantees provided for in the Articles of Agreement include the following: (i) the IBRD will, except in special circumstances, finance specific projects of reconstruction or development (Article III, Section 4(vii)), (ii) in making or guaranteeing a loan, the IBRD will pay due regard to the prospects that the borrower or the

guarantor will be in a position to meet its obligations under the loan (Article III, Section 4(v)), and (iii) the IBRD is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the IBRD are reasonable for the borrower (Article III, Section 4(ii)).

While this is not specifically listed as a "condition" of IBRD lending or guarantees, the IBRD's Articles of Agreement (Article I(i); Article III, Sections 1, 4(i) and (v); Article IV Sections 3(a) and (c); and Article V, Section 7) and the IBRD General Conditions Applicable to Loan and Guarantee Agreements explicitly assume that the project would be located in the territory of the country which acts as the borrower or guarantor and would be under the control of that country. In addition, the Government involved is obligated to exempt the loan and the interest thereon from taxation, to enable the IBRD to supervise project implementation, to provide information and to cooperate fully to assure that the purposes of the loan will be accomplished.

The IDA Articles contain broadly similar provisions, but do provide for somewhat greater flexibility in the making of loans or provision of guarantees. IDA may provide financing to further development in the less-developed areas of the world included within IDA's membership. (Article I and Article V, Section 1(a).) The *Report of the Executive Directors of the International Bank for Reconstruction and Development on the [IDA] Articles of Agreement*, commenting on Article V, Section 1(a), included a general remark equally applicable to IBRD, by specifically stating that IDA's financing may be extended to less-developed "dependent and associated territories included within the membership of member countries." IDA's financing may be provided to a member, the government of a territory included within IDA's membership, a political subdivision of any of the foregoing, a public or private entity in the territories of a member or members, or to a public international or regional organization. (Article V, Section 2(c).) In the case of a credit to an entity other than a member, IDA *may, in its discretion*, require a suitable governmental or other guarantee or guarantees. (Article V, Section 2(d).) IDA is prohibited from providing financing for any project if the member in whose territories the project is located objects to such financing, except that it shall not be necessary for IDA to assure itself that individual members do not object in the case of financing provided to a public international or regional organization. (Article V, Section 1(e).)

Although the Articles do not mention trust funds (i.e., funds provided by bilateral, multilateral and other donors and administered by the Bank as a trustee), both the IBRD and IDA have acted as trustees of many such funds established to further enable these institutions to perform their functions. The Bank's ability to administer trust funds is guided by the overall purposes for Bank lending and guarantees stipulated in the Articles. It would not be appropriate for the Bank to accept the administration of any trust fund if to do so would result in the Bank engaging in activities which fall outside the scope of the Bank's purposes. This view is reinforced by another provision of the IBRD Articles (Article I) which states that the Bank will be guided in all its decisions by the purposes provided for in Article I. Also, Article III, Section

1(a) stipulates that not only the resources of the Bank but also its facilities shall be used exclusively *for the benefit of members*.

B. Specific Issues for Consideration

1. Establishment and Administration of a Trust Fund Where the Finances are Provided by Other Donors

Over the past several years, the Bank has established and administered numerous trust funds provided by various bilateral, multilateral and other donors to support the Bank's operational activities and projects in its member countries. The Bank administers such trust funds in accordance with its own rules and procedures, including the Bank's guidelines for procurement and the use of consultants. In a number of cases, the Bank has also agreed to accept and administer trust funds to undertake regional or other special studies which have occasionally covered non-member countries; coverage of non-member countries in these cases was considered essential to ensure the completeness and comprehensiveness of the studies concerned. Moreover, in administering several of these trust funds the Bank has extended financial assistance directly to entities other than the member country in whose territory the project is located. Examples of such trust funds include those whose resources have been extended to non-governmental organizations, international regional or national research institutions, and universities.

As noted earlier, under the Bank's Articles, "the resources and facilities of the Bank shall be used exclusively for the benefit of members." The administration of the fund or funds provided by others for financing studies or projects in the Territories may be deemed by the Executive Directors to be for the benefit of members in view of the expected impact of the improvement in the economic conditions of the Territories on regional economic cooperation and growth and on the prospects for peace and prosperity in the Middle East and the world at large. Indeed, the existing trust fund which finances the Bank studies for the Territories provides an example of a facility financed by other donors and administered by the Bank with direct relevance to the Territories.

The Bank could thus establish a new trust fund in order to finance the cost of feasibility and pre-feasibility studies and to provide technical assistance and training in the Territories, and mobilize contributions to such a fund from various bilateral and multilateral donors. This trust fund could be patterned on the existing trust fund which financed the recently completed studies for the Territories.

2. Use of Administrative Budget Resources for Work Related to the Territories

The next question that arises is whether the Bank can use resources from its administrative budget to finance expenses such as aid coordination and project preparation in conjunction with a new trust fund.

The IBRD's Articles require that its resources and facilities be used exclusively for the benefit of members. (Article III, Section 1(a).) The IDA Articles state that IDA's purpose is to promote economic development in the less-developed areas of the world included within its membership. (Article I.) The use of the Bank's resources for work in and related to a territory which is not yet a member of the Bank and has not applied (or has no present qualifications to apply) for such membership depends on the benefits which may accrue to members from the use of the Bank's resources and facilities in such a situation. If, in the opinion of the Executive Directors, such use of the Bank's resources is for the benefit of the Bank's members, it would be possible to make such use, even if other non-member beneficiaries are involved. This was the case in the "Fund for Technical Assistance in the USSR," established in 1991 at a time when the USSR was not a Bank member and in several grants to international institutions where the beneficiaries included members and non-members of the Bank. The Executive Directors are empowered by the Articles of Agreement (IBRD, Article IX; IDA, Article X) to interpret the Articles and their approval of the provision of assistance to non-members in certain cases would be based on their conviction that such assistance is considered by them as beneficial to the Bank's members. Assuming that the Executive Directors deem the use of resources in the Territories to be for the benefit of the Bank's members, an allocation could be made from the Bank's Administrative Budget to finance the activities contemplated above.

3. Establishment and Administration of a Trust Fund Financed by a Bank Grant and Administered by IDA

In July 1991, the Executive Directors approved the establishment of a Trust Fund in the amount of US\$30 million, by way of a transfer from the Bank's surplus, to finance a program of technical assistance to the then Soviet Union which was not yet a member of the Bank. In this case, the scope of the technical assistance envisaged was quite large and, as such, the Bank considered it appropriate to establish a Trust Fund for this purpose. In proposing that Trust Fund, the President's Memorandum justified the proposal in terms of the benefits which were expected to accrue to Bank members from the Fund's activities, as follows:

Although the Soviet Union is not yet a member of the Bank, its substantial weight in world trade and in global resource use means that its economic circumstances have significant consequences for the Bank's membership. The proposed technical assistance program has the potential for making a

valuable contribution to the integration of the Soviet Union into the world economy, the evolution of its economic system, and the restoration of growth. The benefits which the membership of the Bank will derive if the program succeeds in its objectives, argues for the use of the Bank's own resources to ensure that the program can be undertaken at the speed and scale which is needed.³

The proposal to establish the Trust Fund was approved by the Board of Governors (upon recommendation by the Executive Directors) in view of the fact that it involved a transfer from the Bank's surplus.

Guided by this recent precedent, it would be legally possible for the Bank to establish a similar trust fund for the benefit of the Territories to the extent this would be deemed by the Executive Directors to be for the benefit of Bank members in view of the general economic benefits expected from the successful implementation of the recent peace accords. If financed from the Bank's net income or surplus, the allocation of transfers for such a trust fund has to be made by resolution of the Board of Governors. The fund could be entrusted to the IBRD or IDA to administer, for the financing of an emergency rehabilitation program in the Gaza Strip, under special arrangements to be included in the Executive Directors' resolution establishing the trust fund (which need also to be accepted by IDA, if it is to act as trustee). In such a case, IDA will be acting as administrator and the eligibility criteria followed in the use of its resources proper need not be followed in the use of the trust resources; it will only be required to act under the general requirements of its Articles of Agreement and the terms and conditions specified in the instrument establishing the trust.

4. Bank Loans and Guarantees

In the context of the provisions of the Articles of Agreement of both the IBRD and IDA, the first issue that needs to be addressed is whether there is a legal basis to extend loans, credits or guarantees to the Territories, which are not yet a member and also not legally part of the territories of a member.

The Bank has, in fact, extended loans and credits to territories which were not yet members of the Bank when such territories had a dependent territory relationship or other association with a member which acted as the guarantor. In 1955, the IBRD made a loan to the East Africa High Commission for the benefit of the then Tanganyika (a United Nations trust territory), Kenya (a United Kingdom colony) and Uganda (a United Kingdom protectorate).

³ "Proposed Transfer from Surplus to Fund Technical Assistance to the USSR," Doc. R91-184, July 30, 1991.

Except for Kenya, these territories were not part of the territories of the United Kingdom, but were under its temporary administration. This loan was guaranteed by the United Kingdom and also guaranteed jointly and severally by Tanganyika, Kenya and Uganda (Loan No. 110 EA - East Africa Railways and Harbors Project). Similarly, in 1969, IDA extended five credits to the Administration of the Territory of Papua and New Guinea, part of which (New Guinea) was then a United Nations trust territory administered by the Commonwealth of Australia. These credits were guaranteed by Australia. (This is different from the loans made by the Bank in the past to colonies which were legally part of the territory of the metropolitan state.) In the cases where the borrowers were dependent or associated territories, these were deemed for the purposes of the guarantees provided to the Bank to be part of the territory of the member country which had extended its governmental administration to the territories. As mentioned earlier, such possibilities were explicitly noted in the report explaining the IDA Articles of Agreement which states (in paragraph 13) that "[u]nder the provisions of Article V, Section 1(a), the Association's financing is to be for less-developed member countries and less-developed dependent and associated territories included within the membership of member countries."

The Bank has also, on a number of occasions, extended technical assistance to countries which had applied for membership in the Bank but had not yet become members (e.g., the then Soviet Union, Slovenia and Croatia) and to territories which were expected to apply for membership (e.g., Angola, using UNDP resources). Extension of Bank technical assistance in anticipation of membership and lending was considered essential in view of the rapidly evolving political situation in the region or territories concerned, the urgent need of these territories for development assistance and wide international support for such assistance. Further, as noted earlier (see Section III.B.3 above), the Bank in August 1991 established a trust fund for the benefit of the then Soviet Union before it was a Bank member.

From the foregoing, it will be seen that the Bank has to some extent affirmatively answered the question of providing assistance to non-member countries (which had applied for membership or were expected to apply for membership in the near futures) and to territories which, though not legally part of the territory of a member, were deemed to be "dependent" or "associated" territories of a member. The situation at hand is somewhat different and more difficult in that, unlike the precedents involving prospective members referred to above, full Palestinian statehood and eventual membership in the United Nations, the IMF and the Bank is not explicitly contemplated under the recent accords and may thus not materialize in the immediate future. Nor are the Territories or Gaza-Jericho clearly defined as "dependent" or "associated" territories of any particular Bank member.

As noted earlier, two member countries of the Bank (Egypt and Jordan) have exercised control over and responsibility for parts of the Territories between 1948 and 1967, and, since 1967, the Territories have been under Israel's control.

Future legal and political developments may enable the Bank to make a loan for the benefit of the Territories before the membership of a Palestinian state, with Israel or Jordan (for the West Bank) and Israel or Egypt (for the Gaza Strip) acting as borrower and/or guarantor, if, for the purpose of such lending, these territories would be considered as dependent or associated territories of such countries. Should future developments allow for such prospects and both the Palestinian entity and the member countries agree to act on this basis, it would still be important that the Bank include a disclaimer in the Loan and Guarantee Agreements to the effect that, by supporting the project for which the loan is to be made, the Bank does not take a legal position on, or intend to prejudice the final determination of, the status of the Territories.

It should finally be noted that the IDA Articles of Agreement provide greater flexibility than the IBRD Articles with respect to eligible recipients of its credits and guarantees. The provisions of the IDA Articles referred to earlier suggest the possibility (assuming IDA eligibility criteria can be satisfied) of making a credit to a public international organization, such as a UN agency (e.g., UNRWA) or a regional organization, such as a financial Arab agency active in the Territories, which would in turn provide assistance to projects in the territories by means of sub-loans. There are precedents where IDA has made credits to regional banks (such as the Caribbean Development Bank and the Banque Ouest Africaine de Développement (BOAD)) for such on-lending purposes.

TREATMENT OF THE WEST BANK IN THE CONTEXT OF PREVIOUS WORLD BANK LENDING OPERATIONS

Before 1967, the Bank treated the west bank of the Jordan as Jordanian territory. Under the second IDA Credit extended to Jordan to finance water supply projects (Credit No. 43-JO), part of the proceeds of the Credit were specifically allocated to finance works in the "water district of the Borrower comprising, ...the municipalities of Ramallah and El Bira and certain neighboring towns and villages...."¹

After 1967, the position of the Bank with regard to financing projects in the Territories was formulated in the context of specific lending operations in Israel. In 1969, the Israeli authorities raised with Bank staff, visiting Israel in connection with an Agricultural Credit Project (Loan No. 709-IS), the question of whether the Bank would consider a loan for the development of the Territories. The Bank response was that, until such time as the legal status of the Territories had been internationally decided and hostilities therein had ceased, it would not be appropriate for Israel to submit such a request to the Bank. More generally, the problem of compensation for nationalized Arab/Palestinian properties arose. Due to the doubtful legal status of agricultural land claimed by Israelis in the Territories but previously owned by Arabs/Palestinians, the Bank expressed some concern as to the likelihood that some of the sub-loans to be made under a loan to Israel would go to farms located on lands in the territories owned or farmed by Arabs/Palestinians prior to June 1967. Thus, the agreed minutes of negotiations recorded the Israeli commitment that Bank funds would only be used for sub-projects within the borders of the State of Israel as of January 1, 1967.

In the following year, during preparations for the Third Industrial Finance Project (Loan No. 689-IS), it was found that the Industrial Development Bank of Israel (IDBI) was prepared to consider, on an ad hoc basis, loans to enterprises in the Territories, and had in fact made two such loans totalling about \$4.5 million in 1968, but only against specific guarantees by the Government of Israel for the full amount of each loan. No Bank funds had been included in these loans. It was then noted that IDBI's management, although prepared to consider such loans, was unenthusiastic about them, and was unlikely to make such loans in the future. However, the Bank decided that one of the conditions of its loan to Israel should pertain to the prohibition of the use of Bank funds in the Territories. The minutes of the negotiations indicate that the Bank explained to IDBI that it wanted to finance projects only within the borders of the State of Israel as of January 1, 1967. IDBI took note of the Bank's position and agreed to report to the Bank the location and nature of every sub-project.

¹ See, Section 1.02 of the Development Credit Agreement (Credit No. 43-JO), dated December 12, 1963.

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WBG ARCHIVES

For consideration on
Tuesday, August 1, 1995

R95-144
IDA/R95-123

July 14, 1995

FROM: The Deputy Secretary

Further World Bank Assistance to the West Bank and Gaza

Attached is a memorandum from the President entitled "Further World Bank Assistance to the West Bank and Gaza".

Questions on this document should be referred to Mr. Gruss (X81516) or Mr. Roberts (X32241).

Distribution:

Executive Directors and Alternates
Office of the President
Senior Management, Bank, IFC and MIGA

JAMES D. WOLFENSOHN
President

July 12, 1995

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Further World Bank Assistance to the West Bank and Gaza

A. *Introduction*

1. The World Bank's assistance program in the West Bank and Gaza (WBG) is highly visible and of significant importance to the Palestinian track of the Middle East peace process. The Bank's involvement over the past one and a half years has been anchored by the Trust Fund for Gaza (TFG), established on October 19, 1993, by Resolution No. 93-11 of the Executive Directors of IBRD and by Resolution No. IDA 93-7 of the Executive Directors of IDA.
2. Of the original contribution of \$50 million to the TFG, \$30 million were provided for the Emergency Rehabilitation Project (ERP), approved by the Executive Directors on May 26, 1994. The balance of \$20 million was provided for the Education and Health Rehabilitation Project (EHRP), which the Executive Directors approved on June 20, 1995. The resources of the Trust Fund for Gaza are thus fully allocated.
3. The FY95 Net Income Allocation Paper, which is being circulated to the Executive Directors at the same time as this paper, proposes that the Trust Fund for Gaza be replenished by a transfer of \$90 million. The rationale for this recommendation is provided below.

B. *The Context: Recent Economic Developments and Donor Assistance Efforts*

4. The West Bank and Gaza has an estimated population of 1.9 million and a per capita GNP of US\$1,765 (1994), with a marked discrepancy in incomes between the West Bank (\$2,190) and Gaza (\$1,290). When the Palestinian Authority (PA) was created in May 1994, it inherited an economy characterized by a heavy structural dependence on Israel (particularly for employment opportunities and external trade), and by low levels of industrialization and a dilapidated stock of public infrastructure (see also Attachment 1). In addition to its own inexperience of government, the PA faced a confusing legal and regulatory environment and immediate fiscal difficulties stemming from a temporary collapse in revenue administration.
5. Three interlinked problems have dominated the economic agenda during the course of the last year -- border closures and the compression of Palestinian employment in Israel; continuous fiscal crisis; and difficulties in accelerating public and private investment activity.

6. Security-related border closures resulted in a fall in average levels of Palestinian employment in Israel from some 83,000 in 1993 to about 50,000 in 1994, and to well below 20,000 in the first quarter of 1995. While some recovery can be anticipated if security improves, Israeli employers are turning increasingly to foreign workers in view of the unpredictability of the Palestinian labor market. The impact of closure has shown up in part as diminished earnings rather than open unemployment, since workers have to some extent been able to adapt by switching into part-time work. If this is discounted, however, unemployment in WBG probably rose to at least a third of the workforce by the end of 1994, and closer to a half in the first quarter of 1995. Closure-driven restrictions on the passage of merchandise impeded the implementation of public works projects from January 1995, further compromising employment and driving up the price of construction materials (though the restrictions have eased somewhat in the last two months). From November 1994 onwards, donors sought to offset the effects of closure on employment through emergency job creation schemes, but these have proven difficult to organize and have created less than 5,000 temporary jobs so far.

7. The employment issue has increased pressure on the PA to expand the public payroll, and this, along with a 15 percent general salary increase granted in January 1995 to correct for inflation and for wage differentials between the West Bank and Gaza, has in turn exacerbated fiscal imbalances. Public wage expenditures now exceed 8 percent of GDP, a relatively high level by international standards. Revenue collections, on the other hand, dipped severely in Gaza at the inception of autonomy and have only partially recovered, despite improvements in administration (and despite provisions for regular revenue transfers from Israel). Although collections in the West Bank have been roughly maintained, the PA's recurrent budget for 1995 (prepared with IMF assistance) indicates that revenues are likely to cover only a half of expenditures for the year, leaving a fiscal gap of about \$230 million. Donors have pledged \$150 million towards the 1995 deficit so far, and have indicated through the Ad Hoc Liaison Committee (AHLC) that they will make efforts to cover the balance (this in addition to the funds provided against start-up and recurrent costs in 1994). As and when the PA assumes self-governing authority in the West Bank, added revenue transfer provisions should, given adequate expenditure control, help rectify the PA's fiscal situation; nonetheless, even relatively optimistic scenarios indicate a need for donor recurrent financing into 1997, albeit on a declining basis. With \$80 million still to mobilize for 1995 and signs of donor reluctance to continue this type of financing, the PA will need to demonstrate a high level of fiscal restraint if it is to expect adequate donor support.

8. Neither public nor private investment has taken hold at the speed anticipated at the time of the signing of the Declaration of Principles (DOP). As regards public investments (which are at this stage 100 percent donor-financed), the principal reasons are the time it is taking for the nascent institutions of the Palestinian Authority to become organized and the difficulty that donors have experienced in adapting their usual procedures to the highly unstructured circumstances that prevail in WBG. Private investors have so far been deterred by the uncertain political outlook, as well as by the muddled regulatory environment (which contains unharmonized elements of Ottoman, Mandate, Jordanian, Egyptian and Israeli law). Since the beginning of 1994 donors have disbursed some \$205 million for investment projects, as

compared with a late-1993 Bank needs projection of some \$530 million for the two-year 1994-5 period. No reliable estimates of private investment expenditure are available.

9. Data on economic performance in the West Bank and Gaza in 1994 are fragmented and of doubtful reliability. They suggest, however, that for WBG as a whole, real per capita GDP grew only modestly (on the order of 1-2 percent). In the West Bank, led by middle/upper income housing construction and a good olive crop, real incomes grew at perhaps 7-9 percent. In Gaza, although housing construction thrived and agricultural output fared well (growing at about 8 percent), intermittent border closures severely affected a workforce which is highly dependent on employment in Israel; overall, Gazan incomes seem to have stagnated at best. Preliminary indications for 1995 suggest that real per capita GDP and consumption in WBG as a whole may decline, as the impact of recent closures on labor and merchandise works its way through the economy. Exports from Gaza registered a value loss of close to 40 percent in the first quarter relative to the last quarter of 1994. Constraints on exporting led to a collapse in the domestic prices of many items (in March the price of tomatoes, a major crop, stood at only 10 percent of the end-1994 price). In the West Bank, moreover, the two-year olive cycle will be at a low in 1995.

C. The Evolution of Bank Assistance to the West Bank and Gaza

10. Initial World Bank involvement in WBG led to the six-volume report "Developing the Occupied Territories: An Investment in Peace", published in September 1993 to coincide with the signing of the DOP. Subsequently, on October 1, 1993, at the Washington pledging conference, over \$2 billion in financial assistance to the Palestinians was announced, and donors asked the Bank to provide the analytical and technical framework for the effective use of these funds.

11. The Executive Directors established the Trust Fund for Gaza shortly thereafter, and \$50 million were transferred to the TFG from the Bank's surplus, pursuant to Resolution No. 483 of the Board of Governors dated November 11, 1993. At the same time, the Executive Directors approved the establishment of a second Bank-administered trust fund, for studies and technical assistance to WBG (now known as the Technical Assistance Trust Fund, or TATF). These decisions positioned the Bank to play an important role in the development of the West Bank and Gaza.

12. In December 1993, the Bank chaired the first Consultative Group for the WBG, at which a Palestinian/Bank paper entitled "Emergency Assistance Program for the Occupied Territories" (EAP) was tabled. The EAP proposed a three-year, \$1.2 billion program with four main priority areas: (i) basic/social infrastructure rehabilitation, (ii) start-up and recurrent cost support, (iii) technical assistance and (iv) support to the private sector. The Bank's assistance strategy in the intervening period has focussed on these four themes.

13. The cornerstone of the Bank's current program is formed by two basic/social infrastructure rehabilitation projects, the Emergency Rehabilitation Project (ERP) and the

Education and Health Rehabilitation Project (EHRP). These projects are intended to spearhead the reconstruction of the infrastructure of WBG while building implementation capacity in the course of project execution.

14. The ERP (P-6247-XO, May 2, 1994) became effective on September 9, 1994, with the Palestinian Economic Council for Reconstruction and Development (PECDAR) as the borrower and prime implementing agency. In addition to \$30 million from the TFG, the ERP attracted \$98 million in cofinancing (from the Saudi Fund, the Arab Fund, the Kuwait Fund and the governments of Denmark and Switzerland). Of the \$98 million pledged, however, only \$58 million has been confirmed so far, though discussions with cofinanciers continue.

15. At this point, 113 rehabilitation subprojects worth almost \$60 million are underway, in the roads, water & sewerage and education sectors. Another \$20 million of subprojects will shortly go to bid under Danish parallel cofinancing arrangements, while some funds need to be held in reserve against contract contingencies. In addition to this, some 60 subprojects worth \$51 million are at various stages of bidding, but contract award must now await the commitment of additional funds, as the preparation of subprojects has outrun the availability of finance. Another \$40 million of subprojects, moreover, should be ready for implementation before the end of the year. ERP disbursements to date total \$22 million, including \$9 million from the TFG. Disbursements exceed projections at the time of Board approval, but have lagged behind the revised timetable established in December 1994 in response to donor and Palestinian efforts to accelerate the pace of development in WBG. These lags are due in part to inexperience in PECDAR and in the local contracting sector; but latterly more to the impact of closure on the supply of construction materials. Now that the border situation is easing, disbursements have recently begun to pick up. ERP was originally designed for completion by mid-1997, but following the December 1994 restructuring the project should be substantially completed by mid-1996. Despite the difficult implementation climate, the project is making satisfactory progress and is achieving a visible impact, particularly in the confines of Gaza.

16. The EHRP (P-6584-XO, May 23, 1995) focusses on the rehabilitation of primary schools and basic health facilities, as well as on supporting the development of the Ministries of Education and Health (which will implement the project with support from PECDAR). The \$20 million project is an integral part of a broader \$127 million education and health program, for which the Bank is seeking donor cofinancing to complement the contribution from the TFG. To date, indications of some \$50 million in cofinancing have been received, and the Bank is making additional efforts to raise the funds needed to carry out this high-priority program.

17. The Bank has played an important part in the start-up and recurrent cost support program. Since early 1994, and latterly alongside the IMF, the Bank has assisted the Palestinians to prepare and update recurrent budget estimates. These have been presented periodically to donors, initially at a special donor meeting in January 1994, and subsequently at AHLIC meetings. Among the windows created for donor support was the Holst Trust Fund, which donors asked the Bank to administer. The Holst Fund has evolved into the principal conduit for donor financing of the Palestinian budget deficit, and has to date received

\$155 million in commitments from seventeen donors. It has disbursed \$118 million, the bulk of this against Central Administration salaries and operating costs, and is likely to remain active as long as donor support for the Palestinian budget persists. The operation is unprecedented for the Bank, and has ensured that civilian salaries were paid with an acceptable degree of regularity (there have been some delays, caused by the late payment to the Bank of donor commitments). It is not clear that the PA could have continued to function in the absence of the Holst Fund.

18. Bank technical assistance efforts have centered on the administration of the Technical Assistance Trust Fund. Thirteen donors have committed \$25 million to the TATF. To date, over fifty activities have been agreed with the Palestinian authorities, thirty-one studies valued at \$8 million have been contracted, and almost \$4 million have been disbursed. A wide variety of high-priority activities have been launched or are under preparation, most of them identified and developed with intensive Bank staff assistance. They include power master planning and institutional studies, the design of an expenditure management system for the Ministry of Finance, formative analyses of policy options in the housing sector and reviews of the legal/regulatory framework governing private sector activity. Implementation of the TATF, nonetheless, has been slow and has suffered from over-centralization of decision-making by PECDAR. Discussions are underway to ensure decentralization to the agencies executing particular activities, as provided for in the Grant Agreement.

19. As the foregoing shows, initial Bank efforts focussed predominantly on support to or through the public sector. By the Fall of 1994, however, it had become clear that the unsettled political climate and the persistent teething problems of the PA had acted to dampen the hoped-for private sector response to Palestinian autonomy. It was also clear that donor plans for support to the private sector were inadequate in scale and at times uncoordinated. In early 1995 the Bank therefore initiated a review of private sector support needs. The conclusions of the review have been endorsed by the PA; proposals include the creation of a political risk insurance facility, specific reforms of the legal and regulatory regime, investment in support programs and training for small businesses, the expansion of the financial sector (term credit, housing finance) and the development of key economic infrastructure -- with an accent on the involvement of the private sector in financing and in management. At the same time, at the request of the Palestinian and Israeli authorities, the Bank has conducted an initial review of the feasibility of a proposed program of border and local industrial estates.

20. The IFC in FY94 approved a project which established the first comprehensive commercial and investment banking institution in WBG, the Arab Palestine Investment Bank (APIB). IFC invested US\$3.8 million as capital for APIB and has provided a US\$15 million line of credit to the institution. APIB will be established once all necessary banking licenses have been obtained.

21. The Bank has also played an active role in donor coordination -- as chair of the Consultative Group, secretariat to the AHLC and as co-chair of the active and multi-faceted local aid coordination system. Donors continue to look to the Bank for its analytical input -- on economic policy (the six-volume report; the 1994 two-year perspective study; the private sector

support strategy), on investment planning (the Emergency Assistance Program; the 1995-7 Palestinian public investment program recently finalized with Bank assistance) and on program and project design (the industrial estates; housing finance). The Bank has also acted as a clearing house for information on aid flows to the Palestinians.

22. The operational climate in the West Bank and Gaza is subject to frequent political disruption alongside sustained demand from all quarters for rapid results. The Bank's experience over the last eighteen months suggests that the only way to ensure adequate responsiveness and to provide the intensity of assistance needed to achieve results under such conditions is by a major decentralization of resources and responsibilities to the field. The successful first phase of Bank work in WBG exemplified this: in 1993 and early 1994 a field-based coordinator and task groups visiting from headquarters were responsible for the timely production of the first economic study, the EAP and the ERP. Once the Bank's focus shifted to project implementation, it became clear that reversion to a conventional HQ-based approach was inappropriate, and a strong Resident Mission was established. In December 1994, first-line authority over the program was delegated to the Resident Representative, who manages the core WBG staff team. This arrangement is unique to the West Bank and Gaza.

D. Future Bank Group Activity in the West Bank and Gaza: FY96 and 97

23. Palestinian autonomy is at a formative stage, and original hopes for a rapid transition towards economic and institutional stability have proven over-optimistic. As of the time of writing, the exact nature and timing of self-rule in the West Bank is still not clear -- nor is it possible to overlook the possibility that violence may continue to delay and disrupt the peace process. Even assuming a minimum of political setbacks, the current transitional phase in WBG's history, characterized as it is by fiscal uncertainty, a degree of institutional confusion and an unclear policy environment, can be expected to persist for some time. In the period immediately ahead, the challenge to the PA is formidable: if they are to attract the donor and private capital needed to finance job creation and growth, they must maintain tight fiscal control in the face of strong countervailing pressures, and they must move decisively to develop the policies and institutions of sound government. The Bank's assistance strategy has been designed to support these immediate priorities, and to help the Palestinian authorities navigate this interim period.

24. Thematically, we propose to support the same four objectives that have characterized our assistance to date -- (i) sustaining the financial viability of the Palestinian administration; (ii) helping develop key economic policies and institutional structures; (iii) restoring and further developing basic and social infrastructure, and (iv) supporting the emergence of the private sector. The need for intensive hands-on assistance in design and implementation and for a significant commitment of resources to aid coordination at the international and local levels is foreseen throughout this period.

25. The first two objectives would be pursued through trust fund administration and Bank economic and sector work. The Holst Fund is expected to remain in operation into 1996, and

would be underpinned by IMF and Bank fiscal monitoring activities and by technical assistance to the Ministry of Finance in the areas of revenue administration (IMF) and expenditure management (IMF; and the Bank, through the TATF). Economic and institutional policy options would be explored through Bank economic work and through Bank support to the PA's economic policy analysis institute. Bank studies on fiscal management, labor market adjustment possibilities and trade policy are envisaged. In addition, a range of physical planning, project preparation and institutional studies will be carried out under the TATF.

26. The latter two objectives, the provision of basic/social infrastructure and support for the private sector, would be pursued through Bank Group lending operations, complemented where appropriate by TA activity. To date, we have played a catalytic role in the design and implementation of major investment projects, and an appreciable demand for this kind of partnership with donors exists, as evidenced by recent approaches to the Bank to coordinate work on industrial estates and housing. We have had some success in mobilizing cofinancing in support of our public infrastructure/social sectors operations, and donor and private interest in the types of project described in para. 27 below is likely to be higher. [The Bank's ability to play a lead role in investment coordination, as CG and local aid committee chair, also depends on continued lending activity.] Given the limited resources that can be made available for the purpose, however, our interventions must be carefully targeted and must aim at bringing in significant amounts of cofinancing; to do so, they will build on the Bank's comparative advantages, in particular our world-wide experience and acquaintance with best practices.

27. Our new lending would also take account of the strained capacity of both the PA and the local contracting industry (key partners in the ERP and the EHRP); accordingly, a more significant role for the regional/international private sector at all stages of the project cycle is envisaged. In the same spirit, the implementation capacities of the municipalities and the NGO sector would be tapped where appropriate. Potential projects have been identified in the following areas [though it should be noted that the rapid evolution of events in WBG requires the Bank to remain open to opportunities and needs as yet unforeseen):]

(i) Housing and Housing Finance: TATF-financed work on the high-priority housing sector has resulted in a set of proposals that would collectively address all segments of the housing market. The approach stresses the role of credit, the development of mortgage finance and the involvement of the private sector and NGOs -- as opposed to public sector construction and sales. In the case of lower income families, in-situ upgrading and the provision of serviced land is advocated, along with security of tenure and contractual savings schemes.

(ii) Industrial Development: there is a need for term credit for small and medium enterprises as well as for business support/promotion services. In addition, considerable attention is being given to the development of export-oriented industrial estates in WBG. The Bank's report sees these as potential "islands of legal and regulatory clarity" that could attract foreign and local investment and help kick-start the industrial development of WBG -- provided that investors are guaranteed unhindered passage of goods and labor

in and out of the estates; rational zoning, licensing and taxation arrangements; adequate political risk insurance; and a package of incentives commensurate with what other countries provide for such schemes. The IFC is also interested in financing specific investments and MIGA in administering an investment guarantee fund (MIGA staff briefed the Executive Directors on this concept in May 1995). At the municipal level, successful NGO experiences in the development of local estates merit further development (suitably complemented by the provision of credit and various types of support to businesses).

(iii) Municipal Development: the next phase in small-scale infrastructure rehabilitation in WBG would be implemented primarily by the municipalities. There is a concurrent need to strengthen the municipalities' finances and management, and to encourage the privatization of municipal infrastructure systems and services.

(iv) New Infrastructure: the development needs in the transport, water/waste water, solid waste and power sectors are enormous. The Bank's limited resources argue for a partnership role in which we would help set the policy and investment framework that would attract donor and private investment capital. We are currently exploring the possibility of developing and financing private contracts for utility management in the following sectors: electricity generation and distribution in Gaza (the IFC is also interested in helping develop an independent power plant in Gaza), solid waste in Gaza and water and wastewater services in Gaza. These projects would contribute to the improvement of environmental standards and would create appreciable construction employment.

28. In addition, the Bank would continue to support the development of the social sectors by helping the PA coordinate and secure financing for the balance of the \$127 million health and education program, of which the Bank's Education and Health Rehabilitation Project forms a key part.

29. The IFC would focus its attention in the FY96-7 period on opportunities in the infrastructure, industry and tourism sectors. Apart from power generation in Gaza and the industrial estates program, the IFC's interests include various construction materials projects (for example, cement production), a leasing project and the tourism sector.

E. The Proposed Replenishment of the Trust Fund for Gaza

30. The decision to establish the Trust Fund for Gaza recognized the legal difficulties associated with providing Bank loans or IDA credits to the West Bank and Gaza. The Memorandum from the President of September 20, 1993 (R93-163, IDA/R93-134) indicated that to do so would require the identification of the West Bank and the Gaza Strip as a territory or territories dependent on, or associated with, a Bank member (and would, in the case of an IBRD loan, require a guarantee from such member(s)). It was observed that "neither of these requirements can be met readily under present circumstances and awaiting their fulfillment would

defeat the purpose of a timely contribution by the Bank." In view of this, establishment of a trust fund was seen as a "valid and timely" approach to the provision of Bank assistance. This argument is still relevant. Second, it was recognized that local conditions, particularly in Gaza, were such as to make it "appropriate that assistance be provided on highly concessional terms", and it was determined that trust fund proceeds should be made available on IDA terms (Resolution Nos. 93-11 and IDA 93-7). Contrary to the hopes of the time, the economy of WBG has not improved appreciably during the last eighteen months. The case for continued concessionality, however, is more appropriately based on the fact that at this interim stage in the peace process Palestinian economic sovereignty is still highly constrained, while the Palestinian Authority's fiscal situation is unsustainable without external assistance. Under these unusual circumstances -- in which the PA cannot be considered creditworthy in a conventional sense -- it does not appear reasonable to expect the PA to incur debt on IBRD terms.

31. Now that the original TFG principal of \$50 million has been fully allocated to the ERP and the EHRP, and given the importance of sustaining the Bank's contribution to the peace process, Management is proposing a replenishment of the TFG, as an exceptional measure and in view of the prolongation of the transitional period in WBG. In the FY95 Net Income Allocation Paper being circulated simultaneously with this paper, a replenishment of \$90 million is proposed. Originally, Management had envisaged approaching the Executive Directors for a replenishment of \$60 million, a sum similar in real terms to the original allocation. Recently, however, the Palestinian Authority and certain key donors have called for an expanded Bank leadership role (for example, in the housing and the industrial estates programs), while donor interest in committing concessional loan cofinancing to new infrastructure projects has grown. A \$90 million replenishment would enable the Bank to offer leadership to the investment program in two ways. First, it would position the Bank Group to finance three or four new projects of the type described in para. 27 above, and thereby to catalyze official and private financing more effectively. Second, a replenishment of this scale would permit additional contributions to the ERP and the EHRP, thereby sustaining the momentum of these two important programs (in the case of the ERP, as indicated in para. 15 above, the gap between the generation of new subprojects and the financing available for them is widening substantially). Management intends, furthermore, that the additional \$30 million now proposed would be committed to projects only upon the mobilization of between two and three dollars of official or private cofinancing for each dollar from the TFG. For the reasons explained in para. 30 above, TFG proceeds should continue to be made available on IDA terms.

32. It is further proposed that, following replenishment, TFG resources should also be available to finance development projects in the Jericho area, and in the rest of the West Bank in those sectors or activities which fall under the authority of the PA pursuant to the relevant Israeli-Palestinian agreements. This would permit trust fund proceeds to be used immediately to finance projects in sectors which are currently under the jurisdiction of the PA in the West Bank, as specified under the provisions of the Agreement on Preparatory Transfer of Powers and Responsibilities of August 29, 1994 (the "early empowerment" agreement) -- and in other sectors and for other activities as and when authority over them is transferred to the PA.

F. *Beyond the Transitional Phase*

33. The poor data currently available and the economy's high degree of susceptibility to political developments make it unusually hazardous to forecast any medium-term trajectory for the West Bank and Gaza. Nonetheless, macroeconomic simulations suggest that if the transitional phase can be surmounted, prospects are quite hopeful. The current round of negotiations on the West Bank appears close to a conclusion. If the political situation normalizes in 1995 and "full empowerment" takes effect in the West Bank by the beginning of 1996, real GDP could grow at approximately 6 percent per annum in the 1996-8 period, provided that fiscal discipline can be maintained. Real income per capita would grow more slowly, however, at around 2 percent per year. Under such a scenario, investment can be expected to rebound from a low of 17 percent of GDP in 1995 to roughly 27 percent in 1998, while the fiscal situation would stabilize by late 1997 (with a potential budget surplus in 1998). Despite this healthy potential, and notwithstanding the excellent educational standards among Palestinians, unemployment is expected to persist at high levels for some time: just under one third of the labor force would remain unemployed through this period, if part-time work is discounted. Even if 50,000 Palestinians were permitted to work in Israel (as opposed to the 25,000 assumed in the projections cited), unemployment would remain at an average of 22 percent between 1996 and 1998.

34. Other serious structural issues include the rapid depletion of Palestinian water supplies, in particular in Gaza, and the untested competitiveness of WBG in a region which is rapidly opening up to the global marketplace. On the other hand, WBG has at its disposal a relative abundance of concessional donor resources, the prospect of plentiful capital from the Palestinian diaspora, the well-known industry and entrepreneurship of the Palestinian people and a government policy stance that evinces commitment to an economy driven by the private sector.

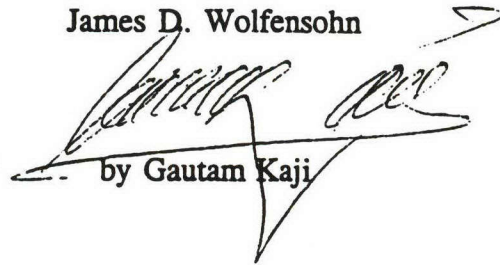
35. To realize WBG's medium-term potential, however, the PA will first need to manage the transition. The proposed next phase of Bank assistance would assist this process. The risks associated with the proposed strategy are principally political in nature, and should not be underestimated. If political circumstances deteriorate, it can be assumed that the project implementation climate will also decay, placing at jeopardy current projects and the preparation of new initiatives. This possibility should be weighed against the substantial benefits that should otherwise flow from the proposed replenishment of the TFG. A program of the type described above could catalyze a donor and private sector response that would ramify beyond the confines of the projects themselves. It would also add credibility to the Bank's dialogue on key policy issues in the areas of fiscal management, industrial development and governance.

36. If events do move in the desired positive directions, other donors are expected to shift out of pure grant financing towards concessional lending and concessional/commercial mixes. The proposed replenishment of the TFG would permit the Bank to provide immediate support to the transition and at the same time review the options for the next phase of our assistance to the West Bank and Gaza.

G. Recommendation

37. In view of the foregoing, the President recommends that the Executive Directors approve an amendment to Resolution Nos. 93-11 and IDA 93-7 expanding the territorial scope of the Trust Fund, as set forth in the draft Resolution attached to this paper as Annex 1. Furthermore, as mentioned in para. 31 above, Management is proposing in the FY95 Net Income Allocation Paper a replenishment of the Trust Fund by \$90 million.

James D. Wolfensohn

A handwritten signature in black ink, appearing to read 'Gautam Kaji', is written over a horizontal line. The signature is stylized and cursive.

by Gautam Kaji

The Economy of the West Bank and Gaza

		<u>WBG</u>	<u>Gaza</u>	<u>West Bank</u>
<i>WBG is a small, lower-middle income economy with a fast-growing population and marked disparities between its two component territories.</i>	Population (millions, 1994)	1.91	0.80	1.11
	Population growth, 1988-93	3.6%	4.1%	3.2%
	GNP per capita (US\$, 1994)	1765	1290	2190
	GDP per capita (US\$, 1994)	1513	940	1910
<i>Its industrial base is atrophied and capital formation, pre-dominantly private, is concentrated in construction.</i>	Sources of GDP (% of total): ¹			
	Agriculture	34%	26%	36%
	Industry	8%	10%	7%
	Construction	14%	19%	13%
	Services and other	44%	45%	44%
	Investment as a % of GDP ²	30%	33%	29%
	Private construction as a % of total investment	69%	77%	66%
<i>There is a large, structural deficit in external trade ...</i>	Exports (million US\$, 1993)	236.0	62.6	173.4
	Imports (million US\$, 1993)	1138.0	353.1	784.9
	Trade Deficit as a % of GDP	34.9%	41.2%	29.5%
<i>... which historically has been covered by transfers from abroad, and especially by earnings from work outside WBG, notably in Israel. Increasingly frequent closures have recently entailed a sharp decline in such income, and a significant rise in unemployment.</i>	Labor force ('000, 1994)	352.6	130.0	222.6
	% of force employed in Israel:			
	in 1992	36.3%	37.5%	35.7%
	in 1993	26.3%	26.1%	26.4%
	in 1994	16.4%	17.5%	15.7%
	Unemployment rate (1994) ³	--	12.3%	7.9%
	Factor income from abroad (million US\$, 1993)	649.4	212.4	437.0
<i>The Palestinian Authority remains heavily reliant on donor support, even for day-to-day operations.</i>	PA recurrent budget, 1995 (million US\$): ⁴			
	Revenue	216	104	112
	Recurrent expenditure	444	274	170
	Recurrent deficit (-) = donor support sought	-228	-170	-58
	of which already committed	148	--	--
<i>The banking system, long dormant, is fast increasing in size and diversity, but the share of bank assets taking the form of loans to domestic households and firms remains small. Traditionally, most investment has been financed with investors' own resources.</i>	Number of operating banks (no. of branches), 1995	13 (39)	5 (15)	8 (24)
	Value of deposits (million US\$)			
	1993	211	37	174
	1994	570	240	330
	Loans outstanding (million US\$, 1994)	167	100	67
	as a % of deposits	29%	42%	20%

^{1/} Average 1988-93; 1986 prices.

^{2/} 1987 data.

^{3/} Based on survey responses (negative and affirmative, respectively) to the standard question "did you work for at least one hour last week and, if not, were you actively searching for work?". Data for the West Bank refer to 1993.

^{4/} Based on a *status quo* assumption regarding PA functions in the West Bank.

INTERNATIONAL BANK FOR RECONSTRUCTION

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INTERNATIONAL DEVELOPMENT ASSOCIATION **WBG ARCHIVES**

(DRAFT)

RESOLUTION No. 95 - ____

RESOLUTION No. IDA 95 - ____

Amending Resolution No. 93-11 and No. IDA 93-7

WHEREAS International Bank for Reconstruction and Development and International Development Association have determined pursuant to Resolution No. 93-11 and No. IDA 93-7, adopted by the Executive Directors on October 19, 1993, to establish the Trust Fund for Gaza; and

WHEREAS it is now considered desirable to expand the territorial scope of the activities to be financed out of the Trust Fund for Gaza in light of the Israeli-Palestinian Agreement on Preparatory Transfer of Powers and Responsibilities of August 29, 1994 and other recent Israeli- Palestinian agreements;

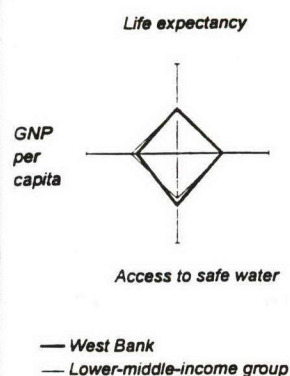
NOW THEREFORE BE IT RESOLVED AS FOLLOWS:

1. The name of the trust fund shall be changed from: "Trust Fund for Gaza" to "Trust Fund for Gaza and West Bank".
2. Paragraph 2 of Resolution No. 93-11 and No. IDA 93-7 is amended by inserting after the word "Gaza" the words "as well as to the Jericho area and for those sectors and activities in the West Bank which are under the jurisdiction of the Palestinian Authority pursuant to the relevant Israeli-Palestinian agreements".
3. Paragraphs 4 and 5 of said Resolution are amended by inserting in each paragraph after the word "Gaza" the words "as well as in the Jericho area in such sectors in the West Bank which are under the jurisdiction of the Palestinian Authority pursuant to the relevant Israeli-Palestinian agreements".
4. In all other respects the said Resolution shall remain in full force and effect.

West Bank and Gaza at a glance

POVERTY and SOCIAL	West Bank & Gaza	M. East & North Africa	Lower-middle-income
Population 1994 (millions)	2.4	267	1,097
GNP per capita 1994 (US\$)	1,453	..	1,680
Average annual growth, 1990-94			
Population (%), 1988-93	3.6	2.8	1.4
Labor force (%)	4.6	3.2	1.6
Most recent estimate (latest year available since 1989)			
Poverty: headcount index (% of population)	24	..	..
Urban population (% of total population)	50	54	54
Life expectancy at birth (years)	68	65	67
Infant mortality (per 1,000 live births)	37	49	35
Child malnutrition (% of children under 5)	..	..	..
Access to safe water (% of population)	90	..	78
Illiteracy (% of population age 15+)	40	45	..
Gross primary enrollment (% of school-age population)	102	97	104
Male	..	104	105
Female	..	90	101

Development diamond*

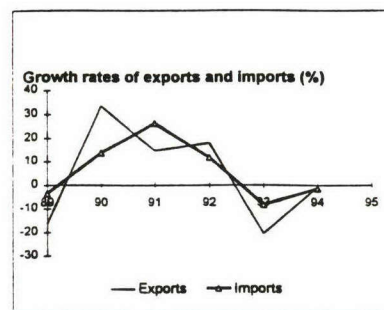
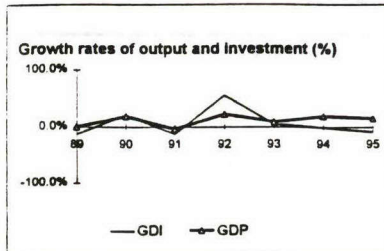


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1985	1990	1993	1994
Gross domestic investment/GDP	24.0	26.7	30.4	21.8
Exports of goods and non-factor services/GDP	26.9	12.5	8.6	8.5
Gross domestic savings/GDP	..	..	-7.9	-15.4
Gross national savings/GDP	..	..	3.4	0.8
Current account balance/GDP	-11.6	0.0	0.0	-0.2
Interest payments/GDP	..	..	..	..
Total debt/GDP	..	..	..	..
Total debt service/exports	..	..	..	..
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..
(average annual growth)				
	1981-88	1989-92	1993	1994 estimates
GDP per capita	-1.5	5.3	6.0	7.0
GNP per capita	-0.5	4.8	-5.0	3.0
Exports of goods and nfs	-4.7	12.5	-20.4	-0.9

STRUCTURE of the ECONOMY

(% of GDP)	1980	1985	1990	1994
Agriculture	29.0	20.0	21.0	15.0
Industry	7.0	8.0	8.0	8.0
Construction	18.0	17.0	16.0	18.5
Services	16.0	17.0	13.0	10.5
Other	29.0	38.0	43.0	48.0
Private consumption	91.5	102.4	102.0	105.3
General government consumption	10.0	11.0	11.0	10.1
Exports of goods and non-factor services	31.0	27.0	12.5	8.5
Imports of goods and non-factor services	61.0	65.0	52.5	46.0
(average annual growth)				
	1981-89	1989-92	1993	1994
Agriculture	6.9	12.8	-18.6	21.0
Industry	4.3	8.0	13.2	1.0
Construction	2.0	10.0	25.9	11.2
Services	0.9	13.0	11.7	20.1
Other	2.88	12	40	3
Private consumption	2.9	10.0	4.4	20.0
General government consumption	2.4	13.0	2.5	16.2
Gross domestic investment	-0.8	12.6	4.8	-1.3
Imports of goods and nfs	-0.5	12.5	-8.2	-1.4
Gross national product	2.9	9.0	-1.5	7.2



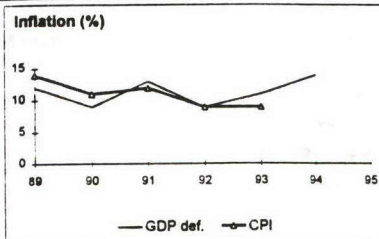
Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

West Bank and Gaza

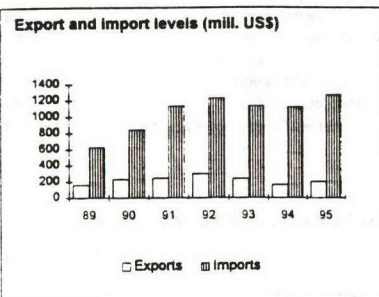
PRICES and GOVERNMENT FINANCE

	1985	1990	1993	1994 estimate
Domestic prices				
(% change)				
Consumer prices	..	10.6	8.6	14.0
Implicit GDP deflator	..	8.7	11.0	14.0
Government finance				
(% of GDP)				
Current revenue	..	12.0	10.0	9.0
Current budget balance	..	2.0	1.0	-1.0
Overall surplus/deficit	..	0.0	-2.6	-3.9



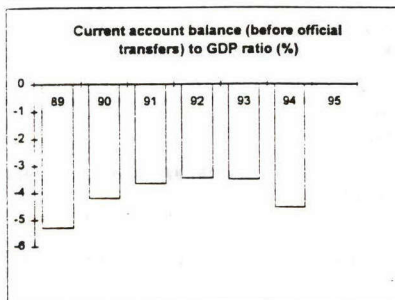
TRADE

	1985	1990	1993	1994
(millions US\$)				
Total merchandises exports (fob)	281	231	236	165
n.a.	..	..	..	..
n.a.	..	..	..	..
Manufactures	..	..	..	..
Total merchandises imports (cif)	671	843	1,138	1,126
Food	..	..	..	..
Fuel and energy	..	..	..	..
Capital goods	..	..	..	..
Export price index (1987=100)	..	..	230	..
Import price index (1987=100)	..	..	233	..
Terms of trade (1987=100)	..	..	98	..



BALANCE of PAYMENTS

	1985	1990	1993	1994
(millions US\$)				
Exports of goods and non-factor services	314	281	245	246
Imports of goods and non-factor services	753	1,179	1,333	1,138
Resource balance	-439	-898	-1,088	-893
Net factor income	227	769	552	480
Net current transfers	71	143	536	606
Current account balance, before official transfers	-141	-192	-282	-402
Financing items (net)	..	..	..	..
Changes in net reserves	..	..	..	..
Memo:				
Reserves including gold (mill. US\$)
Conversion rate (local/US\$)	1.179	2.016	2.830	3.001



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Office of the Regional Vice President
Middle East and North Africa

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MESSAGE:

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NATHALIE (32406)

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Emergency Employment Generation Projects by Location and Source of Funds

Project Source of Funds	Project Names	Location	April Jobs	May Jobs	June Jobs	July Jobs	New Jobs (for the Period 4/1-7/31/96)	Expenditures
			(in person days)					
Germany	SchoolRehab	Gaza	9,267	9,267	9,267	9,267	356	556,031
Holst	Beach	Gaza	7,000	3,500	3,500	3,500	168	750,000
Holst	Cleanup	Gaza	85,956	85,956	85,956	0	2,480	5,000,000
Holst	ElectricalRehab	Gaza	7,857	7,857	7,857	7,857	302	480,000
Holst and other direct hire financing	Job Creation	Gaza	260,000	520,000	520,000	520,000	17,500	22,100,000
UNDP-Japan	Tile&PaveOmar	Gaza	5,200	5,200	5,200	5,200	200	940,000
UNDP-Japan	Agri-employment	Gaza	24,102	24,102	24,102	24,102	927	1,253,333
UNDP-Norway	Excavation	Gaza	40,909	40,909	40,909	40,909	1,573	1,880,000
UNDP-Sweden	YouthCenterRehab	Gaza	7,488	7,488	7,488	7,488	288	1,410,000
UNDP-US AID	Tile/PaveAl-Foweida	Gaza	22,750	22,750	22,750	22,750	875	1,092,000
UNRWA-Norway	UNRWATrainees	Gaza	66,667	66,667	66,667	66,667	2,564	4,000,000
World Bank	ERP (New)	Gaza	0	8,167	22,250	27,250	554	3,470,000
World Bank	ERP(Salah Edin)	Gaza	0	15,000	7,500	7,500	288	1,800,000
World Bank	MIDP	Gaza	0	4,667	7,000	7,000	179	1,120,000
Unfunded	Public Markets	Gaza	1,958	1,958	1,958	1,958	75	470,000
SUBTOTAL -GAZA			539,154	823,488	832,404	751,448	28,332	46,321,364
Germany	Retaining Wall	West Bank	1,811	1,811	1,811	1,811	70	108,000
Holst and other direct hire financing	Job Creation	West Bank	390,000	780,000	780,000	780,000	26,250	33,150,000
UNDP-Japan	Tile&PaveNablus	West Bank	4,100	5,350	5,350	5,350	194	503,750
Unfunded	Public Markets	West Bank	2,938	2,938	2,938	2,938	113	705,000
Unfunded	Bethlehem2000	West Bank	0	0	1,842	1,842	35	375,000
World Bank	ERP(New)	West Bank	0	5,950	16,801	20,739	418	3,480,000
World Bank	MIDP	West Bank	0	6,313	15,706	18,825	393	3,280,000
SUBTOTAL-WEST BANK			398,848	802,361	824,447	831,504	27,473	41,601,750
TOTAL			938,002	1,625,849	1,656,851	1,582,952	55,804	87,923,114

**Statement of Sources and Uses of Funds for Emergency Employment Generation in the West Bank and Gaza
and Budget Support to the Palestinian Authority**

For the Period:	4/1/96-4/30/96	5/1/96-5/31/96	6/1/96-6/30/96	7/1/96-7/31/96	4/1/96-7/31/96
<u>Uses of Funds</u>					
	<u>Amounts in USD</u>	<u>Amounts in USD</u>	<u>Amounts in USD</u>	<u>Amounts in USD</u>	<u>Amounts in USD</u>
Equip., Materials., and Other	3,432,455	7,382,455	9,793,914	9,760,852	30,369,677
Wages	10,248,095	17,389,345	17,965,386	17,201,781	62,804,606
Budgetary Support	40,000,000	22,000,000	20,000,000	18,000,000	100,000,000
Total Expenditures:	53,680,550	46,771,800	47,759,300	44,962,633	193,174,283
<u>Sources of Funds</u>					
	<u>Amounts in USD</u>	<u>Amounts in USD</u>	<u>Amounts in USD</u>	<u>Amounts in USD</u>	<u>Amounts in USD</u>
World Bank (New Projects)	0	2,660,000	4,810,000	5,680,000	13,150,000
Holst Fund ^{1/}	20,000,000	8,176,667	18,186,667	7,136,667	53,500,000
UNDP Japan	900,833	1,032,083	1,032,083	1,032,083	3,997,083
UNDP Sweden	352,500	352,500	352,500	352,500	1,410,000
UNDP Norway	470,000	470,000	470,000	470,000	1,880,000
UNDP-US AID	910,000	910,000	910,000	910,000	3,640,000
UNRWA-Norway	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
EU	0	0	19,000,000	0	19,000,000
Germany	516,800	54,000	54,000	54,000	678,800
Total Cash Contributions	24,150,133	14,655,250	45,815,250	16,635,250	101,255,883
Financing Gap:	29,530,417	32,116,550	1,944,050	28,327,383	91,918,400

^{1/} The Holst Fund disbursement for April, totalling US \$20m, is comprised of US\$9.8m for employment generation and US\$10.8m for budgetary support.

WBG Projects: Commitment and Disbursement Summary, June-August 1996

Project	Project Cost (\$m)	Comit. to end June (\$m)	Comit. to end July (\$m)	Comit. to end August (\$m)	Disb. to end June (\$m)	Disb. to end July (\$m)	Disb. to end August (\$m)
EHRP	20.00	12.88	15.55	18.35	2.35	3.38	4.78
ERP 2	20.00	5.61	19.48	19.70	1.84	4.84	8.57
MDP	45.00	2.17	6.11	18.51	0.43	1.33	4.45
Total	85.00	20.66	41.12	67.48	4.72	9.58	18.77
percentages							
EHRP	100%	63%	78%	97%	12%	17%	24%
ERP 2	100%	29%	97%	99%	10%	24%	53%
MDP	100%	5%	14%	41%	1%	3%	10%
Total	100%	24%	48%	80%	6%	11%	19%

Please Note: The EHRP disburse for June will be difficult to meet because of preparation problems in Gaza. July should be possible, but not without difficulty.