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Enabling poor rural people
to overcome poverty

President's memorandum

The West Bank

Report on the Participatory Natural Resource Management Programme financed from the IFAD Fund for Gaza and the West Bank

Executive Board — Ninety-fifth Session
Rome, 15-17 December 2008

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Abbreviations and acronyms

FGWB	Fund for Gaza and the West Bank
PNRMP	Participatory Natural Resource Management Programme

Recommendation for approval

The Executive Board is invited to approve grant funding from the Fund for Gaza and the West Bank for the Participatory Natural Resource Management Programme as contained in paragraph 20.

President's memorandum

Report on the Participatory Natural Resource Management Programme financed from the IFAD Fund for Gaza and the West Bank

I. Background

1. At its twenty-first session in February 1998, IFAD's Governing Council established the IFAD Fund for Gaza and the West Bank (FGWB), to be used for the provision of financial assistance to projects operating in areas under the jurisdiction of the Palestinian Authority (resolution 107/XXI). Such assistance would be in the form of loans and grants, and would be provided in accordance with IFAD rules, regulations, guidelines and procedures. The resolution established that the FGWB was to be financed from IFAD regular resources and other contributions, and authorized the Executive Board to decide, from time to time, the maximum amount of resources that the FGWB could hold. It also specified that the FGWB would remain effective either until such date as Gaza and the West Bank attained membership in IFAD, or upon a proposal from the President of IFAD to close the fund – at which time, the Executive Board would decide on the disposal of FGWB resources.
2. On 23 April 1998, IFAD's Executive Board approved a loan of SDR 5.8 million to the Palestine Liberation Organization, for the benefit of the Palestinian Authority, on highly concessional terms, for the Participatory Natural Resource Management Programme (PNRMP) in the West Bank districts of Jenin, Nablus, Ramallah and Tulkarem.
3. The Palestinian Authority has not made further withdrawals from the loan account since July 2007. In an effort to reduce its debt exposure in the face of burgeoning debt liabilities and an accumulated stock of arrears in payments to civil servants, creditors and suppliers, it has requested IFAD to explore the possibility of providing critically needed support by converting the undisbursed loan amount into a grant.
4. Subject to settlement of all arrears and to the timely servicing of the existing debt, this memorandum proposes allowing the loan to close, ensuring that the undisbursed balance (i.e. SDR 3.28 million) be retained in the FGWB, and making this balance available to the Palestinian Authority as a grant.

II. Progress in programme implementation

5. The primary objective of PNRMP has been to increase the incomes and living standards of small-scale farmers by developing and managing land and water resources to enhance their productivity. To this end, the programme supports: (i) land reclamation and improvement (including construction of terraces, fencing, cisterns and access roads); (ii) crop production; (iii) a credit fund; and (iv) programme management and institutional support. The programme area contains about 260 villages with a population of about 593,000, within a total area of about 2,400 km² in the West Bank area north of Jerusalem, in the Jenin, Nablus, Ramallah and Tulkarem Districts.
6. PNRMP became effective in February 2000. Programme implementation was suspended soon thereafter due to the outbreak of the intifada, which restricted mobility and halted operations. IFAD supervision missions in 2003 and 2004 sought to re-launch the programme, but security and mobility conditions did not permit operations to resume until 2005. Implementation resumed at full speed in 2005, but stalled again in 2008 as a result of the fiscal crisis facing the Palestinian Authority and the inability of the Authority to assume any further debt in the form of loan withdrawals.

7. Overall, the Ministry of Agriculture (in partnership with 13 NGOs) has made good progress in implementing both the land reclamation and improvement component and the improved crop productivity component. Olive and fruit trees have been planted, and terraces, cisterns and access roads have been constructed in 32 villages. In total, an area of 11,100 dunums (one dunum: about 900 square metres) has been developed, directly benefiting 1,060 farming households while providing employment opportunities to the local labour force. Activities under the crop production component have comprised the establishment of home gardens for rural households, and a pilot programme for enhancing the profitability of the olive industry by improving oil quality and the marketing chain. This has been undertaken in a cluster of nine villages targeting 500 farmers with access to 6,500 dunums of olive groves.
8. With the deteriorating economic situation and the liquidity shortfall in the West Bank, no progress was made in implementing the credit component. By 2004, the Arab Bank, the participating commercial bank that had signed on to the programme in 1998, had withdrawn its interest in the programme, and the prevailing economic uncertainty and civil unrest had discouraged other commercial banks from initiating lending programmes for small-scale agriculture.

III. The loan account, loan repayments and financial management

9. Since programme start, the Palestinian Authority has made four withdrawals from the loan account for a total amount of US\$3.7 million, or around 45 per cent of the loan. Beneficiary contributions over the same period have amounted to US\$0.5 million equivalent in cash and kind. Repayments of service charges by the Palestinian Authority to IFAD were made regularly and on time until October 2005, when arrears began to accumulate.
10. The economic sanctions against the Palestinian Authority that followed the legislative elections of 2006 (including (i) the withholding by Israel of the Authority's clearance revenues and (ii) an embargo on international financial assistance) led to severe budget deficits and the accumulation of a large stock of arrears to public employees, creditors and private-sector suppliers – which peaked at US\$1.3 billion in 2007. The Palestinian Authority has introduced measures to reduce its deficit and rebuild credibility in order to continue to provide essential public services. It has also improved fiscal accountability and transparency through the establishment of a single treasury account and the formulation of a coherent Palestinian development and reform plan.
11. The Ministry of Finance of the Palestinian Authority has committed to repay, with a value date of November 2008, all its arrears applicable under the IFAD loan.

IV. Poverty conditions

12. According to the United Nations Development Programme, some 56 per cent of the population of the West Bank (and 70 per cent in Gaza) live below the poverty line (July 2007). Real GDP per capita was 40 per cent lower in 2007 than in 1999. Agriculture has traditionally been a primary component of the economy, and has increasingly played the role of safety net for sustaining the livelihoods of poor households. The global rise in agricultural prices and recent adverse climate conditions (including both frosts and droughts over the past 12 months) have compounded the deterioration in economic conditions, leading to further increases in poverty in the programme area. The consumer price index for food increased by 21.4 per cent in the West Bank from June 2007 to June 2008.
13. Despite the resumption of inflows of aid, a recent joint survey by the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the Food and Agriculture Organization of the United Nations and the World Food Programme finds

that food insecurity continues to rise, and is estimated to have increased from 34 per cent in 2006 to 38 per cent in 2007. Approximately 56 per cent of income earned in the West Bank is spent on food. The analysis also reveals that Palestinians are eating less: 75 per cent have reduced the quantity of food they buy and 89 per cent have reduced the quality. The lack of protein and vitamins has increased the prevalence of anaemia and other nutrient deficiencies, and is likely to have long-term health consequences on children.

V. The proposed grant

14. Under the conditions described in sections III and IV above, the Palestinian Authority has given notice to IFAD that it intends to cancel all unwithdrawn amounts of the loan; and has called on IFAD to continue its critical support to the agriculture sector through grant funding. IFAD has worked with the Authority to (i) resolve arrears on repayment of loan service charges; and (ii) provide grant support in lieu of credit from resources available in the FGWB. In this regard, it is noted that the World Bank has switched its financial support to the Palestinian Authority from loans to grants since 2002.
15. With the loss of jobs for Palestinians in Israel, extensive restrictions on mobility within the West Bank, loss of access to water sources and cultivated lands across the separation barrier, and a severe economic downturn in the Palestinian territories, the relevance of PNRMP interventions for addressing rural poverty has become exponentially more pronounced. Land reclamation, soil and water conservation, agricultural marketing and rural finance remain critical ingredients for rural poverty reduction in the West Bank.
16. Accordingly, IFAD has initiated the closing of the PNRMP loan account; and has undertaken a review of PNRMP for potential grant financing from the FGWB. Under a new grant, the PNRMP programme objectives, components and strategy will remain as approved by the Executive Board in April 1998, as will the area of activity in the West Bank districts of Jenin, Nablus, Ramallah and Tulkarem. Some modifications are proposed to strengthen implementation effectiveness, mitigate risks and enhance sustainability. These modifications include:
 - (a) The programme will provide training and technical assistance needed to support the Palestinian Authority's linkages with established microfinance institutions, with provision of microfinance services along the value chain and of income-generating activities targeted at rural women and young people;
 - (b) Suitable information technology will be adopted and the delivery mechanism for rural finance decentralized, including disbursement of funds through several, competitively selected microfinance institutions and commercial banks;
 - (c) The programme financial unit at the Ministry of Finance has not been functional and will be discontinued. Instead the programme will enhance the capacity of the programme management unit (PMU) at the Ministry of Agriculture, including by staffing it with a senior accountant, in order to streamline financial management and budgeting activities, and integrate these as part of programming, work planning and monitoring processes.
 - (d) The work of the PMU will be complemented with technical assistance to support results-based management and impact reporting by third party technical or advisory service providers.
17. The programme will continue to be implemented by the Palestinian Ministry of Agriculture, which will use their existing technical unit and extension services to expand outreach to farmers in the rural marginalized areas. PNRMP implementation modalities are well established, including an operational PMU, subcontracting of local

and international NGOs, and a functioning monitoring and evaluation system and implementation manual. The grant will be directly supervised by IFAD.

18. The Ministry of Finance has adopted single treasury account (STA) standards that were developed with the International Monetary Fund and the World Bank, in order to manage and monitor all mobilized resources and ensure transparency and accountability to donors and contributors. The grant will be channelled through the STA and will be managed by the Ministry of Finance as a distinct subaccount.

VI. Programme costs and expenditure categories

19. The total programme cost is estimated at US\$5.73 million over three years. The sources of funding are IFAD (US\$4.98 million) and beneficiaries (US\$0.75 million). IFAD financing will be allocated to the following expenditure categories: (i) land reclamation and improvement (30 per cent of base costs); (ii) improved crop productivity (5 per cent); (iii) rural finance (60 per cent); and (iv) programme management (5 per cent).

VII. Recommendation

20. I recommend that the Executive Board approve the grant in terms of the following resolution:

RESOLVED: that, subject to payment of arrears, the Fund shall provide a grant to the Palestinian Authority in various currencies in an amount equivalent to three million two hundred eighty-six thousand and six hundred forty-nine special drawing rights (SDR 3,286,649) from the IFAD Fund for Gaza and the West Bank, upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in the Report and Recommendation of the President for the Participatory Natural Resource Management Programme (EB/98/63/R.21/Rev.1) as modified in paragraph 16 above.

Lennart Båge
President

