



# Donor Assistance and the Public Investment Program

## Introduction

After the signing of the Declaration of Principles in late 1993, the international community sought to bolster the peace process and pledged over \$3.7 billion in aid to the Palestinian people. Donors met again in Washington in November 1998 and in Frankfurt in February 1999 to reaffirm their support, pledging an additional \$3.3 billion in assistance for a new five-year period. Donor assistance has played a key role by supporting the PA's current expenditures until it built its own revenue base, by helping to rehabilitate existing and build new infrastructure, and by providing technical assistance that has contributed to strengthening institutions in the Palestinian territories. Hopes were high at the outset, perhaps unrealistically so, that donor assistance would also be able to jump-start the Palestinian economy.

While substantial amounts of donor aid were disbursed in 1994–98, other factors led to a stagnation of the Palestinian economy, and income per capita actually fell. It is clear, nonetheless, that without donor assistance the decline in the standard of living in the West Bank and Gaza during this period would have been much greater. Donor assistance is now evolving, moving away from direct budgetary support and concentrating on the public investment program, with a view to increasing Palestinian participation and allowing for eventual self-sufficiency. This chapter provides an overview of the donor assistance effort so far and its role; analyzes the public investment program; and, finally, discusses the evolving development planning process.

## Donor Assistance

After the Declaration of Principles in late 1993, a high-level donors meeting resolved to support the peace process by pledging ultimately over \$3.7 billion to the Palestinian people.<sup>1</sup> This was to support the nascent PA, to rehabilitate existing and build new infrastructure, and to strengthen institutions in the West Bank and Gaza. Total commitments for 1994–98 came to \$3.5 billion. Through September 1998, a cumulative total of more than \$2.5 billion in donor assistance had been disbursed through the development plan (Table 5.1), an annual average of \$500 million (about 13 percent of GNI).<sup>2</sup> Roughly three-quarters of all disbursements went through the PA, 18 percent through UNRWA, with the rest disbursed through NGOs. Almost 95 percent of disbursements was in the form of grants, although the share of loans increased in 1997–98. Total current grants came to \$1.5 billion, of which 65 percent was disbursed to the PA, and total capital grants came to \$900 million, of which 80 percent went to the PA.

A total of 47 donors have been providing assistance to the Palestinians since the Oslo Accords were signed (Table 5.2). The largest individual donor is the United States, with Japan and the Eu-

<sup>1</sup>At the actual donors meeting in 1993 about \$2.2 billion was pledged, but subsequently additional pledges of about \$1.5 billion were received.

<sup>2</sup>Disbursements through the development plan include donor assistance to the PA, UNRWA, and NGOs, as recorded by MOPIC. In addition, there are disbursements for UNRWA and some NGOs that are not included in the MOPIC data.

TABLE 5.1

**Disbursements to the PA, UNRWA, and NGOs Through the Development Plan***(In millions of U.S. dollars)*

	1994	1995	1996	1997	1998 <sup>1</sup>	1998 Est.	1994-98 <sup>1</sup>	In Percent
Total commitments	743.3	817.9	881.7	684.9	413.0	413.0	3,540.8	141.3
Total disbursements	496.8	615.5	572.0	544.7	277.7	370.3	2,506.6	100.0
Palestinian Authority	369.5	357.5	433.7	426.2	221.6	295.5	1,808.6	72.2
Public Investment	121.1	195.0	173.6	214.4	153.5	204.7	857.6	34.2
Budgetary and transitional support	145.7	97.6	133.2	81.8	1.8	2.4	460.1	18.4
Of which: through Holst Fund	82.4	51.6	65.1	12.9	0.0	0.0	212.0	8.5
Other assistance	102.8	64.9	126.9	130.0	66.3	88.5	490.9	19.6
UNRWA (through development plan)	81.5	191.7	85.0	71.6	24.9	33.2	454.6	18.1
NGOs	45.8	66.3	53.3	46.9	31.2	41.6	243.4	9.7
Loans	2.6	23.0	28.3	60.9	27.6	46.8	142.4	5.7
Total grants	494.2	592.5	543.8	483.7	250.1	323.5	2,364.2	94.3
Current grants to	333.2	353.0	360.3	303.9	116.2	155.0	1,466.7	58.5
The PA	248.5	162.5	260.1	211.8	68.1	90.8	951.0	37.9
The UNRWA	45.7	132.7	52.2	48.9	19.4	25.8	298.9	11.9
NGOs	39.0	57.8	47.9	43.3	28.7	38.3	216.7	8.6
Capital grants to	160.9	239.5	183.5	179.8	133.8	168.5	897.6	35.8
The PA	118.5	172.1	145.3	153.5	125.9	157.9	715.2	28.5
The UNRWA	35.7	59.0	32.8	22.7	5.5	7.4	155.7	6.2
NGOs	6.8	8.4	5.4	3.6	2.5	3.3	26.7	1.1

Sources: *Quarterly Monitoring Report of Donor Assistance*, Ministry of Planning and International Cooperation; and IMF staff estimates.<sup>1</sup>Through September 1998.

ropean Commission (as the executive body of the EU) following as numbers two and three. Disbursements from the European Commission plus individual EU member countries constitute 44 percent of all assistance since 1994.

In the first couple of years following the Oslo Accords, most disbursements were in the form of grants; only limited disbursements from the World Bank came as loans, although on very concessional terms. However, in recent years the share of loans increased, a trend that is likely to become more marked over the coming years, as more funds are being disbursed for investment projects. Accordingly, the disbursement of loans to the PA grew to \$60.9 million in 1997 from \$2.6 million in 1994, whereas grants have been declining to \$484 million in 1997 from a high of \$592 million in 1995. These shifts reflect growing disbursements for World Bank projects, as well as disbursements for projects financed by the European Investment Bank (EIB). While the loans incurred by the PA have benefited so far from a high degree of concessionality, it is likely that this will change in the fu-

ture.<sup>3</sup> The stock of debt outstanding at the end of 1998 amounted to more than \$140 million, or 4 percent of GDP.

Aid flows to the West Bank and Gaza have been substantial. For example, on a per capita basis the donor assistance has been ten times as high as the average in the Middle East and North Africa (Figure 5.1). The West Bank and Gaza would be classified as a lower-middle-income country, but it is receiving proportionally more grants and loans on concessional terms than most other countries of equivalent economic status. The high level of aid reflects primarily the political importance attached by donors to the peace process, but it also indicates their recognition of the external vulnerability and uncertainties affecting the Palestinian economy. Furthermore, in a postconflict situation aid flows can be expected to rise substantially during the reconstruction and rehabilitation period. However, in

<sup>3</sup>Loans from the World Bank are disbursed from the West Bank and Gaza Trust Fund on concessional IDA terms, whereas the EU is providing an interest subsidy for loans from the EIB.

TABLE 5.2  
**Disbursements Through the Development Plan by Donor**  
*(In millions of U.S. dollars)*

	1994	1995	1996	1997	1998 <sup>1</sup>	1994-98 <sup>1</sup>	In Percent
Total	496.8	615.5	572.0	544.7	277.7	2,506.6	100.0
United States	70.3	82.4	63.9	68.7	59.3	344.7	13.8
Japan	85.4	75.3	77.0	66.7	1.7	306.1	12.2
European Commission (EC)	60.4	73.2	99.7	54.1	10.8	298.3	11.9
Germany	20.3	103.4	33.5	42.1	71.4	270.8	10.8
Norway	14.8	65.2	56.7	55.5	29.2	221.3	8.8
World Bank and IFC	2.6	22.8	27.3	59.3	22.0	134.0	5.3
Saudia Arabia	58.5	13.7	20.0	39.7	1.3	133.2	5.3
Netherlands	16.4	16.6	52.4	16.9	10.9	113.2	4.5
Switzerland	15.3	24.1	15.6	18.0	9.1	82.2	3.3
Spain	5.9	34.9	16.7	15.9	12.7	86.0	3.4
Sweden	7.6	1.9	28.5	14.3	14.6	66.9	2.7
Italy	13.2	10.2	17.8	15.3	3.8	60.3	2.4
France	16.7	10.1	9.6	13.9	3.2	53.5	2.1
Denmark	10.7	18.6	11.2	9.9	0.5	50.9	2.0
United Kingdom	7.0	5.6	12.9	13.0	1.1	39.6	1.6
Other donors	91.6	57.5	29.0	41.3	26.3	245.7	9.8
EC, individual EU countries, and European Investment Bank	173.4	288.6	293.2	207.1	146.3	1,108.6	44.2
Arab countries	101.7	37.8	20.2	54.7	1.3	215.6	8.6

Source: *Quarterly Monitoring Report of Donor Assistance*, Ministry of Planning and International Cooperation.

<sup>1</sup>Through September 1998.

the future, it is likely that grants will become more scarce, and loans might entail less concessionality and more conditionality, approaching the terms applied to other lower-middle-income countries.

The composition of donor assistance has changed since 1994. Initially, the bulk was in the form of budgetary and transitional support, technical assistance, employment generation, and other activities that can be considered as consumption in economic terms. This reflected the large needs facing the fledgling PA at the outset, the substantial institutional capacity building effort required, as well as the desire of donors to mitigate the impact of closures.

In recent years, however, a growing share of disbursements went to investment projects.<sup>4</sup> Public investment increased to \$241 million in 1997 from \$164 million in 1994 (Table 5.3). Likewise, budgetary support for the PA declined as the capacity of the PA to collect revenue was substantially strengthened.

<sup>4</sup>Investment is defined here as new fixed assets plus major improvements, additions, or extensions to fixed assets (IMF, 1993). As a result, many projects classified by MOPIC as disbursements for equipment in kind or employment-generation projects have been included in investment if the output of the project has increased the value of the fixed asset stock.

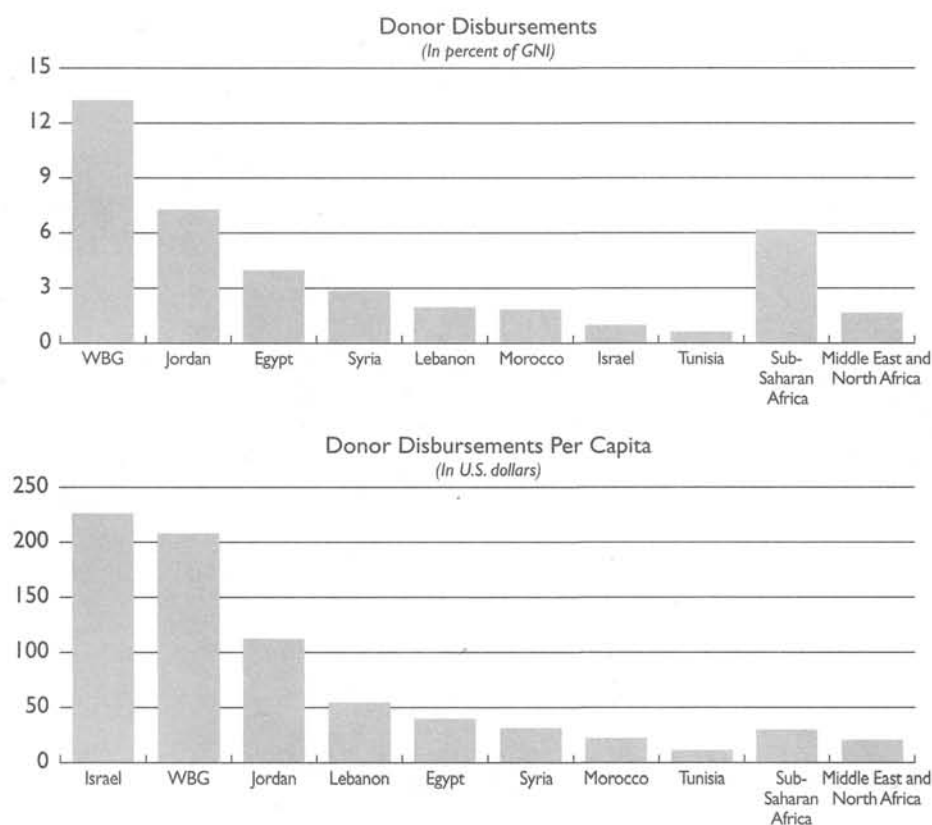
While disbursements for transitional and budgetary support to the PA peaked in 1996 and were gradually phased out by 1998, it is likely that a significant share of donor assistance will continue to be devoted to technical assistance and institutional capacity building, even if disbursements for investment projects are likely to go up in the next years.

To some degree, large aid inflows to the PA may have replaced traditional donor funds for NGOs. Prior to the establishment of the PA, NGOs were very active in the West Bank and Gaza, providing social assistance, and education and health services. These efforts were mostly funded by donors from Western countries and from the Arab Gulf states. It has been argued that, after the establishment of the PA, these financing sources have been drying up, and many of the more than 1,500 active NGOs are finding it increasingly difficult to finance their activities.<sup>5</sup> However, data from the MOPIC show continued substantial flows of donor funds from NGOs (more than \$50 million annually).<sup>6</sup>

<sup>5</sup>See World Bank (1999).

<sup>6</sup>Moreover, not all funds received by NGOs are recorded by MOPIC.

FIGURE 5.1

**Comparative Annual Aid Disbursements, 1994–96<sup>1</sup>**

Sources: Ministry of Planning and International Cooperation, World Bank; and IMF staff estimates.

<sup>1</sup>Data for West Bank and Gaza cover the period 1994–98. Disbursements of donor assistance exclude military assistance.

Regarding the sectoral destination of donor assistance, the largest share of disbursements went to infrastructure, including water, transportation, housing, and multiple sectors (Table 5.4). Almost a quarter of disbursements were for multiple sectors, mostly projects with at least one large infrastructure component covering several sectors, for example, rehabilitation of sewerage lines and roads. The water and sanitation sector received over 12 percent of total disbursements; education and health were also important with 12 percent and 8 percent, respectively. Another important area was institution building (10 percent). Disbursements for housing, police, and detainees that were initially significant subsequently declined. On the other hand, disbursements for agriculture, industry, and support for democracy-building initiatives and private sector development increased over time.

The sectoral composition of donor assistance reflected the needs and requirements of the Palestinian economy, with infrastructure, health, education, and institution building as the dominant sectors. However, the PA has argued that the sectoral composition of donor assistance has not always coincided with the PA's planned and desired expenditure pattern, which seemed to favor a greater allocation to infrastructure investment, and that institution-building efforts should now actually decrease in importance.<sup>7</sup> While there was less financing for public investment than originally foreseen, this was probably inevitable owing to a number of reasons that slowed down project implementation.

For various reasons, including the still limited institutional capacity and perceptions of weak financial management in the PA, some donors did not involve

<sup>7</sup>See Palestinian Authority (1999).

TABLE 5.3

**Disbursements Through the Development Plan to the PA, UNRWA, and NGOs by Category**  
(In millions of U.S. dollars)

	1994	1995	1996	1997	1998 <sup>1</sup>	1998 Est.	1994–98 <sup>1</sup>	In Percent
Total	496.8	615.5	572.0	544.7	277.7	370.3	2,506.6	100.0
Employment generation	2.6	0.0	18.8	7.2	1.2	1.6	29.8	1.2
Equipment	13.6	47.8	21.8	34.7	5.6	7.5	123.6	4.9
In kind	33.2	31.0	16.7	13.5	3.1	4.1	97.5	3.9
Private sector support	5.9	12.8	9.0	27.9	14.0	18.7	69.6	2.8
Public investment	163.5	262.5	211.8	240.7	161.5	215.3	1,039.9	41.5
Technical assistance	77.0	98.9	93.5	95.5	57.1	76.2	422.0	16.8
Transitional and budgetary support	171.9	119.5	157.5	87.6	3.4	4.5	539.9	21.5
Other	29.1	42.9	43.0	37.5	31.8	42.4	184.3	7.4

Sources: *Quarterly Monitoring Report of Donor Assistance*, Ministry of Planning and International Cooperation; and IMF staff estimates.<sup>1</sup>Through September 1998.

the PA during project design and implementation. This may have ensured more efficient project implementation and accelerated disbursements in the short term, but a side impact has been that institution building in the PA has been limited, which raises doubts about project sustainability.<sup>8</sup> In the long term, the importance of project ownership by the PA is paramount and would be strengthened by the active involvement of the PA in the whole project cycle. When assessing the effectiveness of development assistance, this illustrates the need to analyze the impact in terms of improving the institutional and policy climate. The focus ought to be on how donor activities can strengthen and build up Palestinian capacity to sustain the positive impact of donor assistance into the future.<sup>9</sup>

## The Role of Public Investment

The expectation in 1993 was that donors would finance infrastructure and institutional capacity building, seen as necessary to provide a favorable environment for private sector development. This was anticipated to result in increased private investment that would in turn reduce the need for continued

donor financing of public investment in the future. The private sector was even expected to participate directly in the public investment projects, as well as in their financing (see Box 5.1). Five years later, this process still has not commenced. Private investment has not increased in any substantial way, except for investment in residential housing, and the need for donor assistance to finance public investment is still considerable. The expected complementary effects have been frustrated by other constraints to private sector investment that initially may not have been fully anticipated.

As regards public investment, project selection in the last five years was often done in an ad hoc and pragmatic manner rather than as the outcome of a clear development vision, partly because of the many exogenous restrictions on project choices. But this was also the result of the PA's urgent need to develop its capacity to formulate consistent aid objectives, and to prioritize and select projects in a clear and coherent manner. Now, however, the PA has an opportunity and an instrument, the Palestinian Development Plan (PDP), to improve on this record.

Project implementation was slower than expected for a number of reasons. First, the unexpected imposition of closures, particularly in 1995–96, delayed investment projects and left donors with little choice but to respond with employment generation projects and more recurrent budgetary support. Second, it took longer than expected to develop good counterpart institutions to donors in the PA. This slowed down disbursements and the transfer of knowledge, particularly for more complex investment projects. Weak institutions also justified more spending on institutional capacity building and

<sup>8</sup>Many countries organize their aid receipts in extrabudgetary accounts outside the scope of the expenditure management system that is often encouraged by donors. The bypassing of the local budgetary and accounting system has at times contributed to debudgetization and undermined financial discipline (Premchand, 1996).

<sup>9</sup>A recent World Bank report recommended that donors pay more attention to the contribution of assistance to systemic change rather than focusing narrowly on the volume of disbursements and isolated project "success" (World Bank, 1998a).



TABLE 5.4

**Disbursements Through the Development Plan to the PA, UNRWA, and NGOs by Sector**  
(In millions of U.S. dollars)

	1994	1995	1996	1997	1998 <sup>1</sup>	1994–98 <sup>1</sup>	In Percent
Total	496.8	615.5	572.0	544.7	277.7	2,506.6	100.0
Agriculture	2.5	7.8	12.9	12.2	1.8	37.3	1.5
Democracy, social development, and women	11.4	17.4	41.0	33.5	33.9	137.1	5.5
Detainees and humanitarian aid	36.6	41.5	32.2	22.7	9.5	142.5	5.7
Education	48.4	82.1	91.5	56.8	18.7	297.4	11.9
Energy, industry, and telecommunications	1.2	9.7	12.0	21.8	11.6	56.3	2.2
Environment and solid waste	4.8	6.9	4.1	5.7	2.7	24.3	1.0
Health	33.3	64.1	48.2	40.0	8.0	193.6	7.7
Housing	42.9	16.8	10.2	16.0	3.6	89.5	3.6
Infrastructure	0.0	16.3	20.4	27.1	18.8	82.6	3.3
Institution building	32.2	62.0	50.7	88.2	14.4	247.6	9.9
Legal affairs and police	46.4	30.3	11.9	5.8	1.3	95.6	3.8
Multiple sectors	188.5	178.6	130.6	82.1	17.4	597.2	23.8
Private sector development	9.2	19.4	11.7	32.9	15.8	88.9	3.5
Tourism and cultural resources	0.4	2.9	8.1	7.3	8.8	27.6	1.1
Transportation	0.7	11.7	25.0	9.5	2.6	49.4	2.0
Undefined	22.9	-6.3	2.9	0.8	4.4	24.7	1.0
Water and sanitation	15.4	54.1	58.8	82.3	104.5	315.0	12.6

Sources: *Quarterly Monitoring Report of Donor Assistance*, Ministry of Planning and International Cooperation; and IMF staff estimates.<sup>1</sup>Through September 1998.

technical assistance. Finally, it took time for donors to adjust to operating in the often difficult and somewhat unusual context of the West Bank and Gaza. Most donors have responded well to this challenge over time by strengthening project supervision as well as by simplifying project design.

## Development Planning

The development planning process has improved substantially since the establishment of the PA, when donors took a leading role in formulating the Emergency Assistance Program, which attempted to identify the needs for donor assistance. This was followed by the Public Investment Plan and eventually replaced by a three-year rolling plan, the Palestinian Development Plan. The first PDP was prepared in 1997 by MOPIC, with some donor assistance on capacity building. The PDP for 1999–2003 was presented to donors at the Consultative Group meeting in Frankfurt in February 1999 (Box 5.2).

The latest PDP covers five years and is divided into two parts: (1) a detailed three-year plan disaggregated to project level for 1999–2001; and (2) a more aggregated two-year resource timeframe for

2002–03. The PDP is intended to be a rolling plan, to be updated on a yearly basis. It sets a five-year resource framework within which the development plan is formulated, based on the following three sources of finance: (1) funding from donor grants; (2) funding from loans (concessional and commercial, if available); and (3) funding from the PA's own budgetary revenues. The PDP sets the resource framework for 1999–2003 at about \$4.7 billion, of which \$2.6 billion would be for the first three years (1999–2001). The PA estimates that \$150 million will come from their own resources, with total donor contributions, including concessional loans, of about \$4.5 billion. The envisaged contribution by the PA is backloaded (with \$50 million in 1999–2001 and \$100 million in 2002–03). This would require annual donor disbursements of \$862 million in the first three-year period and \$975 million in the last two-year period.

This resource framework appears highly ambitious. Given the disbursement record so far, it seems unlikely that donor disbursements would increase by as much as 50 percent in dollar terms, as envisaged in the development plan. More likely, and consistent with pledges made in 1998, donor financing over the medium term will remain at current levels

### Box 5.1. Private Sector Financing of Infrastructure Investment

Donors focused initially on infrastructure rehabilitation, in view of the dilapidated infrastructure inherited by the PA. Over the years, this has led to a marked improvement in infrastructure conditions, particularly in water and sewerage, electricity, and roads. Given the rapid population growth, however, the demand for improved infrastructure services will continue to grow. To meet this large and growing demand, and taking into account the limits to donor financing and budgetary resources, the PA has been advised to capitalize on the potential role of the private sector in infrastructure provision under appropriate regulatory arrangements.<sup>1</sup> This advice is based on the view that the PA would benefit from private sector capital and more efficient work practices, while protecting its citizens from monopolistic pricing behavior by instituting the appropriate legal and regulatory environment, for example, by unbundling services to promote competition and restructuring tariffs to reflect costs. For this strategy to succeed, it is critical that the capability, and the willingness, of the PA to deal with and negotiate contracts with the private sector in a transparent manner be bolstered.

Some donors have experimented with management contracts whereby private sector companies are brought in to provide public services. As an example, in the Gaza Strip an international private operator was brought in by the Palestinian Water Authority under a four-year management contract to implement a service improvement program. A related project is now under consideration to improve water and wastewater services in the southern area of the West Bank. However, given the high-risk environment and the low level of private investment, there seems to be little prospect of having the private sector take the role of direct investor in infrastructure projects.

<sup>1</sup>See Mody (1997) and Saghir (1997).

in dollar terms, while the share of concessional loans relative to grants is likely to increase. While the PDP includes an intended annual contribution of the PA to finance its development plan, there is no indication as to which projects the PA would finance. The strength of this commitment would be enhanced if projects were identified, particularly since the contribution to the 1998 development budget did not materialize.

### Future Prospects and Challenges

Donors have pledged to continue providing substantial financing for the PA. The November 1998 ministerial conference led to pledges of \$3.3 billion over the next five-year period, and it is expected that a larger share will be channeled toward public investment than during the last five years. While it is unlikely that any more budgetary support will be committed by donors, technical assistance, as well as institution-building efforts, will continue to receive substantial amounts of donor assistance. At the February 1999 Consultative Group meeting, donors stated their intent to commit some \$750 mil-

lion in 1999. Based on previous experience, this could translate into disbursements for 1999 of up to \$500 million.

Over the medium term, it is important that more resources be made available for public investment from the PA and from donors, but this should be achieved while devoting sufficient funds to institutional capacity building in the PA. It is also important that the PA begin to generate a modest recurrent budget surplus in order to be able to contribute to the financing of public investment projects.

Development planning and project implementation also need to be improved. In this regard, more attention must be paid to ensuring that the PDP becomes a tool for setting development objectives, prioritizing project proposals, and selecting projects for implementation. To this end, the PDP process must be strengthened. The PDP has been perceived by many donors merely as a long "wish list" rather than as a specific planning instrument. It is a positive step that the latest PDP was placed in a medium-term macroeconomic framework, but attempts should be made to strengthen the analysis of project proposals (for example, presently no cost-benefit analysis is being used by MOPIC to compare and select project

### Box 5.2. Institutional Developments in the Planning Process

The development planning process has evolved from an initial large dependency on donors in formulating development needs and priorities. At the outset, on the Palestinian side the Palestinian Economic Council for Reconstruction and Development (PECDAR) took a leading role in planning and, over the years, has built up a strong capacity in project implementation. When MOPIC was established, the development planning functions were eventually shifted away from PECDAR to MOPIC. However, PECDAR still plays an important role as an implementing agency. While much improvement has been achieved and the Palestinian input into the development planning process is now much stronger, a number of outstanding issues still remain. These include the need for (1) a better integration of the development plan into the annual budget cycle; (2) more realistic budgeting for recurrent expenditure obligations resulting from investment projects; (3) better project and sector analysis in the planning and sector ministries; and (4) a stronger prioritization of project proposals to enhance project selection capacity.

A number of development planning documents have been produced since 1994; among these the following are useful references:

#### Emergency Assistance Plan—1994

The first economic reconstruction program by the international community focusing predominantly on

infrastructure rehabilitation. On the Palestinian side, PECDAR was the main counterpart institution.

#### Core Investment Program—1996

Prepared by MOPIC with assistance from the World Bank to identify the most urgent investment and technical assistance needs regarding physical infrastructure, housing and the social sector, support to the private sector, and institutional development.

#### Palestinian Public Investment Program—1997

Prepared by MOPIC and focusing primarily on investment needs.

#### Palestinian Development Plan—1998 and 1999

A three-year rolling development plan incorporating all development assistance that is not restricted to investment but includes technical assistance and institution building. The plan sets goals and strategies and establishes a general framework within which PA ministries and institutions may prepare activities and allocate resources based on national priorities. It is an attempt by MOPIC to follow a “bottom-up” approach while developing objectives, strategies, and projects, as well as providing overall coordination. While the planning process can still be much improved, Palestinian ownership of the development plan is now much stronger.

proposals). MOPIC should also increase efforts to monitor the use of the PDP by donors, as well as other PA ministries, in connection with the project selection and implementation process. If the focus and quality of the PDP are strengthened, donors will be more likely to use it as a planning tool.

Looking ahead, close coordination and cooperation between the planning and budgeting exercises are essential. The development planning process would also be strengthened by a much closer integration of the annual budget prepared by the Ministry of Finance and the development plan prepared by MOPIC. Such an integration is essential to en-

sure that funds are appropriated in the recurrent budget for operations and maintenance for projects. Likewise, integration with the annual budget is necessary to enhance the project selection process once the PA starts financing projects from its own resources. Many other issues require closer coordination between the Ministry of Finance and MOPIC, such as debt servicing and tax refunds on donor-funded projects. A serious attempt at managing the growing debt obligations of the PA would entail the establishment of a debt-management unit in the Ministry of Finance that would have responsibility for debt servicing.