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Enabling poor rural people  
to overcome poverty

## **President's memorandum**

### **The West Bank and Gaza**

#### **Proposal to channel the net balance due under the Rehabilitation and Development Project in Gaza and the West Bank (Phase II) (RDP-II) into the IFAD Fund for Gaza and the West Bank**

Executive Board — Ninety-seventh Session  
Rome, 14-15 September 2009

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For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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## **Abbreviations and acronyms**

AAAID	Arab Authority for Agricultural Investment and Development
FGWB	IFAD Fund for Gaza and the West Bank
RDP-I	Gaza Strip and Jericho Relief and Development Programme
RDP-II	Rehabilitation and Development Project in Gaza and the West Bank (Phase II)

## **Recommendation for approval**

The Executive Board is invited to approve the channelling of the net balance due under the Rehabilitation and Development Project in Gaza and the West Bank (Phase II) (RDP-II) and, in addition, Arab Authority for Agricultural Investment and Development funds into the IFAD Fund for Gaza and the West Bank for subsequent use, as contained in paragraph 27.

# **Proposal to channel the net balance due under the Rehabilitation and Development Project in Gaza and the West Bank (Phase II) (RDP-II) into the IFAD Fund for Gaza and the West Bank**

## **I. Background**

1. The Rehabilitation and Development Project in Gaza and the West Bank (Phase II) (RDP-II) is a follow-up to the previous Gaza Strip and Jericho Relief and Development Programme (RDP-I), which closed in December 2005. RDP-II was approved in September 2002 and became effective in 2003. It was then extended for a two-year period through 31 December 2008, while maintaining the same project design, management structure, components and implementing mechanism.
2. The overall goal of the project was to improve the living conditions and livelihood opportunities of poor Palestinian communities living in rural areas in the West Bank and Gaza. Its specific objectives included: (a) restoring access to essential social and physical infrastructure and services through infrastructure rehabilitation and expansion; (b) providing immediate income through the provision of employment in infrastructure rehabilitation and expansion; and (c) assisting the target group in accessing the necessary resources to improve their income-earning opportunities, particularly through the women's livelihood support component.
3. The women's livelihood support component was designed to promote the consolidation and expansion of women's savings and credit associations in order to provide women with access to credit and other services that would assist them in establishing or expanding businesses and, thus, in supporting their families.
4. The RDP-II grant in the amount of US\$3 million was financed entirely from IFAD resources. The total project cost was estimated at US\$10 million, including cofinancing.
5. RDP-II was implemented by American Near East Refugee Aid (ANERA) and Palestinian Agricultural Relief Committees (PARC) and directly supervised by IFAD. Overall project oversight was carried out by the project steering committee comprised of representatives of the Palestinian Economic Council for Development and Reconstruction (PECDAR), ANERA, and PARC. Pursuant to the signed grant agreement, ANERA acted as the overall coordinating body for the project and the main interface between IFAD and other implementing agencies.
6. RDP-II has continued to benefit from the Guarantee Fund established under RDP-I. IFAD allocated US\$3.3 million of RDP-I resources to set up a Guarantee Fund held by the Arab Bank in the West Bank and Gaza to encourage banks to lend to rural poor borrowers by offsetting the risk of loan default. In the last 14 years, the Guarantee Fund has gained interest income of approximately US\$1 million.
7. Cofinancing of US\$7 million was envisaged for RDP-II. However, only the US\$1 million that was financed by the Arab Authority for Agricultural Investment and Development (AAAID) came through, leaving a financing gap of US\$6 million. At the request of the recipients, IFAD fielded two missions, in November 2006 and in May 2007. Based on the findings of the missions, in August 2007 IFAD approved the transfer of the entire balance existing in the Guarantee Fund (US\$4.4 million) to RDP-II, thus reducing the financing gap while continuing to promote the project objectives, which were geared to respond to the humanitarian needs of the rural poor in the West Bank and Gaza.

8. In the event, only US\$3,606,158 had been transferred by 30 September 2008 (the balance being retained within the Guarantee Fund). Therefore, IFAD requested that an audit of the available resources, especially of those under the Guarantee Fund, be carried out. PricewaterhouseCoopers was contracted to conduct the audit and, in their latest report dated February 2009, expressed an unqualified opinion with regard to the use of funds.

## II. Project progress and management quality

9. IFAD carried out a supervision mission in October 2008 and a follow-up mission in April 2009 to assess the progress made under the project and the feasibility of extending the project completion date.
10. It was noted that the implementation rate of recipients was slow and had possibly jeopardized the timeliness of the response to the escalating humanitarian crisis and the growing needs of IFAD interventions in the region, including in the Gaza Strip.
11. According to the latest audit, which did not include the AAAID funds, the total financing for RDP-II was US\$7,733,658, of which US\$6,660,603 was disbursed by IFAD as follows: (i) US\$3 million spent in full by implementing institutions; (ii) a further US\$3,660,603 (composed of interest earned and funds allocated from the Guarantee Fund, as mentioned in paragraph 8 above) as yet unspent.
12. Total RDP-II financing is summarized in the table below:

<i>Source of funds</i>	<i>US\$</i>	<i>Notes</i>
IFAD grant	3 000 000	Fully disbursed and spent by recipients
Interest earned	54 445	As at 28 Feb 2009
RDP-I Guarantee Fund	3 606 158	Transferred from the Guarantee Fund account to the project account
<b>Subtotal</b>	<b>6 660 603</b>	<b>Fully disbursed by IFAD</b>
AAAID	1 073 055 *	Committed to the project, never disbursed, held by IFAD
<b>Total</b>	<b>7 733 658</b>	

\* As per IFAD records, undisbursed therefore not included in the audit process.

13. The total unspent resources of the RDP-II at 28 February 2009 amount to US\$4,000,654, in addition to the existing AAAID funds of US\$1,073,055. IFAD will seek prompt recovery of amounts to be refunded by the interested parties.

## III. Current humanitarian crisis: gender, poverty and socio-economic conditions

14. According to the United Nations Development Programme, some 56 per cent of the population of the West Bank (and more than 70 per cent in Gaza) live below the poverty line (June 2008). While data on poverty levels in 2008 are not yet available, the humanitarian situation in Gaza has worsened, especially during the last quarter of 2008 and first quarter of 2009 as a result of recent fighting, with more severe restrictions on the entry of essential items, including cash. Real GDP per capita was 40 per cent lower in 2008 than in 1999. Agriculture has traditionally been a primary component of the economy, and has increasingly acted as a safety net sustaining the livelihoods of poor households. The global rise in agricultural prices and recent adverse climate conditions have compounded the deterioration in economic conditions, leading to further increases in poverty in the project area. The consumer price index for food increased by 21.4 per cent in the West Bank between June 2007 and June 2009.

15. Despite the resumption of inflows of aid mainly to the West Bank, 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 found that food insecurity continues to rise, and is estimated to have increased from 34 per cent in 2006 to more than 40 per cent in 2008, especially when considering Gaza's latest humanitarian crisis. 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.
16. According to the most recent report from the World Bank,<sup>1</sup> the following facts need to be revisited:
- The agriculture sector has been severely affected by the latest fighting in the Gaza Strip, with the widespread destruction of cultivated land, greenhouses, livestock and poultry farms, in addition to the collapse of basic infrastructure such as water wells, irrigation networks, and other productive assets. Both agriculture sector revitalization and food security activities need approximately US\$270 million to cover the fundamental needs of those living there.
  - In January 2009, Israel reduced the area in which Gaza's fishers can fish from six to three nautical miles off the coastline of Gaza. This greatly restricts fishers' ability to capture sufficient quantities and types of fish. Today there are about 3,400 fishers in Gaza compared with 10,000 in 2000. In 2008, prior to the latest reduction in fishing rights, the fishing catch was 3,000 tons while Gaza's needs are roughly 20,000 tons annually. In February 2009, only 65 tons of fish were caught.
17. Recent analysis by the World Bank shows that the prolonged conflict and restrictions on movement and access have had an impact in terms of gender on labour market participation, with further implications for gender relations at the household level. Employment has changed significantly in the West Bank and Gaza over the last 10 years: men's employment has decreased sharply since 1999, primarily owing to the declining work opportunities in Israel, where approximately 70,000 jobs were lost between 2000 and 2002. By 2007, men living in the West Bank had only a 77 per cent chance of being employed compared with 1999. By contrast, the participation of Palestinian women in the labour force today (at 15.4 per cent, one of the world's lowest rates) stands at 118 per cent of what it was in 1999. In order to survive, women have ventured out in search of any work, even if low-paid and unprotected.

#### **IV. IFAD Fund for Gaza and the West Bank: Background, purpose and viability**

18. At its twenty-first session in February 1998, the Governing Council of IFAD approved the establishment of 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 would be financed from IFAD regular resources and other contributions made by non-Member States of IFAD, other entities and private individuals, 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

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<sup>1</sup> Palestinian Economic Prospects: Gaza Recovery and West Bank Revival. Economic Monitoring Report to the Ad Hoc Liaison Committee – June 2009.

FGWB would remain effective either until such date as the West Bank and Gaza attained membership of IFAD or upon a proposal by the President of IFAD to close the Fund, at which time the Executive Board would decide on the disposal of FGWB resources.

19. Under resolution 107/XXI, IFAD is appointed the administrator of the FGWB.
20. IFAD shall invest the resources of the FGWB together with, and in the same manner as, its regular resources.
21. The FGWB has received resources only once, and at its session in April 1998, the Executive Board approved a loan of SDR 5.8 million through the FGWB to the Palestine Liberation Organization, for the benefit of the Palestinian Authority, to help finance the Participatory Natural Resource Management Programme (PNRMP). The FGWB has not been replenished since. Unutilized loan resources through the FGWB were subsequently made available to the Palestine Liberation Organization as a grant from the FGWB. In December 2008, the Executive Board approved grant funding for the PNRMP of SDR 3,286,649 from the FGWB.
22. A review of the latest socio-economic and food security status reports prepared by the United Nations agencies in the Palestinian Territories underscores the importance of maintaining and replenishing the FGWB to deal with the current political/humanitarian situation. The FGWB continues to be the only viable mechanism to maintain IFAD operations in the Palestinian Territories.

## **V. The way forward and proposed next steps**

23. Donor agencies operating in the Palestinian Territories had begun to actively cooperate, even before the ceasefire of mid-January 2009, to put in place a framework to provide coordinated support to the Palestinian Authority. These efforts are leading the needs assessment process and developing an effective response to the Gaza crisis.
24. While IFAD has no field presence in the West Bank and Gaza, it has managed to coordinate activities with these entities on the ground and it is clear that IFAD involvement is both needed and welcomed. The escalating humanitarian crisis in the Gaza Strip is increasing the fiscal and budgetary resources needed by the Palestinian Authority to alleviate the impact of the crisis on the 1.5 million Palestinians living in the Gaza Strip. Particular emphasis has been placed on the importance of donor involvement in the Gaza reconstruction process to support the Palestinian Authority. This was agreed upon and endorsed by the international community at the donor conference in Sharm el-Sheikh in March 2009.
25. IFAD involvement continues to be critical, especially when the rural poor are under serious threat and where agricultural development and food security are at stake. Therefore, it is recommended that the RDP-II unspent resources be channelled into the FGWB, pending its replenishment, as the first step in supporting the future involvement of IFAD in the West Bank and Gaza.
26. It is crucial for IFAD to ensure that its operations in the West Bank and Gaza continue without interruption so that it can remain actively engaged in the field. Thus, IFAD proposes that a new programme document be prepared, similar to a country strategic opportunities programme, in which IFAD maps out the way forward, detailing future plans and the estimated budgets required, for submission to the Executive Board at a later stage. The Executive Board's endorsement of these plans is requested in order to replenish the FGWB.



## **VI. Recommendation**

27. I recommend that the Executive Board approve the channelling of the RDP-II net balance due, in addition to the AAAID funds, into the IFAD Fund for Gaza and the West Bank to be utilized for new programmes for the West Bank and Gaza to be developed by the end of 2010.

RESOLVED: that the net balance due under the Rehabilitation and Development Project (Phase II) (RDP-II) in Gaza and the West Bank and, in addition, Arab Authority for Agricultural Investment and Development funds be channelled into the IFAD Fund for Gaza and the West Bank for subsequent use pursuant to the provisions of resolution 107/XXI establishing the IFAD Fund for Gaza and the West Bank.

Kanayo F. Nwanze  
President