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PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF
US\$ 10 MILLION EQUIVALENT

TO
WEST BANK AND GAZA

FOR A

TERTIARY EDUCATION PROJECT

March 17, 2005

Human Development Group
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective January 6, 2005)

Currency Unit = Israeli New Shekel (ILS)
4.39559 ILS = US\$1
US\$1.52333 = SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AQAC	Accreditation and Quality Assurance Commission
BTM	Budget Trade-off Model
CASE	Council for the Advancement and Support of Education
CHE	Council for Higher Education
CPAR	Country Procurement Assessment Report
CPPR	Country Portfolio Performance Review
EAP	Education Action Project
EC	European Commission
ESSP	Emergency Services Support Project
FM	Financial Management
FMR	Financial Management Report
IT	Information Technology
MENA	Middle East and North Africa
MIS	Management Information System
MOEHE	Ministry of Education and Higher Education
OECD	Organization for Economic Cooperation and Development
PA	Palestinian Authority
PCU	Project Coordination Unit
PTC	Project Technical Committee
QIF	Quality Improvement Fund
QU	Quality Unit
SOE	Statement of Expenditure
SRLF	Student Loan Revolving Fund
TEI	Tertiary Education Institution
TEMIS	Tertiary Education Management Information System
TFGWB	Trust Fund for Gaza and West Bank
UNRWA	United Nations Relief and Works Agency for Palestine
USAID	United States Agency for International Development
WB&G	West Bank & Gaza

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**WEST BANK AND GAZA
Tertiary Education Project**

CONTENTS

	Page
A. STRATEGIC CONTEXT AND RATIONALE	1
1. Country and sector issues.....	1
2. Rationale for Bank involvement	3
3. Higher level objectives to which the project contributes.....	4
B. PROJECT DESCRIPTION	4
1. Lending instrument	4
2. Project development objective and key indicators.....	4
3. Project components.....	5
4. Lessons learned and reflected in the project design.....	9
5. Alternatives considered and reasons for rejection	10
C. IMPLEMENTATION	10
1. Partnership arrangements (if applicable)	10
2. Institutional and implementation arrangements.....	11
3. Monitoring and evaluation of outcomes/results.....	11
4. Sustainability.....	12
5. Critical risks and possible controversial aspects.....	14
6. Grant conditions and covenants	14
D. APPRAISAL SUMMARY	14
1. Economic and financial analyses	14
2. Technical.....	15
3. Fiduciary	16
4. Social.....	17
5. Environment.....	18
6. Safeguard policies	19
7. Policy Exceptions and Readiness.....	19
Annex 1: Country and Sector Background	20
Annex 2: Major Related Projects Financed by the Bank and/or other Agencies	31

Annex 3: Results Framework and Monitoring	33
Annex 4: Detailed Project Description.....	38
Annex 5: Project Costs	50
Annex 6: Implementation Arrangements	51
Annex 7: Financial Management and Disbursement Arrangements.....	59
Annex 8: Procurement Arrangements	64
Annex 9: Economic and Financial Analysis	74
Annex 10: Safeguard Policy Issues.....	82
Annex 11: Project Preparation and Supervision	84
Annex 12: Documents in the Project File	85
Annex 13: Statement of Loans and Credits.....	86
Annex 14: Country at a Glance	88
Annex 15: Map	90

A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

1. The Roadmap accepted by the Palestinian Authority (PA) and the Government of Israel in June 2003 foresaw the establishment of a sovereign Palestinian state by 2005. Phase I of this Roadmap involved ending terror and violence, Israeli withdrawal to pre-*intifada* (September 2000) status, and free Palestinian elections. By November 2004, Phase I had not been completed, with important negative economic and social consequences for the PA. The Palestinian economy has deteriorated in the past three years, and by the end of 2004 the projection was that per capita real GDP will be 38% below its level of 1999. Unemployment is rising, reaching 29% in the West Bank and 38% in Gaza, in a severely constrained business environment, with very low capacity to absorb new entrants to the labor market, and a weakening of the Palestinian institutional framework.

2. The future of Palestinian economic development lies in moving from an economy based on labor exports to Israel to an economy exporting goods and services to Israel and the rest of the world. Key measures for Palestinian policymakers to enhance competitiveness include: (i) gaining access to markets in favorable terms, (ii) addressing diminishing skills and low productivity, and (iii) building a business friendly environment.¹

3. The challenges faced by the West Bank and Gaza (WB&G) tertiary education system are among the same challenges faced by most tertiary systems around the world, but unique in many ways. The situation of a would-be state, in conflict, with increasing poverty and overwhelming unemployment has an impact on all sectors, education and tertiary education included, thus making the sub-sector quite unique as well. One key challenge is to satisfy the increasing demand from the growing population of secondary education graduates, while keeping the quality and relevance of programs offered capable of meeting the changing demands of the global economy. In addition, there exists the challenge of competition for public funds from within the sector, and in the case of the PA, from the current emergency and critical economic situation.

4. The tertiary education system in the PA is a binary system with 11 universities and 29 community (technical) colleges. More developed than the average for the region, the system shares indicators comparable with middle-income countries. The enrollment rate of 25% in 2003 is higher than the 15% average found in other Arab states, and compares to those of countries like Mexico (21%), Costa Rica (21%) and Malaysia (27%).

5. Public support to tertiary education in the PA is weak; therefore, the system relies heavily on student fees which amount to 60% of universities' operating costs. However, spending on education as a percentage of total public expenditures is high when compared to other countries, amounting to 16% of total government spending. This is an indication that there is room for improvement on public allocations for tertiary education within the current overall envelop for education expenses. Public financing for universities is among the lowest in the world – 5.6% of

¹ (*Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects*, World Bank, December, 2004)

all education public expenditures, compared to the 30% average for Middle East and North Africa (MENA) countries and 26.3% for OECD countries. Although the cost-sharing of higher education and the shift of the cost burden from Government to students and families could be argued to be a positive development for an education system, and indeed a global trend, the critical economic situation of the Palestinian population is impeding families' ability to pay for student fees and has created a financial crisis for the tertiary education institutions, in particular for universities.

6. Demand for tertiary education has increased at an alarming rate in the past decades. The number of students enrolled in Tertiary Education Institutions (TEIs) has more than tripled between 1995 and 2003. As a result, the gross enrolment rate in tertiary education grew from 10.2% in 1995 to almost 17% in 1999, and is estimated to be more than 23% in 2003, above the average for Arab states.

7. The disconnect between increased enrollment and a decrease in spending has meant that the quality of services offered has declined. The student: teacher ratio is increasing, as is the percentage of part-time teachers. Library resources in relation to number of students are decreasing, and the amount of research conducted is almost non-existent. In addition, the lack of relevance of programs offered is an increasing concern. There is a high proportion of new students in Social Sciences and Humanities and in Education. In 2002-2003, more than 40% of students (53% females) were enrolled in education, arts and humanities programs compared to 20% in OECD countries, while less than 6% of all enrollments were in community colleges, compared to 19% net graduation in France.

8. Employment data released by the Palestinian Central Bureau for Statistics show predictable high unemployment rates in both the West Bank (28.2%) and Gaza (38%). Unemployment rates of populations with 13 (and more) years of schooling are lower (around 16% in West Bank and 25% in Gaza) which suggests that tertiary education provides greater opportunity for employment, except for women in Gaza - who are more likely to be unemployed with the highest degrees (37.3%) than with lower levels of education (20%).

9. The reforms proposed in the financing strategy in 2002 called for an increase in tuition fees, proposing 100% of normative costs for non-priority fields and 70% of normative costs in priority fields, with the PA subsidizing 30% of costs in the latter, and increasing the amount for student aid programs. With fees currently at 2/3 of normative costs, the likelihood of increasing them by 1/3 in the near future given the current economic circumstances is unrealistic. In order to overcome the financial crisis, a combined approach of increased PA support with a gradual increment in fees and provision of subsidies for lower income students is needed.

10. Student loans are the main mechanism selected by the MOEHE to provide financial support to students, together with scholarships for the neediest families. The loan scheme is organized in the national Student Revolving Loan Fund (SRLF). In 2004-2005, more than half of all students (60,000 +) benefit from a loan. Student loans can be seen from two angles: on the one hand – the disbursement side-- they are an instrument to assist students in paying their fees, on the other hand – the repayment side - they are viewed as a tool to help finance the other kind of aid, namely grants and scholarships. Allocation of funds is done through the universities,

using a formula based on total and average tuition fees and enrollments – which is not equity oriented, and is occasionally modified by the SRLF Board with no clear criteria. Currently, application forms vary from one institution to another, as do the procedures for repayment.

11. In summary, the tertiary education system faces challenges related to financial sustainability, efficiency in the management of the resources available, relevance and quality of the supply, and lack of equitable distribution of student aid programs. Further analysis on the sector is detailed in Annex 1.

12. In 2002, the Ministry of Education and Higher Education (MOEHE) responded to the crisis (critical challenges) of the sector by developing, with technical assistance from the World Bank, an overall higher education strategy with the aim of making the system (i) more effective, (ii) accessible to students from low income households, (iii) more relevant to Palestinian economic and development needs with a more efficient and transparent use of resources, and (iv) financially sustainable. Major reforms were proposed under the strategy with the following principles:

- Targeting public funds to programs identified as having high priority;
- Demand-side financing rather than supply-side financing;
- Promoting quality through competitive funding of selected projects;
- Promoting institutional investments for expanding capacity and improving quality through competitive grants and resource mobilization;
- Promoting research through competitive funding;
- Improving the management of the tertiary education sector and institutions; and
- Promoting vocational and technical education enrollments as a share of total higher education enrollments.

2. Rationale for Bank involvement

13. The World Bank has played a key role in the WB&G from the early 1990s to the present. The PA, the Government of Israel and the donor community have relied extensively on the Bank's analytical and policy work, project design and implementation capacity. The objective of the Bank's assistance strategy for 2004-2005 has been to balance efforts to manage the emergency with a continued focus on a medium-term development agenda. A core element of this agenda is strengthening the capacities for and financing the delivery of basic services to the poor – through the development of efficient and transparent institutions in five key institutional domains: the PA ministries, the municipalities, the TEIs, NGOs and the private sector.

14. The proposed project is aligned with the World Bank's strategy in several domains: it contributes to the medium-term development program and nation-building efforts by strengthening the institutional framework of the PA, providing support to and improving the capacity of the universities and community colleges, and responds to the social and economic needs of the PA by enabling the tertiary education system to adapt to the human capital development needs in the current economic environment.

15. The WB&G portfolio has demonstrated good performance, with an exceptionally high disbursement ratio in FY03. The last Country Portfolio Performance Review (CPPR) attributed

the good performance to, among other factors, the strong commitment and ownership by the PA and the hands-on supervision provided by World Bank task teams. Ownership and commitment from the PA for this project has been demonstrated by the adoption of many of the policy reforms proposed in the Higher Education Strategy, and the celeritous and high level of collaboration and participation from all stakeholders in the preparation of this project.

3. Higher level objectives to which the project contributes

16. The proposed project will contribute to the overall economic and social development of the PA, as a skilled work force and the development of an economy able to compete in international markets are determining factors of economic growth. Unemployment and lack of education are, respectively, the first and second most important factors in determining the likelihood of being poor in the WB&G. Moreover, this project will contribute to the development of a viable Palestinian State, as tertiary education institutions and graduates play a key role in the process of reconstruction, nation-building and the promotion of a democratic society and political system.

B. PROJECT DESCRIPTION

1. Lending instrument

17. The proposed project will be funded through a Grant from the Trust Fund for Gaza and West Bank (TFGWB).

2. Project development objective and key indicators

18. The project development objectives are to: (i) improve the policy-making environment for tertiary education management, governance and quality assurance; (ii) increase the internal and external efficiency of tertiary education institutions as a first step towards achieving sustainability; and (iii) create incentives and provide the basis for improvements in quality, relevance and equity of tertiary education institutions in order to meet the socio-economic needs of the Palestinian population.

19. The key development indicators are:

- Increased percentage of new entrants into priority program areas (defined by relevance to market and socio-economic needs) from 32% in 2004 to 40% by 2009.
- Increased percentage of new entrants into technical colleges from 19% in 2004 to 27% by 2009.
- Improved sector policy development measured by preparation of a National Tertiary Education Strategy by the end of 2006.

3. Project components

Component 1: Strengthening the policy-making role of the MOEHE, CHE and AQAC (US\$2.4 million, total including contingencies)

20. The objective of this component is to strengthen the capacity of the MOEHE, the Council for Higher Education (CHE), and the national Accreditation and Quality Assurance Commission (AQAC) to formulate, plan and monitor the tertiary education policy framework for the WB&G. To achieve these objectives, the project will provide support to the activities described below.

Subcomponent 1.1 - Tertiary education policy development and management

21. The project will provide support to the Department of Planning at the MOEHE to review the performance of the tertiary education sector as a whole. The Department's capacity will be developed to coordinate and devise plans and policies for the sector in collaboration with stakeholders and development and cooperation agencies.

22. Activities under this subcomponent will include:

- Establishing a tertiary education Planning Unit and recruiting local expertise in planning and educational policy for the purpose of producing reports on the system's performance on an annual basis.
- Forming a Planning Committee composed of Ministry staff and representatives from TEIs that will meet regularly to discuss and determine policy issues for the system and prepare technical documents to be submitted to the CHE.
- Conducting study tours for the Planning Unit to similar regional and international institutions or bodies.
- Training existing staff at the Department of Planning on data analysis, reporting and dissemination of results.

23. The project will also provide support to ensure that the CHE will function as a tertiary education council, representing the needs of the universities, community colleges, stakeholder representatives (mainly staff members and students), and the private sector. To increase governance, the CHE will extend its members to include private sector representatives and student organizations.

Subcomponent 1.2 - Support to the Accreditation and Quality Assurance Commission (AQAC)

24. This subcomponent will provide technical assistance to enhance and reinforce the MOEHE's existing capacity to set quality and management standards able to meet and compete with international standards. Standards for the following will be defined: program and curriculum development, student: teacher ratios, qualifications and status of faculty, student admissions, academic performance, and monitoring and evaluation of programs. This subcomponent will support the existing independent accreditation and evaluation commission, and provide support to set up evaluation teams and conduct the evaluation of priority area

programs through a peer review system. It will also provide the support needed for the AQAC to operate following international standards and trends, and develop networking activities with international agencies.

Subcomponent 1.3 - Support the establishment of a Tertiary Education Management and Information System (TEMIS)

25. Based on the needs assessment on information technology (IT) conducted with financial support from USAID, the project will support the MOEHE and TEIs in establishing a system that will provide relevant and timely information on enrollment, fees, academic programs, actual resources and standards, student aid programs, financial status and employment rates of graduates of all institutions. The project will provide the training and human resources needed to set up and manage the information system in an efficient way, and improve its capacity to produce reports that will shape policy making and planning. To this end, the project will provide support for the following:

- Develop an IT system that (i) is capable of integrating a variety of relevant data, (ii) produces comprehensive reports, and (iii) links with other demographic and economic information;
- Recruit and train existing staff at the Department of Planning on the use of IT;
- Produce a set of standardized indicators to be used for the planning processes;
- Provide necessary hardware and software.

Component 2: Increasing the internal and external efficiency of tertiary education institutions (US\$1.3 million, total including contingencies)

26. The objective of this component will be to improve the internal and external efficiency of universities and technical colleges. To meet these objectives, the project will support the following activities:

27. *Supporting institutional planning and management.* Based on the Budget Trade-off Model (BTM) designed for the preparation of the Financing Strategy in 2002 through the support of a PHRD grant, the model was updated and an institutional model was prepared. The use of the BTM will allow institutions to plan and manage resources in a more efficient way. In order for institutions to collect relevant information, data hubs will be established within the institutions, either separately or embedded within the institution's existing planning units. These hubs will collect information from various departments or units, including financial offices, registrars, student-aid offices and others, and will serve as the focal point for liaising with the Department of Planning at MOEHE.

28. Universities and colleges will receive support to start the strategic planning process. Over time, with the growing availability of information emerging from the information system, institutions will move from simple benchmarking of performance to institutional development plans to strategic planning. Institutional development plans will include: (i) an institutional mission statement; (ii) a management improvement plan; (iii) enrollment and staffing projections; and (iv) financial performance and projections.

29. Project funds will support the following activities:

- Conducting a comparative study about existing management structures and practices at TEIs;
- Organizing a specialized workshop to discuss the results of the comparative study and define needs for improvement;
- Establishing a set of standard management procedures and practices, including budgeting, program development, and planning manuals;

30. *Supporting institutional self-assessment and quality improvement.* This activity will provide support to enhance the capacity of universities and colleges to conduct institutional self-evaluation and develop institutional improvement plans.

Component 3: Improving quality at tertiary education institutions (US\$5.5 million, total including contingencies)

31. The main objective of the Quality Improvement Fund (QIF) is to provide support to improve the quality of Palestinian TEIs and programs so they are (i) relevant to the job market and economic development of WB&G; (ii) made competitive with international standards; and (iii) capable of developing income-generating programs. The QIF is, therefore, closely linked to the national accreditation process and the institutional self-evaluation initiative.

32. The QIF will facilitate a change of culture in the financing of tertiary education in WB&G, the setting of national priorities in the sub-sector, and a new framework for the relationship among TEIs, and between TEIs and the private and the public sectors.

33. All TEIs (universities and technical colleges) in the WB&G which are licensed and accredited by the MOEHE are eligible to apply for QIF grants. Eligibility for applying for QIF grants is further dependent on the TEI having an Institutional Plan for Quality Assurance and Self-Evaluation (which will receive targeted funds under Component 2). Priority will be given to grant proposals that meet content and process priorities, detailed in Annex 4.

34. The procedures for grant application, approval processes, eligibility criteria and grant implementation are detailed in the QIF Manual, prepared with support from a PHRD Grant.

Component 4: Building capacity to improve and expand the student aid program (US\$.0.8 million, total including contingencies)

35. The objective of this component is to improve the management and performance of the student aid program (including loans, grants and scholarships). Strategically, the Student Revolving Loan Fund (SRLF) is a critical element of the financing strategy of the MOEHE, and necessary complement of the tuition fees policy. The actions to be undertaken by the MOEHE and to be supported by the project address the three types of issues identified regarding the SRLF: strategic, financial, and managerial.

36. *Improving management, structure and operation of the Student Revolving Loan Fund (SRLF):* The student aid program is in need of profound change and improvement which cannot be applied in a single intervention. Three cohorts of students, and three corresponding types of interventions have been identified:

- i. students who have received a loan and have already exited the education system;
- ii. students who have received a loan and are still in the education system; and
- iii. students who have not yet entered the tertiary education system.

37. The strategy to be followed will be to: (i) launch an awareness campaign to sensitize students who have graduated (and the population at large) about the student aid program, especially the expectations for repayment; (ii) commission an action-oriented study to develop a comprehensive list of former students (including drop outs) who have an outstanding loan; and (iii) turn to various government departments (Interior, Finance, etc.) and agencies (e.g., employer organizations) for help in recovering funds from individuals whose coordinates have been identified. It should not be difficult to identify former students who are currently employed with the PA and, therefore, to recover repayments through salary withholdings.

38. Students of the second cohort who are still attending a tertiary institution constitute the existing –“live” - portfolio. For these students, the MOEHE will enter into an agreement with commercial banks that will take over the administering existing student loans, as well as new loans. This solution is a “transitional arrangement” which will operate until the new student aid program is in place (within 18 months).

39. *Building a student aid program for the future:* The new strategy will aim to optimize a variety of factors and a mix of instruments to achieve sustainability, equity (free at point of use) and relevance (priority fields).

- Factors:
- (i) level of unit/normative costs across fields of study;
 - (ii) sources of financing (PA, donors, students, sale of goods and services);
 - (iii) efficiency parameters (e.g., teacher/student ratios).

Instruments: fees, loans, and grants

40. To ensure that the new student aid program will be conducive to greater equity, specific criteria will be developed to allow for a respective selection of students who are eligible to receive loans and grants. These criteria will be combined with those linked to the priority fields of study that the MOEHE will retain (based on the PA’s Mid-term Economic Plan).

41. *Governance:* Transparency and objectivity are pre-requisites for the future student aid program to be both credible and sustainable. The future aid program will need to be protected from political interference, and will be built on criteria and rules ensuring equity. Therefore, the respective roles, mandates and status of (i) the MOEHE, (ii) the SRLF management unit, (iii) the SRLF Board, and (iv) the TEIs (as far as student aid is concerned) will need to be reviewed, and the independence of the SRLF Board ensured.

42. At a strategic level, because they are closely interrelated, loans and grants/ scholarships will be considered as part of a common set of tools to reach agreed objectives, however, in terms of management, they will be dealt with separately.

4. Lessons learned and reflected in the project design

43. The project design has benefited from lessons learned in other World Bank higher education projects, as well as from analytical and sector work conducted in the WB&G and other countries. The project design takes into consideration lessons from similar projects in Vietnam, Jamaica, Chile and Argentina, where support to the regulatory environment to manage the tertiary education system and the introduction of competitive merit based environments for the allocation of funds for universities and colleges have proven to be beneficial. The design also takes into account lessons learned from financing strategies that emphasize student loan programs. The project design took into consideration the development of a student loan program following commercial terms in order to attract private financing and seek sustainability in the medium term.

44. The proposed project is based on three major sector analyses: (i) *The Palestinian Higher Education Financing Strategy* (Ministry of Education and Scientific Research and The World Bank, 2002; (ii) *Proposed Direction for Palestinian Higher Education: A Vision for the Future* (Ministry of Education and Scientific Research, 1999), and (iii) *Rationalization Plan for the Higher Education Sector* (Ministry of Education and Scientific Research, 1997). The project team and the PA have benefited from the recent Policy Documents prepared by the World Bank on Constructing Knowledge Societies: *New Challenges for Tertiary Education* (2002) and *Lifelong Learning in the Global Knowledge Economy* (2003).

45. Project design has also benefited from the extensive sector work conducted in 2002 that defined a Financial Strategy for the Sector, developed with technical assistance from the World Bank. This strategy outlined different scenarios for seeking sustainability, some of which have been tested by the PA and the lessons learned from this experience were taken into consideration for project design. Such is the case of the adoption of the SRLF, for which the project seeks to improve management and adopt corrective measures that emerged from the lessons learned from its first two years of implementation.

46. The PA benefited from a PHRD Grant that allowed the project team to update the sector work conducted in 2002. It also assisted in the preparation of the QIF, setting up the QIF Board, establishing Quality Units in each TEI, preparing the QIF manual, and training QIF staff, Board members and Quality Units staff. The PHRD grant also provided the funds for the preparation of the Management and Planning Improvement Tools, including the preparation of a BTM to be used by each TEI and training of planning department staff in each institution. The PHRD Grant also provided the funds for the preparation of a report on improving the structure and management of the SRLF.

47. Extensive consultations with stakeholders took place throughout project preparation, including several seminars and workshops as well as training sessions with representatives from all universities and colleges in the WB&G and members of the CHE, AQAC and QIF Board.

Considerable attention and resources were dedicated to consensus building around the different policy options and implications underlined in the policy reforms supported by the project. Senior MOEHE staff and university officials participated in study tours and international conferences on quality assurance.

5. Alternatives considered and reasons for rejection

48. One alternative, to allocate project funds to provide financial support in particular to the SLRF, was rejected for several reasons: (i) the experience with World Bank projects that have financed this type of program has not been positive as the transaction costs of managing these programs tend to be high, the recovery rate has been low, and the end results quite inefficient; (ii) the resources available for this project would not be sufficient enough to provide substantial support to this kind of program, while other donors, such as Saudi Arabia and the Arab Fund, are heavily involved in providing this type of financial support; and (iii) the comparative advantage of the World Bank in capacity building and policy advice suggested that World Bank resources could be better invested in supporting policy reform.

49. Another alternative considered was to develop a tertiary education project focused on providing support exclusively to universities. This alternative was rejected, and the support to the development of a more comprehensive tertiary education system was decided instead. The reasons for adapting this alternative were because exclusive support to universities would:

- i. encourage the differentiation between “first class” higher Education vs. “second class” technical and vocational education, leading to false expectations among graduates and their likelihood to join the market upon graduation;
- ii. increase unequal opportunities for lower income students to pursue tertiary education;
- iii. prevent the system from developing the flexibility needed to meet the tertiary education demands of the young population, key for developing a labor force needed to promote economic growth and compete in the global economy; and
- iv. increase the lack of financial sustainability of the system in the long term.

50. Another alternative considered was to allocate funds to provide support for capital investments. This alternative was rejected as most institutions have been able to receive funds to support these initiatives from other donor agencies, and because of the comparative advantage that the World Bank offers in terms of policy guidance and capacity building.

C. IMPLEMENTATION

1. Partnership arrangements (if applicable)

51. The sector receives support from the European Commission (EC), USAID, UNESCO, the French Cooperation, Norway and Germany (details in Annex 2). The EC has expressed interest in co-financing the project; however, the exact arrangements have not yet been defined. Given that the procedures for the QIF and for overall project implementation are in place, the project is well placed to receive financing from other donors.

2. Institutional and implementation arrangements

52. **Implementation Agencies.** Responsibility for the overall implementation of the project lies with the MOEHE. Implementation will be handled by existing entities in the tertiary education system, namely: the CHE, AQAC, Department of Planning, QIF Board and SRLF Board. TEIs will implement the Quality Improvement Grants under the QIF. The PCU will assist grant recipient institutions with the fiduciary management of the QIF grants. A detailed QIF implementation manual has been prepared and training of QIF procedures was provided to the QIF Board members in December 2004. These entities will be supported by the current PCU, which has demonstrated ample capacity for project implementation through the on-going Education Action Project.

53. **Technical expertise** will be provided by a Project Technical Committee (PTC) which has been the core team engaged throughout project preparation. The PTC will oversee the technical aspects of all four project components to ensure sound implementation and decision making. The PTC represents the different entities that will be directly responsible for the implementation and supervision of the project. The PTC is comprised of high level MOEHE officials, chaired by the Assistant Deputy Minister for Higher Education, the Head of AQAC, the Chair of the QIF Board, the Department of Planning, the Director of International Relations/Higher Education, the Vice President of the CHE, the PCU Director, the Director of the SRLF, and the Director General of Technical and Vocational Education and Training (TVET). The PTC will meet at least quarterly to (i) plan and approve project activities and action plans, (ii) review project progress reports compiled by the PCU with inputs from the various entities, and (iii) advise on improving the implementation of various activities when necessary. The PTC will be assisted by local and international consultants, as needed. The PTC will report regularly to the Minister.

54. **Project coordination** will be the responsibility of a Project Coordination Unit (PCU) which is already in place in the MOEHE, currently under the name of Project Support Team (PST) for the WBG Education Action Project (EAP). The PST is a small unit staffed with a Project Director, Finance Officer, Procurement Officer and Administrative Assistant. The PCU will hire an additional Procurement Specialist to conduct procurement training for the PCU and staff in tertiary institutions. The PCU has gained expertise in project coordination and implementation through the EAP and will be responsible for: (i) management of the fiduciary aspects of the project, including financial, procurement and disbursements; (ii) preparation of quarterly project progress reports (technical, financial and procurement) with inputs from the implementing entities represented in the PTC; and (iii) preparation of annual work plans and budgets for review and approval by the PTC. Those annual work plans and budgets are prepared based on inputs provided by the various implementing entities. The PCU will also be responsible for providing fiduciary advisory services and supervision to TEIs in charge of QIF grant implementation, aided by the Procurement Specialist to be hired. The PCU will report to the PTC. Implementation arrangements are further detailed in Annex 6.

3. Monitoring and evaluation of outcomes/results

55. The PCU will be responsible for monitoring output, outcomes and impact of the project (see Annex 1). The format of the quarterly progress reports was agreed during negotiations and

is part of the Project Implementation Plan (PIP). The reports will be submitted to the PTC review and action.

4. Sustainability

56. *Institutional sustainability.* The project contributes to the overall sustainability of the tertiary education system through central and institution-wide capacity building efforts and policy reforms aimed at improving efficiency. Component 1 builds capacity of the central system functions, such as governance, policy analysis and formulation, planning, monitoring and evaluation and quality assurance. During project preparation, the level of commitment shown by the members of the CHE, AQAC, MOEHE and university and college presidents and management staff has been remarkable. There is an acute level of awareness of the weaknesses of the system, and genuine interest in putting in place the reforms proposed by the project. Component 2 builds management, administration and planning capacity of TEIs. As noted, the level of participation and ownership demonstrated throughout the many workshops, seminars and training sessions conducted with tertiary education staff, indicates that commitment for reform and institutional improvement is high.

57. *Financial Sustainability.* The comprehensive BTM developed by the MOEHE incorporates current and projected tertiary education student admission and enrollment information; required inputs in terms of teachers, administrative and service staff; and buildings and equipment. The BTM further estimates the costs of current and projected required inputs as well as the resources available to the tertiary education sector to arrive at total expenditures and resources (i.e., both recurrent and capital) and any resulting financing gaps. Finally, the BTM allows the modeling of different scenarios, for example regarding admissions and financing policies of the tertiary education sector, to assess the impact of these policies on the financial sustainability of the sector. As shown below, a continuation of current trends in admissions and financing of the tertiary education sector is not financially sustainable. However, it is possible to model a scenario using the BTM that does lead to financial sustainability of the sector. This scenario is described below for illustrative purposes and is by no means the only path to financial sustainability.

58. Starting with base year data for 2003/04, Table 4 in Annex 9 provides projections on enrollment in universities (including Al-Quds Open University) and colleges through the year 2014. The projections begin with current and projected numbers of secondary graduates, but then one set of projections assumes a continuation of the current admissions rates in different TEIs, whereas the other set models a scenario with a changed admissions policy. According to this scenario, the Open University's share of total admissions declines, while the shares for other universities and colleges increase. The enrollment projections have repercussions on inputs, including teachers and capital investments, with resulting cost repercussions. Table 5 in Annex 9 provides the total expenditures and resources, with the resulting balance, for the tertiary education sector under the following scenarios: first, assuming current trends in admissions and financing policy; next, assuming the revised admissions policy described above, with no revisions to the financing policy; and lastly, assuming the revised admissions policy as well as changes to the financing policy. The changes to the financing policy assume a 75% increase in average tuition fees by 2008/09, along with a quadrupling of available funds for student loans by

2008/09, and a fivefold increase by 2013/14. As Table 5 shows, the tertiary education sector currently faces a deficit to the order of US\$34 million, which is projected to increase to US\$55 million by 2008/09. If, on the other hand, the revised admissions policy is implemented, the deficit would be greater still, due mostly to the larger share of enrollments in universities, which run a deficit. Thus, a revised financing strategy is absolutely necessary. The reformed financing policy described above results in a positive balance for the tertiary education sector in both 2008/09 and 2013/14. This scenario relies critically, however, on the availability of adequate funding for student loans.

5. Critical risks and possible controversial aspects

<i>Risk</i>	<i>Risk Rating</i>	<i>Risk Mitigation Measures</i>
<p>From output to objective</p> <p>Continued closures, curfews, and incursions worsen access to universities and community colleges, making it difficult or impossible to attain project objectives</p>	S	Donor intervention at political level with the Government of Israel to create conditions under which students can reach universities and colleges.
<p>Donors do not make firm commitments to co-finance the project, or only provide a small contribution, or their contribution comes in the later years of the project</p>	S	<p>Project designed in a flexible manner so that it can proceed without donor co-financing, but donors can contribute when convenient to them.</p> <p>The EU and USAID have expressed interest. It is expected that the project may attract donor support as a successful competitive demand-driven Fund is set in place.</p>
<p>From components to Outputs</p> <p>MOEHE's capacity to follow up on all project components is stretched.</p> <p>Participating institutions do not have the capacity to effectively implement the project, and University officials might resist the competitive mechanisms for grant approval.</p>	<p>M</p> <p>S</p>	<p>The project design builds on an existing implementation arrangements of two successful ongoing programs. Besides, Tertiary institutions have been able to provide continued service delivery with reasonable regularity in spite of the current conflict situation.</p> <p>MOEHE has received substantial technical assistance during project preparation, and the project will finance capacity-building for concerned MOEHE, HE Council, and AQAC. Universities are used to operate in a competitive environment, and have experience in submitting proposals to international organizations.</p>
Overall Risk Rating	S	

6. Grant conditions and covenants

59. There are no grant conditions or covenants for this project.

D. APPRAISAL SUMMARY

1. Economic and financial analyses

60. There is a strong case to be made for public intervention in tertiary education in the WB&G. There are externalities and considerable social returns crucial for knowledge-driven economic and social development to tertiary education, providing an important role for public intervention in order to obtain a socially optimal investment. In addition, there are clear private

returns coupled with inequities in access, implying an important role for public intervention with the purpose of redistribution, as well as the need to address capital market failures.

61. Through the transmission of democratic values and cultural norms, tertiary education facilitates nation building. In addition, tertiary education provides the high level skills necessary for the labor market, as well as the training essential for the development of capacity that drives local economies, supports civil society, provides schooling and health care services, and leads effective governments and societies. There are clear private returns to tertiary education in WB&G. Holders of an associates' diploma earn 9% more than those with secondary schooling, the increment rises to 26% for BA/BSc holders; 29% for those with a higher diploma; and 39% for PhD holders.

62. Analyzing who has access to tertiary education, the top 3 quintiles have enrollment rates close to 30%, while the lowest 2 quintiles are around 20%. These inequities are even more pronounced in Gaza, where the enrollment rate for the richest quintiles is double than that for the poorest. In addition, in Gaza, female enrollment is lower than male enrollment as is the case for the poorest quintile in the West Bank. Female enrollment is higher in the West Bank, which is explained by the large number of students enrolled in education and humanities.

63. The inequities observed in enrollment reflect the interplay between direct costs and opportunity costs, and market failures such as the inability to borrow using future earnings as collateral. Public funding for TEIs is based on a funding formula that is potentially anti-poor, as the share of the total funds that is received by an institution increases with the size of the student body and the average tuition fees of the institution. The project will address the issue of redistribution of public funding, as well as the targeting of student aid programs. The current student loan program, though designed as an intervention to correct capital market failures, needs to improve its targeting based on merit and need.

2. Technical

64. Project preparation built on extensive sector work conducted in 2002, and benefited from technical assistance provided through a PHRD grant. The MOEHE, CHE, AQAC and the TEIs participated in several workshops and seminars on higher education finance and accessibility; on university management, quality assurance and accreditation; and on the use of planning tools such as the BTM, designed for an overall sector analysis, adapted to be used at the institutional level. In addition, the mechanisms for the QIF were set in place, a QIF Board was appointed and trained; Quality Units were launched in each institution, and staff were trained on institutional self-assessment. In cooperation with the EC, a TEMPUS grant was awarded, which will make it possible in early 2005 to send the members and staff of AQAC to the United Kingdom to undergo training on developing national systems of quality assurance and to send the Quality Unit Directors to Germany to undergo training in the process of institutional self-evaluation.

65. Project components have been designed taking into consideration the overall strengths and weaknesses of the system and aiming at having a substantial impact on the policy reforms needed to improve system efficiency. The project design has also balanced the need to support the policy-making level and overall management of the system with the need to provide support

to TEIs. To do this, the project components were built with a focus on providing support to strengthening the overall framework for the development of the system. Component 1 builds the governance of the system and capacity to set and enforce policy by building capacity and governance of the institutions responsible for policy making, such as the MOEHE, the CHE, and the Accreditation Commission. Components 2 and 3 focus on providing direct support to TEIs. Equally important, the project design has balanced between providing support and tools to improve the management TEIs (the main focus of Component 2) with the provision of support to the quality and relevance of programs offered (the main focus of Component 3). To introduce a competitive mechanism and promote a peer reviewer system for the allocation of funds, Component 3 was designed as a competitive fund with operational procedures that will be the basis for future donor contributions.

66. Given the strategic importance that the student loan program has for building the financial sustainability of the system, Component 4 addresses the issues of management and repayment of student loans, a key element for building a future financial student aid program.

3. Fiduciary

67. **Procurement.** A Country Procurement Assessment Report (CPAR) was completed in December 2004. Its main recommendations were the development of related legislation, improving the effectiveness of public procurement oversight by creating a small Public Procurement Authority, developing national standard bidding documents and developing the capacity of the PA procurement staff.

68. The MOEHE/(MOE) has been working with the World Bank since 1995, mainly involved in the implementation of projects related to construction and capacity building. The assessment of procurement capacity was carried out in July 2000 for the appraisal of the Education Action Project (EAP) and updated in September 2002 in preparation for the appraisal of the Emergency Services Support Project II (ESSP2). Prior review thresholds were established and the overall risk was judged to be low.

69. A PCU was established in 2000 to handle procurement on World Bank projects with branches set in the WB&G. A Project Support Team, composed of Project Director, Procurement Officer, Finance Officer and Administrative Assistant, was recruited by the MOEHE. The team's main task is to oversee the implementation of project activities and other activities the Ministry delegates to the team. Since its recruitment, the team has performed well and gained implementation experience. Since the capacity has improved, the overall risk continues to be low.

70. **Financial Management.** The project financial management (FM) responsibilities will be entrusted with the finance department of the MOEHE, supported by the PCU. The PCU is part of the Ministry and was established under the on-going EAP and reports to the Ministry's Director General. Although the MOEHE has an acceptable FM system, FM support from the PCU will assist with the intensive supervision expected for implementing the QIF. The MOEHE is also undergoing a major modernization process to its management information system, which may negatively affect proper follow up of the QIF. Payment to and follow up on QIF grants will

require significant efforts. Thus, additional support to the finance department of MOEHE is necessary.

71. The PCU is in the process of recruiting a Financial Management Specialist to serve this project implementation. MOEHE will designate a finance officer to the project. The existing PCU had competently managed the EAP. For example, project accounts were continuously maintained up-to-date and all financial management reports (FMRs) as well as annual audit reports were received in time with clean audit opinion from qualified auditor. For this project, the PCU will maintain full set of project accounts, oversee the FM of the grants, generate quarterly FMRs, and prepare project annual financial statements. The project financial statements will be audited annually by qualified auditor acceptable to IDA. The audit report will be submitted to the Bank within six months after year-end. Disbursements to the project will use transaction-based disbursement methods including reimbursements, replenishments to the Special Account with Statements of Expenditure (SOE) and/or full documentation, direct payments, and special commitments issued against letters of credit.

72. One issue the project faced was the allocation of grants to universities and colleges under the QIF, starting from the submission of the grant proposal and its evaluation to actual payment and reporting. To address this issue, a comprehensive QIF operational manual, satisfactory to IDA, was drafted and finalized during project appraisal. This also raises the issue of cooperation between PCU and the beneficiaries and the timely reporting of those beneficiaries back to the PCU, as well as follow up and auditing. Approved grants will be paid to beneficiaries (universities and colleges) on an advance basis to meet eligible expenditures under the grant agreement between that will be signed between each beneficiary and QIF Board. Such advances will be cleared and new advances will be given when the beneficiary submits relevant and valid supporting documents for eligible expenditures. These issues are addressed in the QIF Operation Manual prepared by the PCU and finalized during appraisal.

73. **Financial Management Risk:** Due to the grants component of the project, the overall FM risk is rated high and several mitigation measures will be introduced to abate the risk to an acceptable level and ensure those risks are properly managed and monitored during project implementation. Risk factors and their mitigation measure are detailed in Annex 7.

4. Social

74. A social assessment was conducted and aimed at assessing the anticipated impact of the project. It was based on analyzing a number of parameters that take into consideration the different tertiary education institutions (universities and technical colleges), as well as the Al-Quds Open University with its peculiarities. Such parameters also take into consideration the different forms of higher education: vocational, technical and academic, as well as different educational levels (diploma and bachelors). Samples included three categories: (i) students currently enrolled in higher education, (ii) graduates, and (iii) persons who have completed high school but are not yet enrolled in tertiary education. The following conclusions were made:

75. First: The social assessment revealed a clear relationship between the socio-economic conditions of Palestinian household and the rate of enrollment of their sons/daughters: the better

the socio-economic conditions of a household, the more likely the enrolment of their sons/daughters in higher education. This is attributed to the fact that the Palestinian household is a major source of financing for higher education.

76. Second: The assessment pointed out the existence of a definite relationship between the socio-economic conditions of Palestinian households and the quality of the educational institutions in which their sons/daughters are enrolled, as it revealed that better socio-economic conditions of households increased the possibilities of enrolment in closed universities, while worse conditions led to a decrease in this possibility and an increase in the rate of enrolment in colleges, institutes or in the Open University.

77. Third: The assessment revealed a relationship between the level of education of the parents and the chances of enrolment in higher education on the one hand, and the selection of TEIs on the other hand. The assessment showed that the higher the level of education of the father and/or the mother, the greater the likelihood of enrolment of sons/ daughters in higher education, and enhanced the selection of closed universities.

78. Fourth: The assessment showed that among the several factors that limit the possibility of enrolment in higher education, the financial factor was the strongest for both sexes, while the social factor ranked second in limiting enrolment for females.

79. Fifth: The importance of loans and financial support in general in fostering the chances of enrolment in higher education was highlighted in the study, which also showed that the possibility of receiving loans was higher for males than for females. This led to the conclusion that improving access to loans for females enhanced the possibilities for their enrolment in higher education.

80. Sixth: The study indicated that enhancing the chances for employment, and consequently improving the socio-economic conditions of households, was among the most important reasons for enrolment in higher education for both males and females. This stresses the importance of higher education in alleviating unemployment and poverty in the Palestinian society.

81. Seventh: The assessment pointed out the limited effectiveness of available assistance (grants and loans), especially social grants, which are minimal and need to expand to include broader categories.

5. Environment

82. There are no environmental issues associated with this project (project rating is a “C”).

6. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[]	[x]
Natural Habitats (OP/BP 4.04)	[]	[x]
Pest Management (OP 4.09)	[]	[x]
Cultural Property (OPN 11.03 , being revised as OP 4.11)	[]	[x]
Involuntary Resettlement (OP/BP 4.12)	[]	[x]
Indigenous Peoples (OD 4.20 , being revised as OP 4.10)	[]	[x]
Forests (OP/BP 4.36)	[]	[x]
Safety of Dams (OP/BP 4.37)	[]	[x]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[]	[x]
Projects on International Waterways (OP/BP/GP 7.50)	[]	[x]

7. Policy Exceptions and Readiness

83. The task team reviewed the regional guidelines and has ensured compliance with the WB&G “readiness filters” which include the following:

- a. *Ensure project implementation plan is ready.* A PIP was prepared by the PCU.
- b. *Ensure local contributions for the first year are available.* The local contributions for this project are mainly salaries of MOEHE staff. All key positions within MOEHE that will be directly involved in project implementation have participated fully in project preparation.
- c. *Ensure key staff (Project Manager, Proc./FM specialists) are designated by appraisal.* The Project Manager, Procurement Specialist, Financial Management Specialist, Quality Assurance Commissioner, members of the PTC and all members of the QIF Board have been appointed.
- d. *Ensure bidding documents for the first year are ready by Board presentation.* The first year procurement plan has been prepared and the Bank procurement specialist assigned to the project will continue to assist the PCU in ensuring that all bidding documents have been accurately prepared.
- e. *Ensure compliance with procurement/FM & safeguard requirements.* A PIP and QIF Manual have been reviewed by procurement and FM specialists. Annexes 7 and 8 have been reviewed by Regional Coordinators for fiduciary management.
- f. *Ensure project is designed with M&E indicators.* Annex 3 describes in detail the monitoring and evaluation indicators to be used by each component.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

Annex 1: Country and Sector Background

WEST BANK AND GAZA: Tertiary Education Project

The challenges faced by the WB&G tertiary education system are among the same challenges faced by most tertiary systems around the world. One key challenge is to satisfy the increasing demand from the growing population of secondary education graduates, while keeping the quality and relevance of programs offered capable of meeting the changing demands of the global economy. In addition, there is the challenge of competition for public funds - from within the sector and from the current emergency and critical economic situation.

The Tertiary Education System in the WB&G has reached an important level of development, sharing indicators comparable to those with middle-income countries. Enrollment rates are much higher than the average for the MENA region, and comparable to middle-income countries such as Mexico, Costa Rica and Malaysia. The system is composed of 11 universities, 4 university colleges and 24 technical colleges, offering a variety of programs, from 2 year programs to higher level degrees. With 100,000 enrolled students in 2002-2003, only 6% of them in the technical colleges, the system is challenged to respond to the current economic and social needs of the population.

Two-year colleges have existed in the Palestinian territories since the 1950s, and were mainly focused on teacher training, technical education or liberal arts. In the 1970s, three universities granting bachelor degrees were established. Tertiary education institutions (TEIs) have since been supported by the donor community, mainly by the Arab countries, prior to the Gulf War, and after the Oslo Accord, funded by international donor organizations. Public support to TEIs has historically been low and has declined since 1990. This has led TEIs to rely on student fees. Currently tuition fees account for 60% of university and college operating expenditures. The financial crisis has been aggravated by the *intifada* and road closures imposed by Israel, as the economic crisis is felt not only by the PA but also by the diminished capacity of families to pay for student fees.

Palestinian Budget for Education Sector

The table below shows the level of spending for higher education, compared to other expenditures within education. Currently, education receives 16% of the total national budget, down from 18% in 2002. Higher education receives 5.6% of the total education budget, which is among the lowest in the world. The average for MENA countries is around 30% and the average for OECD countries is 26.3%. A gradual increment of the allocation to higher education is important in order to keep the institutions operating.

	2003 (Budget)	2003 (Actual)	2004 (Budget)	Academic year 2003/2004
Share of Education budget from total PA budget	14.2%	17.7%	15.2%	15.9%
Share of HE from total Education budget				5.6%
Share of HE from total PA budget				0.9%

¹Without taking into account Donors contribution to universities budget support

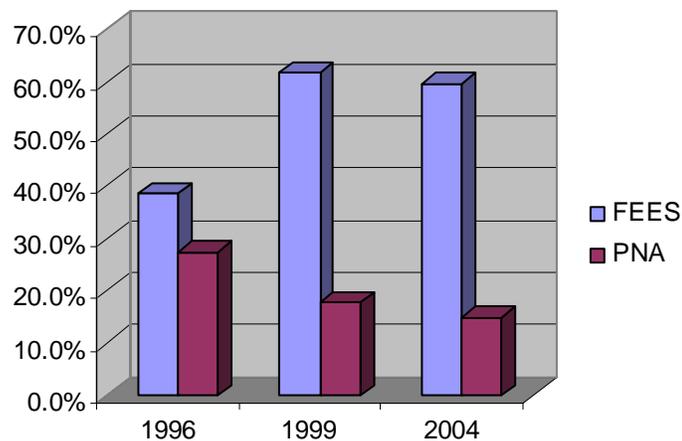
The table below shows how allocations within the sector vary among countries. The comparison between levels of spending on education as a percentage of total public expenditure shows that the PA is among the highest spending, with 16% of total government spending. This is an indication that there is room for improvement on public allocations for tertiary education, within the current overall envelop for education expenses.

Education expenditure by sub-sector, selected countries, financial year 2001²

Country	Public expenditure per student as % of GDP per capita			Total public expenditure on education	
	Primary	Secondary	Tertiary	As % of GDP	As % of total government expenditure
Morocco	18	47.5	1.5	5.1	
Tunisia	15.8	25.7	68	6.8	17.4
Israel	21	22.4	29.9	7.3	
Jordan	16	19		4.6	
France	18	29	29.6	5.8	11.4
Austria	23.7	28.6	44.6	5.8	11
Germany	17	22	43	4.6	9.9
Palestinian Authority					16

Financial Situation of Palestinian Tertiary Education

Facing scarce public funding (PA contributions to tertiary education declined from 27.5% in 1996 to 20.9% in 2004) Palestinian universities have to rely heavily on tuition fees which represent almost 60% of tertiary education recurrent costs. The lack of reliable and sustained public funding has handicapped the functioning of Palestinian universities which reached the point of being unable to ensure the regular payment of their staff salaries (76% of recurrent costs).



The reforms proposed in the financing strategy in 2002, called for an increase in tuition fees, proposing 100% of normative costs for non-priority fields, and 70% of normative costs in priority fields, with the PA subsidizing 30% of costs in the latter and increasing the amount for student aid programs. With fees currently at 2/3 of normative costs, the likelihood of increasing them by 1/3 in the near future, given the current economic circumstances, is unrealistic. To overcome the financial crisis, a combined approach of increased PA support with a gradual increment in fees and provision of subsidies for lower income students is needed.

To improve equity, demand subsidy programs (either loans or scholarships) will have to target students from the lowest consumption quintiles. In 1998, 40.4% of university graduates in

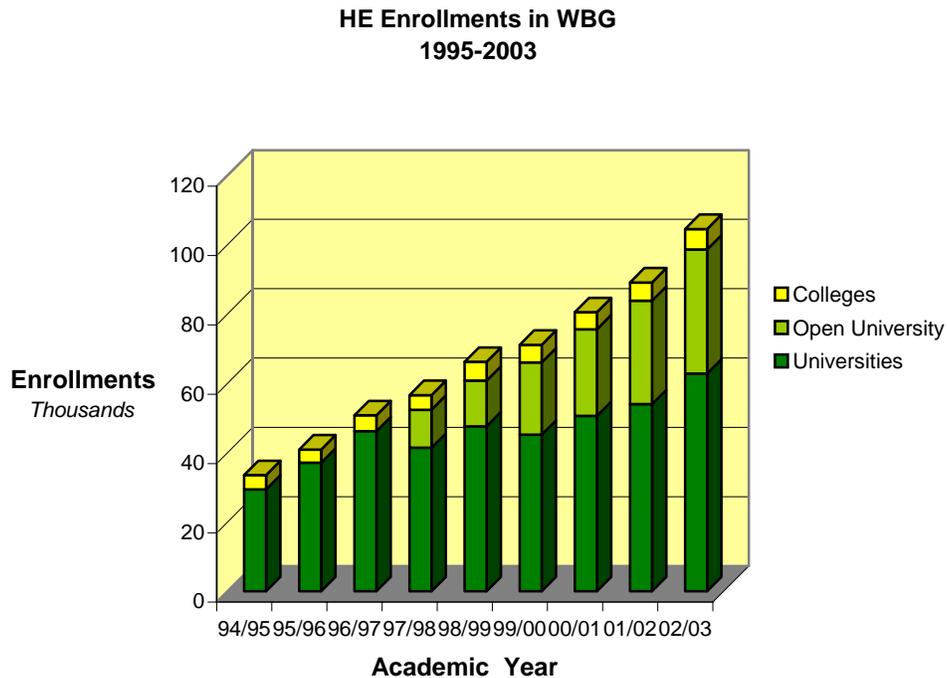
² Source: OECD Global Education Digest 2004

WB&G were from the three lowest quintiles, with only 9% from the lowest consumption quintile. Although these calculations included graduates from universities outside of PA, this can be an indicator of the proportion of students that will be needing student aid.

Donors' contributions to the sector include budgetary support provided by EU; USAID support to Research, IT and access to international library resources; UNESCO support to student and staff exchange programs; EU support to twining arrangements with European and MENA universities; German and Italian Cooperation support to Tertiary and Vocational Education and Training (TVET); Saudi Arabia, Arab Fund, and Islamic Bank support to student aid programs.

Enrollment

Demand for tertiary education has increased at an alarming rate in the past decades. The number of students enrolled in TEIs has more than tripled between 1995 and 2003. As a result, the gross enrolment rate in tertiary education grew from 10.2% in 1995 to almost 17% in 1999, and is estimated to be more than 23% in 2003, above the average for Arab states.



Pressure from a rapidly increasing number of secondary school graduates (*Tawjihi*) was put on the eleven Palestinian universities - where admissions increased by 80% between 1997 and 2003. Students enrolled in the Al Quds Open University (49,500 students in 2003/04) is about 35% of total enrolments. While the number of students attending technical colleges in 2003-2004 is approximately 13,000, their percent in total enrolments dropped from 12.2% in 1994/95 to 11.3% in 2003/04.

Quality and Relevance

Academic programs are characterized by two major trends. On the one hand, a strong expansion of the programs, both at the undergraduate and graduate levels, and on the other hand, within this expansion, a movement from traditional academic programs (education, humanities, arts) toward science and technology based programs.

The development of new applied programs within the main faculties (e.g., engineering, physics, and biology) has been implemented through a series of phases starting mostly after the first *intifada* (1992): a general level of applied departments (e.g., in the case of engineering, civil and architectural engineering), followed by the creation of more specific departments (electrical, chemical, electrical engineering). This process of development has continued during the present *intifada*.

The choice of new applied programs has only partially been founded on an assessment of current and future needs in the labor market. Decisions for the choice of fields of specialization to be developed have often been based on the faculties' area of expertise, as well as international trends in academic development. This has also been matched by the search for new programs seen as capable of attracting new students. The financial motivation on the part of the universities in the process of expansion (programs and enrollment) has been discussed and has a significant impact on the process of expansion.

In this context, universities have been reluctant to close or re-direct existing programs that are not in demand or that may not be adapted to the current and future needs of the labor market, while they are developing new ones. The majority of students, more than 30%, are enrolled in education, 20% in social sciences and humanities, and 30% in administrative and economic sciences.

A few universities (on an exceptional basis) have developed and implemented efficient methodologies, based on international experience, to assess the needs of the labor market. They have conducted feasibility studies on the current and future needs (including through the use of strategic analyses of specific sectors – e.g., tourism), and have tried to work with the private sector as much as possible. They have also conducted regular evaluation of the programs, including through the use of international experts. The work undertaken by Bethlehem University (e.g., tourism, physiotherapy) provides a useful methodological reference for assessment and monitoring of the needs of the labor market.

The programs have been developed both at the undergraduate and graduate levels, with rapid growth of graduate programs, mostly at the masters' degree level. There are currently more masters' degree programs (109) than university degree programs; this raises questions as to their relevance to the labor market which is composed mostly of small enterprises with low technology. Bethlehem University has chosen to remain at the undergraduate level after a careful assessment of the needs defined in the feasibility studies for the fields investigated (e.g., physiotherapy) and as a result of their strategic planning. Other universities have focused on high technology fields which require higher levels of competencies (e.g., IT).

Recent trends show the development of new, shorter term programs (e.g., two year “diploma”), or technology or specialty oriented B.S. programs (e.g., financial management) which aim at responding to needs from the labor market. These programs may be more adapted to current needs, however, the content of their curriculum, as well as their duration (four years for programs which could be achieved in two or three years) may be inadequate in terms of relevance to needs and costs. It also constitutes a positioning on TVET type programs which may bring some confusion. Some universities have explained that the technology oriented B.S. programs would allow students to pursue studies at the M.S. level. It could also give students a better background in general subjects to increase their capacity to adapt to changes in technology or work processes.

The following table presents a summary of the programs offered today, the number of students enrolled and the number of graduates in 01-02. Almost a third of the students are enrolled in education and only a small proportion of all enrolments are in technical colleges. In the past two years, this tendency has continued, and increased enrolments have been seen at the Open University.

Tertiary Education Programs by Field of Studies and Level in the West Bank and Gaza

Field of Study	Diploma 2 years	Bachelor's Degree	Diploma Higher	Masters Degree	College enrollment³	College graduates	University enrollment	University graduates	Total enrollment	Total graduates
Natural Sciences	Univ: 1 Coll: 1	Univ: 59 Coll: 0	0	18 (univ)	0	0	5495	1490	5495	1490
Social Sciences and Humanities	Univ: 2 Coll: 16	Univ: 80 Coll: 2	10 (univ)	37 (univ)	1002	465	13975	1748	14977	2213
Administrative and Economic Sciences	Univ: 7 Coll: 52	Univ: 43 Coll: 0	2 (univ)	11 (univ)	2073	678	20337	2434	22410	3112
Educational Sciences	Univ: 1 Coll: 8	Univ: 86 Coll: 19	8 (univ)	11 (univ)	15	0	23081	2821	23096	2821
Health Sciences	Univ: 1 Coll: 21	Univ: 32 Coll: 4	10(univ)	11 (univ)	619	232	2196	778	2815	1010
Engineering Sciences	Univ: 17 Coll: 26	Univ: 29 Coll: 1	1 (univ)	9 (univ)	352	180	5223	675	5575	855
Law	0	Univ: 3	0	1 (univ)	0	0	1322	340	1322	340
IT and Computer Sciences	Univ: 4 Coll: 31	Univ: 25 Coll: 1	1 (univ)	2 (univ)	749	194	2776		3525	194
Agricultural Sciences	0	Univ: 19	0	4 (univ)	0	0	554	92	554	92
TOTAL	188	403	32	104	4,810	1,749	74,959	10,378	79,769	12,127

The Accreditation and Quality Assurance Commission

To monitor quality, the national Accreditation and Quality Assurance Commission (AQAC) was established in 2002 and its activities started in 2003. The eleven members of the Commission are chosen from the academic community and should be independent from the universities. The AQAC office includes three staff members and three part-time studies coordinators.

The evaluation activities of the AQAC include: evaluation of applications for creation of new institutions or new programs; global evaluation for all programs offered in Palestinian TEIs; a

³ Enrollment and graduates data for 01/02

five-year evaluation of new “conditionally approved” programs. Procedures and forms for new program applications have been communicated to all universities and published on the MOEHE website. Applications are assessed both strategically and technically. Strategic evaluation takes into account the general policy of the MOEHE as defined by the CHE. Technical assessment is assigned to two or three independent specialists, at least one of whom should be chosen from outside WB&G. So far, 45 applications for new programs or specialties have been assessed by AQAC.

Global evaluation of existing programs

A “methodology for evaluation” was adopted after consultation with all institutions, the MOEHE and the HED, and includes two levels of evaluation: a self-evaluation and an external evaluation. The Health Sciences Programs global evaluation is the only set of evaluations that has been completed. A “Guide for Evaluation” was distributed in both English and Arabic to all institutions and steering committees established for each specialty. Four training sessions were organized to the benefit of university staff and eight experts (six from outside WB&G) who contributed to the global evaluation.

As stated above, AQAC currently approves new academic programs through a process of accreditation and occasionally undertakes specialized sectoral reviews. Although some approval process of new programs may be necessary, program accreditation is not the most effective way of achieving quality improvement over the breadth of Palestinian tertiary education at this point in time. It can be assumed that if academic programs are generally in need of improvement, the overall institutional framework also requires attention. This can be achieved through the process of *institutional accreditation* which is designed to evaluate an institution as a whole with attention to its mission, governance, management, academic program, faculty, learning resources, students, student services, financial resources and physical facilities. In the course of project preparation, and through a PHRD grant, materials were made available during training on a range of institutional accreditation models to both the AQAC and the Quality Units from which a local model can be formulated.

In addition to its function as an accreditor of new academic programs and its occasional sectoral review (such as of allied health programs or computing sciences), AQAC has also assumed daily oversight of the QIF Staff (and thus QIF program); and has inherited a quality improvement infrastructure (Quality Units) in each tertiary institution with which to work for the improvement of the tertiary sector systemically.

External Efficiency

Employment data released by the PCBS shows predictable high unemployment rates in both the West Bank (28.2%) and Gaza (38%). Unemployment rates of population with 13 years of schooling and more are lower (around 16% in West Bank and 25% in Gaza) which suggests that higher education provides greater employment opportunities, except for women in Gaza, who are more likely to be unemployed with the highest degrees (37.3%) than with lower education (20%). Still, the relevance of the Palestinian tertiary education system has to be questioned since in 2002/03, 40% of students (53% females) were enrolled in education, arts and humanities programs while less than 6% attended community colleges.

Student Revolving Loan Fund (SRLF)

The current situation of the Student Revolving Loan Fund (SRLF) created in 2001 can be characterized from a threefold point of view: strategic, financial, and managerial.

Strategically, student aid is a critical element of the financial strategy of the MOEHE, and a necessary complement of the tuition fees policy. These fees represent up to 69% of the recurrent budget of tertiary education, an exceptionally high proportion by international standards. They must, therefore, be offset by some kind of support so that they do not impede poor students from attending a tertiary education institution (which currently run from \$470 to \$1410 for two semesters). Student loans are the main mechanism selected by the MOEHE to provide this support, together with scholarships for the neediest students. The scheme is organized in the national SRLF⁴. In 2004-2005, more than half of all students (60,000 +) are benefiting from a loan. In effect, student loans can be seen from two angles: on the one hand (the disbursement side), they are an instrument to assist students in paying their fees, and on the other hand (the repayment side), they are viewed as a tool to help finance the other kind of aid, namely grants and scholarships. As explained below, the first function is incompletely fulfilled and the second function has so far remained purely theoretical.

Financially, there are problems on both the disbursement and the repayment sides. On the disbursement side, of the \$20 million annually allocated by the PA to tertiary education, only 5% is channeled to the SRLF. The system is entirely donor-dependant, and partially donor-driven. Flows of funds are not easily predictable, and donors stipulate whether their funds are to be used as grants or loans, and some even determine the share of the tuition to be covered by grants, and therefore the amount of the latter. On the repayment side, the performance of the scheme cannot be worse: the repayment rate is currently zero. Three main reasons seem to explain this situation: the economy, the mentality, the management - with only the management within the ministry's direct control. The economic situation following the second *intifada* has severely deteriorated, with dramatic consequences on poverty incidence and employment. The mentality amongst students is still that of free higher education; loans, in fact, have been viewed as grants. And as the prospects of finding a job become bleaker, more students decided to enroll, more expecting a loan without seriously considering repaying it. Finally, the management of the program is not conducive to regular repayments (see below).

Management of the scheme is shared between the MOEHE and institutions. At the Ministry level, a Board (chaired by the Minister) is not currently active, and the SRLF Unit in the MOEHE, composed of a manager, assisted by a few staff, is mostly involved in: (i) allocating donor funds to institutions, using a formula based on total and average tuition fees enrollments in institutions – which is not equity oriented - and is occasionally modified by the Board, with no clear criteria to do so, (ii) double-checking that the eligibility criteria used by institutions have been respected, (iii) implementing donors' guidelines regarding the use of funds, and (iv) storing the loan agreements signed by students. The Unit is not acting as a financial intermediary since funds are channeled directly to institutions by the donors. At the TEIs, two main functions are fulfilled: needs assessment to determine eligibility to a loan (and its amount), and collection of

⁴ Several universities have also set up their own student loan scheme.

agreements signed by students before receiving their loan. Currently, application forms vary from one TEI to another, as do the procedures for repayment.

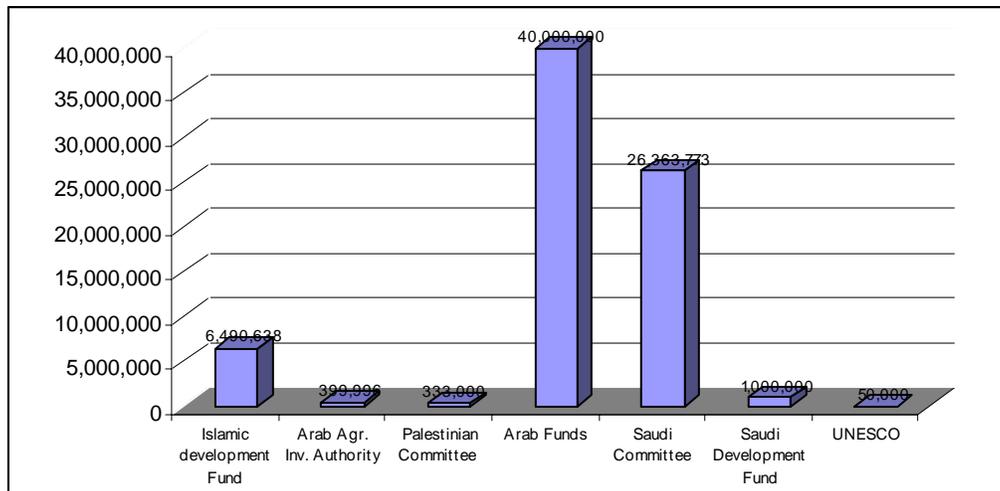
The SRLF was initially financially supported by the IDB and some Arab countries. Subsequently, other sources of funding have been utilized to provide student aid in the form of both loans and grants, including from the Saudi committee, Arab Funds, and UNESCO. The following table indicates the number of students benefiting from aid programs, the amount disbursed, and the sources of funding for student aid between 2000 and 2004, as well as the aid to be disbursed during the academic year 2004-2005:

Funding and number of students benefiting from aid programs

Academic Year	Beneficiaries	Amount/ US\$	Source of Funding	Type of Aid	Status
2000-2001 2001-2002	35,821	7,020,633	Islamic Development Bank	Loan	Completed
2002-2003	19,000 at 11 universities	15,163,773	Saudi Committee (1)	Grant	Completed
2002-2003 2003-2004	98,000 students and the SRLF	20,000,000	Arab Funds (1)	Loan	Completed
2003-2004 2004-2005	20,000 students	11,200,000	Saudi Committee (2)	Grant	Ongoing
2003-2004	250 students	50,000	UNESCO	Grant	Ongoing
2004-2005 2005-2006	127,000 students	20,000,000	Arab Funds (2)	Loan	Waiting official approval
2004-2005	7,836 students	1,709,072	Prince Abdullah Al-Saud	Loan	To be implemented in the first semester 2004-2005
2004-2005	Approximately 6500 students	1,200,000	Saudi Fund for Development and Agricultural Investment	Loan	To be implemented in the second semester 2004-2005.
TOTAL	314, 407 students and 11 universities	76,343,478			

Distribution of SRLF funds. The practice in the SRLF has been that funds are transferred directly from the donors to the institutions, not through the SRLF itself. The role of the Ministry has been to decide that each institution shall receive loan funds according to a funding formula that is based on a combination of total enrollment and average fees at an institution, as well as the share of PA funds going to universities.

Sources of Funds. The following chart illustrates the donations and the sources of funding for student aid programs:



Terms, Conditions, and Eligibility. The key characteristics of the student loan scheme include the following:

- Students' eligibility is based on the following:
 - The applicant must be enrolled as a regular student in a Palestinian tertiary institution.
 - Before applying for a loan, a student must successfully pass the first academic semester.
 - The applicant must be free of academic warnings.
 - The applicant cannot be receiving any other form of financial aid during the semester in which s/he applies for a loan.
- Loans are distributed on the basis of a student's financial need. Need is determined on the basis of information collected on financial assistance forms that provide answers to a series of assessable questions, including the location and size of a student's residence, assets in the family name, family size, etc. Under the current structure, each university develops its own form.
- The annual amount lent per student cannot be higher than a proportion of tuition fee. The proportion presently ranges between 25 to 75% at different universities because it depends very much on the number of students applying for the loan and the available amount of funds.
- Loan procedures are highly decentralized and administered by the individual institutions. Potential borrowers apply at their institution. Each institution develops its own loan application form. The form includes questions such as the number of the

family members, the family income, etc. In most cases, institutions try to verify the received information. Based on this, eligible students are granted loans.

The Experience of Commercial Banks with Student Loans in West Bank and Gaza

In the past year, the Arab Bank - the largest bank in the West Bank and Gaza, with a 60% market share - has begun to get involved in the provision of students loans in two ways. First, it made arrangements with two universities -- Al-Quds and Birzeit – where the loans of students who are in arrears are converted to consumer debt to be repaid in 12 months (with the university paying interest equal to 7%). At Al-Quds, the program began in June 2004 and has involved 225 students thus far. At Birzeit, the program began in September 2004 and has involved approximately 40 students thus far.

The second loan scheme at the Arab Bank, which also began in 2004, established a small program of loans for postgraduate students at Birzeit University who are presently employed. Several of the borrowers are employees of the Arab Bank.

Both of these current student loan activities by the Arab Bank are based on the strategy of developing future customers by lending to them first when they are students.

Projections for Student aid funding

Taking into account the results of the 2002 financing strategy, and the enrollment and updated financial information gathered in February 2005, the following simulations were made:

Scenario 1

Considering the average loan amount (US\$386 per year) and a targeted coverage rate of 30% as assumed by the PSLF, predictions of the financial balance of the loan scheme suggest barely an equilibrium before 2011. Assuming an optimistic repayment rate of 80%, a five-year constant repayment schedule and 1.5% interest rate, the average required funds would be US\$21 million per year for the 2004-2011 period, while the average repayment would be less than US\$10 million per year.

Scenario 2

With an estimated average loan amount of US\$450, and a repayment of 60%, the equilibrium would be reached in 2011, with a minimum deficit of US\$13 million. The average annual amount needed to support loans would be US\$24 million, and the average repayment would total US\$8 million per year.

A principal problem with the current SRLF structure is that the university officials responsible for the administration and repayment collection of loans have little or no experience in performing this task. One of the suggestions for improving repayment in the SRLF has been to provide incentives to institutions to do a better job at collection by allowing institutions to retain the amounts collected.

Given the choice between continuing to rely on institutions to collect on student loans, and transferring that responsibility to commercial banks, the preferable option is to make it financially attractive for commercial banks to become more involved in the servicing and

collection of the SRLF. The Arab Bank has already begun this process working with the loans of students from two institutions. A fee sufficient to cover costs would be enough to encourage greater activity.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

WEST BANK AND GAZA: Tertiary Education Project

Donor-funded assistance

1. The EU in recent years has supported the sector and has focused on funding TEIs' recurrent costs. It is currently supporting two projects: The Labs & Libraries Project (US\$3.67 million) and the Multi-purpose Center Project (US\$4.3 million). The Accreditation and Quality Assurance Commission has received funding from the Government of Norway and the Ford Foundation.
2. USAID is currently supporting the tertiary education sector through the Higher Education and Support Initiative (HESI), a three-year US\$9.04 million program, in its last year of implementation, which includes local scholarships, maintaining graduate scholars currently in the U.S. as part of the Master's Degree Scholarship Program (established in 2000-2002), and supports short-term training in IT for professionals and students. In addition, USAID has supported seven U.S.-Palestinian university partnerships to develop new curriculum and better research methodology. The USAID Presidential Scholarship Program will send 70 Palestinian scholars to the U.S. for graduate studies in various fields in 2004/2005.

Bank-related Projects

3. Education Action Project (Trust Fund Credit: US\$7 million). The EAP aims to strengthen the capacity of the MOE to manage the education system more effectively through improving policy-making, planning and budgeting at central and district levels and to support implementation of activities in specific domains included in Five-Year Education Plan (2001-2005). The project is involved in areas where efficiency gains are most expected, including: (i) training; (ii) school construction; (iii) vocational training; and (iv) overall sectoral management. The EAP is expected to close on September 30, 2005.
4. Emergency Municipal Services Rehabilitation Project (Trust Fund Grant: US\$ 20 million). The project aims to help mitigate the deterioration of basic municipal services and reduce increases in poverty in urban population centers due to rising unemployment as a result of the ongoing crisis and closures in the West Bank and Gaza. The project is expected to close on June 30, 2005.
5. Second Emergency Services Support Project (ESSP) Supplemental (Trust Fund Grant: US\$15 million). This project closed on December 31, 2004. The project supplemented the original Trust Fund Grant for ESSP II. The objectives of this supplemental grant were to mitigate the deterioration in education, health and social welfare services resulting from the economic crisis and its consequent fiscal impact by financing goods and services necessary to deliver these services.
6. Social Safety Net Reform Project (Trust Fund Grant: US\$10 million). The project's objectives are: (i) to protect and enhance human capital of children from poorest households in WB&G and (ii) to strengthen the institutional capacity of the MOSA needed to assist in

efficiently and effectively carrying out the Special Hardship Case Program. Development of the Palestinian NGO sector, PNGO II, implemented as phase II of PNGO I, aims to build on Phase I's achievements and successes, and will also draw on the lessons from that experience. This project is expected to close on December 31, 2008.

Annex 3: Results Framework and Monitoring
WEST BANK AND GAZA: Tertiary Education Project

Results Framework

PDO	Outcome Indicators	Use of Outcome Information
Improvement of policy making environment and governance of the tertiary education system, and increased quality, equity and relevance of service delivery.	Increase in new entrants of students into priority areas defined by relevance to market and socio-economic needs from 32% in 2004/05 to 40% by 2009/10. Increase of new entrants in colleges from 19% in 2004/05 to 27% by 2009/10. Improved policy formulation measured by preparation of Tertiary Education National Strategy by end of 2006	Tertiary Education National Strategy developed for 5-year period. (2006-2011) Sector Performance Reports produced and disseminated annually. Institutions performance reports produced and disseminated annually.
Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
Component One: MOEHE, AQAC and CHE to start a system level reform to improve efficiency, quality, equity and relevance of tertiary institutions.	Component One: CHE uses Planning Department's yearly reports on sector performance, to establish policies on equity, efficiency, quality and relevance. AQAC continues to evaluate programs using a computerized system, and sets the basis for an institutional accreditation system.	Component One: MOEHE will prepare annual sector performance reports that will be discussed by the CHE and will be the basis for policy development. Participating institutions will prepare Strategic Plans.
Component Two: Tertiary Institutions Management Capacity and Efficiency Improved	Component Two : 90% of universities and university colleges, and 50% of community colleges use an integrated information system that is used for institutional planning and management. 90% of universities and 50% of university and technical colleges use the Budget Trade-Off Model as a simulation tool for planning purposes by mid-term (2007). 90% of institutions have established an institutional self-evaluation process by mid term (2007).	Component Two: AQAC uses Quality Units to implement institutional accreditation process

	<p>50% of institutions complete the institutional self-assessment by mid term (2007),</p> <p>50 % of institutions have developed institutional improvement plans by the end of project.</p>	
<p>Component Three:</p> <p>Quality and relevance of programs offered by Tertiary institutions is improved.</p>	<p>Component Three:</p> <p>50% of QIF eligible institutions are successful in receiving QIF funds.</p> <p>Ten new partnerships with private sector, public sector, or universities are developed by the end of the project.</p> <p>Ten new programs in priority areas are developed as a result of QIF grants.</p>	<p>Component Three:</p> <p>QIF Board and Staff produce and disseminate annual reports</p>
<p>Component Four:</p> <p>Student Revolving Loan Fund Management is improved and financial resources available are expanded.</p> <p>The structure of student loans and scholarships in West Bank/Gaza is strengthened, thereby contributing to greater efficiency, effectiveness, and equity of Palestinian higher education.</p>	<p>Component Four:</p> <p>MOEHE establishes repayment mechanisms for graduates with an outstanding SRLF loan and employed by the PA by the end of 2006.</p> <p>Administration of 50% of current outstanding SRLF loans has been transferred to commercial banks by mid-term.</p> <p>MOEHE has new system of student aid including equitable eligibility criteria, repayment conditions and efficient management set an operating by end of project.</p>	<p>Component Four:</p> <p>Evaluate and monitor student loan repayments.</p> <p>Establish progress reports on the amount of collected repayments</p> <p>Evaluate performance of the administration of a separate student loan and scholarship agency.</p> <p>Sponsor independent evaluation of adoption of uniform standards of eligibility for student loans and scholarships</p>

Arrangements for results monitoring

Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
The capacity of MOEHE is strengthened to establish policies and practices which will enable tertiary institutions to provide the education programs that meet the needs of the economic and social development of the PA.							Quarterly analytical reviews of tertiary sector performance Statistical Year Book annually produced Annual project reports Mid- term project reports		
Results Indicators for Each Component									
Component One : The planning unit of MOEHE is strengthened A Tertiary Education Council is functioning as policy making body AQAC is strengthened A TEMIS is in place		IT Specialist, and Planning Specialist are recruited Tertiary Education Council is established, and monthly meetings are held One program cluster is evaluated in all tertiary institutions Hardware, software installed and training of staff for TEMIS in 39 institutions					Planning Unit produces quarterly reports to be reviewed by Tertiary Education Council Tertiary Education Council produces annually Sectoral Policy Document AQAC produces each semester evaluation and accreditation reports		

<p>Component Two : The internal and external efficiency of tertiary institutions is improved.</p> <p>BTM is installed an in use in 39 tertiary institutions</p> <p>The management and organization of tertiary institutions have been upgraded.</p> <p>Self Evaluation and Quality Units are operating in tertiary institutions</p>		<p>39 Staff are trained on the use of BTM</p> <p>50% of Universities and 10 Colleges are producing annual reports using the BTM</p> <p>Quality Units are established in 11 Universities and 5 cluster Colleges, and staff is trained on self-evaluation</p>	<p>100 % of Universities and 20 Colleges are producing annual reports using the BTM</p> <p>5 Universities and 3 colleges had implemented changes in management + organization.</p> <p>11 Universities and 5 colleges present</p>	<p>100 % of colleges are producing annual reports using the BTM</p> <p>Capitalization process has been launched</p>	<p>9 universities and 5 colleges prepare and update strategic plans</p>		<p>All tertiary institutions produce annual performance reports</p> <p>Assessment reports (Y1 and Y1)</p> <p>Reports of interventions to upgrade/ adapt management and organization</p> <p>Capitalization meetings reports</p> <p>Tertiary institutions produce annually self-evaluation reports</p>	<p>Reports (AT1)</p> <p>Reports (AT1 + tertiary institutions)</p> <p>Accreditation and other evaluative criteria such as QU functions outlined in QIF Manual</p>	<p>MOEHE</p> <p>AQAC</p>
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			reports on self-evaluation						
Component Three: QIF Grants are being implemented in Tertiary Institutions		QIF Board is in place, 10% of tertiary institutions succeed in grant application	30% of recipient institutions are implementing QIF grants	60% of recipient institutions are implementing QIF grants	100% of recipient institutions are implementing QIF grants		Recipients produce Annual reports to QIF Board	QIF criteria forms	AQAC and QIF staff
Component Four: Repayment of student loans is increased Expansion of the SLRF capturing private sector investment Eligibility criteria and assessment of student needs are improved.		SRLF Board assumes responsibility in policy setting and decision making. Meet twice a year Management is using BTM to assess the financial need of loans for first years Uniform standard aid application form is produced.					SLRF Management presents quarterly reports		

Annex 4: Detailed Project Description
WEST BANK AND GAZA: Tertiary Education Project

Project components

Component 1: Strengthening the policy-making role of the MOEHE, CHE and AQAC (US\$2.4 million)

The objective of this component is to strengthen the capacity of the MOEHE, CHE and AQAC to formulate, plan and monitor the tertiary education policy framework for the WB&G. The project will support the ongoing reform that will enable the tertiary institutions to provide the education programs that meet the needs of the economic and social development of Palestine. The definition of policies and the incentive mechanisms to put them in practice will be consistent with increasing the financial sustainability of the sector, and improving the capacity to respond to labor market needs. In particular, the policies will be oriented towards having the system operating as a Tertiary Education System, including increasing enrollment in community colleges, moving towards an accreditation system that allows flexibility and mobility among post-secondary institutions, and moving towards a more equitable and relevant system that offers diversity versus differentiation among “Higher Education” and “Vocational Technical” education. Equally important, policies will be developed and enforced to increase enrollments in priority area programs, controlling admissions in programs where the job market demands are saturated and in institutions and programs where quality of the programs offered are not relevant or do not meet the standards set by the accreditation commission. In addition, a set of policies seeking to establish financial sustainability and improve equity in the use of public funding, such as regulation on fees, student aid programs and standardized normative costs will be put in place. To achieve these objectives, the project will provide support to the following activities:

Subcomponent 1.1 - Tertiary education policy development and management. The project will provide support to the Department of Planning at the MOEHE. The Department will be capable of conducting analytical reviews regarding the performance of the tertiary education sector as a whole. The Department’s capacity will be developed in order to be able to coordinate and develop plans and policies for the sector in collaboration with stakeholders and development and cooperation agencies. The project will support the training of the Department on tertiary education policy design and assessment; development of planning tools and practices; conducting studies and analysis of the performance of the system on an annual basis; local and international consultancies and study tours; technical workshops, and publication and dissemination of system reports. In order to establish linkage between the system and labor market needs, tracer studies will be conducted on a yearly basis, to monitor the entry of graduates to the labor market.

Activities under this subcomponent will include:

- Establishing a tertiary education Planning Unit and recruiting local expertise in planning and educational policy for the purpose of producing reports about the system performance on annual basis.

- Formation of a planning committee composed of Ministry and representatives from tertiary education institutions that will meet regularly to discuss and decide on policy issues of the system and prepare technical documents to be submitted to the CHE.
- Conducting study tours for the planning unit to similar regional and international institutions or bodies.
- Training existing staff at the Department of Planning on data analysis, reporting and dissemination of results.

The project will also provide support to ensure that the CHE will function as a tertiary education council, representing the needs of the universities, community colleges, stakeholder representatives (such as staff members and students) and the private sector. To increase governance, the CHE will extend its members to include private sector representatives and student organizations.

Project funds will also be available to:

- Conduct an analytical review of the role of the CHE (its mandate, composition, and scope) for the purpose of establishing a tertiary education council that deals with policies across the system. To achieve comprehensive result, the review will also examine the role of the education committee within the existing structure of the general education sector, and the role of the Higher Council of the TVET.
- Conduct an analytical review of the existing Laws of Higher Education, Education, and Labor, for the purpose of establishing the proper link between the tertiary system and labor market.
- Conduct study tours for the various relevant councils to regional and international tertiary education bodies.
- Conduct a series of specialized workshops on tertiary education covering a variety of subjects: such as the role of the sector in economic development, tertiary education financing, meeting the increased demand on the system, accreditation and quality assurance, and other relevant topics.

The project will support annual national surveys to evaluate the performance of all institutions and the system as a whole. On a yearly basis, the following aspects will be monitored in each tertiary institution: income and expenditures, enrollments, student progression, instructional contact hours, staff numbers and qualifications, student aid programs.

The annual monitoring of the tertiary education system will be commissioned by the CHE, and conducted by MOEHE's Planning Unit, with technical assistance from local and international consultants. To ensure coherence and focus of the ongoing tertiary education reform, the project will support the analysis and dissemination of these reports, and will support training and workshops for CHE members, AQAC commissioners and MOEHE's high level staff.

Project funds will be available for survey design and data collection, consultants, technical workshops, training, publication and dissemination of reports.

The project will also support improving the management of financial and procurement systems at the MOEHE to implement IDA-funded projects, through the retention of the PCU already in place at the MOEHE, currently under the name of Project Support Team (PST) for the Education Action Project (EAP). The PST has a small administrative core, with a Project Director, Finance Officer, Procurement Officer and Administrative Assistant, who have gained expertise in project coordination and implementation through EAP. The project will be handled on a day-to-day basis by the PCU.

Subcomponent 1.2 - Support to AQAC. This subcomponent will provide technical assistance to enhance and reinforce the MOEHE's existing capacity to set quality and management standards able to meet and compete with international standards. The defining of such standards includes program and curriculum development, student/teacher ratios according to program standards, qualifications and status of faculty, student admissions, student academic performance, and monitoring and evaluation of programs. This subcomponent will support the existing independent accreditation and evaluation commission, and provide support to set up evaluation teams and conduct the evaluation of priority area programs through a peer review system. It will also provide the support needed so that this commission will operate following international standards and trends, and develop networking activities with international agencies.

Project funds will be available for

- Training staff and commissioners and external reviewers;
- Producing a guideline for accreditation and quality assessment procedure, and updated on a regular basis;
- Supporting the on-going evaluation of existing program at tertiary institutions;
- Enhancing the existing management capacity of the commission through the recruitment of local expert and contracting consultancy services;
- Improving communication with institutions;
- Enabling coordination with external funding sources;
- Participation and membership in quality assurance and academic recognition networks.

The process of institutional accreditation could be launched by the end of 2005. The process of evaluating the Quality Units after their first six months (or by mid-2005) will be the first test of external evaluation related to institution-wide quality improvement activity. The AQAC should use this experience to determine what standards and processes they wish to adopt for a process of institutional accreditation. By the end of 2005, this process could be *piloted* in a small group of institutions – perhaps 2 universities and 2 colleges which volunteer to undergo the process. Each institution will be required to undergo a self-study process responding to the AQAC institutional standards (a 3-6 month process) and submit a report to AQAC which will be used as the basis of an external review carried out by peers in possible combination with international evaluators. The external reviewers (numbers of teams and members to be determined), in turn, review the self-study; conduct a site visit at each institution; and submit a report to the AQAC which will act as the basis for a final accreditation decision. If the standards and process can be determined by the AQAC by mid-2005, it is conceivable that accreditation decisions could be reached by year's end and a new crop of institutions could be identified for the next round in larger numbers and informed by the experience of those who went first.

As for support to achieve institutional accreditation, AQAC staff:

- will participate in the TEMPUS training program in the United Kingdom on developing national systems of quality assurance;
- have plans to attend the biennial conference of the International Network of Quality Assurance in International Education in late March, 2005;
- will meet with regional national quality assurance staff, including an invitation to meet with staff of the Council for Academic Accreditation of the United Arab Emirates in the first quarter of 2005; and
- can call upon international expertise to consult in-country as this process evolves.

Subcomponent 1.3 - Support to the establishment of a Tertiary Education Management and Information System (TEMIS). Based on the needs assessment on information technology (IT) conducted with financial support from USAID, the project will support the MOEHE and tertiary institutions in establishing a system that will provide relevant and timely information on all institutions concerning: enrollment, fees, academic programs, actual resources and standards, student aid programs, financial status and employment rates of graduates. The project will provide hardware and software, as well as training and human resources needed to set up and manage the information system in an efficient way, and it will be capable of producing reports that will shape policy making and planning. To this end, the project will strengthen the capacity of the Department of Planning, and will provide support to recruit qualified staff with expertise in the use of IT, among the following:

- Develop an IT system that is capable of integrating a variety of relevant data, produce comprehensive reports, and links with other demographic and economic information;
- Train existing staff at the Department of Planning on the use of IT;
- Produce a set of standardized indicators to be used for the planning processes;
- Provide necessary hardware and software.

Support to the Information System at Tertiary Institution level

The information gathered by the institutions will feed the system at the central level managed by the Planning Department at the MOEHE. The system will gather data from various departments; such as financial, registrars, student aid offices, and others. Each institution will use this information to produce different scenarios on institutional planning using the institutional BTM model that was developed under the PHRD grant. Project funds will cover: (i) the provision of hardware and software and (ii) training staff on areas of IT, collecting data, using the BTM and preparing reports on an as needed basis

During project preparation, in collaboration with the EC, a grant proposal for the TEMPUS program to provide quality assurance, training was submitted and approved for 150,000 Euro. This TEMPUS grant will make it possible in 2005 to send the members and staff of AQAC to the United Kingdom to undergo training on developing national systems of quality assurance and to send the Quality Unit Directors to Germany to undergo training in the process of institutional self-evaluation. The EU has specifically encouraged the AQAC to seek additional assistance, and in the near future, through the TEMPUS program. The next quality improvement activity

TEMPUS would like to support is the provision of teleconferencing equipment for institutions of tertiary education.

Component 2: Increasing the internal and external efficiency of tertiary education institutions (US\$1.3 million)

The objective of this component will be to improve the internal and external efficiency of the universities and technical colleges. To meet these objectives, the project will support the following activities:

Supporting institutional planning and management. Based on the Budget Trade-off Model (BTM) designed for the preparation of the Financing Strategy in 2000 (through the support of a PHRD grant), the model was updated, and an institutional model was prepared. The use of the BTM will allow institutions to plan and manage resources in a more efficient way. In order for institutions to collect relevant information, data hubs will be established within the institutions, either separately or embedded within the institution's existing planning units. These hubs will collect information from various departments or units, including financial offices, registrars, student-aid office, and others. They will serve as the focal point for liaising with the Department of Planning at MOEHE.

In addition, institutions will receive support to develop and establish organizational and managerial mechanisms that will allow for the efficient implementation of the policies and practices set by the MOEHE. This support will include the assessment and evaluation of the existing organizational and managerial capacity of universities and colleges, and the definition of an overall framework to serve as a reference for the management and organizational improvement of these institutions. This framework would include the organization of each core function including pedagogical development, interaction with the private sector and other partners, quality control, as well as appropriate management tools such as strategic planning, student tracking system, quality tests, and financial management. The assessment and development process will capitalize on the good practices established and implemented by individual tertiary institutions in order to enhance the relevance and feasibility of the proposed organizational and managerial system. Support will also cover the development of mechanisms to enhance the cooperation between tertiary institutions in strategic planning and implementation, pedagogical development, research and innovation, as well as in the search for international partnerships (joint programs with foreign universities) and financial aid (grants).

Universities and colleges will receive support to start the strategic planning process. Over time, with the growing availability of information emerging from the information system, institutions will move from simple bench marking of performance to institutional development plans to strategic planning. Institutional development plans will include: (i) an institutional mission statement; (ii) a management improvement plan; (iii) enrollment and staffing projections; and (iv) financial performance and projections.

The project will provide support to improve institutions' planning and management capacity. This support will include the: (i) development of comprehensive information systems that will improve efficiency, produce information used by the BTM and allow standard reporting to

institutions' planning bodies, MOEHE and potential donors; and (ii) training of institutions' staff members on better planning and management practices.

Project funds will also be available to establish data hubs at tertiary education institutions. These hubs will be the focal points for liaising with the Department of Planning at the Ministry. They will also be responsible for institutional data gathering from various institutional departments or units; such as financial, registrars, student aid offices, and others. These hubs can be established as separate units or imbedded within existing planning unit at tertiary institutions. Funds will contribute to personnel, hardware and software, capacity building and the production of planning manuals.

Project funds will support the following activities:

- Conducting a comparative study about existing management structures and practices at tertiary education institutions;
- Organizing a specialized workshop to discuss the result of the comparative study and define needs for improvements;
- Establishing a set of standard management procedures and practices, to include budgeting, program development, and planning manuals;
- Supporting the need for institutional capacity building on management and strategic planning, based on the request of institutions.

Supporting institutional self-assessment and quality improvement. This subcomponent will provide support to enhance the capacity of universities and colleges to conduct institutional self-evaluation and staff training. In the course of project preparation, and with the support of a PHRD grant, a focal/contact point and a Quality Unit/Office was launched in each tertiary institution in the WB&G, and all participated in a training session on the process of institutional self-assessment. Although each tertiary institution will have latitude in the structure, staffing, reporting line and specific competencies of its Quality Unit, the following guidelines were suggested during project preparation:

- Provision of liaison services with the national accreditation process, including a focal point for the coordination of institutional or programmatic reports to AQAC;
- Provision of coordinating and training services internal to the institutions for purposes of self-evaluation and quality improvement;
- Provision of liaison services for the institution to the Quality Improvement Fund;
- As central services are provided in the areas of teaching and management effectiveness, fund raising, and other areas, provide notification to the appropriate sectors of the institution;
- Participation in training programs and system-wide meetings related to quality in Palestinian tertiary education.

Project funds will be available for conducting self-evaluations, hiring consultants, and providing training, and equipment.

Component 3: Improving quality at tertiary education institutions (US\$5.5 million)

The main objective of the Quality Improvement Fund (QIF) is to provide support to improve the quality of Palestinian tertiary institutions and programs so they are (i) relevant to the job market and economic development of Palestine; (ii) made competitive with international standards; and (iii) capable of developing income generating programs. The QIF is, therefore, closely linked to the national accreditation process and the institutional self-evaluation initiative.

The QIF will facilitate a change of culture in the financing of tertiary education in Palestine, the setting of national priorities in the sub-sector, and a new framework for the relationship among tertiary institutions, and between those institutions and both the private and the public sectors.

All tertiary institutions (universities and technical colleges) in the West Bank and Gaza which are licensed and accredited by the MOEHE are eligible to apply for QIF grants. Eligibility for applying for QIF grants is further dependent on the university or college having an Institutional Plan for Quality Assurance and Self-Evaluation (which will receive targeted funds under Component 2 of this project). Priority will be given to grant proposals that meet one or more of the following:

Content priorities

- i. Improve or develop programs in fields which are relevant to labor needs;
- ii. Improve human resource development and institutional capacity;
- iii. Improve institutional information (quality of institutional information, governance, and general and financial management).

Process priorities (see also evaluation criteria in the QIF Manual and Annex 6)

- iv. Develop partnership programs with local, regional and global higher education institutions, promote consortia or the shared use of teaching and learning resources (such as library resources, information resources and laboratory and other equipment);
- v. Develop partnership programs and projects with the private sector/industry;
- vi. Develop partnership programs and projects with the public sector, including local and regional authorities;
- vii. Promote distance and e-learning as an alternative delivery mode in tertiary education, and as a tool for improving student support;
- viii. Enhance capacity to seek alternative funding sources/generate additional income, such as through the provision of training, consulting or research services for public/private sector institutions in local or international markets.

The procedures for grant application, approval processes, eligibility criteria, and grant implementation are detailed in the QIF Manual, prepared with support from a PHRD Grant.

The QIF Board

The Quality Improvement Fund Board (the QIF Board) is independent of the government and the national accreditation process, but will be comprised of at least one representative from each of the following stakeholder categories appointed by the MOEHE:

- Council for Higher Education (CHE);
- Accreditation and Quality Assurance Commission (AQAC) – one commissioner and one staff Member;
- University representatives: at least one each from the West Bank and the Gaza;
- Technical college representative;
- Representative of private sector/industry.

The QIF Board was established during project preparation, and held its first meeting and training on December 6-7 2004. The QIF manual and procedures were discussed at length with Board members, and their roles and responsibilities were fully understood and agreed upon. The QIF Board should meet at least three times per year for purposes of determining the merit of each application and an amount at which applications will be funded. Board members will not participate in decisions where the appearance of conflict of interest exists. Inactive Board members will be replaced. An outline of the awarding process appears in Section VI of the QIF Manual. Further, it will be the responsibility of the QIF Board to coordinate their work with the World Bank's Project Coordinating Unit in the proper dissemination of availability of grant funds.

Between 1-3 highly qualified staff members will be appointed by the MOEHE, in consultation with the AQAC, as QIF Staff. The number of staff and whether they are full or part-time will be dependent on the number of applications at any stage in the process. At least one staff member should be permanent for the duration of the Quality Improvement Fund.

QIF staff will be housed with the AQAC and will be supervised on a daily basis by the Director of the AQAC and accountable to the MOEHE. The details for grant application, eligibility criteria, and grant implementation are contained in the Quality Improvement Fund Manual, prepared under the support of a PHRD grant.

Component 4: Building capacity to improve and expand the student aid program (US\$0.8 million)

The objective of this component is to improve the management and performance of the student aid scheme (including loans, grants and scholarships). Strategically, the Student Revolving Loan Fund (SRLF) is a critical element of the financing strategy of the MOEHE, and the necessary complement of the tuition fees policy. The actions to be undertaken by the MOEHE and to be supported by the project address the three types of issues identified regarding the SRLF: strategic, financial, and managerial.

Improving Management, Structure and Operation of the Student Revolving Loan Fund (SRLF):

The student aid program is in need of profound change and improvement which cannot be applied in a single intervention. Three cohorts of students and three corresponding types of interventions have been identified:

- i. students who have received a loan and have already exited the education system,
- ii. students who have already received a loan and are still in the system, and
- iii. students who have not yet entered the tertiary education system.

The strategy to be followed will be to: (i) launch an awareness campaign to sensitize students who have graduated (and the population at large) about the student aid scheme, especially the expectation for repayment; (ii) commission an action-oriented study to develop a comprehensive list of former students (including drop outs) who have an outstanding loan; and (iii) turn to various government departments (Interior, Finance, etc.) and agencies (e.g., employer organizations) for help in recovering funds from individual whose coordinates have been identified. Former students employed with the PA should be particularly easy to reach and from whom repayments through salary withholdings can be received.

Students of the second cohort who are still attending a tertiary institution constitute the current existing –“live” - portfolio. For these students, the MOEHE will enter into an agreement with commercial banks that will take over the administering existing student loans, as well as new loans students will be taking during the rest of their studies. This solution is a “*transitional arrangement*” which will be operating until the new student aid program is in place, (within 18 months).

In both cases, and in addition to the agreements with the commercial banks, TEIs will be asked to retain certificates until students have entered into a formal agreement contract with the commercial banks.

Building a student aid program for the future: The new strategy will aim to optimize a variety of factors and a kit of instruments to achieve sustainability, equity (free at point of use), and relevance (priority fields).

Factors: (i) level of unit/normative costs across fields of study;
(ii) sources of financing (PA, donors, students, sale of goods and services); and
(iii) efficiency parameters (e.g., teacher/student ratios).

Instruments: fees, loans, and grants

To ensure that the new student aid program will be conducive to greater equity, specific criteria will be developed to allow for a respective selection of students who are eligible to receive loans and grants. These criteria will be combined with those linked to the priority fields of study that the MOEHE will retain (based on the PA Mid-term Economic Plan).

Governance: Transparency and objectivity are prerequisites for the future student aid scheme to be both credible and sustainable. The future aid system will need to be protected from political

interference, and will be built on criteria and rules ensuring equity. Therefore, the respective roles, mandates and status of (i) the MOEHE, (ii) the SRLF management unit, (iii) the SRLF Board, and (iv) the TEIs (as far as student aid is concerned) will need to be reviewed and possibly changed. The independence of the SRLF Board needs to be ensured. Internal structure, composition, staffing and functioning of the various stakeholders will also need to be reviewed. A draft organizational chart designed by the SRLF management unit provides a basis for discussion the new governance structure (even though it assumes that the unit will be dealing with loan collection, an assumption which may be questioned).

At a strategic level, because they are closely interrelated, loans and grants will be considered as part of a common set of tools to reach agreed objectives, however, in terms of management, they will be dealt with separately.

Past Portfolio Recovery

Target and strategy

Students of the first cohort have graduated (or dropped out), and are no longer attending tertiary institutions. This first cohort represents about 30,000 graduates who, together, hold a aggregate outstanding debt amount of about US\$7 million. They have not started any repayment yet, and therefore their loans can be considered as delinquent. They are difficult to track down; however, it is important to try to do so, more for the signal to be given and to demonstration effects than for the sheer amount of the loan to be possibly recovered. By initiating (and publicizing) the recovery campaign for this first cohort of loans, the MOEHE will demonstrate its determination both to have contracts complied with and to enforce a policy. It will be a first step to introduce a culture of repayment.

The strategy to be followed will be to: (i) launch an awareness campaign to sensitize these former students (and the population at large) about the scheme and especially the expectation for repayment; (ii) commission an action-oriented study to develop a comprehensive list of former students (including drop outs) with an outstanding loan; and (iii) turn to the various departments (Interior, Finance, etc.) and agencies (e.g. employer organizations) to recover the funds from the individual whose coordinates have been identified by the study. Former students employed with the PA should be particularly easy to track down, and having them repay their loan should also be straightforward (salary withholding). Consequently, while it is very difficult to project a repayment rate for the cohort as a whole (recouping the cost of the tracking down activity would be an acceptable minimum), the MOEHE aims at a 75% recovery rate for former students currently on the PA payroll.

No financial institution will be involved in the repayment campaign. The funds recovered from the outstanding loans will be allocated in part to the TEIs and in part to the SRLF, in proportions to be decided upon by the relevant board (SRLF Board, or, preferably, the Higher Education Council). This should encourage TEIs to cooperate with the SRLF Management Unit in the efforts to track their former students. On the other hand, this will constitute the first opportunity to replenish the SRLF, and to prime the revolving dynamic. In any event, the awareness

campaign will need to be well designed and carefully targeted in order for the whole exercise (study and subsequent repayments) to succeed.

Existing Portfolio: Transitional Arrangements

Student population and loan portfolio

Students of the second cohort are still attending a tertiary institution. They constitute the existing “live”- portfolio. For these students, the MOEHE will enter in an agreement with commercial banks in order for them to take over their old loans as well as the new ones they will be taking during the rest of their studies. This solution is a “*transitional arrangement*” which will be operating until the new aid program is in place.

Within this second cohort of students, two groups can be identified: on the one hand, there are students in their terminal (4th) year, who are not going to get new loans; on the other hand, there are students in years one, two and three, who have already taken a loan, and are likely to take new ones. For students of this second group, the question is the definition of what constitutes the existing portfolio which will be dealt with under the agreement to be signed with commercial banks. In other words, the question is whether the new student aid system will start to apply to new students or to new loans. It was decided to apply the new aid system to all students – including those having already a loan--as soon as it is in place. Therefore, students of the second group will likely have a blend of loans: the loans serviced along the lines of the transitional arrangement and the new loans (and scholarships), following the new system.

For students taking out loans before the new system is designed and implemented, they will continue to apply through their institutions, but the application form will be standardized across all institutions. In addition, all TEIs will submit the list of eligible students together with their assessed level of need to the SRLF management, and that will in turn present the total picture to the SRLF Board, which will decide on who receives what level of assistance.

Two distinct types of agreements will be signed by the MOE and commercial banks, one for each of the two groups identified above:

- A first type of agreement will deal with students in their 4th year, who are not going to take new loans. It will define the procedures to transfer their disbursed loans to the banks and the conditions for their servicing the debt and recovering the loans. The banks’ responsibilities will be limited to recover the old loans, on the same terms as those defined at the time students took their loans.
- The second agreement will deal with students in their 1st, 2nd and 3rd year and the new loans they will be taking until they graduate (and until the new aid system is activated). In that case, the MOEHE will funnel the funds to the commercial banks which will lend to the students as selected by the MOEHE against agreed criteria (combining financial needs and merit), and using financial parameters as agreed upon by both parties.

In both cases, and in addition to the agreements with the commercial banks, TEIs will be asked to retain certificates until students have entered in a formal agreement contract with the commercial banks.

The student loan element of the overall aid strategy cannot be expected to yield a high recovery rate, and the “revolving” aspect of the fund will likely remain limited. Therefore, it will not waive the necessity of a greater financial involvement of the PA in the funding of the overall student aid scheme. The amount of this involvement will need to be projected. An increase from its current 5% level to 10% by the time of project end is deemed to be a minimal target.

Following a few principles will contribute to ensure the viability of the future system:

- Funding is made on the basis of students rather than institutions
- Risks associated to the student loans are shared by the government (PA/MOEHE), the TEIs and the banks in order to give to these various actors an incentive to be obstinate in collecting debts

In order to ensure that the new program will be conducive to greater equity, a grid of criteria allowing to select students eligible respectively to loans and to grants will be developed. These criteria will be combined with those linked to the priority fields of study that the MOEHE will retain (based on the PA Mid-term Economic Plan).

However, political choices will also be needed in deciding between various scenarios. Stakeholder consultation (civil society, tertiary education community –including students—and employers) will also be needed before decisions (by the Higher Education Board) in these very sensitive areas.

Annex 5: Project Costs
WEST BANK AND GAZA: Tertiary Education Project

Components Project Cost Summary	(US\$ Million)		
	Local	Foreign	Total
A. Strengthen the Role of Policy-making Bodies			
Tertiary Education Policy Development and Management	0.47	0.02	0.49
Accreditation and Quality Assurance Commission	0.83	0.01	0.84
TEMIS	0.11	0.31	0.41
Project Implementation	0.44	0.02	0.47
Subtotal Strengthen the Role of Policy-making Bodies	1.85	0.37	2.22
B. Build Institutional Capacity in Planning, Management and Quality	1.15	0.00	1.15
C. Improve Quality at TEIs	5.50	-	5.50
D. Expand Student Aid Scheme	0.58	0.14	0.72
Total BASELINE COSTS	9.08	0.51	9.59
Physical Contingencies	0.18	0.03	0.20
Price Contingencies	0.19	0.01	0.20
Total PROJECT COSTS	9.45	0.54	10.00

Project costs do not include taxes since it was agreed at negotiations that the project will receive tax exemption status.

Annex 6: Implementation Arrangements

WEST BANK AND GAZA: Tertiary Education Project

- 1. Implementation period.** The project will be implemented over a period of four years, beginning July 1, 2005. The project completion date is June 30, 2009. The project closing date is December 31, 2009.
- 2. Implementation Agencies.** Responsibility for the overall implementation of the project lies with the MOEHE. Implementation will be handled by the following entities in the tertiary education system: the CHE, AQAC, the Planning and Development Department, the QIF Board and the SRLF Board. Tertiary education institutions will implement the Quality Improvement Grants provided under Component 3 - the QIF. The PCU will assist recipient institutions with fiduciary management of the QIF grants. A detailed QIF implementation manual has been prepared and training of QIF procedures was provided to the QIF Board members in December 2004. These entities will be supported by the current PCU, which has demonstrated ample capacity for project implementation through the on-going Education Action Project (EAP).
- 3. Technical expertise** will be provided by a Project Technical Committee (PTC) which has already been established and has been the core team engaged in project preparation. The PTC will oversee the technical aspects of all four project components to ensure sound implementation and decision-making. The PTC represents the different entities that will be directly responsible for the implementation and supervision of the project. The Committee is comprised of high level MOEHE officials, chaired by the Assistant Deputy Minister for Higher Education, the Head of AQAC, the Chair of the QIF Board, the Director General of Planning, the Director of International Relations/Higher Education, the Vice President of the CHE, the PCU Director, the Director of the SRLF, and the Director General of Technical and Vocational Education and Training (TVET). The PTC will meet at least quarterly to: (i) plan and approve project activities and action plans, (ii) review project progress reports compiled by the PCU with inputs from the various entities, and (iii) advise on improving the implementation of various activities when necessary. The Committee will be assisted by local and international consultants, as needed. The PTC will report to the Minister on a regular basis.
- 4. Project coordination** will be the responsibility of a Project Coordination Unit (PCU) which is already in place in the MOEHE, currently under the name of Project Support Team (PST) for the EAP. The PST is a small unit staffed with a Project Director, Finance Officer, Procurement Officer and Administrative Assistant. The PCU will hire an additional Procurement Specialist to conduct procurement training for the PCU and staff in tertiary institutions. The PCU has gained expertise in project coordination and implementation through the EAP and will be responsible for: (i) management of the fiduciary aspects of the project, including financial, procurement and disbursements; (ii) preparation of quarterly project progress reports (technical, financial and procurement) with inputs from the implementing entities represented in the PTC; and (iii) preparation of annual work plans and budgets for review and approval by the PTC. Those annual work plans and budgets are prepared based on inputs provided by the various implementing entities. The PCU will also be responsible for providing fiduciary advisory services and supervision to TEIs in charge of QIF grant implementation, aided by the Procurement Specialist to be hired by the PCU. The PCU will report to the PTC.

Component 1: Strengthening the policy-making role of the MOEHE, CHE, and AQAC

Subcomponent 1.1 – Tertiary education policy, planning and management

5. The main objective of this subcomponent is to improve education planning by supporting the CHE to set policies regulating tertiary education and strengthening the Planning Department of MOEHE to develop plans for the sub-sector based on the policies set by the Council. The CHE will use the technical reports prepared by the Planning Department to define tertiary education policies.

6. The TORs for conducting (i) an analytical review of the role of all current policy-making bodies in the higher education sector, and (ii) analytical reviews of the existing laws of Higher Education, Education and Labor will be prepared by the PTC with inputs from TEIs. The PCU will support the process of consultant selection. The selected consultant will report directly to the Chair of the PTC who will be responsible for the approval of the consultant's work and payment requests. Accordingly, the PCU will process and finalize all necessary contractual obligations.

7. Based on the action plan approved by the PTC, the Planning Department, supported by the PCU, will prepare the TORs for the selection of the consultants who will help improve the planning processes.

8. Workshops, study visits and training sessions to support the CHE and staff from the Planning Department will be designed and conducted by the PTC and the Planning Department, with support from the PCU.

Subcomponent 1.2 – Support to AQAC

9. The main objective of this subcomponent is to enhance and reinforce AQAC's existing capacity to set quality and management standards able to meet and compete with international standards. The main implementing entity for this subcomponent is AQAC whose mandate is to evaluate and accredit academic programs and institutions.

10. Based on the action plan approved by the PTC, AQAC (supported by the PCU) will prepare TORs for the selection of the consultants who will provide technical assistance to AQAC to assist them in developing their work program of accreditation and evaluation of programs. A comprehensive study on the Al Quds Open University will also be conducted and will be based on TORs to be prepared by the PTC.

11. The selected consultants will report directly to the Head of AQAC who will be responsible for the approval of the consultants' work and payment requests. Accordingly, the PCU will process and finalize all necessary contractual obligations.

12. Workshops, study visits and training sessions will be designed and conducted by AQAC with support from the PCU.

Subcomponent 1.3 – Support to the establishment of a Tertiary Education Information System (TEMIS)

13. The main objective of this subcomponent is to strengthen the planning capacity of the MOEHE through establishing a system that would provide relevant and timely information on tertiary education statistics, financing, programs, staff and resources.

14. Based on the action plan approved by the PTC, the Planning Department, supported by the PCU, will prepare the TORs for selecting a consultant to design the TEMIS. The consultant will prepare the TORs and specifications for setting up the system. The PCU will handle the procurement process of required hardware and the selection of the software provider. An EMIS specialist will be responsible for supervising the installation of the system and training staff. The Planning Department will approve payment requests submitted by the consultant and suppliers.

Component 2: Increasing the internal and external efficiency of tertiary education institutions

15. The main objective of this subcomponent is to increase the planning, management and quality assurance capacity of TEIs. To meet this objective, TEIs will be provided with financial support to (i) establish information hubs and provide information on enrollment, faculty, financing and programs in an organized way, based on guidelines provided by the Planning Department; (ii) conduct institutional self-assessments; and (iii) develop institutional plans based on the self-assessment recommendations.

16. The PTC, with active input from the Planning Department and AQAC, and with support from an international consultant(s), will develop guidelines for each of the three main responsibilities to be carried out by the TEIs. Based on those guidelines, the PCU will prepare contracts to be carried out by TEIs, estimating the cost of each contract based on the individual needs and size of institutions.

17. Once an institutional self-assessment has taken place, the PTC will review the self-assessment and make recommendations to the TEI for the development of their institutional improvement plans.

18. **A Quality Unit or Group** has been launched in each tertiary institution in WBG and 41 coordinators have been appointed to lead the Units/Groups. Institutional quality coordinators were trained in QIF procedures and the process of self-assessment, among other topics, in December 2004.

19. Quality Unit/Group functions (detailed in a separate Quality Improvement Fund Manual) cover two general categories: (i) short-term functions related to liaison with the QIF process and (ii) long-term functions related to liaison with AQAC for internal and external self-assessment and improvement plans. Quality coordinators provided a descriptive report of their respective Units/Groups (including current and planned activities). The MOEHE has grouped technical

colleges into geographical clusters as some are too small to establish a Quality Unit/Group. (Japan Grant/non-QIF).

20. Quality Units/Groups may “reside” in an institution’s Academic Affairs Office, Planning Office or President’s Office. Although each institution will have latitude in the functions of its Quality Unit/Group, most will have the following general functions:

- i. Provide coordinating services internal to the institution for purposes of self-assessment and quality improvement;
- ii. Provide a focal point for developing the institutional self-assessment;
- iii. Provide liaison services with the national accreditation process, including a focal point for the coordination of reports to AQAC; and
- iv. Participate in training programs and system-wide meetings related to quality in Palestinian tertiary education.

Component 3: Improving quality at tertiary education institutions

21. A QIF has been designed to help tertiary education institutions improve the quality of their institutional and academic functions. The QIF is established on a competitive basis, open to eligible tertiary institutions in Palestine. As further described in the QIF Reference Manual, the QIF will be administered out of the MOEHE by a small team accountable to a centralized board, representative of appropriate stakeholders. Both the QIF staff and the QIF Board will be housed and supported by the Agency of Accreditation and Quality Assurance (AC).

The QIF Board

22. The Quality Improvement Fund Board (the QIF Board) is independent of government and the national accreditation process. It will be comprised of at least one representative from each of the following stakeholder categories, appointed by the MOEHE:

- i. Council for Higher Education (CHE);
- ii. AQAC – one commissioner and one staff member;
- iii. University representatives: at least one each from the West Bank and Gaza;
- iv. Technical college representative; and
- v. Representative of private sector/industry.

23. The QIF Board was established during project preparation, and held its first meeting and training on December 6-7 2004. The QIF Manual and procedures were discussed at length with Board members, and their roles and responsibilities were fully understood and agreed upon.

- i. The Chair of the QIF Board is the representative of the CHE, though it is proposed that such function rotates every year to a different member, with the exception of the Director of AQAC, who is the permanent General Secretary of the Board.
- ii. The QIF Board should meet at least two times per year for purposes of determining the merit of each application and an amount at which applications will be funded. An outline of the awarding process appears in Section VI of the QIF Manual. The Board should also

meet regularly to realign the priorities of the Fund, amend and reform technical issues and requirements, and to deal with and decide on appeals presented by participating institutions.

- iii. Board members will not participate in decisions where there is a potential conflict of interest. More specifically, this would involve a case where a Board member is directly or indirectly involved in a proposal that is going to be considered for funding by the QIF Board.
- iv. In the period between project appraisal and project effectiveness, the QIF Board will agree on a basic code of rules and regulations. These will fundamentally be addressed to ensure the independence of the Board, its representative nature of the tertiary education sector, and its efficiency in decision making. This code will be presented to the CHE for approval.
- v. The QIF Board will coordinate its work with the PCU in the proper management of grant funds.
- vi. The QIF Board will submit to the MOHE, to the CHE, and to the tertiary education community, a yearly report reflecting the summary activity and outcomes of the Fund.

24. Generally speaking, in order to make fair and effective decisions, it is the responsibility of the QIF Board to:

- i. Have a comprehensive understanding of the overall needs of tertiary education in Palestine;
- ii. Be knowledgeable about the mission and general characteristics of all institutions in the system;
- iii. Be flexible in allowing a monetary range of grant requests with an eye toward maximizing the effectiveness of the QIF grants;
- iv. Keep faithful to the Priorities and Primary Categories of QIF Awards;
- v. Allow for creativity and “out-of-the-box” proposals which have potential;
- vi. Be vigilant that conflicts of interest are not involved among institutions, staff and Board during the award process;
- vii. Assure that both universities and technical colleges receive adequate attention by QIF;
- viii. Be aware of weaknesses in the staffing or Board structure and seek changes/replacements in order to maintain the integrity of the process;
- ix. Keep a schedule and maintain a well-publicized process which is highly transparent.

25. *A QIF Team* assigned to work on this project will be comprised of one senior QIF Team Leader, a small pool of QIF Technical Specialists (two or three full time equivalent) and one QIF Administrative Assistant. The QIF staff will “reside” in AQAC, but are independent from AQAC. The responsibilities of the QIF Team will be: (i) to receive and review QIF applications; (ii) to provide the QIF Board with an overview of the applications, summarizing how applications are responsive to QIF priorities outlined in the QIF Manual and (iii) to supervise the QIF Grant implementation. The QIF team will also notify applying TEIs of any deficiencies in applications for purposes of correction prior to submission to the QIF Board for decision making. It will also be the responsibility of the AQAC and QIF Team to ensure that TEIs are notified of the process well in advance of application deadlines. Each TEI will receive a QIF Manual and 3-year calendar of QIF activities and deadlines once the Fund is launched.

26. The role of the PCU in the implementation of the QIF grants includes: (i) the preparation of the Grant Implementation Agreements, (ii) the disbursement of funds to TEIs, (iii) monitoring the procurement of goods and services, and (iv) training TEIs on procurement, and monitoring and evaluation functions. (see QIF Operational Manual for further details).

27. TEIs will maintain procurement documents, accounting records and supporting documents that will be audited on a random basis by the PCU. The PCU will sign a Grant Implementation Agreement with the recipient institution. A draft Grant Implementation Agreement is included in the PIP.

28. A detailed description of the roles and responsibilities of the PCU Project Director, Financial, Procurement and Administrative Officers are provided in the Project Implementation Plan prepared by the PCU.

29. A *QIF Manual* has been developed to describe the structure and process of the QIF. The process will require between one to three full-time professionals (and multiple discipline experts) to assume 3-4 year contract appointments. It is anticipated that there be a full complement of QIF staff when the process is launched in order to process the large number of proposals expected at the outset.

Component 4: Building capacity to improve and expand the student aid program (loans and grants/scholarships)

30. The main objective of this subcomponent is to improve the management and performance of the student aid scheme, including loans, grants and scholarships.

31. The existing SRLF Board, which has not recently been active, will be reactivated and trained on SRLF management and transitional arrangements. To this end, an SRLF Operational Manual will be developed during the first year of the project. When functioning, the SRLF Board will report to the Tertiary Education Committee.

32. The project PTC will prepare the TORs for selecting consultants to (i) design and implement awareness campaigns about the changes in the student aid program, (ii) use surveyors to track graduates with outstanding loans, (iii) design an SRLF Operational Manual and SRLF Information System (to link with EMIS) to be used in the MOEHE and at TEIs, and (iv) prepare a strategy for an expanded student aid program.

33. The MOEHE will enter into an agreement with commercial banks to take over old and new student loans. The “transitional arrangement” will operate until the new student aid program is in place.

34. The selected consultants will report directly to the PTC that will be responsible for the approval of the consultants’ work and payment requests. Accordingly, the PCU will process and finalize all necessary contractual obligations.

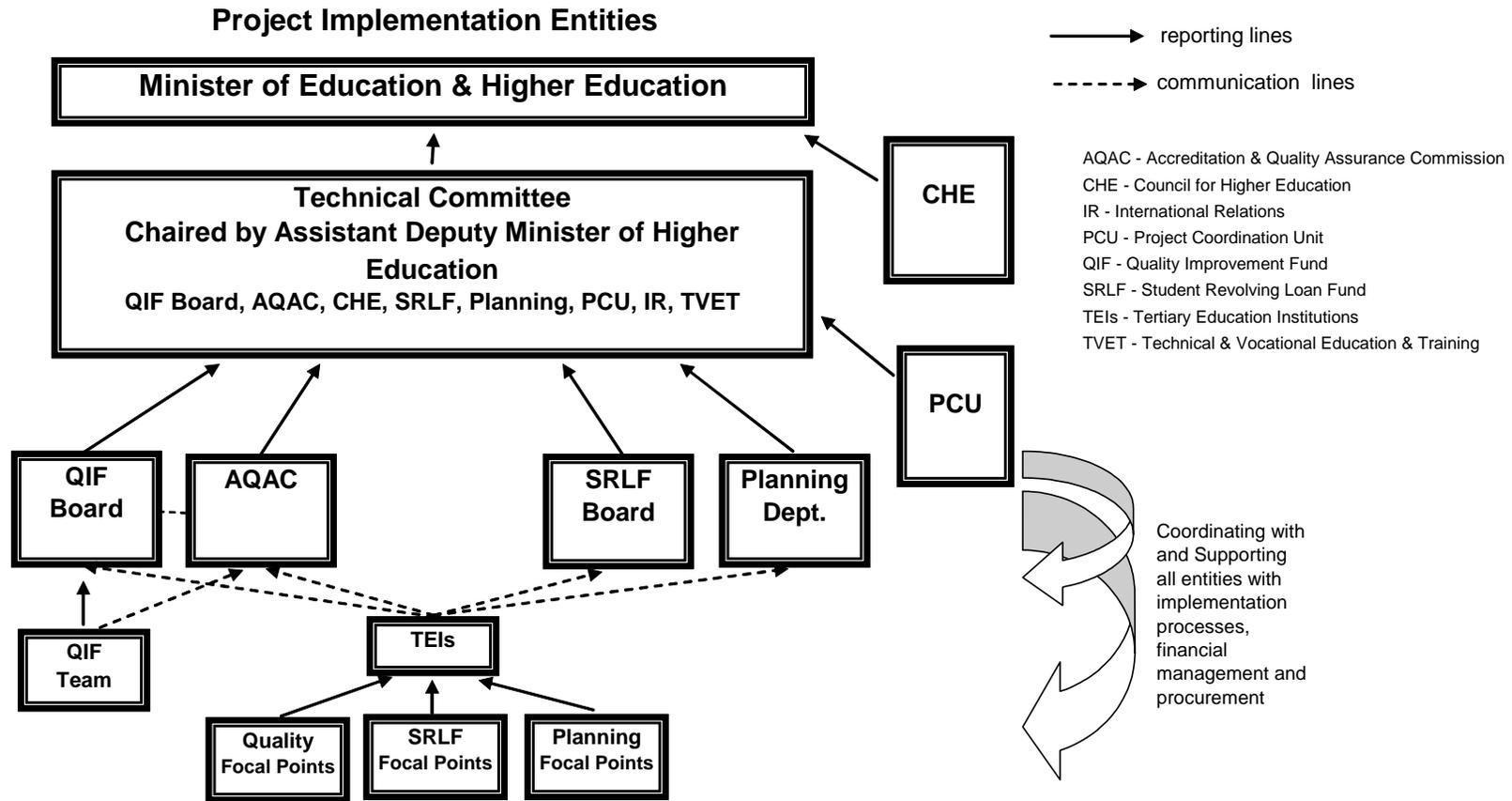
35. Workshops, study visits, and training sessions for SRLF staff and TEIs will be designed and overseen by the SRLF managers and PTC, with support from the PCU.

Overall Role of the PCU

36. The PCU, in coordination with relevant MOEHE departments and implementing agencies, will have the following responsibilities:

- i. Prepare annual work plans and budgets, in coordination with relevant MOEHE technical departments, before the start of the fiscal year and submit them to the PTC for review and approval.
- ii. Define, monitor and evaluate specific project activities to be undertaken under each subcomponent and ensure their coordination and integration with the relevant entities by assisting, as needed, in tasks such as preparing TORs. The PCU will prepare tender documents and Requests for Proposals (RFP) and will manage the procurement process.
- iii. Consolidate quarterly and annual progress reports based on information provided by MOEHE Departments/Technical Units responsible for implementing project activities, summarizing the status of project implementation (including explanations for deviations from agreed-upon implementation plans, constraints and corrective measures to be taken), financial status and major outputs.
- iv. Develop and maintain a project information system which would consolidate reports received from the MOEHE Departments and generate quarterly progress reports, which will be submitted to the PTC for review and action.
- v. Set up all technical and operational aspects of project accounting and implementation (i.e., ensure that funds are available in the relevant accounts as required to meet payments for project expenditures and ensure maintenance of project accounts and timely preparation of interim evaluations and financial statements; etc.).
- vi. Prepare and monitor annual project procurement plans and manage the procurement process of goods and services, assist in the selection of consultants and specialists, provide input to consultant TORs, oversee consultant contracts; and arrange for the calling of bids, evaluations and awarding contracts relating to the project.
- vii. Provide technical assistance and procurement advice to TEIs receiving QIF grants under Component 3.

Figure 1. Project Implementation Entities



Annex 7: Financial Management and Disbursement Arrangements
WEST BANK AND GAZA: Tertiary Education Project

1. **Summary:** The financial management (FM) responsibilities of the project will be entrusted with the Finance Department of the MOEHE and supported by the existing PCU of the current EAP. EAP is housed in the MOEHE and operates under the MOEHE hierarchy structure, reporting to the Director General, International Relations. The decision to retain the PCU was mutually agreed between MOEHE and the project team to facilitate implementation.
2. **The FM System at MOEHE:** The FM system at MOEHE follows the general government system and was assessed under the on-going EAP and ESSP. Most weaknesses identified in both assessments were properly addressed through detailed capacity building program. Accordingly, the MOEHE has in place an acceptable FM system including: accounting, internal control, record management system, and internal auditing. However, there are no acceptable external audit arrangements, and reporting at the project level still needs to be strengthened; these efforts are currently is underway. In general, the FM system is capable of meeting the operational and information needs of the MOEHE but is unable to follow up on the QIF grants component of this project. It was decided, therefore, that the PCU would support the Finance Department of the MOE in this regard.
3. **The FM System at the PCU:** The PCU has in place an adequate FM system acceptable to the World Bank, including proper segregation of duties under a formal organization structure, and detailed FM policies and procedures. Accounts are computerized and carried out on an accrual basis as required by international accounting standards. The PCU has employed a qualified FM officer and the MOEHE will designate a FM officer to coordinate with the PCU. The PCU will be responsible for following up on all grants given to TEIs and will maintain a separate account ledger for each grant. To facilitate the auditing of the project accounts, original invoices and supporting documentation for all expenditures will be maintained by the respective beneficiaries and copies maintained at the PCU.
4. **Risk Assessment:** The *inherent risk* is considered *high* due to the nature of the grant component (US\$5.5 million), which exposes serious risk consequences. The *control risk* is considered *substantial* hence the PCU will review activities under the grants on an ex-post basis. A review of the FM systems of beneficiary institutions was made on a sample basis (three institutions). Although no major weaknesses were found in the assessment of three academic institutions, the FM risk should be monitored closely throughout the implementation process. A questionnaire (jointly prepared by the World Bank and PCU) was distributed to all TEIs to assess their procurement and financial management capacity. The findings, in addition to discussions with the FM and procurement teams, will assist in finalizing any outstanding issues. The project risks are as follows:

Inherent Risk	H	The use of grants to TEIs carries a high risk.
Control Risk	S	The FM system of three sampled TEIs will be assessed for a clearer understanding of the control environment in TEIs, which represent high risk. PCU reviews will be on ex-post basis. Expenditures through the PCU will be under a satisfactory control mechanism.
Detection Risk	M	The PCU will review expenditures of the grants on an ex-post basis, and amounts will be disbursed to beneficiaries on a reimbursement basis and direct payment. Advances may be allowed if a TEI has in place an adequate FM system to reduce the risk.
Overall Risk	H	For this purpose, although the MOEHE Finance Department has a satisfactory FM system to manage the daily operations of the ministry, it is essential to use PCU to follow and monitor the use of the grants.

H: High S: Substantial M: Medium

Main financial management risks are:

- Non-transparent process in grants allocation;
- Inadequate follow up by the PCU/MOEHE;
- Lack of cooperation between beneficiaries and PCU/MOEHE; and
- Use of grants funds for ineligible expenditures.

These risks will be mitigated in the QIF Operational Manual, which will cover detailed procedures for grants provision, financial management, reporting and auditing.

5. **Project Accounting and Records Management:** Project accounts will be maintained on an accrual basis following international accounting standards by the PCU. Project annual financial statements consisting of: (i) project balance sheet; (ii) statement of resources of funds and their uses; and (iii) summary of expenditures by activity reports, will be prepared on an accrual basis by the PCU and reviewed and approved by the MOEHE. Upon project completion, all records will be kept at for at least one year after the submission of the latest audit report to IDA. The PCU will ensure reconciliation of its accounts and grant accounts on monthly basis.
6. **Auditing:** The project financial statements (including balance sheet and cash flow statement) will be annually audited by a qualified independent auditor acceptable to IDA under terms of reference acceptable to IDA. The audit will be conducted in accordance with international standards on auditing and will cover financing provided by all sources. The audit report would be submitted to IDA within six months of year end.
7. **Financial Monitoring Reports (FMR):** The PCU will prepare a quarterly FMR consisting of: (i) a statement of cash receipt and expenditures for the period and cumulatively, along with explanations of significant variances between budgeted and actual amounts, and cash balances of the project; (ii) a statement on procurement of goods below the stated prior review threshold; (iii) a physical progress report on actual project implementation. The format and contents of the FMR were agreed during negotiations. The PCU/MOEHE will be

responsible for reviewing and submission the FMR to IDA within 45 days after the end of each quarter.

8. **Flow of Funds:** IDA funds will be channeled through the MOEHE Special Account to be established under the Central Treasury Account in the name of MOEHE for the project. To simplify the disbursement process, the Ministry of Finance will allow the PCU/MOEHE to withdraw funds directly from the Special Account without a need to transfer the funds to an MOEHE expenditure account. Therefore, only the PCU/MOEHE will be the sole signatory on the payments made from the Special Account. The PCU/MOEHE will prepare and sign withdrawal applications and submit them for co-signing by the Ministry of Finance. The Ministry of Finance will co-sign the withdrawal applications within five business days. The Ministry of Finance will review supporting documents of withdrawal applications on an ex-post basis, except for the last withdrawal application which would be made on an ex-anti basis.
9. **Disbursement:** Disbursement will be based on transactional disbursement methods including replenishments to the Special Account and reimbursements with full documentation or statements of expenditure (SOE) procedure, direct payments, and special commitments issued against letters of credit. The limits of expenditure amounts that can be claimed under SOE are: (a) goods costing less than \$200,000 equivalent per contract; (b) services of consulting firms costing less than \$100,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) training; (e) QIF Grants; and (f) Incremental Operating Costs.
10. **Country Financing Parameters:** The WB&G Country Financing Parameters, which will allow greater flexibility for the World Bank to finance expenditures needed to meet the objectives of its WB&G strategy, were approved by the World Bank Executive Board in March 2005.
11. **Supervision:** Due to risks embedded in the project, the project will be allocated a minimum of two weeks of FM supervision resources. FM supervision will be conducted in accordance with IDA guidelines and procedures by a financial management specialist, a financial management analyst and a disbursement officer. The project will be supervised at least quarterly. FM supervision mission reports will be made available by project team leader to other stakeholders. Findings will be followed up with the PCU, MOEHE and the International Relations Department at the Ministry of Finance.
12. **QIF Grant Control Process:** The QIF will be administered by an independent Board in accordance with predefined policies and procedures acceptable to IDA. The QIF will be open to all TEIs in the country on a restricted grant basis. The total fund amount is approximately US\$5.5 million. The QIF Board will consist of representatives from MOEHE, Council for Higher Education, AQAQC and one representative from each TEI or TEI cluster, as well as a representative(s) from the private sector. The QIF will employ 2-3 qualified staff appointed by MOEHE in consultation with the QIF Board. The QIF Board will work closely with the PCU, especially on grant FM issues. In addition, the PCU will assist potential beneficiaries in preparing proposals and establishing accounting records for the grants.

According to the QIF Operation Manual, grants will mainly be provided for developing partnership programs between TEIs and research institutions, faculty development, program development, and other capacity enhancement initiatives. Following is summary of the grants control process and follow up:

- i. an interested institution (beneficiary) submits an application package (using the standardized format) on the use of the requested grant. The application package includes: cover letter, executive summary, proposal (10-20 pages) and rationale of the grant, project description, project feasibility, sustainability, and detailed budget breakdown;
- ii. the QIF Board evaluates the application packages in accordance with the established evaluation criteria;
- iii. a grant agreement is signed between the QIF Board and each beneficiary.

13. Financial Management of the Grants: The PCU will open a separate general ledger account, record and file for each grant. Payment of grant proceeds to the beneficiary will be conducted in three different methods:

- i. **Reimbursement:** This is the preferred method, whereby the grant recipient (beneficiary) pays for items under the grant (consultant services and goods) and then applies for reimbursement from the PCU, with full supporting documentation.
- ii. **Advances:** The PCU may pay for the beneficiary advance payment of 20% of the grant amount. The beneficiary must submit documentation within a maximum of 30 days from receipt of the advance. Further payments will be made against documentation of eligible expenditures. Using an advance amount payment method will be explicitly stated in the grant agreement with the beneficiary.
- iii. **Direct Payment:** For large payments (i.e., \$50,000), the beneficiary may request the PCU to directly pay the contactor or supplier.

When using the Advances procedures, the following should be observed:

- i. The beneficiary is required to submit evidence of eligible expenditures in accordance with the signed grant to settle its advance and receive the next advance. Ineligible expenditures will remain as an advance to the beneficiary until the beneficiary submits eligible expenditures, or the beneficiary will refund the grant amount.
- ii. The beneficiary is required to submit a quarterly report to the PCU on the use of the grant/advance within two weeks of the end of each quarter.
- iii. The PCU will report on the status of grants and advances to beneficiaries in its quarterly FMRs.

For all disbursements, the following should be observed:

- i. Original invoices and supporting documents will be retained by the beneficiaries.
- ii. Expenditures above threshold level should be submitted to the PCU with full supporting documents to allow reimbursement; originals will be retained by the beneficiaries.
- iii. Expenditures made under the grants will be subject to PCU authentication, IDA reviews as part of regular supervision visits, and the external auditor annual audit process.
- iv. Amendments to signed grants should be conducted in accordance with the QIF Operational Manual.

- v. The PCU will assist beneficiaries to maintain adequate financial management throughout grants implementation.

14. A Project Preparation Facility (PPF TF53897-GZ) for a total amount of US\$300,000 was signed in October 2004.

Allocation of Grant Proceeds

Expenditure Category	Amount in US\$ million	Financing Percentage
1. Goods	0.50	100%
2. Consultant Services/training	3.40	95% excluding VAT and 85% including VAT
3. QIF Grants	5.50	100%
4. Operating Costs	0.13	100%
5. Refunding of PPF	0.30	Amount due per Grant Agreement Section 2.02(c)
6. Unallocated	0.17	
TOTAL	10.00	

Annex 8: Procurement Arrangements

WEST BANK AND GAZA: Tertiary Higher Education Project

A. General

1. **General:** Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits," dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers," dated May 2004, and the provisions stipulated in the Trust Fund Grant Agreement (TFGA). Items under the different expenditure categories are described in general below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and timeframe agreed between the Recipient and the World Bank are summarized in the Procurement Plan. The Procurement Plan will be updated at least annually, or as required, to reflect the actual project implementation needs and improvements in institutional capacity.
2. **Procurement of Goods:** Goods procured under this project would include: hardware and software for the establishment of a TEMIS, and the supply of office and university/college equipment. Similar goods will be procured as packages. Procurement would be done using the World Bank's standard bidding documents (SBD) for any International Competitive Bidding (ICB). Until national SBDs are developed by the Palestinian Authority (PA) as per the CPAR recommendation, and agreed with the World Bank, the Bank's SBDs, modified for NCB, would be used. For estimated contract values of more than US\$100,000 but less than US\$300,000, National Competitive Bidding (NCB) method would be used. Goods contracts estimated to cost less than US\$100,000 would be procured using Shopping procedures in accordance with paragraph 3.5 of the Bank Guidelines which is based on comparing price quotations obtained from three qualified suppliers at the least. Goods costing less than US\$5,000 per contract may be procured through Direct Purchase in accordance with paragraph 3.6 of the Bank Guidelines.
3. **Procurement of Works:** There will be no procurement of works under this project.
4. **Selection of Consultants:** Consulting services procured under the project would include: conducting studies and analyses of the performance of the tertiary education system; data collection and surveys to evaluate the institutions involved in the project and the performance of the tertiary education system; training, conducting strategic planning by universities and recruitment of individual consultants for the Project Coordination Unit (PCU) and IT consultants. Short lists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. The selection of firms for consulting services estimated to cost more than US\$200,000 would be carried out using the Quality-and-Cost-Based-Selection, (QCBS) method, in accordance with paragraph 3.2 of the Bank Selection of Consultants Guidelines. The selection of firms for consulting services estimated to cost less than US\$200,000 would be carried out using the Consultants'

Qualifications Selection, (CQS) method, in accordance with paragraph 3.7 of the Bank Selection of Consultants Guidelines. The selection of individual consultants, estimated to cost less than US\$200,000, would be carried out in accordance with Section V (Selection of Individual Consultants) of the Bank's Selection of Consultants Guidelines. Invitations for expression of interest would be advertised in United Nations Development Business (UNDB) and dgMarket for all consulting contracts with an estimated contract value above US\$200,000.

5. **Procurement of Consulting Services for the Servicing of the Student Revolving Loan Fund (SRLF):** To support the introduction and implementation of an appropriate and efficient repayment mechanisms and procedures, and increase the repayment value, for the SRLF a local commercial bank would be selected competitively to service the SRLF. The selection of the commercial bank would be carried out using the Quality-Based-Selection method (QBS), in accordance with paragraph 3.2 of the Bank Selection of Consultants Guidelines. As this assignment may not be attractive to commercial banks, since it mainly involves the collection of disbursed moneys to students without proper guarantors, a market test would be conducted in the form of advertised Request for Expression of Interest, in the local newspapers. If there is no interest from local commercial banks, the Borrower and the Bank would identify and agree on a more viable approach to address the need for this service.
6. **Operating Costs:** The grant will finance expenditures directly related to the management of the project such as: (i) maintenance of office equipment; (ii) transportation and travel, including per diem allowances for project staff in travel status and other staff on study tours; (iii) office supplies, utilities and office administration, including translation, printing and advertising; (iv) fuel costs; (v) communication costs; (vi) costs for production of bidding documents and reports; (vii) commercial bank charges; and (ix) technical workshops, including costs associated with participation of higher education institutions in regional and international quality assurance and academic recognition networks, and any other project management support costs as agreed in advance by the Borrower and the Bank, but excluding salaries of the Borrower's civil servants. Operating expenditures which would be eligible for financing would be procured using the administrative procedures of the PA which have been examined and found to be satisfactory to the Bank.
7. **Other Procurement Activities:** As part of the project, universities and colleges in West Bank and Gaza (WBG) would apply and compete for grants based on predefined criteria and an appropriate competitive selection method as stipulated in the QIF manual. The Ministry of Education and Higher Education (MOEHE) would be responsible for ensuring that sound procurement procedures are followed by the recipients of the grants. The selection process and documentation for subproject grants would be subject to post review by the Bank on a random basis.
8. The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for goods and services procured, are presented in the Project Implementation Manual (PIP).

B. Assessment of the agency's capacity to implement procurement

9. Procurement activities will be carried out by the MOEHE and qualified participating higher education institutions which have adequate capacity to implement their part of this project. The MOEHE as well as most participating universities and colleges are staffed by qualified personnel, and the procurement function is staffed by at least one procurement officer in each institution.
10. An assessment of the capacity of the Implementing Agency was carried out in 2002 and updated in December 2004. An overall assessment of a representative sample of universities and colleges in WBG is being conducted and would be finalized by project appraisal.
11. The MOEHE's existing PCU has qualified procurement staff who have previous experience on Bank procurement guidelines under other Bank-financed projects such as the Education Action Project, the Emergency Health and Education Project, and the Emergency Service Support Projects I and II. The MOEHE-PCU performance in implementing procurement is considered satisfactory. Large universities have the capacity to conduct large procurement activities such as procurement of works and goods. Other universities and colleges have procurement capacity to handle normal procurement needs such as procurement of office and university supplies. However, the procurement of consultant services has not been dealt with by most institutions.
12. The key issues and risks concerning procurement have been identified and include lack of previous experience of participating higher education institutions in implementing procurement based on Bank procurement guidelines, and delay in implementation of the procurement plan due to the security conditions in the WBG. The corrective measures which have been agreed are: (i) an external Procurement Specialist/Consultant would be hired/assigned to the project; (ii) the staff of the MOEHE involved in procurement would attend a training on procurement planned to be conducted under an IDF grant for the follow up on the CPAR recommendation; (iii) the MOEHE would prepare and implement an action plan for training procurement staff from participating higher institutions on procurement and selection of consultants; (iv) for those higher education institutions with no capacity to implement procurement, the MOEHE would assist them in the implementation of procurement; (v) on the job training in using Bank Guidelines and the Project Implementation Manual, including the preparation of bidding documents, request for proposals, bid, and proposal evaluation would be provided by the hired Procurement Specialist/Consultant, and initiated at the project launch workshop soon after effectiveness; and (vi) the procurement plan would be monitored closely by the project director.
13. The overall project risk for procurement is average.
14. The first CPAR for WBG has just been completed and was sent to the PA for comments in January 2005. Below are the main recommendations of the CPAR which are relevant to the implementation of this project:

- Develop SBDs, standard Requests for Proposals (RFP) and standard contract formats for goods and selection of consultants.
- Develop and issue guidelines and user manuals to ensure efficient common procurement practices throughout the PA and compliance with the laws and regulations.
- Conduct a procurement training needs assessment and train procurement staff of ministries.

C. Procurement Plan

15. At appraisal, the MOEHE developed a procurement plan for project implementation which provides the basis for the implementation of this project according to the required procurement methods. This plan was finalized during negotiations and will guide post reviews between the MOEHE and the Bank during subsequent supervision missions. It will also be available in the project's database and in the Bank's external website once the TFGA is signed. The Procurement Plan will be updated in agreement with the Project Team annually or as required, but at least prior to every supervision mission, to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement Plan

I. General

Project Information:

Country:	West Bank & Gaza
Recipient:	The PLO for the Benefit of the Palestinian Authority
Project Name:	Tertiary Education Project
Project No.:	P083767
Grant Amount:	US\$10,000,000
Project Implementation Agency:	Ministry of Education & Higher Education
Bank's Approval date of the Procurement Plan:	January 2005
Date of General Procurement Notice:	Within 30 days from grant approval
Period Covered by this Procurement Plan:	First 12 months

II. Procurement of Goods

16. Prior Review Thresholds: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 of the Bank's Procurement Guidelines, dated May 2004.

Procurement Thresholds for Goods

	Procurement Method	Prior Review Threshold	Comments
1.	Shopping of Goods	None	Except for first three purchase Orders / Contracts
2.	National Competitive Bidding (NCB)	>US\$200,000	Plus first three contracts
3.	International Competitive Bidding (ICB)	All	
4.	Direct Contracting (DC)	None	

17. Reference to Project Implementation Plan (PIP): The MOEHE PCU has prepared a Project Implementation Plan in which it has set lower thresholds for prior review of contracts implemented by the Tertiary Education Institutions (TEIs). The PIP also includes the procurement procedures and SBDs to be used by the TEIs for each procurement method, as well as model contracts for goods and services procurement.

18. Any Other Special Procurement Arrangements: As the Higher Education Institutes have no or limited experience in working with the World Bank's Guidelines of Procurement and selection of Consultants, an external Procurement Specialist / Consultant would be hired to train and supervise the TEIs as well as the MOEHE staff on implementing the procurement and selection activities.

19. Procurement Packages with Methods and Time Schedule: See Procurement Plan.

III. Selection of Consultants

20. Prior Review Thresholds: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 of the Bank's Selection and Employment of Consultants, dated May 2004.

Procurement Thresholds for Consultant Services

	Selection Method	Prior Review Threshold	Comments
1.	QCBS	All	Including advertisement
2.	QBS	All	Including advertisement
3.	CQS	>= US\$ 100,000	Including shortlist and proposal evaluation report
4.	Individual Consultant's, Section V of the Bank's Guidelines	> US\$50,000	Including evaluation report
5.	Single Source (Individuals & Firms)	All	Justification is required according to paras. 3.9 -3.13 of Guidelines

21. **Shortlist Comprising Entirely National Consultants:** Shortlists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

22. **Any Other Special Selection Arrangements:** As the Higher Education Institutes have no past experience in working with the World Bank’s Guidelines of the Selection and Employment of Consultants, an external Procurement Specialist / Consultant would be hired to train and supervise the TEIs as well as the MOEHE staff on implementing the procurement and selection activities.

23. **Consultancy Assignment with Selection Methods and Time Schedule:** See the initial draft Procurement plan.

24. Implementing Agency Capacity Building Activities With Time Schedule

Expected Outcome/Activity Description	Estimated Cost	Estimated Duration	Start Date	Comments
Formal Training		1 week	June/July 2005	Will be conducted under separate IDF grant addressing key recommendation of the CPAR
On the job training	US\$75,000	1 year	Within one month from effectiveness	Will be conducted by the externally hired Procurement Specialist / Consultant

PROCUREMENT PLAN – FIRST 12 MONTHS:

D. Frequency of Procurement Supervision

25. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the initial Implementing Agency has recommended at least two supervision missions annually to visit the field to carry out post review of procurement actions. Periodic post-reviews of procurement would also be carried out by Bank staff from the WBG Country Office.

E. Details of the Procurement Arrangements Involving International Competition

26. Procurement Arrangements have been agreed and finalized during negotiations and ICB procurement and international competitive selection of consultants will be carried out in accordance with the agreed Procurement Plan.

Goods and Non-Consulting Services

List of contract packages to be procured following ICB and direct contracting:

1	2	3	4	5	6	7	8	9
Ref. No.	Contract (Description)	Estimated Cost	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments
					No			

Consulting Services

List of consulting assignments with short-list of international firms.

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior/Post)	Expected Proposals Submission Date	Comments

**Procurement Arrangements
(US\$ million)**

	Procurement Method							Total
	National Competitive Bidding	Consulting Services	Consulting Services: QCBS	Consulting Services: LCS	Consulting Services: CQ	Shopping	Direct Contracting	
A. Goods								
Computer Software	-	-	-	-	-	-	-	-
Resource Materials /a	-	-	-	-	-	0.004 (0.004)	-	-
Computer Hardware /b	0.574 (0.574)	-	-	-	-	-	-	-
Video Conferencing Equipment /c	0.021 (0.021)	-	-	-	-	-	-	-
B. Services								
National Consultant	-	2.462 (2.462)	-	0.056 (0.056)	-	-	-	-
International Consultant	-	0.106 (0.106)	-	-	-	-	-	-
National Firm	-	-	-	-	0.665 (0.665)	-	-	-
International Firm	-	-	0.133 (0.133)	-	0.032 (0.032)	-	0.003 (0.003)	-
C. Grant Funds /d	-	-	-	-	-	-	-	5.500 (5.500)
D. Training /e	-	-	-	-	-	-	-	0.372 (0.372)
E. Operating Costs	-	-	-	-	-	-	-	0.067 (0.067)
Total	0.595 (0.595)	2.569 (2.569)	0.133 (0.133)	0.056 (0.056)	0.697 (0.697)	0.004 (0.004)	0.003 (0.003)	5.938 (5.938)
								9.996 (9.996)

Note: Figures in parenthesis are the respective amounts financed by International Development Agency

\a Electronic journals

\b Includes installation

\c For the MOEHE (includes installation fee)

\d Competitive fund for making grants to tertiary institutions

\e Incidental costs for small training and meeting expenses: handouts, room rental, transportation

Table B: Thresholds for Procurement Methods and Selection of Consultant's, and Prior Review

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Contracts Subject to Prior Review (US\$ Thousands)
1. Works		There will be no Works under this project	
2. Goods	> 300	ICB	All
	=>100 to 300	NCB	First three contracts and any contract > 200
	<100	Shopping	First three contracts
3. Consultants	< 5	Direct Purchase	None
	> 200	QCBS	All Contracts
	< 200	CQS	First three contracts and any contract => 100
		QBS	All Contracts
	< 200	IC	First three contracts and any contract > 50
		Single Source Individuals and Firms	All

Annex 9: Economic and Financial Analysis
WEST BANK AND GAZA: Tertiary Education Project

ECONOMIC ANALYSIS: RATIONALE FOR PUBLIC INTERVENTION

1. There is a strong case to be made for public intervention in tertiary education in the WB&G both on the grounds of externalities to tertiary education as well as equity considerations. Thus, investments in tertiary education generate social benefits that are crucial for knowledge-driven economic and social development. Given these social benefits or externalities to tertiary education, private investment in tertiary education can be suboptimal since individuals do not capture all its benefits, and there is a role for public intervention in order to approach the socially optimal investment. At the same time, there are in the WB&G clear private returns to tertiary education coupled with inequities in tertiary education enrollment, implying an important role for public intervention for purposes of redistribution. In this regard, the existing student loan scheme administered by the MOEHE, although aimed at addressing the issue of capital market failure and broadening the access to tertiary education to a wider segment of Palestinian society, could improve its targeting mechanisms and thereby achieve more equitable redistribution.

SOCIAL BENEFITS OF TERTIARY EDUCATION

2. Investment in education is beneficial in a multiplicity of ways both for individuals and society as a whole. Education increases individual productivity, as measured by the well-documented link between the level of education and personal earnings (see below). On the national level, education plays an important role in fostering economic growth: technological innovations and the diffusion of scientific and technical innovations lead to higher productivity, and most of these innovations are the products of basic and applied research undertaken in universities. In addition, today's rapidly growing economies depend more on the creation, acquisition, distribution, and use of knowledge, and one of the pillars of the knowledge-based economy is an educated and skilled populace. Tertiary education institutions, in particular, support knowledge-driven economic growth strategies and poverty reduction by (a) training a qualified and adaptable labor force, including high-level scientists, professionals, technicians, teachers in basic and secondary education, and future government, civil service, and business leaders; (b) generating new knowledge; and (c) providing the capacity to access existing stores of global knowledge and adapt this knowledge to local use (World Bank 2002a).

3. In addition, the social benefits of tertiary education extend beyond the economic realm, a fact recognized by the PA. Thus, in a report on the proposed direction of Palestinian higher education, a special task force of the then Ministry of Higher Education outlined the future needs of Palestinian society to be addressed by its higher education institutions as (in this order): (1) national-social, (2) academic, and (3) economic (Ministry of Higher Education 1999). Indeed, the institutions, relationships, and norms that emerge from tertiary education are instrumental in influencing the quality of a society's interactions, which underpin economic, political, as well as

social development (World Bank 2002a). Through the transmission of democratic values and cultural norms, tertiary education facilitates nation-building by promoting greater social cohesion, trust in social institutions, democratic participation and open debate, and appreciation of diversity in gender, ethnicity, religion, and social class. On the academic level, in today's lifelong-learning framework, tertiary education provides not only the high-level skills necessary for every labor market, but also the training essential for teachers, doctors, nurses, civil servants, engineers, entrepreneurs, scientists, and social scientists (World Bank 2002a). In turn, it is these trained individuals who develop the capacity and analytical skills that drive local economies, support civil society, teach children, lead effective governments, and make important decisions which affect entire societies.

INEQUITIES IN TERTIARY EDUCATION

4. Traditional human capital models conclude that the main factors influencing individual decisions to acquire tertiary education are: the rate of return to tertiary education, the cost of the education, and family background characteristics, a very important one of which is family income (Sakellaris and Spilimbergo 2000). We focus first on the private returns to tertiary education. Analysis of the 1999 Labor Force Survey⁵, with a sample of over 21,000 wage earners between the ages of 18 and 65, reveals that fully a third of employees completed tertiary levels of schooling (i.e. associate diploma, BA/BSc, higher diploma, master's degree, or PhD). As Table 1 shows, there is a general trend of increased daily wage with increased level of education, regardless of sector of employment (i.e. Palestinian Authority, foreign government, UNRWA, international organization, non-profit organization, or private sector). However, Table 1 further shows that those with tertiary education are not evenly distributed across the different sectors of employment. For example, while a clear majority of those with elementary or preparatory schooling work in the private sector, and secondary school graduates are more evenly distributed between the private sector and the Palestinian Authority, those with tertiary education are spread out across the PA, UNRWA and the private sector, with the PA capturing the largest share.

5. Table 2 reports on the returns to education by level of education completed, this time controlling for individual characteristics such as experience (proxied by age), gender, location of employment (i.e. West Bank, Gaza, or Israel), as well as sector of employment⁶. Here the private returns represent, in percentage terms, the present discounted value of the average stream of earnings of those with the level of education

⁵ The 1999 Labor Force Survey is used here, despite the existence of more recent labor force surveys, for two main reasons: 1) 1999 was the last year before the break-out in September 2000 of the al-Aqsa intifada, so that findings based on 1999 data are not as tainted by extreme political circumstances; and 2) 1999 was the last year that the educational attainment variable was available by level of education completed rather than simply as number of years of schooling, a format we deem more useful for our analysis.

⁶ Reported returns are based on Mincerian regressions and as such depict private returns that do not take into account the direct costs of education.

Table 1: Daily wages of wages earners aged 18 to 65 year, by level of education (1999 NIS)

Educational Attainment	Sector of Employment						
	Palestinian Authority	Foreign Government	UNRWA	International Organization	Non-profit Organization	Private Sector (Regular)	Private Sector (Irregular)
Illiterate	47 (27)	41 (2)			64 (2)	65 (171)	70 (26)
Read & Write	39 (131)	84 (7)	58 (1)		100 (1)	69 (735)	74 (81)
Elementary	41 (433)	80 (12)	72 (16)		45 (14)	69 (2,629)	80 (199)
Preparatory	44 (652)	76 (18)	59 (94)	68 (5)	50 (26)	72 (3,088)	83 (250)
Secondary	50 (1,068)	65 (13)	75 (144)	83 (1)	48 (50)	73 (1,700)	85 (92)
Associate Diploma	58 (1,301)	84 (13)	82 (583)	82 (4)	41 (78)	65 (508)	85 (17)
BA/BSc	66 (1,643)	98 (25)	101 (689)	85 (9)	71 (61)	77 (493)	85 (4)
Higher Diploma	64 (19)	113 (1)	93 (3)		98 (4)	84 (3)	
Masters Degree	88 (68)	113 (3)	75 (78)	113 (3)	113 (4)	84 (30)	
PhD	106 (22)				113 (2)	70 (15)	83 (2)

Source: Authors' calculations based on 1999 Labor Force Survey.

Notes: Weighted number of observations in brackets.

The daily wage was only available in four ranges, so that the mid-point of each range was used.

under analysis minus the average stream of earnings for the comparator level (secondary education in our case). Accordingly, illiterate employees earn 20 percent less than those with a secondary education, and those who can read and write, have elementary, or preparatory schooling earn 13, 9, and 4 percent less, respectively. By contrast, holders of an associate diploma earn 9 percent more than those with secondary schooling, and the increment rises to 26 percent for holders of a BA/BSc, 29 percent for those with a higher diploma, and 39 percent more for PhD holders. Notably, holders of a masters degree, while earning 13 percent more than those with secondary schooling, garner the lowest private returns amongst tertiary graduates in the West Bank and Gaza. This may be a reflection of low average quality of master's degrees in the West Bank and Gaza, given the proliferation of these programs (total of 104).

6. Table 2 further reports that, all else equal, employment in the West Bank is associated with a 43 percent reduction in daily wages compared to employment in Israel, while employment in Gaza implies a 68 percent reduction. Women earn on the order of 19 percent less than similarly qualified male employees with other comparable characteristics. Finally, compared to being employed by the Palestinian Authority, employment in all other sectors (with the exception of non-profit organizations) is associated with a positive increment. This positive increment is smallest for those

Table 2: Extended earnings function, wage earners aged 18 to 65 years
(dependent variable = ln daily wage)

Variable	Coefficient	Standard Error	t-statistic
Educational Attainment (omitted category "secondary")			
Illiterate	-0.196 *	0.0234	-8.39
Read & Write	-0.127 *	0.0127	-9.95
Elementary	-0.094 *	0.0085	-10.96
Preparatory	-0.040 *	0.0081	-4.91
Associate Diploma	0.092 *	0.0096	9.55
BA/BSc	0.260 *	0.0094	27.64
Higher Diploma	0.286 *	0.0661	4.32
Masters Degree	0.132 *	0.0389	3.39
PhD	0.386 *	0.1007	3.83
Location of Employment (omitted category "Israel")			
West Bank	-0.431 *	0.0076	-56.57
Gaza	-0.677 *	0.0076	-89.15
Sector of Employment (omitted category "PA")			
Foreign Government	0.102 **	0.0417	2.44
UNRWA	0.471 *	0.0080	58.78
International Organization	0.313 *	0.0697	4.49
Non-profit Organization	-0.082 *	0.0251	-3.26
Private Sector (Regular)	0.103 *	0.0081	12.72
Private Sector (Irregular)	0.156 *	0.0138	11.33
Age	0.033 *	0.0016	20.61
Age Squared	0.000 *	0.0000	-14.46
Female	-0.186 *	0.0088	-21.22
Constant	3.714 *	0.0306	121.21
Number of Observations	21,114		
Adjusted R-squared	0.485		

Source: Authors' calculations based on 1999 Labor Force Survey.

* significant at 1%; ** significant at 5%

employed by foreign governments and largest for those working for UNRWA. Given our earlier discussion of the prevalence of tertiary graduates in the Palestinian Authority, this finding of lower returns to employment in the PA is initially surprising. However, it probably points to the existence of non-wage benefits to government employment, such as a pension, better job security, but also possibly low work effort. If indeed tertiary graduates seek employment in the PA in order to benefit from the low work effort entailed, this does not bode well for their productivity and the resulting benefits they could be providing to Palestinian society as a whole.

7. Having determined that there are clear returns to tertiary education in the West Bank and Gaza, it is important to determine the distribution of tertiary enrollment by gender, geographic location, and family welfare, in order to assess who has the potential to garner these returns. To this end, data were analyzed from the National Poverty Survey, a nationally representative

survey conducted by the Palestinian Central Bureau of Statistics during December 2003, with a sample of roughly 3,100 households. Table 3 reports the findings for the age group relevant for tertiary education, i.e. 18-24 year-olds, by welfare quintile, gender, and residence in the West Bank or Gaza. Thus, overall for the West Bank and Gaza (last column in Table 3), the top three quintiles have very similar enrollment rates (close to 30 percent) while the bottom quintiles have enrollment rates around 20 percent. By comparison, in Latin America, the share of students from the lowest third of the income distribution enrolled in tertiary education was only 6 percent in Peru, 11 percent in Chile, and 18 percent in Uruguay (García Guadilla 1998)⁷. In other words, while there are inequities in tertiary education enrollment rates in the WB&G, they are not severe by comparison to the situation in other countries.

Table 3: Enrollment rate of 18-24 year-olds in tertiary education (percentage)

Welfare Quintile	West Bank			Gaza			West Bank and Gaza		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Poorest	21.9	13.8	18.8	15.2	17.8	16.5	19.0	16.1	17.7
2	18.1	23.0	20.2	21.3	26.0	23.4	19.5	24.4	21.6
3	25.2	35.3	29.1	33.2	22.9	28.6	28.3	29.6	28.9
4	22.9	28.4	25.2	35.0	40.8	37.4	27.1	32.5	29.4
Richest	26.0	30.7	28.0	38.1	27.8	34.3	29.0	30.1	29.5
Total	23.1	27.8	25.1	28.2	25.9	27.2	25.0	27.1	25.9

8. For the West Bank and Gaza as a whole, when considering males only, there are exactly 10 percentage points difference in enrollment rates between the poorest and the richest quintile, while the spread is wider for females. This fact points to gender disparities that are intertwined with family welfare, insofar as poorer families tend to be less educated and more conservative in their treatment of their daughters. Looking at the enrollment rates in the WB&G separately, a far wider variation in enrollment rates is observed in Gaza than in the West Bank between the poorer and the richer quintiles (resulting in double the enrollment rate for the richest quintiles in Gaza compared to the poorest). The higher overall rate in Gaza is in turn driven by the male enrollment rate, which at 28.2 percent is fully 5 percentage points higher than the male enrollment rate in the West Bank. Several factors may be at play here, including the possibility that Gazan male secondary graduates face a more severe constraint on alternative endeavors than their counterparts in the West Bank. The opposite pattern is observed with respect to the female enrollment rate, which in the West Bank is higher overall than the male rate as well as being higher than the female rate in Gaza. Here probably the cultural factor plays a significant role, insofar as Gazan society is more conservative in its attitude towards women than the West Bank. This hypothesis is bolstered by the following findings from the Social Assessment conducted as part of the preparation for this project: when asked for the main reasons for not enrolling in tertiary education, male and female secondary graduates cite financial reasons as the top factor, followed by social reasons for females only, whereas males cite the lack of sufficient academic performance.

⁷ This comparison is admittedly a rough one since quintile enrollment rates and shares of students are not identical concepts.

9. These findings from the Social Assessment further confirm that the above-described inequities in enrollment reflect the interplay between several factors including not only the returns to tertiary education and the effect of family welfare but also the costs of education. The costs of education can be both indirect, in the form of opportunity cost, as well as direct, in the form of tuition fees and other expenditures such as transportation and lodging. Imperfections in capital markets (such as the inability to borrow using future earnings as collateral) may imply that the borrowing ability of a person depends on individual income or that of the family, so that the ability to pay for education becomes decisive in the enrollment decision. In other words, limits in the ability of individuals to borrow sufficiently for tertiary education may result in education costs becoming a binding constraint and thereby hindering the participation of meritorious but economically disadvantaged persons.

10. The MOEHE has recognized the importance of the availability of student loans by administering the existing scheme. There are, however, several aspects of this scheme that are of concern from an equity point of view. Thus, the MOEHE allocates some student loan funds to individual tertiary institutions on the basis of a formula that is potentially anti-poor. According to this formula, the share of the total funds that is received by an institution increases with the size of the student body and the average of tuition fees in that institution. However, it is likely that the higher the tuition fees in an institution, the higher the welfare of the student it attracts, so that effectively more student loan funds are available to institutions with richer student bodies. The MOEHE then leaves it up to the tertiary institution to determine the eligibility of students for a loan as well as the loan amount received. Institutions across the board make use of loan applications – similar in format but not identical – that collect information on the applicant's welfare, including family income, number of siblings studying, ownership of home, as well as other relevant socioeconomic data. These data are then used differently by different institutions, once the applicant is deemed eligible for a loan. Some institutions (including for example Birzeit University and the Palestinian Polytechnic University) provide higher loan amounts to those deemed more needy. The Al-Quds Open University, on the other hand, provides equal loans to all successful loan applicants. The fact that different tertiary institutions use different methodologies to determine eligibility and loan amounts implies that targeting of loans to those most needy could be improved upon. In addition, it is possible that an institution with a relatively poorer student body does not have sufficient funds to provide loans to students who would be eligible for loans at a university with a richer student body. In sum, while the existing student loan scheme is warranted from an equity and capital market failure point of view, its targeting to those most needy could be greatly improved upon.

Financial Analysis: Sustainability of Tertiary Education

11. A comprehensive BTM has been developed by MOEHE that incorporates current and projected tertiary education student admission and enrollment, required inputs including teachers, administrative, and service staff, as well as buildings and equipment. The BTM further estimates the costs of current and projected required inputs as well as the resources available to the tertiary education sector to arrive at total expenditures and resources (i.e. both recurrent and capital) and any resulting financing gaps. Finally, the BTM allows the modeling of different scenarios, for example regarding admissions and financing policy of the tertiary education sector, to assess the impact of these policies on the financial sustainability of the sector.

12. Starting with base year data for 2003/04, Table 4 provides projections on enrollment in universities (including the Open University) and colleges through the year 2014. The projections begin with current and projected numbers of secondary graduates, but then one set of projections (entitled “Current trends”) assumes a continuation of the current admissions rates in different tertiary institutions, whereas the other set of projections (entitled “Revised admissions policy”) models a scenario with a changed admissions policy. According to this scenario, admissions rates change between 2003/04 and 2013/14 in the following manner: universities’ (excluding the Open University) share of total admissions increases from 53 to 65 percent; the Open University’s share of total admissions declines from 34 to 15 percent; and colleges’ share increases from 12 to 20 percent. As Table 4 shows, continuing the current admissions policy without any change would result in a declining share for universities and colleges of total enrollments, while the Open University’s share would increase to close to 41 percent by 2013/14. On the other hand, implementing the changes described above to the admissions policy results in increases in the share of universities and colleges in total enrollments (to close to 60 and 14 percent, respectively), and a decline in the share for the Open University.

Table 4: Tertiary education enrollments, current trends and revised admissions policy, 2004-14

	2003/04	2008/09		2013/14	
		Current trends	Revised admissions policy	Current trends	Revised admissions policy
Universities (excl. Open Univ.)	63,023	106,773	106,441	123,892	135,504
<i>Percentage share</i>	<i>54.0</i>	<i>55.5</i>	<i>58.1</i>	<i>50.2</i>	<i>59.4</i>
Open University	40,501	65,856	53,853	100,349	61,837
<i>Percentage share</i>	<i>34.7</i>	<i>34.2</i>	<i>29.4</i>	<i>40.6</i>	<i>27.1</i>
Colleges	13,221	19,779	23,051	22,680	30,830
<i>Percentage share</i>	<i>11.3</i>	<i>10.3</i>	<i>12.6</i>	<i>9.2</i>	<i>13.5</i>
Total	116,745	192,408	183,345	246,921	228,171

13. The above enrollment projections have repercussions on inputs, including teachers and capital investments, with resulting cost repercussions. Table 5 below provides the total expenditures and resources, with the resulting balance, for the tertiary education sector, under the following scenarios: first, assuming current trends in admissions and financing policy; next, assuming the revised admissions policy described above, with no revisions to the financing policy; and last, assuming the revised admissions policy as well as changes to the financing policy. The changes to the financing policy assume a 75 percent increase in average tuition fees by 2008/09 that is maintained through 2013/14, coupled with a quadrupling of available funds for student loans by 2008/09, and a fivefold increase by 2013/14. As Table 5 shows, the tertiary education sector currently faces a deficit on the order of US\$34 million, which is projected to increase to US\$55 million by 2008/09 and decline again to a still sizable US\$44 million by 2013/14 (this decline is mostly as a result of the fact that Open University enrollments increase dramatically and the Open University does not run a deficit). If, on the other hand, the revised admissions policy is implemented, the deficit would be greater in both 2008/09 and 2013/14, at

US\$59 million and US\$85 million respectively, due mostly to the larger share of enrollments in universities, which do run a deficit. Thus, a revised financing strategy is absolutely necessary, and the one modeled here results in a positive balance for the tertiary education sector in both 2008/09 and 2013/14. This scenario assumes, however, availability of adequate funding for student loans.

Table 5: Tertiary education financing gap, current trends, revised admissions and financing policy, 2004-14

	2003/04	2008/09			2013/14		
		Current trends	Revised admissions policy	Revised financing policy	Current trends	Revised admissions policy	Revised financing policy
Total expenditures	145.6	229.7	236.2	236.2	245.4	321.9	321.9
Recurrent expenditures	122.3	193.8	214.2	214.2	230.4	297.0	297.0
Capital expenditures	23.2	35.9	22.0	22.0	15.0	24.9	24.9
Total resources	111.7	174.9	176.8	242.4	201.1	237.1	323.0
Student fees	77.8	126.6	123.3	216.9	137.6	164.5	289.5
PA budget support	25.6	37.9	43.1	8.2	50.3	59.4	13.6
Other	8.4	10.4	10.4	17.3	13.2	13.2	19.9
Balance	-33.9	-54.8	-59.4	6.2	-44.3	-84.8	1.1

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Annex 10: Safeguard Policy Issues

WEST BANK AND GAZA: Tertiary Education Project

This project is Category C, therefore there are no major safeguard policy issues. The Social Assessment conducted during project preparation aimed at assessing the anticipated impact of higher education support project in Palestine, and was based on analyzing a number of parameters that take into consideration the different tertiary education institutions, including universities, institutes and colleges, as well as the Open University with its peculiarities. Such parameters also take into consideration the different forms of tertiary education: vocational, technical and academic, as well as different educational levels (diploma and degrees). Samples included three categories: (i) students enrolled in tertiary education, (ii) graduates of tertiary education institutions, and (iii) high school graduates who are not enrolled in tertiary education institutions. The following conclusions were made:

First: The social assessment revealed a clear relationship between the socio-economic conditions of Palestinian household and the rate of enrollment of their sons/daughters: the better the socio-economic conditions of a household, the more likely the enrolment of their sons/daughters in higher education. This is attributed to the fact that the Palestinian household is a major source of financing for higher education.

Second: The assessment pointed out the existence of a definite relationship between the socio-economic conditions of Palestinian households and the quality of the educational institutions in which their sons/daughters are enrolled, as it revealed that better socio-economic conditions of households increased the possibilities of enrolment in closed universities, while worse conditions led to a decrease in this possibility and an increase in the rate of enrolment in colleges, institutes or in the Open University.

Third: The assessment revealed a relationship between the level of education of the parents and the chances of enrolment in higher education on the one hand, and the selection of TEIs on the other hand. The assessment showed that the higher the level of education of the father and/or the mother, the greater the likelihood of enrolment of sons/ daughters in higher education, and enhanced the selection of closed universities.

Fourth: The assessment showed that among the several factors that limit the possibility of enrolment in higher education, the financial factor was the strongest for both sexes, while the social factor ranked second in limiting enrolment for females.

Fifth: The importance of loans and financial support in general in fostering the chances of enrolment in higher education was highlighted in the study, which also showed that the possibility of receiving loans was higher for males than for females. This led to the conclusion that improving access to loans for females enhanced the possibilities for their enrolment in higher education.

Sixth: The study indicated that enhancing the chances for employment, and consequently improving the socio-economic conditions of households, was among the most important reasons

for enrolment in higher education for both males and females. This stresses the importance of higher education in alleviating unemployment and poverty in the Palestinian society.

Seventh: The assessment pointed out the limited effectiveness of available assistance (grants and loans), especially social grants, which are minimal and need to expand to include broader categories.

Annex 11: Project Preparation and Supervision
WEST BANK AND GAZA: Tertiary Education Project

	Planned	Actual
PCN review	January 2004	April 2004
Initial PID to PIC	February 2004	June 2004
Initial ISDS to PIC	February 2004	June 2004
Appraisal	January 2005	January/February 2005
Negotiations	March 2005	March 7-9, 2005
Board/RVP approval	April 19, 2005	
Planned date of effectiveness	July 1, 2005	
Planned date of mid-term review	June 10, 2007	
Planned closing date	December 31, 2009	

Key institutions responsible for preparation of the project:

Ministry of Education and Higher Education

Universities and technical colleges in the West Bank and Gaza

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Dina Abu-Ghaida	Senior Education Economist	HDNED
Ayman Abu-Haija	Financial Management	MNACS
Ayed Abu Ramadan	Procurement Specialist	MNC04
Ali Awais	Counsel	LEGMS
Christina W. Djemmal	Operations Analyst	MNSHD
Mayed El-Bayya	Sr. Procurement Specialist	MNSHD
Grace Ghattas	Program Assistant	MNSHD
Art Hautpman	Consultant	
Adriana Jaramillo	Senior Education Specialist	AFTH3
Fred Kranz	Procurement Consultant	MNACS
Thao Le Nguyen	Sr. Finance Officer	LOAG2
Marjorie Lenn	Consultant	
Laura McDonald	Consultant	AFTH3
Benoit Millot	Lead Education Specialist	AFTH2
Juan Manuel Moreno	Sr. Education Specialist	HDNED
Suha Rabah	Program Assistant	MNSHD

Bank funds expended to date on project preparation:

1. Bank resources: US\$100,000
2. Trust funds: PHRD US\$100,000
3. Total: US\$200,000

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$80,000
2. Estimated annual supervision cost: US\$100,000

Annex 12: Documents in the Project File
WEST BANK AND GAZA: Tertiary Education Project

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Annex 13: Statement of Loans and Credits
WEST BANK AND GAZA: Tertiary Education Project

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P065921	2004	GZ-EMERGENCY WATER	0.00	0.00	12.50	0.00	0.00	11.25	2.70	0.00
P078136	2003	Emergency Services Support Project II	0.00	0.00	25.00	0.00	0.00	4.67	19.00	35.93
P078212	2003	GZ-EMERGENCY MUNICIPAL SERVICES REHABI	0.00	0.00	20.00	0.00	0.00	8.87	13.67	0.00
P069986	2002	Integrated Community Development Proj	0.00	0.00	10.00	0.00	0.00	6.25	3.24	0.00
P065593	2001	EDUCATION ACTION PROJECT	0.00	0.00	7.00	0.00	0.00	1.54	6.33	0.00
P071040	2001	GZ-Palestinian NGO Project II	0.00	0.00	8.00	0.00	0.00	1.66	7.08	0.00
P054051	2001	GZ-SOLID WASTE & ENVIRONMENTAL MNGMNT.	0.00	0.00	9.50	0.00	0.00	5.78	9.50	0.00
P053892	2000	GZ-HEALTH SYSTEM DEVELOPMENT I	0.00	0.00	7.90	0.00	0.00	0.14	7.90	7.62
P058683	2000	GZ-MIDPII	0.00	0.00	7.50	0.00	0.00	2.32	7.50	6.15
P040506	2000	GZ-ELEC.SEC.INV.& MGMT	0.00	0.00	15.00	0.00	0.00	2.94	15.00	12.41
P051564	1999	GZ-SOUTHERN AREA WATER	0.00	0.00	21.00	0.00	0.00	1.52	21.00	0.00
P040503	1998	GAZA INDUSTRIAL EST.	0.00	0.00	0.00	0.00	1.00	3.77	10.24	5.90
P049708	1997	PAL EXPAT PROF PROGRAM	0.00	0.00	3.00	0.00	0.00	0.69	3.00	3.00
P043338	1997	GZ-HOUSING FINANCE	0.00	0.00	25.00	0.00	7.60	5.46	25.00	11.30
Total:			0.00	0.00	171.40	0.00	8.60	56.86	151.16	82.31

WEST BANK AND GAZA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

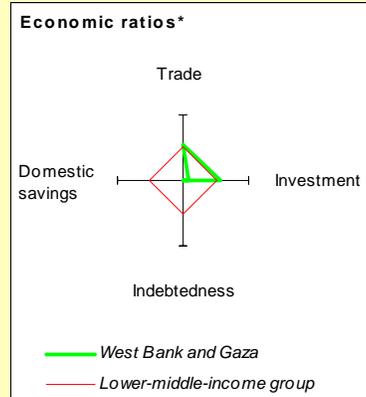
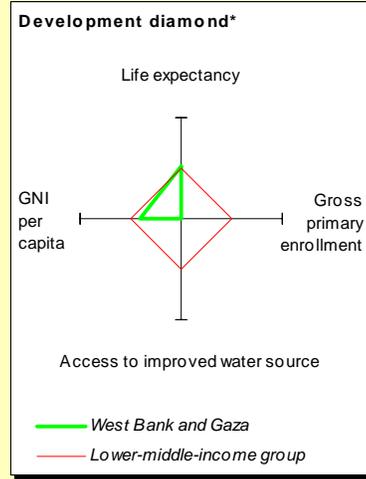
FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1994	APIB	0.00	3.73	0.00	0.00	0.00	3.73	0.00	0.00
1997	Arab Bank	0.00	0.00	0.06	0.00	0.00	0.00	0.06	0.00
1997	ComBank Palestin	0.00	0.00	0.15	0.00	0.00	0.00	0.15	0.00
1997	Jordan National	0.00	0.00	0.43	0.00	0.00	0.00	0.43	0.00
1997	PIEDCO	1.00	1.00	0.00	0.00	1.00	1.00	0.00	0.00
1999	PMHC	0.00	3.00	0.00	0.00	0.00	2.23	0.00	0.00
1998	PTF	0.00	12.56	0.00	0.00	0.00	4.51	0.00	0.00
1998	PTF-Mgt Co.	0.00	0.20	0.00	0.00	0.00	0.04	0.00	0.00
1999	PTIC	0.00	0.49	0.00	0.00	0.00	0.49	0.00	0.00
1997	SEF Arab Concret	0.80	0.00	0.00	0.00	0.80	0.00	0.00	0.00
1999	SEF JerichoMotel	1.10	0.00	0.00	0.00	1.10	0.00	0.00	0.00
Total portfolio:		2.90	20.98	0.64	0.00	2.90	12.00	0.64	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
Total pending commitment:		0.00	0.00	0.00	0.00

Annex 14: Country at a Glance

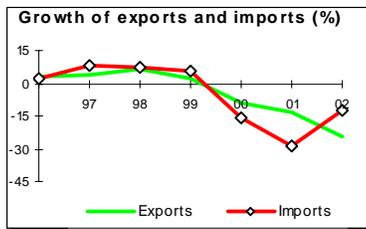
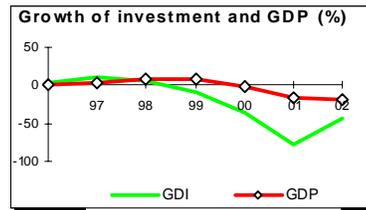
WEST BANK AND GAZA: Tertiary Education Project

	West Bank & Gaza	M. East & North Africa	Lower-middle-income		
POVERTY and SOCIAL					
2002					
Population, mid-year (millions)	3.2	306	2,411		
GNI per capita (Atlas method, US\$)	1,110	2,070	1,390		
GNI (Atlas method, US\$ billions)	3.6	670	3,352		
Average annual growth, 1996-02					
Population (%)	4.2	19	10		
Labor force (%)	..	2.9	12		
Most recent estimate (latest year available, 1996-02)					
Poverty (% of population below national poverty line)	59		
Urban population (% of total population)	..	58	49		
Life expectancy at birth (years)	73	69	69		
Infant mortality (per 1,000 live births)	20	37	30		
Child malnutrition (% of children under 5)	11		
Access to an improved water source (% of population)	..	88	81		
Illiteracy (% of population age 15+)	..	35	13		
Gross primary enrollment (% of school-age population)	..	95	111		
Male	..	98	111		
Female	..	90	110		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1982	1992	2001	2002	
GDP (US\$ billions)	4.0	3.4	
Gross domestic investment/GDP	5.7	3.5	
Exports of goods and services/GDP	14.6	12.3	
Gross domestic savings/GDP	-28.0	-30.7	
Gross national savings/GDP	-4.9	-6.7	
Current account balance/GDP	-10.5	-10.3	
Interest payments/GDP	
Total debt/GDP	
Total debt service/exports	
Present value of debt/GDP	
Present value of debt/exports	
	1982-92	1992-02	2001	2002	2002-06
<i>(average annual growth)</i>					
GDP	..	-0.8	-16.0	-19.1	5.8
GDP per capita	..	-5.0	-19.5	-22.5	1.3



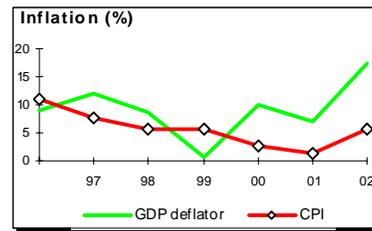
STRUCTURE of the ECONOMY

	1982	1992	2001	2002
<i>(% of GDP)</i>				
Agriculture	7.3	6.3
Industry	16.4	13.3
Manufacturing	13.1	10.7
Services	76.3	80.4
Private consumption	83.2	79.0
General government consumption	44.9	51.7
Imports of goods and services	48.3	46.6
	1982-92	1992-02	2001	2002
<i>(average annual growth)</i>				
Agriculture	..	-4.2	-5.5	-19.8
Industry	..	-6.7	-29.1	-24.8
Manufacturing	..	-0.5	-12.3	-24.2
Services	..	2.4	-6.1	-16.7
Private consumption	..	-2.3	-15.5	-21.3
General government consumption	..	13.6	-2.1	-0.6
Gross domestic investment	..	-22.7	-76.9	-44.0
Imports of goods and services	..	-4.2	-29.0	-12.9



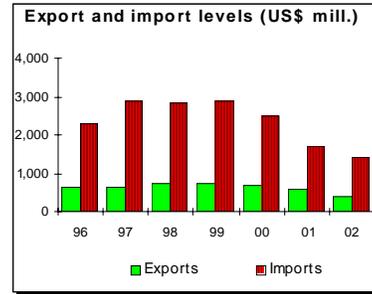
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices				
<i>(% change)</i>				
Consumer prices	12	5.7
Implicit GDP deflator	6.9	17.2
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	19.9	23.8
Current budget balance	-7.1	-5.0
Overall surplus/deficit	-7.7	-5.1



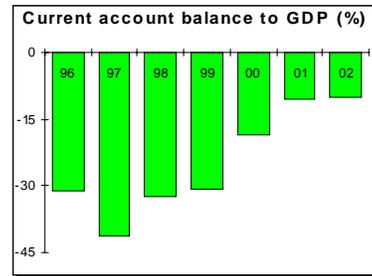
TRADE

	1982	1992	2001	2002
<i>(US\$ millions)</i>				
Total exports (fob)	391	299	577	410
n.a.
n.a.
Manufactures
Total imports (cif)	729	1232	1731	1406
Food
Fuel and energy
Capital goods
Export price index (1995=100)	153	162
Import price index (1995=100)	168	177
Terms of trade (1995=100)	91	92



BALANCE of PAYMENTS

	1982	1992	2001	2002
<i>(US\$ millions)</i>				
Exports of goods and services	588	418
Imports of goods and services	1,947	1,581
Resource balance	-1,359	-1,164
Net income	492	372
Net current transfers	443	443
Current account balance	-424	-348
Financing items (net)
Changes in net reserves
Memo:				
Reserves including gold (US\$ millions)
Conversion rate (DEC, local/US\$)	4.2	4.7



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed
IBRD
IDA
Total debt service
IBRD
IDA
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments

Annex 15: Map
WEST BANK AND GAZA: Tertiary Education Project