

# **BUILDING PALESTINE**

Achievements and Challenges



Report of the Palestinian National Authority to the Ad Hoc  
Liaison Committee

**September 21<sup>st</sup>, 2010**

New York



## Vision of the State of Palestine

*Palestine is an independent Arab state with full sovereignty over the West Bank and the Gaza Strip on the 1967 borders, with Jerusalem as its capital. Palestine, the cradle of civilisation and of the three monotheistic religions, will shine as a beacon of humanitarian values and religious tolerance across the world. Palestine is a state which values highly its social capital, social cohesion and solidarity, and its Arab culture. The state will forever be a peace loving state that rejects violence; it is committed to peaceful co-existence with the world community of nations. Palestine will be a stable democratic state with a multi-party political system. Transfer of governing authority is smooth, peaceful and regular in accordance with the will of the people, expressed through free and fair elections conducted in accordance with the law. The state of Palestine respects human rights and guarantees equal rights and duties for all citizens. Its people live in safety and security under the rule of law, safeguarded by an independent judiciary and professional security services.*

**Program of 13<sup>th</sup> Government: Ending the Occupation, Establishing the State**

**August 2009**

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## FOREWORD

*It is my pleasure to, once again, submit the Palestinian Government's report to the Ad Hoc Liaison Committee (AHLC). Since the AHLC meeting in Madrid last April, the Palestinian civil and security services have continued to work hard to improve the performance of our governing institutions and deliver better services to citizens. This has been achieved through the dedication of public servants, supported by the Palestinian private sector and civil society. Through dedication and hard work, we are continuing to see real improvements on the ground.*

*However, the benefits of progress are not being felt by all citizens. In particular, Palestinians residing in Gaza, East Jerusalem and areas of the West Bank that have been isolated by the Separation Wall and Israeli settlements have largely been left behind. We remain determined to eliminate this injustice by building towards a free State of Palestine in which all citizens are treated equally under the law of the land, as well as under international humanitarian law. Last month, the Government published a mid-term review of its two year program. In this document, entitled *Homestretch to Freedom*, we described in detail the steps we will be taking during the second year of the program to see our state-building effort through to completion, despite the challenges and obstructions related to the Israeli occupation.*

*The lack of adequate parallel action by Israel to enable us to build our state is a recurring theme in this report. For example, our economic space remains fractured, with the majority of the occupied Palestinian territory being off-limits for the purposes of economic and social development. Despite the lifting of some physical barriers in the West Bank, and the recent partial easing of the blockade on Gaza, we remain subject to a multi-dimensional and highly capricious system of physical and functional restrictions on movement, trade and development. This control regime continues to have a devastating impact on our efforts to complete our state-building endeavour, achieve sustainable economic development, and reduce our reliance on foreign aid.*

*The active support of international community, on the other hand, has been instrumental in helping us implement our agenda to build Palestine. We are working hard to reduce the budget deficit, and hence the amount of external financial support required to maintain us on the path to statehood. However, financial support from our development partners, in the form of budget support and development project financing, will continue to play a critical role in enabling us to implement our program. International political support is also essential as we move into the second and final year of the program, and as we work together to realize our shared vision of a free and stable State of Palestine, living in peace and security alongside the State of Israel.*

**Salam Fayyad**  
**Prime Minister**

## EXECUTIVE SUMMARY

This report summarizes significant steps forward in improving governance and public service delivery since the last AHLC meeting in Madrid in April 2010. It also highlights key challenges and obstacles to be overcome in realizing the Government's program to consolidate the governing institutions of the State of Palestine by August 2011.

In those geographical and public policy areas where the Government has a degree of freedom to operate, we are continuing to see positive progress in governance and service delivery. However, the impact of our achievements has been severely limited in areas which effectively lie beyond our control. The most significant examples are, of course, Gaza and East Jerusalem. Gaza remains in the middle of a multi-faceted crisis – many citizens lack adequate supplies of food, medicines, housing, potable water and electricity, and the quality of basic education and health services is under constant threat. In East Jerusalem, Palestinians continue to labor under discriminatory policies, declining socio-economic conditions and record levels of home demolitions. Communities in 'Area C' of the West Bank, including those isolated by the Separation Wall and in close proximity to Israeli settlements, are also being left behind. Even in 'Area A' and 'Area B', policies to address pressing social and economic needs are compromised. For example, despite our efforts to improve infrastructure and supply in the sector, a water crisis is developing in Hebron whilst, at the same time, Israeli settlements continue to enjoy high per capita levels of water extracted from West Bank aquifers. The achievements described in this report must therefore be viewed in the context of persistent restrictions and constraints on our freedom to govern.

The forward momentum in the performance of justice and rule of law institutions reported at the last AHLC meeting has continued. Citizens' perception surveys and rising public demand for justice sector services signal increasing confidence and trust. Concerted efforts to reduce court case backlogs are having the desired results and police enforcement of court decisions has improved markedly. This progress is underpinned by increasing cooperation across justice institutions and security services, aided by successful initiatives to provide public sector employees with the infrastructure, equipment and skills they need to do their job effectively. The establishment of a 'model' public prosecution office in Jenin exemplifies how a comprehensive initiative to upgrade infrastructure, IT systems and training has enhanced the performance of an individual government body and fostered greater inter-agency cooperation. The result is better services for citizens.

Progress has also been made in strengthening the institutional infrastructure to safeguard citizens' rights and the public interest. Dedicated human rights and ombudsman functions are being set-up in justice sector institutions and in the security services, and an independent anti-corruption agency has been established. Furthermore, competent government bodies are reviewing and redrafting laws and bylaws with special emphasis on ensuring fairness and social equality under the law.

High levels of access to basic social services are being maintained and steps are being taken to improve the quality of services. School infrastructure is being continuously upgraded through the construction of new schools and the renovation of existing ones. The addition of dedicated facilities for special-needs students, healthcare units and ICT equipment is enhancing the learning environment, and programs are in place to modernize curricula and the examinations system. New clinics and hospitals are being built to enable citizens to get the care and treatment they need in their communities. The establishment of a National Center for Non-Communicable Diseases will strengthen preventive healthcare in Palestine, and programs to upgrade hospitals and promote specialization in the medical profession will reduce the need for citizens to seek treatment abroad.

Despite the economic recovery that began in late 2007, unemployment and poverty rates remain high. The Government is continuing to refine its mechanisms for targeting and delivering social welfare assistance. More objective and scientific targeting methodologies are being implemented to ensure cash and food aid

get to the most needy families. Programs to empower vulnerable groups are also being implemented to help reduce dependency on welfare assistance.

Through a range of small and medium-scale development initiatives, implemented primarily through the program of community-based projects, as well as some larger projects, public infrastructure is being upgraded. The reach and the safety of the road network are being improved through construction and rehabilitation projects, and road maintenance capability is being strengthened. Almost the entire population is now connected to the electricity grid, and plans are in place to ensure Palestine's energy security through diversification of energy sources and establishment of domestic power generation capacity. Water and wastewater infrastructure projects, along with policy initiatives to promote conservation, are providing more citizens and businesses with better access to water, whilst taking into account sustainability and environmental concerns. Solid waste management is also improving through devolution of responsibility to Joint Service Councils, provision of better waste collection and processing equipment, the construction of sanitary landfills and the closure of unregulated dump sites.

The economy continues to grow, albeit from a low base. This growth has been driven largely by public expenditure and real estate construction, but there are some initial signs that increased economic activity is becoming broader-based. However, the economy is still falling far short of realizing its growth potential, which can only be fulfilled through a fundamental change to the status quo in which Palestinians are denied access to their land and natural resources, as well as the ability to access domestic and international markets. Nevertheless, Palestinian businesses have continued to show remarkable resilience and determination in the face of these constraints. The Government is working closely with the private sector to invest in and grow the productive base of the economy. New industrial parks and commercial centers are being built, with both public and private investment, roads are being rehabilitated, and tourism assets, including heritage sites and cultural centers, are being preserved and upgraded. The Government is also pursuing efforts to secure representation in international economic organizations, including the World Trade Organization, and to upgrade economic and trade relations with various countries and blocs.

The Government has remained true to its commitment to pursue its reform and development agenda in a manner which will ensure the long-term fiscal sustainability and economic viability of the State of Palestine. Measures to broaden the revenue base and improve revenue administration are yielding steady increases in income. This, along with tighter control over public expenditure, is helping reduce the budget deficit in both absolute terms and as a percentage of GDP. Extensive and ongoing reforms to eliminate subsidization of electricity, to implement mandatory health insurance, and to contain the public sector wage and pension bill, which are already yielding significant savings, will have a major long-term impact in reducing the budget deficit.

However, sustained, predictable and timely budget support will continue to be needed over the medium-term. Shortfalls and delays in budget support have severely hampered the Government's ability to implement its reform and development agenda in an orderly fashion. In addition to financial support, international political support is needed to help end the Israeli occupation and thereby remove the main obstacle to realizing the shared vision of two states living side-by-side in peace and security. In this regard, there have been a number of welcome developments in Palestinian diplomatic representation in a number of countries. These include the upgrading of the Palestine Liberation Organisation office in Washington DC to a General Delegation, the elevation in Paris and Madrid of the Palestinian General Commission to the Palestine Mission, and the convening of ministerial steering committees with both Germany and Spain.

The September 2010 AHLC meeting will be the final meeting during the period of the Palestinian Reform and Development Plan (PRDP) 2008-10. Next year will also mark the end of the second and final year of the 13th Government Program. Accordingly, the AHLC meeting in the spring of 2011 will be particularly significant as the Government reports on delivery against commitments made in both the PRDP and the Government program. In the intervening period, a donor conference will be needed to secure pledges of financial support needed to implement the Palestinian National Plan 2011-13, which is currently under preparation.

## **FOCUS ON: DELIVERING THE INSTITUTION-BUILDING AGENDA**

The Government, with unprecedented input and support from the private sector and civil society, has been delivering on a comprehensive agenda to strengthen governing institutions in preparation for statehood. The Palestinian Reform and Development Plan (PRDP) 2008-10, the Program of the 13th Government: Ending the Occupation, Establishing the State, and the forthcoming Palestinian National Plan (PNP) 2011-13 provide a guiding policy framework and strategies for completing, by August 2011, the establishment of all institutions needed to govern the State of Palestine.

The PRDP, launched in December 2007, committed to rebuilding citizens' trust and confidence in Government – through restoring good governance and improving the coverage and quality of public service delivery. It laid out plans to rebuild the economy, stimulate private sector investment and reduce reliance on public expenditure. Furthermore, grounded in a realistic fiscal framework, the PRDP promoted fiscal restraint and progressive reduction in dependency on external aid. The Government is delivering on its PRDP commitments. Investments to consolidate the institutional capacity of the justice and security sectors have significantly improved public perceptions of safety and confidence in the justice system. Delivery of basic services and public infrastructure – including schools, hospitals, roads, utility networks – has been upgraded through more effective execution of small and large-scale development projects. These investments in public safety, services and infrastructure, coupled with increased budgetary allocations to ministries and agencies delivering basic social services, have made a critical contribution to social stability and economic growth.

Full implementation of the PRDP was predicated on parallel steps to lift the siege on Gaza and roll-back the occupation of the West Bank, including East Jerusalem. Progress in this regard has fallen far short of expectations. However, recognizing the need to continue to work proactively and constructively to build Palestine, in August 2009, the 13<sup>th</sup> Government published its two year program to further strengthen the institutions of the State of Palestine despite the constraints of occupation. The overarching policy goal, explicitly stated in the 13<sup>th</sup> Government Program, is to implement a state-building agenda that will: “advance our highest national priority of ending the occupation, thereby enabling us to live in freedom and dignity in a country of our own.” In August 2010 the Government published a mid-term review of its program, giving a detailed account of progress made as well as explicit, measurable commitments to further improve government performance and service delivery the second year.

The Palestinian National Plan (PNP) 2011-13 will build on these achievements in public policy planning and implementation, adapting and refining policies based on lessons learned during the last three years. In line with the 13<sup>th</sup> Government Program, the PNP will lay out a strategy for ensuring that the State of Palestine is positioned for rapid growth and socio-economic development as it takes its rightful place in the international community of nations.

# GOVERNANCE

## Governance at a glance:

*The Government's institutional strengthening agenda continues to move forward at a rapid pace. Indicators of public trust and confidence in governing institutions continue to rise. A wide range of developmental initiatives to provide justice sector institutions and the security services with the infrastructure, equipment and skills they need to do their job are bearing fruit. Court houses, police stations and training facilities are being constructed and rehabilitated across the governorates. New judges and public prosecutors are being recruited and, working together, they are systematically tackling and reducing case backlogs despite rising public demand. Rates of enforcement of court decisions by the civil police service are also on the rise, giving citizens the confidence that justice is being done through due process.*

*Justice and security sector institutions are also introducing new departments, legislation, regulations and codes of conduct to ensure compliance with international human rights norms. A new Anti-Corruption Commission has been established under a new law which criminalizes corruption, broadens the definition of corruption, and grants extensive powers to the Commission. These measures are all part of a concerted effort to protect the public interest and ensure citizens' rights and freedoms are respected.*

*The Government is also working to strengthen its financial position through reforms aimed at raising revenues, reducing subsidies and cutting unnecessary and wasteful expenditure. These measures are being implemented carefully and in a targeted fashion to ensure that they do not harm those who are already suffering from poverty. Nevertheless, though some of these reforms may be painful, they are essential to ensuring that more public resources are available to deliver improved public services where they are most needed. They will also prepare the ground for progressive reduction of dependency on external aid and a transition to self-reliance over the long-term.*

*Though the fiscal deficit remains broadly on target, helped by improved revenue administration and expenditure restraint, a shortfall on \$ 173 million in external financing has led to rises in arrears owed to the private sector and borrowing from banks. Based on projections for the remainder of 2010, the financing deficit could rise to around \$ 250 million. This potential shortfall must be addressed assertively in order to ensure that market confidence in the fiscal stability of the Government is to be maintained.*

## — JUSTICE

According to a recent West Bank opinion poll, 62% of citizens expressed their satisfaction with the performance of the courts system. Additionally, 77% of those surveyed expressed confidence in judges, 62% expressed confidence in the public prosecution service, 59% in police investigations and 57% in lawyers<sup>1</sup>. The increasing number of cases being brought forward by the public and the declining backlog of cases, respectively, illustrate rising public confidence in the justice system and improved institutional performance. The number of cases lodged in the courts in the first half of 2010 was almost 17% higher than the first half of 2009. Despite this increased demand, the backlog of cases in the first quarter of 2010 was 25% less than the first quarter of 2009. The public prosecution services experienced a 4% rise in referred cases during the first 4 months of 2010 and yet the backlog of cases decreased by 4%, compared to the equivalent period in 2009.

<sup>1</sup> Study of the Palestinian Judicial System, High Judicial Council, June 2010.



#### **Public outreach**

*In January 2010, the Attorney's General's Office published a legal, social journal, entitled Guardians of Justice, that aims to raise public understanding of the legal system and promote respect of the rule of law, individual rights and freedoms.*

These achievements are underpinned by complementary initiatives being implemented across the justice sector to upgrade infrastructure and IT systems, and to strengthen human resources in the sector through targeted recruitment and training<sup>2</sup>. The renovation of Qalqilya courthouse has been completed, Jericho courthouse has been expanded and funding has been secured to build court complexes in Hebron, Ramallah and Tulkarem. The refurbishment of the Attorney General's Office was completed in July 2010. A 'model' public prosecution office in Jenin was completed in March 2010 and similar offices will be established in Bethlehem, Hebron, Nablus, Qalqilya, Ramallah and Tulkarem by June 2011.

As part of its ongoing effort to promote specialization, the HJC has worked with the Jordanian Judicial Institute to train 6 Palestinian judges in the area of judicial mediation. This is an important area as its development can make a significant contribution to reducing case backlogs and reducing costs. The HJC is equipping special chambers in the courts of Ramallah, Bethlehem and Jenin to be used by mediation judges.

#### **A 'model' public prosecution service facility in Jenin**

*The establishment of the first model public prosecution office in Jenin is a major step forward in public service delivery. The new office has been designed and equipped with efficiency, public service and safety in mind, including waiting halls with automated queuing machines and a reception area with computers connected to a central records system. The office is using the MIZAN 2 case management software which, inter alia, enables real-time sharing of case files with the Jenin police service. As a result, processing times have been reduced significantly and overcrowding has been eliminated.*

Establishing an appropriate balance between the number of judges and public prosecution employees will also play a vital role in reducing case backlogs and enhancing the overall efficiency of the courts system. Accordingly, the Attorney General's Office is conducting a detailed study comparing human resource needs throughout the governorates based on the volume of cases received and adjudicated.

The Government has stepped-up its efforts to tackle corruption. During the first half of 2010, a new Anti-Corruption Law was promulgated, the Chairperson of the Anti-Corruption Commission appointed, and experienced officials from the public prosecution service have been delegated to work with the Commission. The law, which is consistent with the United Nations Convention against Corruption, criminalizes all forms of corruption – including nepotism, favouritism and bias, which were not criminalized under the previous law. The new law also extends the mandate and powers of the Anti-Corruption Commission related to investigation, policy and legislative review. The law empowers the Commission to work with competent bodies to track, seize and restore (to their rightful owners) properties and assets accumulated through corrupt practices.

All justice sector institutions are continuing to review and upgrade laws, procedures and organizational structures in order to address human rights issues more effectively. For example, the Ministry of Justice (MoJ) is working to develop a revised version of the Penal Code that is fully consistent with international human rights norms. A consultative committee comprising MoJ staff, along with representatives from relevant non-

<sup>2</sup> The Government's policy of wage bill restraint, launched through the PRDP 2008-10, contained specific provisions to allow for additional hiring in the justice sector (as well as the education sector) in order to address recognized and critical public service delivery issues.

governmental organizations and civil society actors, was established to review the code. In April 2010, a first draft was submitted to the Council of Ministers and a second draft will be presented in September 2010. In the meantime, the Council of Ministers has issued a decision to suspend the enforcement of exculpating and mitigating provisions in relation to so-called 'honour crimes' under the operative Penal Code.

**Increased focus on human rights in justice sector institutions**

*In June 2010, the Ministry of Justice officially launched its Human Rights Unit. Core tasks of the units are to conduct a comprehensive review of legislation, to propose necessary amendments to align with international norms, and to follow-up complaints about human rights violations. The Attorney General's Office has also incorporated a Human Rights Unit in its new structure.*

## — SECURITY

Military training, Jericho



As part of the national planning process, the Ministry of Interior (Mol) finalized the Security Sector Strategic Plan (SSSP) which was endorsed by the Council of Ministers in May 2010. The SSSP focuses on four strategic objectives: providing safety and security for the state and the citizen; building a professional security establishment; improving cooperation between the security and justice sectors; and providing efficient and effective public services in accordance with the law. Pre-existing plans developed by various branches of the security services are now being aligned with the SSSP and the Strategic Planning and Development Unit within the Mol is being strengthened in order to ensure effective monitoring and evaluation of the implementation of the plan. These are important achievements which will facilitate cooperation between the various branches of the security services.

The performance of the security services continues to improve significantly. The rate of seizure of illegal weapons is rising and regulations have been introduced to control the use of firearms by the security services. The crack-down of traffic violations and illegal vehicles has continued. Police enforcement of court decisions has increased significantly and the Civil Defence has continued to roll-out its inspection, licensing and public awareness drive to improve public safety. In relation to civil affairs, the systems and procedures for processing applications for civil documents (including passports, identity cards and birth certificates) are being upgraded to reduce waiting periods.

Ongoing programs to upgrade security sector infrastructure and equipment, as well as extensive training programs, have played a key role in enhancing the capability of the security services to rise to the challenge of delivering public safety and security.

The expansion and rehabilitation of the Salfit Area Command Headquarters and restoration of the detention centre in Qalqiliya city have been completed. Construction of the Training Complex and the National Security Operations Complex in Jericho are well on the way to completion. Following a short cessation after locating archaeological artefacts, the second phase of construction of Al Muqata'a in Nablus has resumed, and the first phase of construction of Al Muqata'a in Jenin has been initiated.

Construction work is also ongoing at the Police Training Centre and Civil Prison in Jericho, Civil Defence stations in Nablus and Ramallah, and Joint Operations Centres in Bethlehem, Jericho, Jenin, Nablus, Tulkarem, Qalqiliya, Ramallah, Salfit, and Hebron. Efforts are also ongoing to rehabilitate prisons in Hebron, Jenin, Tulkarem, Qalqiliya, and Bethlehem; the National Security Headquarters in Hebron, and the 5<sup>th</sup> special Battalion training camps in Nablus and Salfit. The first phase of construction of the Civil Defence Training College in Jericho has been finished but, due to lack of funding the second phase of the project has not yet commenced.

#### **Increased focus on human rights in the security services**

*The Government is taking steps to eliminate all inhumane and degrading treatment of detained and convicted persons. The Mol now follows up on all human rights complaints against security bodies through the Office of the Security Assistant to the Ministry of Interior or the Democracy and Human Rights Unit. The Mol has issued a decision which explicitly prohibits torture or cruel, inhuman and degrading treatment and punishment, and published a Disciplinary Violations Handbook in January 2010.*

All 6 brigades of the National Security Forces have now completed basic training or are in the process of doing so. Most recently, the 5<sup>th</sup> Brigade completed training in Jordan in May 2010 and training of the 6<sup>th</sup> Brigade has begun. Over the last six months, the Palestinian Civil Police has conducted numerous internal and external training events covering a variety of areas, including law, counter-narcotics, first aid, and self-defence. Meanwhile, the Civil Defence has held internal training courses for almost 200 officers and another 150 officers received training in Jordan, Egypt, Britain, Italy, Lebanon



A peace march in Abboud village, Ramallah

and Albania covering a variety of specialized topics, including fire-fighting, road accident response, dealing with hazardous objects, managing disaster risks, and using geographical information systems.

Reform of the security sector legal framework will have a major impact on the effective implementation of the SSSP. The national legislative plan for 2010-2011 gives priority to the Basic Law on Security, the Civil Police Law, bylaws for the Intelligence and Preventive Security services, the National Security Law and the Bylaw for Correctional and Rehabilitation Centers. The Mol has also developed draft legislation for the licensing of service offices to issue passports and identification cards and has drafted the Palestinian Citizenship Act which is expected to be endorsed by the Council of Ministers before the end of 2010.

## — LOCAL GOVERNANCE

The Ministry of Local Government (MoLG) launched its Local Government Strategy 2011-13 in April 2010. Core objectives of the strategy are to improve policy making and planning at the local level, upgrade guidance and oversight mechanisms, and promote partnership with communities and the private sector. The local government sector continues to set a high standard in relation to aid effectiveness. The Municipal Development Project, launched in January 2010, marshals financial and technical support from 6 donors and international organizations, and channels funds to municipalities through an objective, transparent and mutually-agreed mechanism.

In order to increase responsiveness to community needs at the local level, and to increase efficiency and cost effectiveness of service delivery, the Government is committed to phased amalgamation of Local Government Units (LGUs)<sup>3</sup> and increasing administrative decentralization. In May 2010, the Council of Ministers endorsed the ministry's proposal to reduce the number of LGUs. Over time, all Project Committees (the lowest level of LGU) will be merged with other LGUs and some of the smaller Village Councils will be merged with larger LGUs. By the end of 2010, the number of LGUs is expected to be reduced from 449 to 354, a reduction of more than 20%. Pilot projects to merge LGUs are already under way in the northern West Bank and Jordan Valley.

LGU Type	Aug 2010	Dec 2010
Municipality A	14	15
Municipality B	32	32
Municipality C	53	56
Village Council	235	206
Project Committees	115	45
<b>Total</b>	<b>449</b>	<b>354</b>

Through the Municipal Development and Lending Fund, an integrated financial management system is being implemented in 34 municipalities. This will enable municipalities to exchange budgeting and financial data with the MoLG and will provide municipal officials and MoL Gmanagers better information to help make management decisions, plan activities, and monitor and evaluate outcomes.

During 2010, the MoLG also drafted numerous regulations aimed at improving service quality and ensuring the sustainability of services through fee collection arrangements. These include regulations covering public parks, car parking lots, banner and billboard advertisement in public places, the operation of slaughterhouses, and the operation of fruit and vegetable wholesale markets. A regulation has also been drafted in relation to the procurement of equipment and supplies by LGUs.

In addition to these far-reaching reform efforts, the MoLG has also worked to help improve the public service delivery infrastructure at the local level. During the last six months, the MoLG, working with LGUs and other government ministries and agencies has supported a wide range of infrastructure projects. These projects delivered 900km of new and rehabilitated roads, 70km of water networks, 20km of electricity networks, 50km of sewerage networks and more than 170 new public facilities, including parks, playgrounds and public service centers.

<sup>3</sup> There are 3 classifications of LGU: Municipalities, Village Councils and Project Committees. Municipalities established prior to the formation of the PNA are classified A or B, based on the scale of the area/population served, while the category C Municipalities were established by the PNA.

## PUBLIC FINANCIAL MANAGEMENT

### Fiscal developments at a glance:

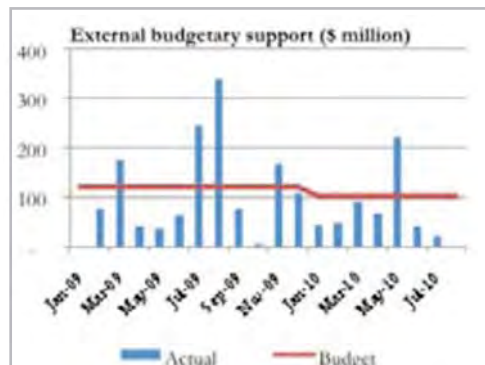
*During the first half of 2010, the current deficit (\$ 668 million) was slightly higher than the budget target (\$ 623 million), but projections for the remainder of the year indicate that the target can be met.*

*Tax revenues are ahead of target due to successful efforts to broaden the tax base and improve collection rates. However, gross revenues as a whole are behind target due to shortfalls in clearance and non-tax revenues. Overall, however, gross revenue in the first half of 2010 was 19% higher than in 2009.*

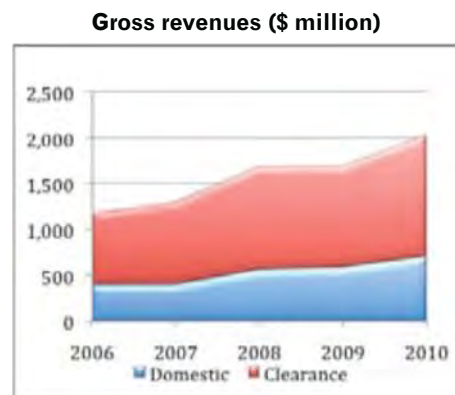
*Wage bill containment policy remains broadly on track, though an unforeseen increase in allowances coupled with exchange rate depreciation are expected to lead to a \$ 30 million overage by the end of the year. Far reaching reforms in the electricity sector look set to ensure that 'net lending' will meet the budget target – during the first half of 2010 net lending was 19% lower than in 2009.*

*Despite the fact that the current deficit is broadly on track with respect to the budget, a shortfall in external budget support, which stood at \$ 173 million by the end of July 2010, has driven an increase in payment arrears to the private sector (\$ 48 million) and in borrowings from commercial banks (\$ 123 million).*

The Government has continued to maintain a prudent fiscal policy stance, whilst implementing far-reaching public financial management reforms aimed at driving up gross revenues, containing wage costs, reducing utility subsidies (also known 'as net lending'), and increasing the quality of, and accountability for, public expenditure. Overall, fiscal performance remains broadly on track in relation to the 2010 Budget, but shortfalls in the quantity and timing of external budget support payments have led to increases in private sector arrears and bank lending to finance the current deficit.



Reforms in the administration of customs and excises, as well as in tax and non-tax revenue collection, continue to drive up gross revenues which, based on the budget estimate for 2010, will have grown in US\$ terms by almost 75% since 2006. Plans for restructuring the Customs Department have been finalized and new procedures for advanced enforcement techniques, including risk analysis and post-audit, are being developed. The Ministry of Finance (MoF) is also working closely with customs brokerage companies to improve their performance. Processes to collect value added tax and income tax arrears, as well as to address cases of evasion, with a particular emphasis on large taxpayers, are yielding positive results. Mechanisms for collecting other taxes, including property tax, are being automated and reformed, and all revenue streams are progressively being channelled into the Single Treasury Account.



There have also been significant developments in relation to expenditure control. In August 2010, the Council of Ministers approved an austerity measure to restrict the use of governmental vehicles to official business only, and purchasing of new cars was suspended by the government as of August 16 2010. An action plan to reform the public sector pension system is also under implementation. These reforms will contribute significantly to the Government's efforts to contain public expenditure over the short and long-term. This is part of a strategy to ensure availability of financing for development projects and programs aimed at rapidly improving public service delivery as well as moving progressively towards fiscal self-reliance.

With effect from the beginning of October 2010, the majority of government-owned vehicles will be recalled from public employees and brought under centralized supervision by their employing ministry or agency. This is expected to yield a \$ 10 million saving in fuel and other running costs each year. The pension reform action plan, which is expected to be completed in June 2011, is proceeding in three dimensions: administrative reform, changes to benefit entitlements, and changes to the structure of existing pension schemes.

#### **Summary of pension reform plan**

*Administrative reforms: including consolidation of all management and pension administration duties for all four public pension schemes under the Palestinian Public Retirement Commission (PPRC), upgrading ICT infrastructure, systems and procedures at the PPRC, and developing appropriate investment strategies.*

*Benefit entitlements: provision for early retirement will be annulled (June 2011) yielding an annual saving of approximately NIS 21 million. The retirement age will be gradually raised from 60 to 65 years for civil servants, and from 50 to 60 years for security personnel (effective June 2011). Disbursements of lump-sum payments will be halted from June 2012. Future rises in pension payments will be strictly linked to the consumer price index, creating considerable savings over upcoming years.*

*Structural reform: shifting from the defined contribution system to a hypothetical defined contribution system – contributions will be registered, obviating the need to transfer funds to individual accounts.*

The MoF has also continued upgrade its budgeting, accounting and reporting systems - raising the transparency of, and accountability for, public finances. Monthly summary financial reports continue to be published on the MoF website on the 15th of each month and now include details of public debt. The Financial and Administrative Control Bureau are now auditing the 2008 Government Financial Statements. The MoF has responded to their comments and queries submitted in June 2010 and the audit report is due to be issued in September 2010.

## **— AID EFFECTIVENESS**

Many of the achievements highlighted in this report to the AHLC have been aided by financial support and technical assistance from international development partners. During the last six months, there has been substantial progress towards enhancing the effectiveness of external support.

At end of July 2010, the Ministry of Planning and Administrative Development (MoPAD) completed the restructuring of its Aid Management and Coordination Directorate. At the same time, MoPAD launched its new aid information management system, DARP.

#### **Launching DARP**

*Beginning in December 2009, MoPAD conducted a review of its aid information management system. Based on an evaluation of the functionality and performance of the existing system, in comparison with other systems used internationally, it was concluded that there were a number of areas in which functionality and performance needed to be improved.*

*Due to cost and timing considerations, MoPAD decided to develop a new system internally. Specifications of the new system – DARP – were developed with input from development partners and, following a pilot phase in June 2010, the new system was launched in July 2010. Immediately after the launch, the MoPAD conducted a series of orientation and training sessions for development partners.*

Development partners are now populating DARP with required information regarding all development projects they are supporting – data entry is due to be completed in September 2010. Complete and accurate information regarding ongoing and planned development projects will be an essential input to the Palestinian National Plan 2011-2013 as well as the 2011 national budget.

Since the beginning of this year, MoPAD conducted 12 strategic consultations with key donor countries and agencies and 4 more are scheduled to take place before the end of 2010. These constructive consultations are making a significant contribution to improving aid coordination and effectiveness. There have also been steps forward in the contribution of the Strategy Groups (SGs) and Sector Working Groups (SWGs). SWGs served as forums for strategic dialogue, providing valuable feedback on the sector strategies developed through the PNP process. Furthermore, a biannual reporting exercise was initiated to track achievements and challenges in implementing the Government's policy agenda. Reports from each of the SGs, compiled from contributions from the SWGs, provided useful input into AHLC reporting.

Given the unique context in Palestine, strategic dialog at the political level also plays an important role in strengthening the effectiveness of aid. There have been some important steps forward to upgrade the status of Palestinian representation in the capitals of friendly states and dialog at the ministerial level is being strengthened. The Palestine Liberation Organisation office in Washington DC has been upgraded to a General Delegation and, in Paris, the Palestinian General Commission has been upgraded to a full Mission. The first meetings of steering committees comprising ministers of the German and Spanish governments were held in Berlin and Madrid in May and September respectively.

#### **OECD Paris Declaration survey**

*MoPAD has accepted an invitation from the OECD to participate in its forthcoming survey of the implementation of Paris Declaration commitments. The survey in Palestine will be conducted jointly with development partners in the fall of 2010.*

In Gaza, which has been under blockade since June 2007, the Palestinian National Early Recovery and Reconstruction Plan for Gaza and the PRDP 2008-10 remain largely unimplemented. The recent decision by

Israel to allow more goods into Gaza was a necessary but insufficient step. Substantial development aid has been pledged by the international community, but the vast majority of these pledges have not been translated into reconstruction and recovery on the ground. As a result, the gap in the socio-economic conditions in Gaza relative to the West Bank continues to widen. Whilst the current state of affairs clearly requires a political solution, the Government has stepped-up its efforts to improve coordination and follow-up in relation to reconstruction and development project implementation in Gaza, both internally and with international development partners. To this end, a committee comprising senior officials from the Prime Minister's Office, the Ministry of Finance and MoPAD has been established to expedite the approval and tracking of project implementation in Gaza.

## LOOKING AHEAD: MAJOR CHALLENGES IN THE GOVERNANCE SECTOR

Coordination of government policy in the governance sector is a significant challenge. For example, the large number of organizations engaged in delivering justice and the rule of law, coupled with the scale and complexity the policy agenda, necessitates coherent strategic planning and policy implementation. The process of developing sector strategies launched in 2009, as part of the process for preparing the Palestinian National Plan 2011-13, has fostered deeper and wider cooperation across all justice and security sector institutions. Policy, planning and reporting processes related to the formulation and implementation of the Program of the 13th Government have also contributed to closer inter-agency cooperation. These are positive steps forward which can and must be built upon. Initiatives aimed at further strengthening policy coordination and implementation, such as those being undertaken by the Ministry of Interior's Strategic Planning and Development Unit, will play a crucial role in ensuring that positive momentum is maintained.

Aid coordination in the governance sector continues to improve. The Governance Strategy Group and its associated Sector Working Groups are functioning more effectively than ever before, thanks to a combined effort from government bodies and their international development partners. An ongoing series of strategic consultations with donors is fostering closer partnership. These developments have yielded more effective policy dialogue and greater transparency of external assistance. Furthermore, there has been a greater alignment of support with national priorities – for example, the increasing level of support to the public prosecution service, combined with ongoing support to strengthen the entire courts system, is playing a major role in enabling better service delivery in the justice sector. Notwithstanding these achievements, further improvement of aid coordination in the sector will require continued commitment and focus and there remains scope for even greater alignment of support with Palestinian priorities<sup>4</sup>.

Shortfalls in the quantity and timing of external budget support also pose a major challenge that affects all sectors. Financing of the current budget deficit underpins all of the achievements that have been made in strengthening institutions and improving public service delivery since the PRDP 2008-10 was launched. The budget support pledged in Paris in December 2007 has been instrumental in enabling the Government to implement its stabilization and reform agenda, and to emerge from the state of financial and administrative crisis that prevailed before then. The Government's ability to reliably meet its financial obligations to employees and the private sector restored public confidence and effectively brought an end to a series of strikes which had closed schools and hospitals for extended periods. However, the general unpredictability in the amount and timing of budget support payments has precipitated a number of liquidity crises over the last three years which have forced the Government to periodically finance the deficit through accumulation of arrears to the private sector and through bank borrowings. The negative impact on trust and confidence in the Government cannot be overstated: a return to the crises prior to 2008 could undermine the forward progress that has been made since the PRDP was launched.

<sup>4</sup> The Civil Defence branch of the security services is a good example. The first phase of construction of the Civil Defence Training College in Jericho city was finalised but, due to the lack of funding, the second phase of the project has not yet started. The Civil Defence plays an extremely important role in creating the perception and reality of public safety but has generally not received sufficient attention and support relative to other branches of the security services.



The occupation continues to be the single most significant obstacle to good governance in Palestine. The inability to deliver better governance and improved services to all areas and all citizens continues to undermine public confidence in Government. Citizens in Gaza, which remains under blockade, East Jerusalem, and communities isolated by the Separation Wall are the most acutely affected. However, even across the remainder of the West Bank, there remain inequities in the benefits of socio-economic progress. Limited access to land and natural resources, lack of freedom of movement of personnel, restrictions on imports of essential raw materials and equipment, along with a multitude of other restrictions, continue to inhibit efforts to deliver justice and the rule of law throughout the country. Unchecked settler violence, demolition of homes, schools and businesses, and military incursions continue to undermine the Government in the eyes of citizens.

## FOCUS ON: COMMUNITY-BASED PROJECTS



The PRDP 2008-10 provided for a program of small and medium-sized community-based development projects aimed at upgrading infrastructure and services in previously neglected rural communities. These projects, which have proved to be less vulnerable to restrictions on movement, access and permits, demonstrate the Government's commitment and capacity to execute development projects effectively and in alignment with citizens' real needs at the local level.

During the last three years, almost 2,500 of these projects have been initiated with a total value exceeding \$ 750 million. Of these, almost 1,500, with a total value of more than \$ 250 million, have been completed. More than 600 projects are under implementation, with a total value of approximately \$ 390 million. Substantial financial support has also been provided by Arab, Asian, European and American governments and funds.

The community-based projects have built and renovated schools, clinics, hospitals, playgrounds, homes and other public facilities. They have also added countless kilometers to road, water and electricity networks, connecting more and more villages and small communities to basic public services. They have also provided material support to a range of civil society organizations that provide support to vulnerable and marginalized groups.

Most of the community-based projects have been implemented in West Bank governorates; only a small proportion has reached Gaza which has been under blockade during the entire period. However, as we look forward to the future reconstruction and rehabilitation of Gaza it will be important to build on the success of the community-based projects model in the West Bank.

## SOCIAL DEVELOPMENT



### **Social services at a glance:**

*Palestine compares favourably to other countries in the region with respect to health and education indicators. More than 97% of children are enrolled in basic education and gender equality has been achieved. The adult literacy rate exceeds 94%. Almost 97% of children are immunized against measles; the child mortality rate is 28.3 per 1,000 children and infant mortality stands at 25 per 1,000. Maternal mortality is 38 per 100,000 live births and medically supervised deliveries exceed 98%. However, this excellent progress towards achieving the Millennium Development Goals (MDGs) has not been replicated in poverty and hunger indicators. Unemployment current stands at almost 23% (almost 40% in Gaza and just over 15% in the West Bank). Food insecurity is also a major problem: more than 60% of households suffer from food insecurity in Gaza as do approximately 25% in the West Bank.*

*In the health and education sectors, schools, clinics and hospitals are being built and extended to meet rising demand driven by population growth, and social protection mechanisms are being reformed to improve targeting and to empower the poor and vulnerable. Containing the cost of these services is a major challenge, but significant progress is being made through improved statistical analysis and planning systems, and through efforts to develop sustainable financing arrangements. The quality of education and healthcare is being improved through curriculum reform and teacher education programs, and through continuous professional education and licensing of healthcare professionals. Additional government funding is also being allocated to universities and colleges to improve higher and vocational education. However, maintaining the course towards attaining the MDGs will remain extremely challenging. In relation to poverty and hunger, the MDGs are highly unlikely to be met if Palestine remains under occupation.*

*There has been a significant increase in government efforts to empower women and the youth to participate fully in society, ensuring that their rights are respected and their voices heard as we move towards building Palestine. The Government is reaching out to and supporting women's and youth organizations throughout the country in order to support and work in partnership with civil society in this vital endeavor. Legal and institutional reforms are also ongoing to ensure the equitable treatment of women and the proper protection of children under the law.*

*The Government has also been investing in programs to preserve Palestinian culture and heritage and to encourage creativity in the arts. Hundreds of artistic and cultural events have been held across Palestine and government funding is being provided to build and restore cultural centers, libraries, museums and important heritage sights.*

## EDUCATION

The Ministry of Education and Higher Education (MoEHE) continues to implement its Education Development Strategic Plan 2008-12 across seven programmatic areas: Physical Infrastructure; Learning Materials and Technology; Curricula Improvement; School Health and Counselling; Student Activities; Teacher Education; and, Educational Planning and Administration. Special co-ordination committees, as well as a comprehensive monitoring evaluation system, have been established to oversee and track implementation of these programs.

During the first half of 2010, in order to meet rising demand and maintain high enrolment rates, the MoEHE increased the number of classrooms through the construction of 14 new schools, and extensions at existing schools. Seven school buildings were upgraded to address the needs of children with physical disabilities. The Model Schools project is also contributing to enhancing learning opportunities in almost 60 schools.



A school computer laboratory in Ramallah

To promote the use of IT in the educational process, 14 computer laboratories have been installed and nearly 130 schools have been provided with IT equipment since the beginning of 2010.

The MoEHE is upgrading curricula in line with international standards, including development of syllabuses in humanitarian disciplines, science, languages, geography and history. The ministry has also established a national team to develop and analyze national tests in Arabic, science and mathematics in order to address declining standards.

Under the National Teacher Education Strategy the ministry is implementing training programs that primarily target newly-appointed teachers. More than 2,500 teachers, 600 school principals and 150 superintendents have also received training on IT, media, citizenship, and the principles of democracy. The Commission for Developing the Teaching Profession, a quasi-independent body within the MoEHE, is being established and will play a key role in implementing the Teacher Education Strategy. Core standards for teachers and a proposal for introducing a professional licensing system have also been developed.

Efforts to improve the psychological and general health of students in order to create a more positive school atmosphere have continued. The ministry organised 160 sensitization and training meetings to promote awareness of health and nutrition issues, bringing together a large group of teachers, principals, superintendents and members of parent councils. Health centers have also been added to more than 30 schools.

In order to improve access to higher education, the Government has allocated \$ 16 million to the Student Lending Fund to provide grants and loans to aid needy students. The Government has also allocated \$ 40 million to provide financial support to universities – this will be distributed in line with specific standards developed by the MoEHE.

In relation to vocational and technical education, work is ongoing to update and develop new curricula. Also, 11 workshops have been added to Tulkarem Industrial School and 5 workshops have been added to Jenin Industrial School.

In order to promote scientific research and collaboration, with support from the Palestinian Telecommunications Company (PaTel), Palestinian universities and research institutions have been connected electronically with each other as well as universities and research centers across the European-Mediterranean area.



High school graduation, Ramallah

## — HEALTH

Every Palestinian has the right to adequate and high quality health services. To deliver this, the National Health Strategy 2011-13 identifies priority areas for reforming the Palestinian health system and focuses on: accessible and high quality service delivery; preventative healthcare and healthy lifestyles; better governance; and, sustainability in health service delivery.

Over the last year, as part of a concerted effort to establish a comprehensive service delivery network that provides access to health services for every citizen, 11 new primary health care clinics have been built and 30 have been expanded. The Ministry of Health (MoH), working with sector stakeholders, will develop a service coverage plan to map existing services and highlight remaining gaps in the service delivery system.



An Israeli tank and a Palestinian ambulance, Nablus

The Palestine Medical Complex in Ramallah, comprising two new hospitals alongside two existing facilities and a central blood bank, was opened on 8th August 2010. The consolidation of these five facilities into one entity will establish a national centre of excellence in hospital care and a model for decentralized hospital management in Palestine.

A draft strategy has been developed to improve the quality of the health care system. The MoH has established a central Quality Control Steering Committee, quality control committees have been formed at 4 hospitals, and the General Directorate of Primary Health Care has appointed a coordinator of quality control initiatives. Quality healthcare depends on the continuous education and development of health care professionals.

Accordingly, the MoH has established a Human Resources Technical Committee to prepare a development plan for the health sector. As part of a broad effort to develop all health care professions, the ministry has resumed the process of licensing physicians and dentists. The MoH is also working to address gaps in specialist areas, and has recently initiated an Emergency Medicine Residency Program.

To promote preventative healthcare, the MoH is establishing a National Centre of Non-Communicable Diseases responsible for implementing awareness and education campaigns on healthy lifestyles. Immunization programs are also being continuously maintained and expanded to ensure control over the incidence of communicable diseases.

In order to improve sector governance, recognizing the need for better health care data to enable evidenced-based policy-making and planning, the MoH is developing a comprehensive health information system. Using World Health Organisation evaluation standards as a departure point, the ministry hosted a national workshop to review and evaluate the current health information system.

As part of the effort to assure the sustainability of public health care, a mandatory national health insurance system has been developed and approved by the Council of Ministers. The ministry has established a Health Finance Committee to study the cost of health services and develop an appropriate pricing system.

## — SOCIAL PROTECTION

The Government is continuing to make progress in improving the coverage, quality and targeting of social protection. Cash transfers, food assistance, job creation and empowerment programs are being implemented to better meet the needs of the poor, vulnerable and marginalized. Progress is also being made to upgrade laws and bylaws to give proper protection to vulnerable groups, including children and abused women. Also, recognizing the need to upgrade its organizational structure in order to deliver on its new strategies and operational plans, the Ministry of Social Affairs (MoSA) has begun a comprehensive restructuring process. As an initial and vital step, regional offices are being established to bring the full range of social protection services closer to marginalized communities and remote areas.

During the last 6 months, 65,000 households both in West Bank and Gaza benefitted from the cash assistance. In June 2010, through a merger of the Special Hardship Case program and the Social Safety Net Reform Project, MoSA launched a unified Cash Transfers Program, benefitting almost 64,000 households. This program targets households under the extreme poverty line using an internationally endorsed tool, the Proxy Means Testing Formula. The ministry's Cash Transfer Strategy has set the level of benefits at 50% of the gap between the estimated level of household consumption and the extreme poverty line. The ministry has also continued to develop its poverty database, which now includes more than 30,000 households in the West Bank. Efforts to replicate these reforms in the Gaza Strip are underway and the ministry is working with key partners, including WFP and UNRWA, to share poverty data and to use common targeting mechanisms.

### ***Developing a new Social Security Law***

*The MoSA is in the process of revising the Social Security Law. In preparing the new draft law, a series of meetings were held to consult with stakeholders from the public sector, private sector, and non-governmental organizations. An actuarial study to explore the financial impact of implementing the draft law is being conducted.*

In order to address high levels of food insecurity, MoSA distributed more than 100,000 food packages to over 50,000 households during the last six months. Also, as a specific measure to alleviate the suffering of citizens affected by Wall construction, settlement activity, Israeli military action, and settler violence, aid was delivered to 139 citizens through the Emergency Cash Assistance Program.

Economic empowerment initiatives, aimed at lifting households from dependency to self-reliance are ongoing. As part of the Economic Empowerment Program, spearheaded by MoSA in partnership with other government bodies and NGOs, a committee has been established to institutionalize the National Fund, through which 40 poor households have been awarded loans during the last 6 months. The ministry is also continuing efforts to rehabilitate disabled persons to better integrate them into society – loans have been provided to some 200 disabled persons to help them establish small enterprises.



MoSA continued to aid the integration of marginalized youth into society through centres delivering training and rehabilitation services. A total of 500 students are enrolled in these programs and, having received professional training for two years, almost 200 students graduated in 2010. The ministry is also establishing Childhood Protection Networks in the governorates of Bethlehem, Hebron, Nablus and Jenin and developing professional supervision system to follow up on specific cases of concern within these networks.

There are approximately 7,000 detainees in Israeli prisons, including 281 children and 37 women. The Government has continued to provide a range of services for detainees, ex-detainees and their families. These include legal representation, social assistance to address economic hardship, as well as vocational training and micro-financing for released detainees.

## — EMPOWERMENT OF WOMEN

In partnership with representatives of other government bodies, civil society and the private sector, the Ministry of Women's Affairs (MoWA) led the process of developing the National Gender Strategy 2011-13. MoWA has concluded memoranda of understanding with the ministries of Agriculture, Local Government, Interior and Culture to integrate gender issues within their policies, plans and programs. This has been followed up with a series of workshops to discuss in detail how to operationalize ministries' commitment to tackle gender issues comprehensively and effectively.

To improve communication and coordination with women's organizations, and to better understand and address women's needs at the local level, MoWA is establishing Women's Network Centres (Tawasul) across Palestine. Four centers have been set up in Bethlehem, Jenin, Hebron and Nablus, and two more are being built in Jerusalem and Jericho. The ministry has also visited women's organizations in East Jerusalem on fact-finding missions to assess how the ministry can provide support.

### **Public outreach and participation in policy development**

*Implementing a Council of Ministers decision to establish sector policy advisory boards, the MoWA formed the Gender Advisory Board comprising members of the public sector, civil society and private sector. The Board held its inaugural meeting in February 2010.*

To build on the national effort to combat gender-based violence, the National Committee on Combating Violence Against Women has finalized a five year strategic plan and hosted a series of events have been conducted to raise awareness of the strategy. MoWA has also worked with the Ministry of Social Affairs to draft a revision to the Penal Code related to so-called honor crimes.

## — YOUTH AND SPORTS

Investment in the youth, enabling them to effectively participate in the future development of Palestinian society, is central to the national effort to build Palestine. Over the past six months, the Ministry of Youth & Sports (MoYS) has continued to focus on developing infrastructure and organizing national and international events. This represents a deliberate policy to give a tangible demonstration of the Government's commitment to engaging with young people and providing them with opportunities to participate and grow in our society.

New, safe playgrounds have been built, including the Al Hussein Stadium in Hebron and the Ru'ya Shabab Falastinin Jenin. The Ministry also rehabilitated a number of existing playgrounds in Hebron, Jericho, AlBireh and Nablus. Two new sports halls have been constructed in Hebron and Tulkarem, and another two halls in Qalqiliya and Salfit are under construction. The second phase of construction of the Al Bireh Youth Center and the Sports City in Jenin, including a football stadium, are underway. New swimming pools are being built in BeitJala, Jericho and Ramallah and support has also been provided for construction and rehabilitation of 67 youth centers and clubs.

### **Participatory sector-wide planning**

*The MoYS will officially launch the National Youth Strategy 2011-13 in September 2010. In a highly participatory process, 25 meetings were held with different youth organizations and international development partners. More than 1,000 youths participated in more than 40 workshops across the West Bank, providing feedback and new ideas.*

The MoYS has organized 28 youth camps, bringing together 3,000 male and female youth. Around 700 summer camps for children and adolescents attracted 77,000 participants. The ministry sponsored the Sports Marathon for All, the first race of disabled persons of all ages, in which 500 people took part. In partnership with UNICEF, the MoYS also established 100 Child Friendly Clubs, including 60 in the West Bank and 40 in Gaza, providing services to a total of 40,000 adolescents.

The MoYS has made important progress in strengthening its role as a coordinator of policy and in establishing cooperation with regional and international organizations. The ministry has formulated a national advisory council and a ministerial committee for the youth sector, and built a database of youth and sports facilities to aid better planning and service delivery. A series of seminars have been held to improve the skills of trainers and referees in various sporting activities. The ministry took part in several Arab, regional and international seminars and meetings, including the 33rd Session of the Council of Arab Ministers of Youth and Sports in Beirut and the Peace and Sport International Forum in Monaco. The ministry also worked with the Arab League to organize the International Jerusalem Festival, attended by 7,000 people.



Municipal Sports Hall, Hebron

## — CULTURE AND HERITAGE

AlAshikeen group during the Festival of Ramallah dance at the Ramallah Culture Palace



The Ministry of Culture (MoC) has continued to invigorate and develop Palestinian cultural life, targeting tens of thousands of citizens, particularly the youth and children, and people living in marginalized communities. The ministry has organised and supported over 300 cultural events over the last 6 months, including seminars, theatrical presentations, book fairs, and local festivals. Focusing particularly on Jerusalem, the MoC supported cultural clubs, sponsored the Displaced Villages Project, and organized cultural events, festivals and activities. On the National Culture Day in March 2010, 12 events were organized throughout Palestine.

As part of a long-term effort to develop cultural infrastructure, the MoC is working to establish three cultural centres in the Northern West Bank, initiated the first phase of construction of the Child Freedom Palace in Jericho, and constructed and rehabilitated three public libraries in Hebron and Ramallah-Al Bireh governorates. The ministry also provided support to rehabilitate and develop the Khalil AlSakakini Cultural Centre in Ramallah and the Jenin Cinema. Work is currently underway to restore heritage sites in the old town of Birzeit. The first phase of a project to rehabilitate the Tal Balata site, east of the old city of Nablus, was launched in July by the Ministry of Tourism & Antiquities. Tal Balata is one of 20 distinctive, internationally valuable destinations registered on the list of cultural and natural heritage sites in Palestine.

### **Public outreach and participation in sector-wide planning**

*With the broad participation of representatives of government bodies, civil society organisations and the private sector, the MoC developed the National Culture Strategy 2011-13. The strategy was presented to more than 500 representatives from cultural institutions, writers and artists throughout Palestinian governorates. To further promote a sustainable participatory approach in planning and implementation of cultural programs and activities, and to help ensure that the objectives of the National Culture Strategy are achieved, Culture Advisory Boards have been established in all governorates.*

The MoC is also committed to encouraging artistic and literary creativity. During the last 6 months, the ministry organised more than 80 events to honor artistic and literary achievements, as well as seminars at which authors and artists presented their works to university students. In order to promote cultural communication and exchange with the outside world, the MoC signed a number of cultural agreements with Jordan, Bulgaria and Brazil and has developed draft agreements with Tunisia, South Africa and Albania. In addition to assisting Palestinian authors and artists to take part in 10 international artistic events, the ministry hosted authors and artists from various countries in Palestine.



## LOOKING AHEAD: MAJOR CHALLENGES IN SOCIAL DEVELOPMENT

Ensuring the sustainability of social service delivery will be a major challenge for years to come. In the short-term, positive progress towards sector wide approaches to external financing (as in the education sector), as well as cooperation between government and international development partners in the provision and targeting of social assistance, must be maintained and built upon. Furthermore, ongoing efforts to strengthen evidence-based planning and costing mechanisms, as well as domestic financing mechanisms such as health insurance, are essential to the long-term objective of fiscal self-reliance.

As government ministries in the sector develop more forward-thinking strategic plans, with increasing focus on quality and cost-effectiveness, there will be an increasing need for organizational restructuring, legal reform and professional development to support the implementation of new approaches to managing performance and service delivery. Ministries are already making progress in this regard, backed by improved monitoring and evaluation systems and processes to track progress.

The high level of youth unemployment is also a major strategic challenge. More generally, the youth needs to be better equipped and able to participate fully in building Palestine. Various ministries, including Education, Youth & Sports and Labor, are developing and implementing policies and programs to address these issues in a sustainable manner. The completion of the National Youth Strategy is an important step forward which will need to be backed-up by continued efforts, alongside international development partners, to coordinate youth policy and program implementation.

The policies and actions of the occupation regime also represent a major challenge – and without a doubt the most significant one. Restrictions on movement, access and infrastructure development, along with intimidation and violence by the Israeli military and settlers, constantly obstruct the delivery of basic social services in a multiplicity of ways. For example, restrictions on the import of construction material, as well as medical and educational supplies, frustrate efforts to maintain and improve service levels. Gaza, East Jerusalem and communities isolated by the Separation Wall are the most acutely affected, but the impact is felt throughout Palestine. Women and children are also disproportionately affected – for example, checkpoints and intimidation particularly affect school attendance amongst girls and access to maternal healthcare. Taken together, such factors not only compromise service levels, but also prevent equitable delivery of services to all citizens, irrespective of their gender, age and place of residence.

# ECONOMY

## Economy at a glance:

*The economy continues to experience growth, predominantly in the West Bank, though real GDP per capita remains substantially below its high point in 1999. The economic situation in Gaza remains very bleak, as the blockade continues to place the private sector under severe strain. Unemployment remains high, averaging around one quarter of the workforce since 2008, and currently standing at 23%. Unemployment is rising rapidly in Gaza, reaching almost 40% in the second quarter of 2010, whilst in the West Bank it has declined from a high point of 28% in 2002 to just over 15%.*

*Public-private partnership continues to yield major investments in vital economic sectors, including residential and commercial construction, ICT and agriculture. These investments, which include new industrial parks and commercial centers, will strengthen the productive base of the economy and, alongside measured legal and regulatory reform, enable the private sector to develop more competitively priced, export-ready goods and services. The Government is continuing to work at the international level to boost trade cooperation and secure beneficial trade agreements, securing support from highly influential international actors.*

*The seizure and occupation of Palestinian land and resources continues to stifle the country's economic development. Pervasive restrictions on movement and access of goods and people represent a major barrier to economic activity and trade both internally and externally. Denial of access to national resources, including land and water, severely constrain and raise the cost of production in almost all sectors of the economy. Without a material change in this status quo, the positive impact of steps being taken internally to build a healthy economy will be limited in both scope and sustainability.*

## — ECONOMIC DEVELOPMENT AND TRADE

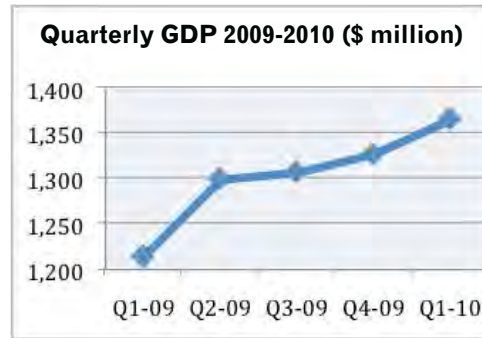
The Palestinian economy continues to show signs of recovery, with preliminary estimates indicating a 2.9% increase in GDP in the first quarter of 2010 compared with the fourth quarter of 2009, and an increase of 11.9% compared with the first quarter of 2009<sup>1</sup>. All areas of economic activity have registered growth during the last five quarters, indicating a robust recovery which is limited however to certain sectors. The Industrial Production Index for the West Bank also registered a 2.4% rise in the first quarter of 2010, and is now 13.9% higher than in January 2009.<sup>2</sup>

Rising business confidence, underpinned by significant advances in security and the rule of law, continues to drive new investment activity in the West Bank. Between April and July 2010, 530 new companies were registered, and the number of building licenses issued in the first quarter of 2010 was 19.5% higher than in the first quarter of last year.

The Government has continued its efforts to systematically improve the investment climate. The second annual Palestine Investment Conference, held in June 2010 and attended by more than 2,000 people from 26 countries, brought more investors and Palestinian businesses together against a backdrop of increasing confidence. An amendment of the Investment Promotion Law, passed by the Council of Ministers and awaiting the President's approval will provide increased incentives to invest in Palestinian businesses.

<sup>1</sup> PCBS, June 2010, Press Release: Preliminary Estimates of Quarterly National Accounts (First Quarter 2010)

<sup>2</sup> PCBS, May 2010, Press Release: Industrial Production Index



### Bethlehem Multidisciplinary Industrial Park (BMIP)

*While its construction is still underway, the BMIP has already received multiple international investment applications. This includes a spare parts factory for the French car company Renault and other applications from the pharmaceutical and food industries. Applications will now be put through a screening process. Those factories that are labor intensive will have apriority, as well as those that are environmentally friendly. Local factories have also been encouraged to apply. A number of incentives are on offer for companies that move to the industrial park. For example, successful applicants will benefit from the investment promotion law and be tax exempt for the first seven years. The Palestinian Industrial Estates and Free Zones Authority (PIEFZA) will cover up to 40% of relocation costs for local firms. Assistant Project Manager at Palestine Industrial Estate and Free Zone Authority (PIEFZA), Khaled Al- Amleh, told the Bulletin that BMIP is expected to house around 50 local and foreign factories when it opens in 2011, creating around 2,500 jobs.*

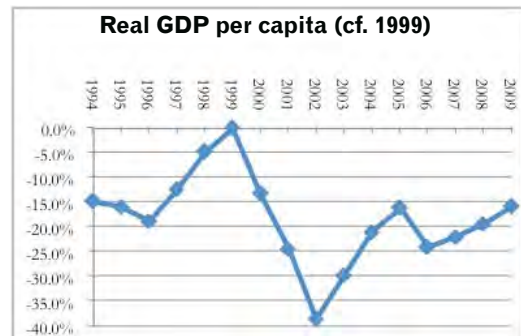
**Reproduced from the Portland Trust Palestinian Economic Bulletin No. 46, July 2010**

The Palestine Investment Fund (PIF) is also continuing to progress innovative initiatives that will stimulate economic activity and create jobs. In July 2010, the Amaar Group (the real estate investment arm of the PIF) commenced construction of the Ersal Commercial Center in Ramallah. This \$ 400 million development comprising offices, housing, entertainment facilities, shops and hotels over an area of 50,000 square meters will create thousands of jobs. Over the next five years, working together with local, regional and international partners, the PIF is planning to spearhead a \$ 4 billion investment program that will yield growth and 100,000 new jobs in multiple sectors, including in real estate, housing, ICT, tourism, energy and financial services. Siraj, a Palestinian private equity fund, has also announced plans to invest \$ 80 million in more than 20 local companies beginning later this year.

The Ministry of National Economy is moving forward on several fronts to boost foreign trade. The Ministry has continued to work towards observer status at the World Trade Organization, with several influential members committing to support the Palestinian application at the next General Council meeting. Additionally, during his visit in March 2010, Brazilian President Luiz Inacio Lula da Silva announced that Brazil, along with Argentina, signed a memorandum of understanding to negotiate a free trade agreement with the PNA. The US government has expressed support for Palestine's bid for WTO observer status. The EU Trade Commissioner, Karel De Gucht has also expressed support for Palestine's WTO observer status and has recently announced plans to boost Palestinian exports to the EU by granting duty-free and quota-free access for agricultural and industrial goods.

Notwithstanding these positive developments, by the close of 2009, real GDP per capita remained more than 15% below its peak level in 1999. The system of movement and access restrictions implemented by Israel remain a major inhibitor of growth. Furthermore, numerous obstacles at commercial crossing points constrain the flow, and increase the costs, of goods moving in and out of the West Bank. The number of internal closure obstacles in the West Bank as of March 2010 totalled 505<sup>3</sup>, compared with 561 in the fall of 2007 when the Government launched the Palestinian Reform and Development Plan 2008-10. This small reduction falls far short of what is required to enable sustainable restructuring and development of the economy.

3 OCHA, June 2010, The Humanitarian Monitor



The economic situation in Gaza presents an entirely different picture. Limitations on imports and an almost total blockade of exports since June 2007 have precipitated the closure of more than 60% of businesses in the industrial sector, leading to a loss of around 80,000 jobs – equating to 97% of the original work force. Those businesses that continue to operate do so at between 10% and 50% of capacity and many rely on the black market tunnel economy to import raw materials<sup>4</sup>. With the private sector so debilitated, Gaza is almost entirely dependent on public expenditure and international assistance to stave off complete socio-economic collapse.

However, the private sector in Gaza continues to demonstrate its resourcefulness under great adversity. In sectors less susceptible to the ongoing blockade of Gaza, there are some modest signs of progress. For example, the Palestinian Information Technology Association (PITA) has launched an 18 month pilot project to develop the IT sector in Gaza. Grants of up to \$ 20,000 will be awarded to up to 8 software companies to develop new products and services with export potential. PITA hopes to raise \$ 3 million to extend the project over a 3 to 5 year timeframe.

***The Gaza Private Sector Reconstruction Program (GSPR)***

*GSPR is a large-scale support program designed to revive the private sector in the aftermath of the war on Gaza. The ultimate goal of the initiative is to 'kick-start' the production cycle and to allow the private sector to lead the economic development and reconstruction of Gaza. The program is providing more than US\$ 33 million in direct assistance to more than 1,000 enterprises whose productive assets were destroyed or damaged by war. In July 2010 the first disbursement of US\$ 6 million benefitted 202 enterprises.*

**Resilience of the private businesses in Gaza**

*The Palestine Company for Building Materials was established in 1995 with total capital of around US\$1.5 million. Before the closure, the company was employing 40 skilled workers. Monthly sales in the local market were estimated at US\$280,000, and the imports were estimated to be 450 truckloads (40 truckloads of cement, 400 truckloads of gravel and 10 truckloads of various other materials). Six months into the closure (imposed on Gaza since 12 June 2007), the company owner was forced to shut down the business and laid off all employees. Estimated losses were around US\$300,000. Currently, the company is witnessing a slight recovery as it started to use the recycled rubble left by the war. This process involves converting the rubble into gravel and importing cement through tunnels (at double the previous cost). Thus the company was able to re-hire 50% of employees and resume its operations at 50% of capacity.*

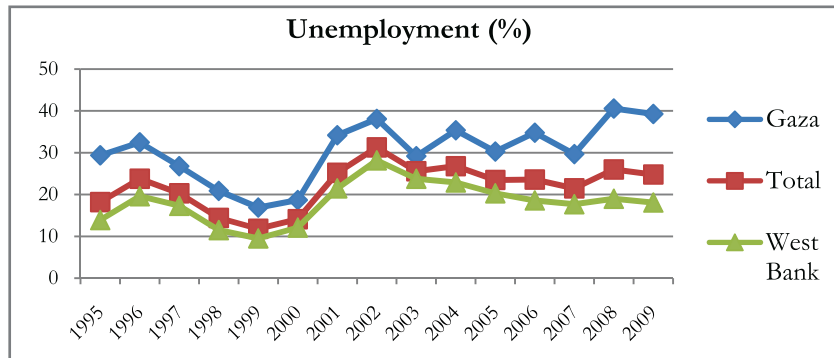
***Reproduced from Gaza Strip Crossings: Bimonthly Monitoring Report (April-May 2010), PALTRADE, June 2010***

The determination of businesses in Gaza to continue operating and developing, despite the severe limitation imposed by the blockade, once again demonstrates the enormous potential of the private sector to drive the future growth and development of a free Palestine.

4 PALTRADE, June 2010, Gaza Strip Crossings: Bimonthly Monitoring Report, April-May 2010

## LABOR

Labor force participation during the second quarter of 2010 stood at 41.5%, slightly higher than the previous quarter (40.7%), and unemployment rose from 22.0% to 22.9% over the same period<sup>5</sup>. Unemployment in Gaza rose from 33.9% to 39.3% between the first and second quarter of 2010. In the West Bank, unemployment fell from 16.5% to 15.2% over the same period. Youth unemployment remains high with 39.4% of the 20-24 age group out of work, 24.9% in the West Bank and 66.6% in Gaza.



As part of the effort to tackle the high levels of unemployment, the Government is establishing the Palestinian Employment Agency to oversee a series of regional employment centers. These centers will provide information about job and vocational training opportunities, as well as career guidance to job-seekers. A community-based training program has also been established to promote youth entrepreneurship.

The Ministry of Labor (MoL) is enhancing its labor market information system in order to help better monitor and understand labor market dynamics, and formulate more effective public policy. The MoL is also working on upgrading occupational safety standards, arranging overseas training for relevant staff and working with the International Labor Organization to develop inspection methods.

Deepening the level of regional and international cooperation, the MoL signed memoranda of cooperation with counterpart ministries in Jordan, Tunisia, Morocco, and Romania. The MoL also took part in the Regional Cooperation Project for the Promotion of Vocational Training, as well as in the Torino Process, and participated in the annual International Labour Conference in Geneva and in the Arab Labour Conference in Bahrain.

## AGRICULTURE



According to the latest data published by PCBS in 2010, the Agriculture sector accounts for 12.7% of total employment and contributes 5.2% of GDP. The Government identified the sector as having high potential to drive economic growth in the near-term. One of the Ministry of Agriculture's priorities has been to create a more conducive investment environment in the sector and improve access to finance.

<sup>5</sup> PCBS, August 2010, Labour Force Survey, Q2 2010

In June 2010, the Palestine Banking Corporation (PBC), in cooperation with the ministry, announced the launch of a new fund to provide loans of \$ 10,000 to \$ 100,000 to small farmers. The PBC is also working on the development of a \$ 100 million fund to invest more broadly in agribusiness.



Olive trees being uprooted by Israeli bulldozer, Deir Qedais village

The ministry has been actively working on rural rehabilitation and development projects. Since January 2010, more than 1,500 dunums of neglected land has been reclaimed and planted with fruit-bearing trees. More than 125km of rural roads have been constructed, 450 rainwater harvesting cisterns built and 46,000 square meters of support walls constructed. The Green Palestine initiative is also having a significant impact across the West Bank. So far, 370,000 new olive and almond trees have been planted, and forests are being established across 1,200 dunums of land.

Significant steps forward have also been made in upgrading the legal and regulatory framework. Two new bylaws have been approved in the last six months (on Veterinary Quarantine and Animal Health) and four more are scheduled to be ready for approval over the next half year.

Substantial progress has also been made in improving policy development and policy implementation in the sector. A sector strategy for 2011-13 has been developed as part of the national planning process, through extensive consultations with relevant stakeholders. The ministry is proceeding with its plans to restructure and develop its organizational performance in order to ensure that the new strategy is effectively implemented.

***National Center for Agricultural Research***

*Working alongside Palestinian universities and local and international research centers, the Ministry of Agriculture is supporting applied agricultural research. Approximately \$ 1 million has been allocated to commission research studies on a variety of issues, including livestock and plant productivity, natural resources and biotechnology.*

## TOURISM

Since the beginning of 2008, bolstered by improvements in internal economic and security conditions, the number of hotels, hotel staff and guests has increased steadily. Activity in the sector during the second quarter of 2010 rose significantly relative to the corresponding period in 2009: the number of hotel guests increased by 42.3%, room occupancy increased by 30.2%, and employment of hotel staff rose by 14.6%<sup>6</sup>. Domestic tourism is also rising: during 2009 just under 40% of citizens spent \$ 10.5 million on internal travel.

The Ministry of Tourism and Antiquities has participated in numerous international exhibitions and conferences to promote tourism in Palestine. The ministry is also supporting investment projects that will help cater to rising domestic tourism and leisure activities, including major new hotel and restaurant projects. A tourist bus service is also under consideration.

In coordination with the private sector, the ministry is implementing training programs aimed at raising standards in the tourism profession. Furthermore, recognizing the importance of Palestine's historical and cultural importance globally, the ministry has launched numerous initiatives to preserve and restore archaeological artefacts and heritage sites.

## INFORMATION AND COMMUNICATIONS TECHNOLOGY

The Ministry of Telecommunications and IT is spearheading a national effort to broaden citizens' access to modern, affordable communications services. At the same time, the ministry is pushing forward with a variety of initiatives to broaden and deepen the use of ICT in the public sector in order to raise service standards and efficiency. Through the establishment of the ICT Sector Advisory Council, the government has fostered a partnership with the private sector to work constructively towards these goals.

The ministry has recently secured a Cabinet decision to establish an independent telecommunications regulatory commission. Following recent achievements in opening up the mobile communications market to more competition, the ministry is now focusing attention on broadband services in order to increase access to the internet in households across the country.

The national postal service is also undergoing a major overhaul. Post offices in Jericho, Nablus, Ramallah and Tulkarem have been renovated and work is underway to roll these improvements out to the other governorates. Palestine has now joined the international post code system, acceded to the Euromed Postal organization, and public land has now been set aside for the construction of an international exchange center in Jericho.

During the last six months, more than 50 government bodies have been connected to the Government IT Network. Palestinian universities and academic research centers have also been connected to the Euro-Mediterranean network in order to enhance communication and collaboration with academic institutions overseas.

<sup>6</sup> PCBS, May 2010, Hotel Activity in the Palestinian Territory, Q2 2010

## LOOKING AHEAD: MAJOR CHALLENGES IN ECONOMIC DEVELOPMENT

The pace of legal and regulatory reform needs to be sustained in order to create an enabling environment for private-sector led growth. Close partnership between the public and private sectors, coupled with a responsible attitude toward regulation, is having a significant impact on appetite to invest in existing and new businesses. The scope and complexity of the reform effort is challenging and will take several years to complete, but its impact is already being felt.

Lack of unfettered access to land and natural resources, as well as pervasive barriers to economic activity and trade, remain part and parcel of daily life for citizens and businesses in Palestine. These factors, along with the risk that the political situation could deteriorate at any time, continue to stifle growth and suppress business confidence. Businesses' ability to import capital equipment and raw materials, as well as to export their products and services, remains severely restricted. The resultant suppression of investment that would strengthen Palestine's industrial base and improve quality and productivity is a powerful inhibitor of sustainable growth.

Restricted access of visitors to Palestine is also a significant issue. Perhaps the most direct impact on the economy lies in the tourism sector. However, businessmen and women, academics and civil society organizations are discouraged from entering the country. This represents a significant barrier to the exchange of ideas, technology and partnerships that form the basis of any effort to integrate with, and compete in, the global economy.

The degradation of infrastructure, arising from a variety of factors ranging from war damage to chronic underinvestment, represents a major inhibitor of economic development. For example, poor quality roads and utility networks raise production and distribution costs. Recognizing the vital importance of infrastructure to economic development, as well as to the delivery of quality basic services to citizens, the Government has been an active sponsor, and sometimes implementer, of infrastructure projects throughout the West Bank. The scale of investment needed over the coming years cannot be overstated, particularly in war-damaged Gaza. The private sector is already proving to be a willing and active partner in this endeavour but significant public investment will also be required.



# INFRASTRUCTURE

## Infrastructure at a glance:

*The Government has registered major achievements in extending the supply of utilities services to previously neglected communities. In a landmark achievement, almost 100% of the population is now connected to the electricity grid. New water wells and pipelines are being installed across the West Bank and substantial progress has been made towards establishing wastewater treatment facilities. The road network continues to be extended and rehabilitated, improving road safety, and reducing journey times and transportation costs. New sanitary landfills are at the advanced planning stage and responsibility for solid waste management is being devolved to Joint Service Councils.*

*Public infrastructure is being continuously upgraded in line with sector-wide plans, developed through extensive cooperation between relevant ministries and agencies and international development partners, and major projects are subject to environmental impact assessments and approval by the Environmental Quality Authority. Private sector investment is also being solicited for major projects and, notably, a consortium of investors has been put together to develop Palestine's first electric power plant. Significant progress has also been made towards ensuring the economic viability of utilities services. Regional electricity distribution companies, which will be regulated by the newly-formed Electricity Regulation Commission, are being established and prepaid meters are being installed to improve fee collection rates. These measures are now being replicated in the water sector.*

*All of these improvements have been hard-won in the face of significant constraints on development of our own land and utilization of our own natural resources. Foremost amongst these constraints is the machinery of the occupation regime, designed as it is to deny Palestinians their rights in their homeland. Whilst these achievements demonstrate that progress can be made despite these restrictions, the prospects of implementing some of the more complex and transformational infrastructure projects, such as the development of national networks and international gateways connecting Palestine to the outside world by land, sea and air, seem remote. Of even more immediate concern, the continued blockade of Gaza is preventing implementation of plans for its reconstruction and recovery.*

## TRANSPORTATION



Road reconstruction, Jericho

The Transportation Sector Strategy outlines the Government's plans to upgrade transportation infrastructure over the next three years. The strategy, covering land, maritime and air transportation, aims to establish a comprehensive and safe national road network, begin developing a rail network, and commence work on connecting Palestine to the rest of the world by land, sea and air.

Between March and August 2010, the Government paved and rehabilitated almost 150km of roads outside municipal boundaries, at a cost of just over \$80 million. In areas inside municipal boundaries, the Government implemented 218 projects for rehabilitation, pavement and maintenance of almost 1,000km of roads at a cost of almost \$50 million.

Three pilot road repair units, responsible for routine maintenance, have been established in Hebron, Nablus and Ramallah. Once the pilot phase has been evaluated, repair units will be rolled out to other Governorates. Additionally, a Road Maintenance Manual has been developed by the Ministry of Public Works and Housing (MoPWH) to provide guidance to other ministries, municipalities, village councils, General Union of Contractors and individual contractors. The MoPWH is holding workshops for interested parties to raise awareness of the issues covered in the manual prior to enforcing the guidelines.

#### **Public-private partnership to improve road standards**

*The Ministry of Public Works and Housing has spearheaded a government initiative to work with the private sector, NGOs and academia to develop Roads Standards, a three volume document setting out standards in Management and Administration, Geometric Design Standards, and Construction Specifications. Application of these standards will improve the quality, safety and sustainability of the road network.*

As part of the International Gateways initiative, preliminary studies and designs for construction of the Palestine International Airport in Al Buqei'a in the Jerusalem governorate have been finalized. The construction site has been identified, cost estimates prepared, and preliminary design schemes of the airport installation, airstrips and service facilities completed.

## — ENERGY

The Palestinian Energy Authority (PEA) has launched its three year Energy Sector Strategy, setting out four primary objectives: attaining energy security, effective governance and regulation, ensuring full access to the electricity supply, and securing its long-term economic viability.

To realize Palestine's energy security, sustainable sources of sufficient and economical energy are needed to meet current and future requirements. This necessitates the diversification of energy sources and reducing dependence on Israel for the supply of electricity and fuel. The Government is working actively on diversification through establishing domestic electricity generation capacity, importing electricity from neighbouring countries and developing alternative and renewable energy sources. In line with its strategy to develop alternative and renewal energy sources, in July 2010, the PEA finalized a feasibility study for the construction of a 10MW Solar Power Plant in Jericho.

The PEA has initiated a government-funded feasibility study to construct a power plant in the Northern West Bank and signed a memorandum of understanding with a consortium of local investors. During the initial phase, the power plant is expected to produce 200MW of electricity, enough to meet one third of the West Bank's requirement. Also, having secured financial backing from the European Investment Bank to construct four 161/33kV transformer stations, the PEA is continuing to negotiate with the Israeli Electricity Company to clear the way for their construction.

Following on from the promulgation of the General Electricity Law in 2009, the Palestinian Electricity Regulation Commission (PERC) was established in February 2010. One of the PERC's first actions has been the drafting of a Distribution License Law to ensure proper regulation of the electricity distribution companies.

#### **Regional co-operation to diversify the electricity supply**

*In 2008, Palestine was admitted as a full member in the Eight States Organisation (Turkey, Libya, Egypt, Iraq, Syria, Lebanon, Jordan and Palestine), allowing electricity to be imported from member states. In December 2009, the Council of Ministers authorized the PEA to sign an electricity supply contract with the Jordanian National Electricity Company.*

Over the past two years, PEA has connected all villages and small residential areas in the West Bank to the electricity network. At this time, 99.5% of population is connected, with only 10 small residential areas still denied access due to Israeli restrictions. As part of the Palestinian National Early Recovery and Reconstruction Plan for Gaza, the war-damaged electricity grid is being repaired and the Government has continued to provide financial support to keep the Gaza electricity generation plant operational.

In line with the strategy for ensuring the economic viability of electricity distribution, commercial electricity distribution companies are being established and prepaid meters installed. In July 2010, responsibility for electricity distribution in Nablus was transferred from local government to the Northern Electricity Distribution Company (NEDCO). Electricity distribution in Jenin will be transferred to NEDCO before the end of September 2010. Fee collection has improved through the installation of 200,000 prepaid meters. A contract has been signed to install a further 180,000 meters in the West Bank and plans are in place to install 10,000 in Gaza.

## **ENVIRONMENT**

The Environmental Quality Authority (EQA) has been increasingly active in driving the coordination of government environmental policy with various government ministries, including the Ministries of Agriculture and Local Government. A comprehensive, three year Environmental Sector Strategy has been endorsed by the Council of Ministers. The Council of Ministers has also approved the EQA's proposal to form and chair a National Committee on Climate Change. The EQA also participated in the development of a National Solid Waste Strategy and a Master Plan for Hazardous Waste, as well as updating the Emergency Plan on Nature Protection and developing a national report on 26 nature reserves in Palestine.

The EQA's role in environmental oversight has also moved forward. Major infrastructure projects require comprehensive Environmental Impact Assessments and approval from the EQA. In recent months, the EQA approved the Regional Solid Waste Management Project in Ramallah and Al Bireh, and granted preliminary approval to the Solid Waste Management and Environmental Program in Hebron and Bethlehem. The EQA also issued instructions and conditions on the operation of stone quarries in the Jaba' area of the Jerusalem governorate to reduce environmental contamination.

The EQA has drafted a series of bylaws and submitted them to the Council of Ministers. These include bylaws on solid waste management, medical waste management, and regulation of the stone, marble and concrete industry. In cooperation with the Palestinian Standards Institute, three environmental standards have been completed, covering the use and disposal of treated sludge, the treatment of industrial wastewater, and air quality.

## SOLID WASTE

Almost two thirds of solid waste is now deposited at sanitary landfills (22%) and regulated dump sites (42%). However, the 36% which is disposed at more than 150 unregulated sites remains a public health and environmental hazard. As noted in the previous section, the Ministry of Local Government (MoLG) has worked closely with the EQA to develop strategies and plans to improve the management of solid waste and hazardous materials.

Land use licenses, issued in September 2010, will enable the establishment of the Southern West Bank Sanitary Landfill in Hebron and Bethlehem and the Council of Ministers has approved the acquisition of land for construction of the Central West Bank Sanitary Landfill. Criteria for the closure of unregulated dump sites in Ramallah and Al Bireh have also been developed.

In order to improve solid waste management in the near-term, the MoLG has transferred responsibility for solid waste collection to Joint Service Councils in Bethlehem, Tulkarem and Salfit. Furthermore, 150 garbage containers were distributed to Jerusalem and 170 to Hebron and solid waste compactors were distributed to Bethlehem, Jerusalem, Salfit, Tulkarem, Nablus, Jericho and Tubas.

### ***Israeli restrictions frustrate efforts to build essential public infrastructure***

*In 2004 the German Development Bank (KfW) committed EUR 10 million for the Regional Solid Waste Management program for Ramallah/Al-Bireh governorate. Identification of a suitable site that meets Palestinian needs, whilst complying with Israeli restrictions, was a major challenge. The proposed sites were mostly located in 'Area C', and therefore subject to a complex process of site selection overseen by the Israeli military and civil administration. Four years later, in August 2008, Israel gave in-principle approval of a site in Rammun. The SWM Joint Service Council for the governorate initiated the process of obtaining a construction permit for the landfill, and produced a feasibility study and an environmental impact assessment. However, Israel is now stipulating access road arrangements that would lead to a 1 to 2 hour detour of more than 75% of solid waste trucks through secondary and tertiary roads. This will give rise to prohibitive increase in construction and operational costs.*

## WATER AND WASTEWATER

Constructing a new distribution cistern, Beitfurik, Nablus



The Palestinian Water Authority (PWA) recently obtained Council of Ministers approval of its three year Water and Wastewater Strategy 2011-2013. Its primary objectives include: improving governance in the sector, extending water and wastewater services to all communities, commercialization of water and sanitation services, upgrading infrastructure, and combating systemic water losses.

After extensive internal consultations, and in line with the recommendations of recent World Bank and Amnesty International reports on the water sector, the PWA is working towards better delineation of policy, regulatory and service delivery roles, and revision of the sector legal framework. The PWA is also working with the Ministry of Local Government (MoLG) to establish water and sanitation units at the local level – a first step towards a major restructuring of the sector that will ultimately create a national bulk water utility. The PWA and MoLG are also implementing prepaid meters on a pilot basis in Jenin governorate, leading to an expected 90% increase in fee collection rates.

Whilst the system for obtaining permits and approval from the Government of Israel (GoI) continues to be a major stumbling-block, the PWA continues to plan for drilling and equipping new wells, installing transmission pipelines, internal networks, water reservoirs and booster stations throughout the West Bank. Since the beginning of 2010, 3 new wells and 120km of pipelines have come into operation. The Joint Water Committee (JWC) has recently approved the drilling of several new wells, the construction of water networks, and the rehabilitation of existing infrastructure throughout the West Bank – these are now in the implementation phase. Permits and preliminary approvals have also been given to implement a range of other minor projects, including: reduction of water loss in Nablus city, drilling and rehabilitation of wells, construction, maintenance and expansion of water networks, and procurement of approximately 200 kilometres of water pipes to launch new projects in the West Bank.

#### **Over-abstraction from the Western Aquifer by Israel exacerbates water shortages for Palestinians**

*The Western Aquifer, a shared water source, is increasingly being overexploited by Israel. Oslo II Article 40 stated that the sustainable recharge of the aquifer is 362 million cubic meters per year (mcm/yr) – with Israel using 340 mcm, and the Palestinians only 22 mcm/yr. According to the Hydrological Service of Israel, in the 10 years following the signing of Oslo II, Israel has on average abstracted 404 mcm/yr from the Western Aquifer. This violation of the Oslo II agreement threatens the sustainability of the aquifer, to the detriment of both Palestinians and Israelis.*

Although these efforts alone will not make up the shortfall in the water supply, given the Israeli restrictions on access to sufficient quantities of water for Palestinians, conservation measures remain a priority. Several programs to reduce systemic water losses are on-going across the West Bank governorates and the PWA is developing a pilot plan on the reuse of treated wastewater in Tulkarem and Nablus. Unlicensed water withdrawals, from both wells and network connections, are being tackled through more robust application and enforcement of the law. Also, pursuant to the Government's commitment to address the needs of marginalized communities, the PWA, in cooperation with Palestinian universities, sponsored a research project on Integrated Management of Wastewater in Rural Areas – based on this study a wastewater strategy for rural areas and marginalized communities is being developed.

Sewerage networks are limited to major cities in both the West Bank and Gaza Strip. Though previous investment in the sector has largely concentrated on water supply, the PWA is paying increasing attention to wastewater management. Over the last six months, 50km of pipeline has been added to the sewerage network across the West Bank. In recent months the PWA has developed feasibility studies for installation of wastewater treatment plants in Jericho and Tubas, finalized the implementation of a sewerage project in Artas village in Bethlehem, signed an agreement for construction of a wastewater treatment plant near

Nablus, and launched a tender for the expansion of the slurry treatment plant in the Hebron Industrial Estate. The PWA is also now developing preliminary studies to establish a wastewater treatment plant in Hebron, as well as internal sewerage networks in several villages across the West Bank. In Gaza, the PWA has started the implementation of North Gaza wastewater treatment plant and the emergency phase of expanding the Gaza City wastewater treatment plant.

## — HOUSING

Increasing home ownership and addressing the housing needs of a rising population will be a priority for the Government for years to come. Provision of new and more affordable housing across the country, as well as addressing housing crises in Gaza and East Jerusalem, is a major challenge which requires massive public and private investment, and legal and financial sector reform. It will also require significant forward progress at the political level. Israel's discriminatory policies and practices in East Jerusalem and Area C continue to lead to home demolitions, overcrowding and housing insecurity. The ongoing blockade of Gaza is preventing the rehabilitation of war-damaged homes, let alone the construction of new housing.



### **Demolitions and displacement in 2010**

*According to OCHA's records, at least 230 Palestinian structures have been demolished in east Jerusalem and Area C in over 40 separate incidents since the beginning of this year. As a result, more than 1,100 Palestinians, including over 400 children have been forcibly displaced or otherwise affected owing to extensive damage of property or destruction of livelihood. More than two thirds of this year's demolitions took place in July. During the month over 140 Palestinian structures were demolished, including homes, tents animal shelters, barracks, water cisterns, sanitation units, shops and other commercial enterprises. On 13th July, 7 Palestinian homes, 5 of them inhabited, were demolished in East Jerusalem, leaving 25 people, including 14 children – one of them only 2 months old – forcibly displaced. Similarly, nearly an entire Palestinian village, Al Farisiya in the Jordan Valley, was forcibly displaced on 19th July.*

*Reproduced from Sharp Increase in Demolitions and Displacement in the West Bank, UN-OCHA, July 2010*

The Ministry of Public Works and Housing has formulated a National Housing Sector Strategy aimed at addressing these issues in close coordination with the private sector and with a view to maximizing the inputs of domestic businesses, workers and raw materials. Ensuring environmentally responsible and sustainable practices in housing construction projects is also a high priority.

As part of the Palestine Investment Fund-sponsored National Housing Program, which will provide 30,000 housing units across 10 neighborhoods, the first phase of construction of the Al Reehan neighbourhood in Ramallah is underway<sup>1</sup>. Internal roads have been cleared and first phase of construction has commenced in Al Jinan neighbourhood in Jenin, which will provide an initial 55 housing units<sup>2</sup>. Internal roads have also been cleared and construction has begun at the site of the new city of Rawabi in Ramallah governorate<sup>3</sup>. Elsewhere, the Austrian Housing Project in Nablus is being extended, providing 26 housing units for low income families. Construction of 74 residential apartments for low income families has also begun in Qalqiliya. As part of the social housing initiative in Hebron governorate, the first 24 of 100 housing units will be completed during 2011.

Banks and financial institutions provided housing loans totalling more than \$ 130 million during the first quarter of 2010 – an increase of 37.4% compared to 2009. Between 1st March 2009 and 30th July 2010, the Palestinian Housing Council (PHC) in East Jerusalem provided 46 loans totalling \$ 2 million for construction of 92 housing units to accommodate 250 persons. The PHC recently obtained a permit from the Israeli High Court of Justice to prepare 17 dunums for construction of 156 housing units for low income families in East Jerusalem. Furthermore, at the second Palestine Investment Conference, held in June 2010, it was announced that the Affordable Mortgage and Loan Company will start making available a total of \$ 500 million of long-term fixed and variable rate mortgages to home buyers this year.



Rawabi investment project

## LOOKING AHEAD: MAJOR CHALLENGES IN INFRASTRUCTURE DEVELOPMENT

A large number of government ministries and agencies are involved, in various roles, in the process of developing, maintaining and regulating public infrastructure. This presents a significant challenge in coordinating government policy amongst the various government bodies and implementing policy in an efficient manner. It can also lead to incoherence and conflicts of roles within government bodies – e.g., policy, regulation, service delivery. Over the course of the last twelve months, there have been substantial improvements in the degree of policy coordination and planning. For example, the national planning process involved the production of sector strategies by teams comprising staff from multiple governmental organizations. There are also a number of legal and organizational reforms underway which are clarifying the mandates of various government bodies and separating, for example, service delivery roles from regulatory roles.

<sup>1</sup> The neighbourhood will include a total of 2,000 housing units of 100-250 square metres each.

<sup>2</sup> The neighbourhood will include a total of 1,000 housing units of 100-250 square metres each.

<sup>3</sup> To be constructed over an area of 1,200,000 square metres, the city will include 5,000 housing units.

The ongoing siege of Gaza is preventing most aspects of its reconstruction plan. Infrastructure projects are particularly acutely affected by restrictions on the importation of construction materials, as well as equipment and machinery. Some progress has been made in repairing the electricity network, for example, but this falls far short of what is needed to reverse the grave effects of war and neglect on Gaza's infrastructure.

Lack of sovereignty over land and natural resources in the West Bank, including East Jerusalem, is a major inhibitor of infrastructure development. Israel's policies and practices in the occupied territory discriminate against Palestinians and serve the interests of the settlement enterprise in countless ways. For example, permission from Israel is required before engaging in any form of construction activity in the so-called Area C, representing over 60% of the West Bank. The permit process is clearly designed and operated to, at best, introduce long delays in infrastructure development and, at worst, prevent construction activities that Israel perceives to be contrary to its political and economic interests. Israeli restrictions also delay or prevent the importation of equipment and machinery needed to develop Palestine's infrastructure. Taken together, these restrictions not only prevent the delivery of basic services to citizens residing in Area C, they also preclude the development of national utility and transportation networks which are essential to the delivery of comprehensive and cost-effective basic services to the entire population.

The Government's plan to build comprehensive, regionally and internationally connected infrastructure networks as well as production facilities, such as a desalination plant in Gaza and a power plant in the West Bank, will require large scale investment over the coming years. Due in large part to the Israeli restrictions described above, as well as the perennial threat of demolition and war damage, funding of infrastructure projects is a high risk endeavor. This discourages investment in the sector, whether by the public sector, the private sector or international development partners. As a result, it is practically almost impossible to move beyond the initial feasibility study stage for any major project. Lack of progress on development of infrastructure will be a significant brake on the future economic and social development of the State of Palestine and undermine the Government's plans to realize its vision of economic self-reliance.



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