



Palestinian National Authority

Palestinian Reform and Development Plan

2008 - 2010

Contents

Executive Summary.....	3
1. Introduction	12
2. Background and Context	15
3. The Palestinian National Policy Agenda.....	23
4. Medium Term Fiscal Framework.....	27
5. Sector Policy, Plans and Programs.....	35
6. Resource Allocation	94
7. Foundations for Implementation.....	104
8. Monitoring and Evaluating Implementation.....	107

Annex 1: Palestinian National Policy Agenda Framework

Annex 2: Reform and Development Programs

Annex 3: Security Sector Reform and Transformation Program: Expanded

Annex 4: Macroeconomic Model

Annex 5: Macroeconomic Forecast Data

Executive Summary

Introduction

This Palestinian Reform and Development Plan (PRDP) 2008-10 is a national plan which sets out the PNA's medium term agenda for Palestinian reform and development. It provides a coherent basis for the allocation of all government resources and reflects the commitment of the PNA to adopt an integrated policy-making, planning and budgeting process. The PRDP sets out a comprehensive framework of goals, objectives, performance targets and the allocation of resources to achieve them.

The PRDP 2008-10 contains eight chapters which:

- Outline the background and approach to the PRDP initiative
- Describe key features of the overall political and socio-economic context
- Outline the national policy agenda framework on which the PRDP is based
- Outline the Medium Term Fiscal Framework (MTFF)
- Provide an overview of sector policy priorities, plans and resource allocations
- Summarize core budget assumptions and resource allocations in the Medium Term Budget Framework (MTBF)
- Describe the basic foundations for successful implementation of the PRDP
- Describe the arrangements for monitoring and evaluating progress in implementing the PRDP

PRDP Approach

The PRDP process is based on generally accepted principles applied in preparing medium term expenditure frameworks (MTEFs). An MTEF is a government strategic policy and expenditure framework, through which resources are allocated according to national policy priorities over the medium-term. If based on a realistic assessment of available resources, an MTEF can also be a tool for good public expenditure management to support aggregate fiscal discipline as well as efficient and effective use of resources in implementation of strategic priorities. It can also provide a basis for effective dialogue with internal and external development partners.

It will take several years to fully develop and implement an MTEF in line with best practice. However, the PRDP process is intended to improve transparency, accountability, coordination and communication, and provide a basis for the introduction of effective performance management systems in the relatively near-term. The process adopted in 2007 is described in the following sub-section and, given the severe time constraints, was subject to some significant limitations. However, the approach will be refined in future years, based on lessons learned, to allow for an extended, more consultative analysis and policy formulation phase.

PRDP Process in 2007

The process was led by the Ministry of Planning (MoP) and the Ministry of Finance (MoF) and conducted by a PRDP Implementation Team consisting of a Core Team located in the MoP and MoF, and Counterpart Teams located in ministries and agencies. The process was structured on a sector basis to facilitate the prioritization and harmonization of policies, plans and resource allocation, and to encourage fiscal discipline. This structure mirrors the aid coordination strategy group structure established in December 2005 (i.e., Economy, Governance, Infrastructure and Social).

All PNA ministries and the largest agencies provided detailed Planning and Budgeting (P&B) submissions setting out their strategic objectives, performance targets and proposed recurrent, capital and development expenditures. The submissions were reviewed by the MoP and MoF to ensure that

they were comprehensive, linked to the PNPA and that all resource allocations were justified in relation to planned results. The submissions were reviewed and consolidated at the sector level to ensure a consistent approach and eliminate gaps and overlaps in planned activities and expenditure.

PRDP Goals

The PRDP is a plan to deliver high level national policy goals and supporting objectives. These goals and objectives are set out in the PNPA, the guiding policy framework for the PRDP, to provide: a forward-looking agenda for Palestinian development and for reforming Palestinian institutions; a clear rationale for the activities of ministries, agencies and other public bodies; a basis for establishing priorities in the allocation of financial resources; and, performance targets at the national and ministry/agency level.

The PNPA focuses on what the PNA seeks to achieve on behalf of the Palestinian people over the next three years. The framework of goals, objectives and policy priorities was based on four fundamental principles and an overall vision statement.

Box 1: PNPA guiding principles

- It is the intention of the PNA to support and sustain, through all of its policies and programs, the steadfast determination of the Palestinian people to remain on their land and to continue to pursue their livelihoods and build their nation, not succumbing to the pressures placed upon them by the Occupation
- The policies and programs of the PNA will be directed towards the ending of the Occupation and the establishment of an independent, viable sovereign state.
- The eventual Palestinian state must be able to exist securely on the pre-June 1967 borders, including East Jerusalem, the Gaza Strip and the West Bank, and be capable of protecting its citizens and their land and property from incursion, confiscation and destruction, in accordance with international law.
- The eventual Palestinian state will be founded on democratic and pluralistic principles and humanistic values. Its institutions will protect human rights, religious tolerance and the rule of law, promote gender equality, create an enabling environment for a free and open market economy, and serve the needs of disadvantaged and vulnerable groups, enabling all citizens to fulfil their potential.

Box 2: Vision statement

Vision of the Future Palestinian State

Palestine is an independent Arab state with sovereignty over the West Bank and the Gaza Strip on the pre-June 1967 occupation borders and with East Jerusalem as its capital. Palestine is a stable democratic state that respects human rights and guarantees equal rights and duties for all citizens. Its people live in a safe and secure environment under the rule of law and it promotes equality between men and women. It is a state which values highly its social capital, social coherence and solidarity, and identifies itself with Arab Palestinian culture, humanistic values and religious tolerance. It is a progressive state that values cordial relationships with other states and people in the global community. The Palestinian government is open, inclusive, transparent and accountable. It is responsive to citizens' needs, delivers basic services effectively, and creates an enabling environment for a thriving private sector. Palestine's human resources are the driving force for national development. The Palestinian economy is open to other markets around the world and strives to produce high value-added, competitive goods and services, and, over the long term, to be a knowledge-based economy.

The PNPA framework, which is described in detail in Chapter 3, includes four high-level national policy goals which represent the longer-term aspirations and intentions of the Palestinian people and the PNA. These national policy goals are summarized in Box 3 below.

Box 3: Palestinian national policy goals

- ***Safety and security***: a society subject to law and order, which provides a safe and secure environment in which the people of Palestine can raise their families and pursue their livelihoods and businesses, free from crime, disorder and the fear of violence.
- ***Good governance***: a system of democratic governance characterised by participation by citizens, respect for the rule of law and separation of powers, capable of administering natural resources and delivering public services efficiently, effectively and responsively, and supported by a stable legal framework, a robust legislative process and accountable, honest and transparent institutions which protect the rights of all citizens.
- ***Increased national prosperity***: economic security, stability, viability and self-reliance, achieved through an increase in sustainable employment and an equitable distribution of resources, leading to the reduction and eventual eradication of poverty and the growth of individual and national wealth.
- ***Enhanced quality of life***: increases in material wealth and environmental quality are matched by the strengthening of social coherence and solidarity, so that the most vulnerable areas and groups in society continue to be supported and the culture, national identity and heritage of the Palestinian people are reinforced.

The PNPA framework was used as the starting point for bottom-up planning and budgeting by all ministries and agencies. Ministries and agencies provided detailed information about their specific objectives in each policy area, and their proposed activities, projects and expenditures to achieve these objectives. They also provided performance indicators and targets as a basis for assessing progress towards objectives.

The completed PNPA presented in this PRDP provides an agreed-upon framework of objectives on the path towards achieving national goals. It defines policy areas in which the need for high-priority action is required to meet these objectives, and it defines performance indicators and targets in order to assess progress. The comprehensive and participatory process through which the PNPA was developed has built ownership and accountability amongst ministries and agencies for delivering against specific objectives and targets.

Summary of policies, resource predictions and allocations

This PRDP lays out our vision of an independent Palestinian state. It highlights steps we have already taken to restore good governance and the rule of law to the West Bank - steps we believe demonstrate our commitment to realizing this vision and steps we aspire to replicate in Gaza. Whilst the stalled peace process and the tightening grip of the occupation have played a powerful role in shaping events, we acknowledge we have given insufficient attention to shortcomings in governance, law and order, and basic service delivery. We are now absolutely determined to rebuild the trust of our citizens and our international partners in the PNA by embarking on a challenging reform and development agenda for stabilization and recovery.

We are not complacent about the scale of the task ahead. Progress must be made to upgrade all Palestinian institutions of government. We intend to create a secure and stable internal environment in which social and economic development can take place, and in which the institutional infrastructure of a Palestinian state can develop and thrive. This must go hand in hand with sustained and serious political dialogue, and concrete steps and commitments by all parties towards a lasting peace. We are

committed to bringing safety and security to the West Bank and Gaza. Our immediate goal is to return to the status quo ante before the escalation of conflict in September 2000 by resuming full security control in Area A. Our ultimate goal is to assume full authority and responsibility for security within and at the borders of the future Palestinian state.

Reform and development in Gaza is an integral part of our plan for bringing stability and prosperity for all Palestinians in the occupied territory. We are committed to restoring the rule of law, good governance and respect for human rights in Gaza. The illegal seizure of Gaza by Hamas has precipitated its almost complete closure. Israeli restrictions on the entry of all-but-humanitarian goods and on the export of goods have led to collapse of the private sector, which represents more than half the job market in Gaza. We are committed to doing everything in our power to end the closure and isolation of Gaza and reversing its suffocating effect on society and the private sector. If the isolation of Gaza continues, we will work to maintain the supply of humanitarian assistance, the continued payment of public sector salaries and social transfers, and the provision of critical basic services - including electricity, water and sanitation, and health and education. We will continue to work closely with UNRWA, other UN agencies and non-governmental organizations providing relief to both refugee and non-refugee Palestinians in Gaza, to ensure that these needs are met.

Throughout the post-Oslo period, the unstable political environment has undermined our capacity to develop and sustain effective government institutions and policies. The embargo on international assistance in 2006 and early 2007 contributed to the reversal of progress that had been made in reforming the PNA. The ensuing fiscal crisis shattered our citizens' and public servants' confidence in the PNA. This document sets out our broad priorities for improving governance in this challenging context. It sets out how we will reform the security sector and re-establish the rule of law, improve access to justice, move toward a more fiscally sustainable position, improve our management of public finances, strengthen the capacity of the public sector, and improve local governance. We acknowledge that we have more work to do in defining and calculating the cost of some of these reforms but this will be tackled in 2008.

The Palestinian private sector must be the engine of sustainable economic growth. It needs to generate productive employment, produce high value-added goods and services, and to enhance national prosperity. We are committed to creating an enabling environment for private sector growth. However, whilst the private sector has shown resilience in the face of harsh political and economic conditions, its full potential can only be realized by the lifting of restrictions on the movement of Palestinian goods and people, and, more generally, meaningful progress towards peace. Such progress, coupled with substantial donor investment in institutional reforms and rehabilitation of infrastructure, can put the private sector, and the Palestinian economy as a whole, on a path to sustainable growth. We hope that the 'Quick Impact Projects' jointly announced with the Quartet Representative and Israel represent an opportunity to demonstrate the preparedness of Israel and the international community to act in parallel with us to improve the situation on the ground and to take immediate, tangible steps towards ending the occupation. Each of these projects provides for joint action and cooperation amongst the parties and, as such, represents an opportunity to manage the risks of faltering commitment to the success of our reform and development plan.

We will safeguard the welfare of vulnerable groups while pursuing a private sector-led approach to economic growth. We intend to invest in social development and to continue to build effective mechanisms for social assistance and protection. For example, one third of the resources pledged in the form of budget support will finance teachers' salaries and associated running costs. One fifth of donors' pledges for public investment will be dedicated to education. With the support of the international community we believe we can modernize the education system – including the curriculum – and better prepare our young people for a better future.

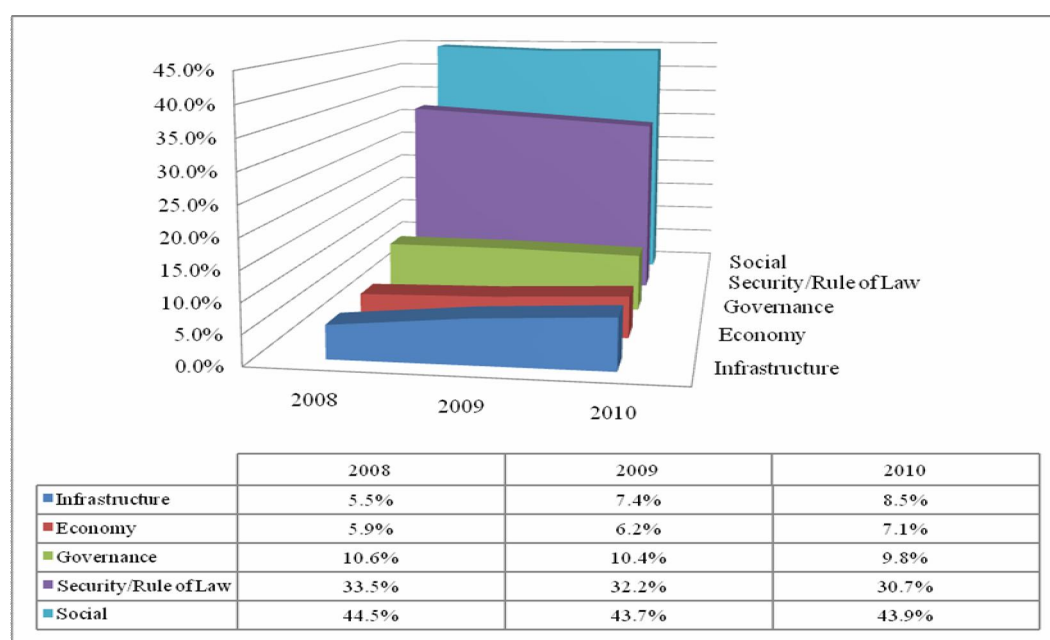
We are aware that the PNA's fiscal policy has been problematic in the past and we are acting fast to avert a fiscal crisis. We are implementing a series of fiscal reforms to put ourselves on a path to financial stability – a path that will create space for increasing capital investment and development

expenditure. We anticipate that these reforms will help us reduce the current budget deficit by 11.2% of GDP over the next three years, returning it to the 2005 level. Our macroeconomic and fiscal forecasts assume modest improvements in the political and security environment, yielding a gradual reduction in movement and access restrictions, and a gradual increase in trade and private sector confidence. This is our baseline scenario. If a combination of political progress and an improved security environment accelerates the lifting of the occupation regime beyond current expectations, the level of public investment and private sector activity could increase more significantly. However, if the occupation regime remains unchanged, the economic outlook is extremely poor. It would make it very difficult to increase public investment and to finance a substantive reconstruction effort. Any reluctance or inability on the donor side to predictably finance the budget deficit over the medium term will lead to a deepening fiscal crisis that would retrain the PNA to the point of financial and institutional collapse. It would also lead to rising unemployment, increasing poverty, declining health and education indicators, and further, perhaps irreversible, degradation of the private sector.

The budget framework for 2008-10 envisages a gradual shift of resources towards social sector spending to ensure high levels of access to education and health services, and to allow for the necessary investment to modernize and improve the quality of these services. This resource reallocation also allows for modest increases in spending on better targeted social assistance to alleviate the impact of the fiscal reform agenda on the most needy. The budget framework for 2008-10 also provides for a gradual shift of resources in favour of development expenditure, which are planned to rise from 6.1% of GDP in 2007 to 10.8% in 2010.

Figure 1 illustrates forecast trends in the allocation of total resources to each sector over the medium-term. It shows that spending on the security and rule of law sector will remain substantial at more than 30% of total expenditure by 2010. However, retrenchment of staff during 2007, coupled with a moratorium on salary increases, will release substantial resources from the recurrent budget to fund spending in other areas. These additional resources will be used primarily to fund recruitment of teachers and healthcare workers, and for operating expenditures in the social sector. The social sector also receives high priority in the allocation of development budget resources – especially in 2008, during which the sector will benefit from approximately third of total development expenditure. As a result, spending in the social sector will predominate, averaging approximately 44% of total expenditure throughout the medium-term.

Figure 1: Sector distribution of total recurrent and development budget resources



Our fiscal forecasts are based on the assumption that donors will provide substantial levels of predictable aid over the next three years to support the recurrent budget and public investment program. In 2008 we need \$1,634 million to finance our recurrent costs and \$492 million to finance development investment. As table 1 illustrates, required external financing is expected to remain in the region of \$2 billion for 2009 and 2010.

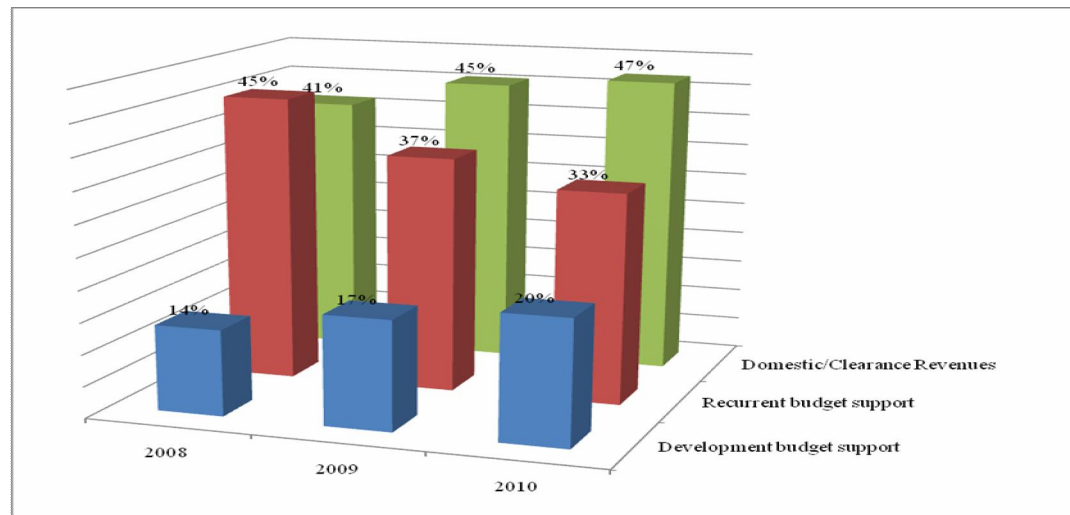
Table 1: External financing

	2006	2007	2008	2009	2010
<i>(millions of U.S. Dollars)</i>	<i>Act.</i>	<i>Proj.</i>	<i>Proj.</i>	<i>Proj.</i>	<i>Proj.</i>
Budget support	741	1,012	1,634	1,361	1,301
Public investment	281	310	492	634	769
Total external financing	1,022	1,322	2,126	1,995	2,070

Note: Budget support in 2006 excludes informal assistance not channelled through the banking system

These amounts are large but they are, we believe, the minimum we need to implement our reform and development plan and begin serious preparations for statehood. Also, assuming positive parallel actions by all three parties, the contribution of clearance and domestic revenues to the overall resource envelope is expected to climb significantly over the medium term. As figure 2 illustrates, this would create space for significant reductions in recurrent budget support and considerable up-scaling of development budget support.

Figure 2: Contribution of revenue sources to the overall resource envelope



At the Paris conference we appealed to donors to provide financial assistance as direct, un-earmarked budget support through the single treasury account. The response so far has been extremely encouraging and it is giving us more control over the targeting and timing of disbursements and enabling us to execute our reform and development plan more effectively. We encourage all donors to provide financial assistance in the same fashion. If this is not possible, in recognition of the constraints under which our international partners operate, we would accept alternative funding mechanisms that meet reasonable standards of efficiency, effectiveness and transparency. Where technical assistance is required we favor the use of sector or sub-sector multi-donor pooled funds.

We are committed to a clear vision: creating a viable, peaceful, and prosperous Palestinian state. The reform and development agenda is ambitious but it is necessarily so. We need the international community to help us make this vision a reality by providing the necessary financial assistance. Also, we can only attain this vision if there is tangible progress towards peace and statehood. Most immediately and most importantly, we need Israel to demonstrate commitment to ending the occupation and to the implementation of the two-state solution. This must include tangible and immediate action on the ground in the spirit of the joint understanding reached at Annapolis – including halting the expansion of settlements, cessation of construction of the Separation Wall, lifting physical and administrative restrictions on movement and access, releasing prisoners and ending military incursions. Without this our plan cannot be implemented in full and the support of the international community will not be as fruitful as we hope. If, however, these steps are taken we can start to turn our vision into a reality.

Implementation issues and risks

Under every foreseeable scenario, the short-term viability of the Palestinian economy will be driven by aid. Even under the most optimistic scenarios significant aid will continue to be required for the medium-term. Clearly, the ability of the private sector to resume its place as a driver for growth will have a major bearing on the sustained health of the Palestinian economy and thus its aid requirements, which will therefore be even larger in the absence of improvements in movements and access restrictions.

If the public investment program detailed in Sections 5 and 6 is fully funded by donors, and if Israel acts to lift the restrictions of the occupation regime, we believe that the revival of the private sector and trade could allow growth rates to accelerate to double digit levels. Embedded in this scenario is a recovery in Gaza driven by the resolution of the current stalemate, and the removal of internal movement and trade restrictions, including a system of crossing points with Israel that can fully accommodate imports and exports into the West Bank and Gaza.

Political and economic instability have a severely negative impact on the predictability of financial and other resources available to implement the PRDP. Reliable resource projections, from both internal and external sources, are an essential precondition for the execution of plans and budgets. Experience has shown that the amount of domestic revenues, and also the amount and nature of external assistance, are highly sensitive to political and security relations with Israel. As such, the implementation of the PRDP will be heavily influenced by the trajectory of these relations.

The application of standard principles and practices in developing and implementing a medium term expenditure framework (MTEF) in the context of military occupation is unprecedented. Lack of sovereignty over resources and borders, and severely circumscribed ability to implement economic and fiscal policy, creates an extremely uncertain political and economic environment, and places significant constraints on the successful implementation of the PRDP.

The preparation of the PRDP 2008-10 marks the beginning of a major re-engineering of the processes through which Palestinian public sector resources are managed. Therefore, successful implementation of the PRDP will require significant changes in the behaviours and processes of the PNA and

international donor organizations. It will also require sustained efforts to build the institutional capacity of the PNA to develop and implement successive PRDPs in future years. Finally, it will require an unprecedented degree of stability in the political, economic and social environment in which the PNA operates.

Taking these “conditions for success” into account, the key issues risks that might affect the implementation of the PRDP are detailed below in the following categories: stability and predictability, behavioural change, and institutional capacity building.

Stability and predictability

The application of standard principles and approaches to developing a medium term expenditure framework (MTEF) in the context of military occupation is unprecedented. Lack of sovereignty over resources and borders, and severely circumscribed ability to implement economic and fiscal policy, creates an extremely uncertain political and economic environment, and places significant constraints on the successful implementation of the PRDP. Political and economic instability have a severely negative impact on the predictability of financial and other resources available to implement the PRDP.

Reliable resource projections, from both internal and external sources, are an essential precondition for the execution of plans and budgets. Experience has shown that the amount of domestic revenues, and also the amount and nature of external assistance, are highly sensitive to political and security relations with Israel. As such, the implementation of the PRDP will be heavily influenced by the trajectory of these relations.

The current Council of Ministers is the **thirteenth** since July 1994 and, on average, Councils of Ministers last only one year. This tends to undermine the credibility of medium-term plans amongst public employees, who have experienced many leadership changes and many changes in policy direction. Any major change in the composition of the Council of Ministers might have a negative effect on the prospects for successful implementation of this PRDP. In other environments, such a risk could be mitigated by ensuring that the medium-term plan is endorsed by the legislative branch of government. However, due to the incarceration by Israel of a significant proportion of the members of the Palestinian Legislative Council (PLC), this has not been possible.

The current isolation of the Gaza Strip has undermined engagement of PNA staff in Gaza in the preparation of this PRDP. If the isolation continues, it will almost certainly render almost all of the key aspects of this PRDP related to Gaza impossible to implement.

The political and fiscal turmoil of the preceding two years has had a negative impact on the morale of PNA staff and the Palestinian public in general. This, combined with the ongoing lack of any progress towards a final settlement with Israel, continued closures and military action against Palestinian citizens in the occupied territory, creates a serious risk that PNA staff, whose efforts are critical to the successful implementation of the PRDP, will lose focus on meeting their commitments.

Behavioural change

In most countries organizational rivalries within government and between the governmental and non-governmental sectors inhibit coordination and collaboration towards achieving national-level outcomes. In most developing and transitional countries organizations with overlapping mandates and different development strategies compete for both local legitimacy and international support; any initiative that attempts to bring organizations together at the national or sector level to develop and implement coherent, results-oriented plans and budgets, represents a threat to individual organizations’ legitimacy and resources. This culture of competition between public sector organizations, and between governmental and non-governmental organizations is deeply entrenched and reinforced by donor behaviours. In particular, bilateral engagement between individual donors and PNA organizations can lead ministries and agencies to dedicate substantial staff resources to negotiating bilateral projects to donor specifications rather than in line with the PRDP.

It is very important to recognize that, as has been the experience in sovereign countries throughout the world, it will take several years to fully implement the MTEF methodology and realize its full

benefits. Over time Palestinian public financial management legislation, procedures, and systems will need to be reformed to support full implementation. However, there are early signs that external development partners have unrealistic expectations regarding the PRDP, with some suggesting that future budget support may be conditioned on a “credible MTEF”. In fact, as international experience has repeatedly demonstrated, budget support is critical to successful implementation of multi-year development plans and budgets. If donors are unwilling or unable to commit significant funding to multilateral budget support instruments, the implementation of the PRDP will be critically undermined.

Institutional capacity development

International experience has identified a number of institutional pre-conditions for successful implementation of MTEFs. Many developing and transitional countries who have prepared MTEFs have needed to conduct major reforms of their public financial management legislation, procedures and systems to support effective budget preparation, budget execution and financial reporting. The PNA is in a similar position and it is important to recognize that many of the public financial management reforms described in this PRDP (see Chapter 4.3) are designed to facilitate progressive improvements in the integration of policy-making, planning and budgeting processes. Therefore, as these reforms are delivered over time, the quality of PRDPs and their implementation in practice will improve.

The PRDP process conducted in 2007 revealed a need to build policy-making, planning and financial management capacity in the PNA. In some ministries and agencies, all that is lacking is technical training in modern public financial management techniques. In others, however, there is an almost complete lack of policy-making and planning capacity. These deficits in capacity will undoubtedly undermine the extent to which ministries and agencies are able to implement their policies and plans, and also to report on their progress in 2008. In order to address this issue in future years, we will develop and execute a broad-based plan for building capacity in policy-making, planning, budgeting and performance management.

With the exception of a few of the larger ministries, there is a general lack of public sector performance management processes and systems. There is also no central function to gather, analyze and report information regarding public sector performance. As such, there is a long-standing lack of detailed review of organizational and individual performance which tends to undermine efforts, like the PRDP initiative, to create a culture of accountability for delivery of tangible development and service delivery outcomes. Chapter 8 provides an outline of our plans for implementing performance management functions and processes. These processes will take time to establish and develop and, consequently, the extent to which implementation of this PRDP in 2008 will be somewhat limited.

The Way Forward

Finally, notwithstanding our commitment to fulfil our commitments detailed in this plan, all parties must acknowledge that we cannot realize our vision of an independent state alone. A new approach to Palestinian state building is required; an approach based on a realistic assessment of the roles and responsibilities of the Palestinians, Israel and the international community; and an approach which recognizes the role each party plays in shaping the events and imposes upon them binding commitments which, taken together, will create an environment conducive to Palestinian reform and development. This will require a specific measurable tripartite action plan, tied to a credible peace process, with appropriate arrangements for monitoring of each party's performance.

1. Introduction

This Palestinian Reform and Development Plan (PRDP) 2008-10 is a national plan which sets out a medium term agenda for Palestinian reform and development. It represents a comprehensive framework of goals, objectives and performance targets, and the allocation of resources to achieve them. It provides a coherent basis for the allocation of all public sector resources, whether from domestic or external sources, to recurrent, capital and development expenditure. It also provides a transparent framework for the ongoing design and assessment of policies and programs; and, for evaluating whether expenditures are delivering planned results and value for money.

The PRDP 2008-10 represents an important step towards improving policy-making, planning and budgeting processes to align spending with national policy priorities, and service delivery and development results. By initiating a comprehensive process for estimating the current and future cost of public sector activities, and matching these to projections of available resources, we aim to work towards greater fiscal stability over the medium term.

The PRDP initiative will, over the longer-term, lead to substantial improvements to our financial management laws, regulations, procedures and systems. These improvements will strengthen transparency, accountability, coordination and communication, and provide a basis for effective performance management mechanisms.

1.1 The PRDP Approach

The PRDP approach is based on generally accepted principles applied in preparing medium term expenditure frameworks (MTEFs) in a variety of developing and transitional states. An MTEF is a government strategic policy and expenditure framework. It is the product of a transparent, integrated planning and budgeting process through which government allocates resources to sectors according to national policy priorities over the medium-term. If based on a realistic assessment of available resources, an MTEF can also be a tool for good public expenditure management to support aggregate fiscal discipline as well as efficient and effective use of resources in implementation of strategic priorities. It also provides a basis for effective dialogue with internal (e.g., private sector, NGOs) and external development partners (e.g., donors, international financial institutions).

The PNA's PRDP approach is intended to improve transparency, accountability, coordination and communication, and provide a basis for the introduction, over time, of effective performance management systems by providing a number of key documents including, in sequence of preparation/approval:

- A Palestinian National Policy Agenda (PNPA) – which sets out national policy goals, objectives and targets
- A Medium Term Fiscal Framework (MTFF) – which sets out the macro-economic framework and indicators, and determines resource availability (from both domestic and external sources)
- A Medium Term Development Plan (MTDP) – which outlines and identifies strategies for achieving national policy priorities and targets on a sectoral basis
- A Medium Term Budget (MTB) – which allocates multi-year recurrent and development resources on the basis of policy priorities

Through integrated policy-making, planning and budgeting processes, these four elements combine to produce policy oriented budgets, plans and targets. Taken together, they provide a framework for evaluating the government's performance in delivering results in line with national priorities.

Countries that have developed MTEFs have learned that success critically depends on appropriate sequencing of the policy-making, planning and budgeting timetable. This ensures that the process begins with an agreed set of policy priorities and spending limits to guide the planning and budgeting activities of ministries and agencies. In developing their MTEFs, some countries have also aimed for significant stakeholder participation in formulating goals and performance targets based on rigorous analysis of context and needs. Therefore, in general, an MTEF is produced through appropriately sequenced policy, planning, budgeting and evaluation processes over an annual timeframe with some level of non-governmental stakeholder participation. Since it requires significant changes to existing policy, planning and resource allocation processes, it can take a number of years to fully implement the MTEF methodology.

The preparation of the PRDP 2008-10 represents the beginning of a phased approach to implementing the MTEF methodology over the coming years. The process will be further refined in future years to extend policy-making, planning and budgeting over an annual timeframe; to provide ministries and agencies with more up-front guidance on policy priorities and spending limits; to implement a performance evaluation and reporting process; and, to allow for wider stakeholder participation.

1.2 Coverage of the PRDP

The PRDP 2008-10 covers three years to provide a medium term perspective to planning and budgeting. It is very comprehensive in that it includes policy, planning and resource allocation information across all PNA ministries and the largest public agencies. It is also based on a comprehensive framework of national policy priorities and covers all PNA expenditure from both domestic and external sources. It also provides analysis of all types of expenditure including recurrent expenditure, capital expenditure, and development expenditure.

1.3 The PRDP Process in 2007

The PRDP initiative was led by the Ministry of Planning (MoP) and the Ministry of Finance (MoF). The Council of Ministers reviewed and approved all key documents throughout the implementation phase which culminated in this final PRDP document.

The PRDP Implementation Team consisted of a Core Team located in the MoP and MoF, and Counterpart Teams located in ministries and agencies. The Core Team, along with senior MoF staff, coordinated the PRDP process and provided extensive training and support to the Counterpart Teams throughout the process. The Core Team was also responsible for drafting the PRDP document and ensuring its consistency and quality.

The process was structured on a sector basis to facilitate the prioritization and harmonization of policies, plans and resource allocation, and to encourage fiscal discipline. This structure mirrors the aid coordination strategy group structure established in December 2005 (i.e., Economy, Governance, Infrastructure and Social). Special consideration was also given to specific issues relating to the development of East Jerusalem.

The Counterpart Teams managed the implementation of the PRDP process in their respective organizations. They included experienced officials with roles in the policy making, planning, budget preparation, budget execution, and key areas of service delivery and performance management. Their key role was to ensure that their organization provided their Planning & Budgeting (P&B) submissions to the Core Team on a timely basis. All PNA ministries and the largest agencies provided detailed Planning and Budgeting (P&B) submissions setting out their strategic objectives, targets and proposed recurrent, capital and development expenditures.

The P&B submissions were reviewed by the MoP and MoF to ensure that they were comprehensive, linked to the PNPA and that all resource allocations were clearly justified in relation to planned

results and performance targets. The submissions were reviewed and consolidated at the sector level to ensure a consistent approach and eliminate gaps and overlaps in planned activities and expenditure.

Given the extremely challenging timetable, the degree of consultation possible during 2007 could not be as extensive as will be the case in future years. However, there was consultation with internal stakeholders (e.g., private sector, NGOs) and external development partners (e.g., donors, international financial institutions) at various points throughout the process. For example, some ministries and agencies were able to consult with internal stakeholders and external development partners as they prepared their P&B submissions.

1.4 Contents of the PRDP

This PRDP contains a further seven chapters, the contents of which are briefly described below.

Chapter 2 provides an overview of the political, economic and social context that has shaped the policies, plans and resource allocations set out in the PRDP 2008-10, and how this context affects the prospects for successful implementation of PRDP programs.

Chapter 3 outlines the Palestinian National Policy Agenda (PNPA) framework which formed the basis for preparing the PRDP.

Chapter 4 sets out the Medium Term Fiscal Framework (MTFF) and the approach taken to estimate the total level of resources available to the PNA to fund planned activities.

Chapter 5 provides an overview of the different sectors and outlines specific issues relating to the development of East Jerusalem. It sets out the policy agenda in each sector, the context, the reform and development programs, resource allocations and the main performance targets.

Chapter 6 provides a summary of the results of the budget process, including the budget assumptions, details of the Medium Term Budget Framework (MTBF), and analysis of all the main components of the PNA's expenditure plans.

Chapter 7 describes the foundations for successful implementation of the PRDP including proposals to improve donor coordination and aid effectiveness.

Chapter 8 outlines the arrangements for monitoring and evaluating implementation of the PRDP, and for reporting progress to internal and external stakeholders.

2. Background and Context

The purpose of this chapter is to provide an overview of the political, economic and social context in the occupied Palestinian territory (OPT). This context has shaped the policies, plans and resource allocations set out in the PRDP 2008-10 and has important implications for the implementation of PRDP programs. To a great extent, successful implementation of this PRDP depends on parallel actions by the PNA, Israel and the international community to bring about positive change in the environment. In particular, concerted action is required to alleviate structural constraints on Palestinian reform and development.

The chapter begins with a summary of the key, long-standing structural constraints that inhibit Palestinian reform and development, and some of the more significant recent political developments which affect the planning context. This chapter also includes a brief summary of the current socio-economic environment and its recent evolution.

2.1 Structural Constraints on Palestinian Reform and Development

The challenging operating environment has provided little political and economic space for effective democratic institutions to evolve. Since its formation in 1994, the PNA has operated as a transitional authority with limited jurisdiction. When the Oslo interim period expired in 1999 without yielding peace and prosperity, the domestic legitimacy of the PNA suffered a severe blow. Since the outbreak of the second *Intifada* in 2000 and Israel's reoccupation of the West Bank, the PNA leadership has been confronted by an almost continuous state of political, socio-economic and fiscal crisis.

Despite the challenging context the PNA has recorded some remarkable achievements. These included free and fair elections and the gradual development of a body of legislation that includes some of the most liberal laws in the Arab world. These achievements are testament to the capacity of Palestinians to build democratic institutions with international support. However the cumulative effect of the many set-backs has resulted in some disillusionment with the institution building effort.

However, we remain committed to building the institutions needed for an effective Palestinian state. In preparing this PRDP, we are demonstrating our determination to reverse the deepening sense of despair that is cumulatively undermining reform and development. The PRDP articulates a new long-term vision for Palestinian reform and development; a vision that is based on a realistic assessment of the roles and responsibilities of the PNA, Israel and the international community. To move forward, all parties must work together to address a number of long-standing, structural constraints on the development of Palestinian institutions and hence on reform and development more generally. The principal constraints are summarized below.

2.1.1 Lack of sovereignty

The PNA was established as a transitional authority with a restricted mandate and limited powers. In essence, the PNA's task was to guarantee Israel's security in return for a gradual withdrawal from the OPT. However, by late 1995 the Israeli army withdrew completely from only 2% of the West Bank and 40% of the Gaza Strip. In these areas, designated as *Area A* the PNA assumed full civil and internal security responsibilities. The remainder of the West Bank was designated as *Area B* (26%) in which the PNA assumed civil control, leaving security responsibility in the hands of the Israeli army, and *Area C* (72%) in which Israel retains full control of civil and security matters and in which there are no formal restrictions on settlement expansion. Further Israeli army redeployments have left the PNA nominally in full control of only 17.2% of the West Bank (see Table 2.1).

Table 2.1: Territorial designation of the West Bank

	Oslo II (1995)	Wye River (1998)	Sharm Esh-Sheikh (1999)
Area A	2.0%	9.1%	17.2%
Area B	26.0%	20.9%	23.8%
Area C	72.0%	70.0%	59.0%

From the outset of the Oslo process, Israel began to construct an elaborate system of physical and administrative restrictions on the movement of goods and people within the West Bank, and within Gaza, into Israel (and hence between the West Bank and Gaza) and outwards to the rest of the world. Following the outbreak of the second *Intifada* in 2000 and Israeli military action in 2002, joint patrols between Israeli and Palestinian Security Forces (a fundamental pillar of the Oslo framework) ended and the Israeli army has effectively reoccupied the West Bank, assuming full security control and establishing military checkpoints in Area A. To this day, the PNA lacks control over external borders; control over the movement and access of people, goods and services within and between the West Bank and Gaza Strip; and jurisdiction over natural resources, airspace and the sea.

The PNA is therefore responsible for administering two nonadjacent land areas subject to a draconian regime of closures and under military occupation. This undermines the PNA's ability to deliver basic services to its constituents. Civil servants and security personnel are prevented from travelling freely to most of the areas nominally under their jurisdiction. This inhibits the unification, coherence and coordination of government policy, legal and administrative systems, and service delivery. It also precludes exploitation of economies of scale as a means of controlling the cost of service delivery and compels ministries and agencies to create parallel structures in the West Bank & Gaza. Fragmentation of communities also creates demand for more service delivery infrastructure (e.g., schools and healthcare facilities) than is ordinarily required to serve a similar-sized population that is free to travel across a similar-sized territory.

2.1.2 Economic fragmentation and containment

The Protocol on Economic Relations ("the Paris Protocol"), signed in April 1994 as part of the Oslo framework to govern economic relations between Israel and the OPT during the interim period, imposed severe limitations on the economic, fiscal and monetary policy instruments available to the PNA, and created substantial space for unilateral Israeli action – see Box 2.1.

Box 2.1: Key provisions and implications of the Paris Protocol

- Israel is responsible for collecting customs duties on imported goods destined for the OPT and their transfer to the PNA. Israel has, from time to time, chosen to define goods imported through Israeli middlemen (a practice used by Palestinians to overcome extended administrative delays for "security purposes") as imports to Israel, retaining in the Israeli treasury customs duties amounting to approx. 25% of PNA revenues. Even more significantly, Israel completely suspended the transfer of clearance revenues during the second *Intifada* and again following the inauguration of the PLC in February 2006, depriving the PNA of its main source of revenue. Whilst this suspension of revenues is a *prima facie* violation of the Paris Protocol, without recourse to independent arbitration and without international diplomatic support, the PNA was powerless to prevent it.
- The PNA's internal VAT rate was fixed at 15 to 16%, just below the Israeli rate of 17%, in order to block potential VAT evasion by Israelis routing imports through the OPT.
- The PNA cannot introduce its own currency, making the Israeli Shekel the *de facto* currency in the OPT. Exchange rate adjustment can provide an effective way to deal with shocks in an economy. The PNA has no influence over Israeli monetary policy.
- Israel has the "right to determine from time to time the extent and conditions of

labor movement into its area”, and, post-Oslo, Israel has pursued a policy of progressively reducing Palestinian labor in Israel to zero. Integration of the OPT work force into Israel in the 1970s and early 1980s created massive distortions in the Palestinian economy as manual labor in Israel proved substantially more lucrative than skilled or unskilled work in the OPT. The resultant decline in agricultural production, inhibition of the development of manufacturing and other productive capacity and deskilling of the Palestinian labor market left the OPT economy with high production costs (including wages) and low productivity, severely undermining its competitiveness and leaving it highly dependent on the freedom of labor flows into Israel.

The provisions of the Paris Protocol are often ambiguous and failed to include specific arbitration and enforcement procedures. Given its political and military dominance, Israel has been able to use this ambiguity to its advantage, interpreting the meaning of particular clauses to suit its own strategies vis à vis its relationship with the PNA.

The containment of the Palestinian economy became pervasive when the Israeli army effectively reoccupied the West Bank in early 2002 and enclosed the Gaza Strip towards the end 2005. The existing Israeli external closure regime virtually eliminates the possibility of economic and social development in Gaza. The 1.5 million Palestinians in Gaza are effectively cut-off from the outside world, markets and employment opportunities in Israel, the West Bank or regional and international markets. More generally, the closure regime has been deeply inimical to economic and private sector development throughout the OPT – see box 2.2.

Box 2.2: Illustration of impact of closure on economic and private sector development

- Reduced access to the Israeli labour market causes direct loss of income to Palestinian workers and, indirectly, lower PNA tax revenues, lower demand for domestic goods and, hence, reduced domestic employment.
- Barriers to trade in goods and services raise the cost of imports, making expensive Israeli goods and services relatively more attractive, and hence raise retail prices and costs of production (including wages) in the OPT.
- Unpredictability with respect to total cost and delivery times of goods and services undermine business confidence and domestic and international willingness to invest. Most private businesses in the OPT are small and family-owned. They are reluctant to risk capital to expand and credit is expensive due to the high risk environment. Foreign investors are also deterred by the risks and costs associated with doing business in the OPT.
- High costs of production (e.g., expensive imported raw materials, inflated wages and outdated technology), coupled with inability to guarantee short delivery times, undermine the competitiveness of Palestinian exports. Potential importers consequently find trade with Israel a more attractive prospect.
- Territorial fragmentation inhibits expansion of businesses beyond urban centers, leaving small businesses unable to exploit economies of scale and expand. It has also led to the fragmentation of markets. In essence, the urban centers, especially in the West Bank, have developed into a group of isolated micro-economies that are largely subsistence-based - there is no ‘national’ economy.

2.1.3 Fiscal instability

Lack of control over the major economic and fiscal policy instruments has rendered the PNA’s fiscal position especially vulnerable. It is at the mercy of security and political relations with Israel and the international community. The World Bank has highlighted the PNA’s predicament, stating that it has “few if any, policy tools to deal with the volatility and low level of economic activity” and that “fiscal

crisis can easily bring down the machinery of government, undoing almost all of the post-Oslo institutional gains”.

The PNA’s fiscal vulnerability is clearly illustrated by trends in the PNA’s public financial statements for the fiscal years from 2000 to 2006.

- Revenue decreased from US\$940m in 2000 to less than US\$300m in 2002. This collapse in revenues was largely due to the suspension by Israel of clearance revenue transfers and left the international community to fill the fiscal gap by providing almost US\$1bn of direct budget support during 2001 and 2002. In 2003, as Israel resumed the regular transfer of clearance revenues, total revenue rebounded to US\$1.2bn in 2005. However, following the inauguration of the newly-elected PLC and Israel’s subsequent refusal to transfer clearance revenues, revenue collapsed again to US\$358m in 2006, the lowest level ever recorded since the formation of the PNA.
- Public expenditure dropped from US\$1.2bn in 2000 to US\$1bn in 2002, but then increased to US\$2bn in 2005. During 2006, expenditure declined to US\$1.7bn, though salary expenditure continued its upward trend. Overall, during the seven years from 2000 to 2006, the cumulative budget deficit of US\$5.1bn was funded primarily by budget support from donors (US\$2.7bn, 54%), the transfer by Israel of previously withheld clearance revenues (US\$0.62bn, 17%), commercial bank borrowing (US\$0.53bn, 10%) and “other funding” (US\$1.2bn, 24%). The latter, which rose significantly in 2006, consists primarily of arrears due to suppliers and unpaid salaries.

Political uncertainty and insecurity have prevented the OPT economy from tapping into potential investment from neighboring countries and from Palestinians living abroad. The investment environment is perceived as being too uncertain. The PNA has therefore been forced to resort to fiscal policy - increasing public spending in ‘pro-social stability’ rather than ‘pro-growth’ areas - to address economic volatility that threatens to push poverty and insecurity to unprecedented levels. Most of this public expenditure, which reached almost 50% of GDP in 2005, was allocated to public sector employment and the wage bill. The PNA has also become the “financier of last resort” to cover unmet obligations of Palestinian utilities and public sector bodies. Overall, the inability of the public sector to accurately predict revenues and manage its expenditure undermines its ability to plan or undertake difficult reforms and encourages a focus on uncontroversial short-term operational issues.

2.1.4 Discontinuity in external support for institution building

The international community’s influence in shaping the Palestinian governance institutions and organizations we see today should not be underestimated. The unpredictability and inconsistency that has characterized the international community’s response to political developments has made it more difficult for PNA politicians and bureaucrats to drive the institution building agenda forward in a single direction.

- Attitudes have fluctuated on whether the emergence of a strong executive and weak separation of powers are desirable or not, and on the relative power of the Presidency and the Prime Ministry. Judgments on these issues have been made on the basis of the perceived political will of individual leaders and are driven by “security first” considerations.
- The international community has had inconsistent positions on key elements of the legal and judicial system - some international actors endorsed state security courts, while others called for their abolition.
- Donors have also held inconsistent positions on public sector employment - some international actors have advocated downsizing for fiscal reasons, others advocated for co-opting non-state militias by recruiting them into the security services.
- The PNA has experienced vigorous demand for democratic elections followed by disengagement from a democratically elected government.

- There have been frequent changes in allocation of assistance from development to humanitarian activities.
- Financial support to the public sector, private sector and civil society has fluctuated in relation to the political affiliations of their leadership.

There are, of course, many examples where the international community has positively influenced institutional development. For example, through budget support mechanisms, the international community gave the Ministry of Finance space to implement key financial management reforms, including the implementation of a single treasury account and arrangements for the direct transfer of salaries to security services employees' bank accounts. However, in creating the Temporary International Mechanism (TIM), the international community by-passed the single treasury account and reversed vital improvements in the efficiency and transparency of the PNA's fiscal operations.

The failure of the international community consistently to respect and support the democratic institutions it espouses has other negative consequences. The ability of domestic advocates of governance reform to convince others of the need for reform has been compromised. Reformers have difficulty countering the allegation that the reform agenda is international, not Palestinian, lending credence to one of the most powerful arguments advanced by resisters of reform.

2.1.5 Fragmentation of external support

With more than 40 donors active in the OPT, humanitarian and development aid flows are extremely high and highly fragmented. The majority of assistance is delivered through bilateral arrangements between individual donors and individual beneficiaries (including PNA entities). This high level of bilateral, project-based support has created a market for donor assistance in which public, private and civil society organizations are competitors. This undermines coordination at the sector level and drives a "shopping list" approach to reform and development planning in which potential beneficiaries devise programs and projects that they know will be aligned with the political positions and interests of the target donor country. In essence, the high availability of bilateral project finance undermines incentives to develop, implement and monitor development plans and strategies that reflect national consensus and priorities.

The donor community has recognized for a long time the low level of aid effectiveness in the OPT. In a report released in 2002, the World Bank noted that "donors have strong (and often competing) commercial, strategic, or economic interests and bilateralism is pervasive". It observed that "political issues invariably become aid coordination issues and vice versa". Five years later, little has changed and, if anything, the situation is worse. Different donors are required to operate within the framework of political and legal incentives and constraints set by their own individual political economies and, given the controversial and divisive issues associated with the Palestinian situation, it is unsurprising that donor countries have found it difficult to harmonize their efforts.

Various initiatives have sought to address this problem, including the multilateral Public Financial Management Reform Trust Fund that channelled support through the PNA budget. Also, in December 2005, the international community made a creditable effort to improve aid effectiveness by comprehensively restructuring the donor coordination structure. Unfortunately, the Quartet's policy of disengagement following the 2006 PLC election undermined these efforts.

2.2 Recent political developments

Following the establishment of the Hamas government after the 2006 elections, Israel and the Quartet imposed a financial and diplomatic boycott on the PNA pending Hamas's agreement to three conditions: recognition of Israel, renunciation of violence; and, abiding by all existing agreements between the PLO and Israel. Israel withheld Palestinian clearance revenues; direct aid revenues to the PNA dropped significantly; and the PNA's main bankers, threatened with action under US law, ceased operating government accounts and began to call in loans. The boycott precipitated a worsening of the already severe economic crisis in the OPT. To further complicate the situation,

factional fighting led to a sharp decline in internal security, particularly in Gaza.

Due to the ensuing liquidity crisis, the Hamas government was unable to pay public employees' salaries from March 2006 onwards. Partial salary payments were made by the PNA and Arab League through the Office of the President, and the EC established the TIM to pay allowances to public sector employees. However, this was not enough to stave off public sector strikes in the West Bank. This crippling strike contributed to the near collapse of public services. In the education sector, 35 school days were lost. In the health sector, public health facilities ceased to provide more than emergency treatment, chemotherapy and dialysis for most of the period from August 2006 to May 2007. These events have dealt a severe blow to morale within the public sector, further undermined ordinary citizens' respect for the PNA civil and security services. They pose a further setback to the public sector's ability to recruit better qualified staff.

Under the February 2007 Mecca Agreement, a National Unity Government (NUG) was formed and approved by the PLC on March 17th 2007. The NUG was led by Prime Minister Ismail Haniyeh and the Cabinet consisted of members of almost all recognized political movements. The NUG committed itself to all PLO agreements and assigned the PLO as sole negotiating authority. In addition to the power sharing arrangement, agreements were made to undertake reforms in the security sector and PLO. The NUG received immediate Arab political and financial support. However, Israel and most European and North American donors continued the boycott due to Hamas's continued participation in government.

Despite the formation of the NUG, factional clashes continued on the streets of Gaza and ultimately full-fledged battles broke out in the first weeks of June 2007. By June 14th 2007, Hamas had seized full military control of the Gaza Strip. President Abbas immediately dissolved the NUG and declared a state of emergency. He then decreed an Emergency Government headed by Dr. Salam Fayyad. Thirty days later, on June 17th, 2007 President Abbas swore in a Caretaker Government with Prime Minister Fayyad leading a Cabinet of technocrats drawn largely from the ranks of civil society. The international community has expressed support for this government, and the Quartet has resumed financial and technical support. Israel also ended the boycott of the PNA in the West Bank. This coincided with a summit in Sharm Esh-Sheikh which set the basis for renewed talks towards a potential solution to the Israeli-Palestinian conflict.

In Gaza, Hamas remains the *de facto* authority and a *de facto* boycott on Gazans remains in place. Economic decline in the Gaza Strip is severe. There is significant potential for long-term damage and living conditions continue to deteriorate. In the West Bank, economic conditions are stabilizing, and this government has made successful strides in rehabilitating some of the basic elements of the public financial management system, including: reconsolidation of the Single Treasury Account (STA); preparation of a budget for the remainder of 2007 and for 2008; preparation of financial accounts for 2006; and, development of a new accounting system.

The Annapolis Meeting in November 2007 and the Paris Meeting in December 2007 marked significant steps in the process of moving the peace and state building efforts forward. The joint understanding reached committed both parties to immediately launch bilateral negotiations. These are aimed at concluding a peace treaty that will lead to the establishment of a Palestinian state by the end of 2008. However, the political situation remains precarious. Serious reform and development efforts must take account of the need for tangible improvements in the political horizon, and concrete action to dismantle the occupation regime and alleviate the socio-economic suffering of Palestinian citizens.

2.3 Socio-economic analysis

There is a wealth of analysis available describing the socio-economic conditions in the OPT. Many PNA organizations, international financial institutions, national and international NGOs, private sector bodies and aid agencies have conducted, and continue to conduct, in-depth studies. In order to avoid repetition of information that is already widely available, this section identifies key trends in the

socio-economic situation in the OPT which have informed the policy framework and programs reflected in the PRDP 2008-10.

2.3.1 Decline and de-development of the Palestinian economy

The Oslo accords led to expectations that the Palestinian economy would experience sustained and rapid growth. There was initial steady growth and by 1999 real GDP had grown to \$4,512 million. However, since 2000, when Israel instituted a strict closure regime in response to the second *Intifada*, the economy has been on a downward spiral: GDP fell to \$3,557 million in 2002 and then recovered slightly in 2004 and 2005. However, with the continuing settlement growth, closures and the loss of direct aid after the 2006 election, GDP fell again in 2006. Real GDP in 2007 is expected to be about \$3,901 million, 14% lower than its peak in 1999. Because of rapid population growth during the same period, per capita GDP is nearly 40% below its peak. Between, 1995 and 2000, the Palestinian economy grew at an average rate of 8% per year. Had that trend continued through 2007 in the absence of restrictions, real GDP may have been more than double its current value.

A combination of borrowing, remittances and increased aid has propped up GDP in the past two years and has allowed both public and private consumption to remain strong. A recent Palestinian Central Bureau of Statistics (PCBS) survey estimates that despite the economic crisis, household consumption dropped by only 0.6% between 2005 and 2006. However, whilst consumption may have remained robust, investment has fallen to precariously low levels resulting in a hollowing out of the Palestinian productive sectors. Public investment has nearly ceased and in the last two years almost all government funds have been used to pay salaries and cover operating costs. Private investment is also low. The IMF estimates that it fell by over 15% between 2005 and 2006 and there is no evidence that it has significantly increased in 2007. A recent World Bank Investment Climate Assessment found that less than a quarter of private sector firms made any investments in 2005/2006 and that equipment in manufacturing enterprises was on average over 12 years old. The lack of investment in public infrastructure and private enterprises is eliminating the Palestinian productive base, leading to increased aid dependency. Employment in agriculture and services has increased relative to total employment as Palestinians become increasingly reliant on the informal economy, subsistence labour and seasonal work (such as agriculture) during periods of severe closure.

The situation in Gaza is particularly alarming and is in urgent need of attention. The ongoing and protracted closure of Gaza has eroded its economic backbone in a way that will be difficult to reverse. According to the Palestinian Federation of Industries, the restrictions have led to the suspension of 95% of Gaza's industrial operations. Of 3,900 working establishments in June 2005, only 195 remained in early December 2007. According to PalTrade, only 4,200 employees of the 35,000 who were employed in June 2005 still have a job in these industries. Industries cannot obtain the inputs for production and cannot export what they produce, transforming Gaza into a consumer economy driven by public sector salaries and humanitarian assistance.

2.3.2 Rising unemployment, poverty and dependency

Despite large inflows of aid, the shrinking economy and rising unemployment has led to increasing poverty. Unemployment in WBG stands at nearly 23% up from only 10% before the second *Intifada* in 2000. Unemployment is highest in Gaza at nearly 33% of the active work force and, at 19%, remains intolerably high in the West Bank. Under the current closure regime and attendant restrictions on commercial activity, unemployment is likely to become much higher as the layoffs in the industrial sector become permanent. With unemployment rising and labour force participation falling, the economic dependency ratio, which was already high, has risen sharply. By 2004 it reached seven persons.

Poverty levels starkly illustrate the level of aid dependency in the OPT. If remittances and food aid are excluded and poverty is based only on household income, the poverty rate in Gaza stands at almost 67%. The percentage of Gazans who live in deep poverty has risen from 22% in 1998 to nearly 35% in 2006. With the continued economic decline in 2007 and the implementation of even more

strict closures on Gaza, the current deep poverty rate is likely to be higher. An assessment by WFP in October 2007 of non-refugee households found that poverty in Gaza has reached unprecedented levels with around eight out of ten households living below the poverty line of 2,300 NIS (US\$594) per household per month. This represents a sharp rise compared to the 2005 rate of 63%. More Gazans than ever before are dependent on food aid and direct assistance: 80% of Gazan families currently receive humanitarian aid compared with 63% in 2006. The increase in poverty in the West Bank has been lower but is still significant.

As a result of the increased economic hardship, government spending on social protection has seen a significant rise in recent years. In 2005, it reached approximately 6.5% of GDP, and is expected to have risen sharply during the last two years. Also, with a shrinking private sector and the loss of employment opportunities in Israel, the PNA has become increasingly important as a provider of jobs. The number of Palestinians working in Israel or its settlements fell from 116,000 in 2000 to less than 64,000 in the first half of 2007. During this period, PNA employment increased from approximately 115,000 to more than 150,000 (excluding contractors and part-time workers). This, along with various increases in salaries, raised wages by 80% between 1999 and 2007. These actions have no doubt alleviated the effects of the economic decline but have put immense pressure on the PNA's fiscal position.

2.3.3 Increasing pressure on public service delivery and declining standards

According to the PCBS census conducted in January 2008, the Palestinian population in the OPT is now 3.77 million; 2.35 million in the West Bank (including East Jerusalem) and 1.42 million in Gaza. Approximately 75% of the population is under the age of thirty. Although it has decreased from 6.3 live births per woman in 1990 to 4.9 in 2002, the fertility rate in the OPT is still one of the highest in the Middle East and North Africa Region. The high birth rate and population growth of 3.4% is leading to ever increasing demand for public services and is placing immense pressure on basic social services infrastructure, especially public schools and health facilities.

Health indicators in the OPT have seen a steady drop in the last three years. The system already faces a unique set of challenges related to the occupation and it is struggling to meet increasing demand associated with population growth. Chronic diseases have surged 31% since 2005. Chronic malnutrition among children under five jumped 3% between 2004 and 2006. Ten out of every 100 children under 5 are stunted (13% in Gaza and 8% in the West Bank). The number of households with safe drinking water has also dropped by more than 8% between 2000 and 2007, causing a 42% increase in the number of children under five with gastrointestinal infections in 2004. According to a 2006 survey, almost three quarters of Palestinians suffer from severe depression. The youth has been hit particularly hard by the conflict; amongst those injured during the second Intifada, nearly 75% were between 10 and 29 years old, and violence and imprisonment have created severe mental health problems and physical disability.

Enrolment rates at all levels of education are high compared to other countries at a similar developmental stage. Access to primary and secondary education is relatively equitable with respect to gender, income and location (rural and urban). However, in the context of a growing population, there remains constant pressure to increase education sector spending to maintain these standards. Increasing insecurity, especially in Gaza, is having a devastating effect on the performance of students. In the West Bank closures and restrictions on movement and access, especially due to the Separation Wall, are preventing many students and teachers from reaching their schools. The quality of the education system is not keeping pace with global standards; an outdated curriculum and poor equipment are preventing the Palestinian students from fully benefiting from their education. There is also inequity between higher and lower income households with the former being able to spend more on the education, leading to significantly higher student achievement. Another concern is that the gender equity in higher education does not translate into equal opportunities in the labor market. While unemployment among males with a university degree is lower than those with only primary or secondary education, unemployment of women with university degree is 34 percent.

3. The Palestinian National Policy Agenda

The Palestinian National Policy Agenda (PNPA) is a framework of national policy goals and supporting objectives which set out the priorities for the PNA over the medium term. It is the guiding policy framework for the PRDP, to provide: a clear rationale for the activities of ministries, agencies and other public bodies; a basis for establishing priorities in the allocation of financial resources; and, a forward-looking agenda for Palestinian development and for reforming Palestinian institutions. The PNPA was prepared by consolidating existing PNA policy and plans into a single integrated framework, and was adopted by the Council of Ministers on 10th September 2007.

The PNPA framework is based on the substantial research, analysis, consultation and planning carried out in recent years. This includes the MTDPs for 2005-2007 and 2006-2008, the Strategic Economic Plan 2006-2008, the Palestinian Private Sector Resilience and Recovery Plan, the Urgent Plan for Dealing with the Emergency Situation, the Quick Recovery Program July-December 2007, MAS's report Towards Formulating a Palestinian Development Vision, and the development plans of a number of ministries including Education and Higher Education, Agriculture and Health.

3.1 Guiding Principles and Vision Statement

The PNPA focuses on what the government seeks to achieve on behalf of the Palestinian people over the next three years, as a basis for determining the most effective and efficient allocation of the funding available from domestic and international sources. In recognition of the unique context in which the PNA operates, and the challenges and limitations it faces, the formulation of the PNPA was guided by four fundamental principles.

- It is the intention of the PNA to support and sustain, through all of its policies and programs, the steadfast determination of the Palestinian people to remain on their land and to continue to pursue their livelihoods, not succumbing to the pressures placed upon them by the Occupation. The PNA will give priority in the short term to the provision of humanitarian relief, by its own agencies and by other national and international bodies, to those most urgently in need as result of the measures imposed by the Occupation. However, its policies and programs will be designed to support the transition from relief to development as the principal focus of activity and expenditure at the earliest opportunity.
- The policies and programs of the PNA will be directed towards the ending of the Occupation and the establishment of an independent, viable sovereign state. Since its formation in 1994 the PNA has pursued a process of institutional development and state-building leading towards statehood. Despite the political, economic and fiscal crises that have arisen since 2000, as a result of the collapse of the peace process this remains its undisputed direction of development.
- The eventual Palestinian state must be able to exist securely on the pre-June 1967 borders, including East Jerusalem, the Gaza Strip and the West Bank, and be capable of protecting its citizens and their land and property from incursion, confiscation and destruction, in accordance with international law. The Palestinian people have suffered not only from the expropriation of their land due to Israeli settlement policy and the further annexation of significant areas of land by the Separation Wall, but also from repeated military incursions which have led to the damage or destruction of large parts of their infrastructure, including housing units, schools and roads.
- The eventual Palestinian state will be founded on democratic and pluralistic principles and humanistic values. Its institutions will protect human rights, religious tolerance and the rule of law, promote gender equality, create an enabling environment for a free and open market economy, and serve the needs of disadvantaged and vulnerable groups, enabling all citizens to fulfill their potential.

The PNPA is also based on the following vision statement:

“Palestine is an independent Arab state with sovereignty over the West Bank and the Gaza Strip on the pre-June 1967 occupation borders and with East Jerusalem as its capital. Palestine is a stable democratic state that respects human rights and guarantees equal rights and duties for all citizens. Its people live in a safe and secure environment under the rule of law and it promotes equality between men and women. It is a state which values highly its social capital, social coherence and solidarity, and identifies itself with Arab Palestinian culture, humanistic values and religious tolerance. It is a progressive state that values cordial relationships with other states and people in the global community. The Palestinian government is open, inclusive, transparent and accountable. It is responsive to citizens’ needs, delivers basic services effectively, and creates an enabling environment for a thriving private sector. Palestine’s human resources are the driving force for national development. The Palestinian economy is open to other markets around the world and strives to produce high value-added, competitive goods and services, and, over the long term, to be a knowledge-based economy.”

3.2 Structure and Contents of the PNPA

3.2.1 Structure

The PNPA framework consists of a logical hierarchy comprising three levels: goals, objectives and policy areas. This is designed to clarify the rationale and priority of all government activities (and hence expenditure) and, in particular, how they ultimately contribute to the achievement of high-level national objectives. A graphic outline of the PNPA framework is attached at Annex 1.

The objectives and policy areas included in the PNPA have been limited to results which are, at least in principle, achievable by the PNA. While working towards its overarching goal of bringing about the end of the illegal Occupation, the PNPA will deal with internal goals and objectives that are at least to some degree under the influence of the PNA. The PNPA will focus on practical objectives for the purposes of planning how the resources of the government should be allocated over the medium term.

However, the priorities of the PNPA are shaped to a large extent by the facts and consequences of the Occupation. For example, the need for the reconstruction or rehabilitation of destroyed infrastructure, or to counter the effects of the loss of lives and the loss of freedom, and of the loss of access to land, water or educational and health facilities. These realities are reflected not so much in the high-level objectives as in the specific objectives and instruments proposed for individual policy areas. Here, they shape both the proposed government activities and the operational constraints on economical and efficient service delivery.

3.2.2 National Goals

The national goals represent the long-term aspirations and intentions of the Palestinian people and the PNA. They cannot be achieved in three years, and their full realisation depends on the achievement of independent statehood and the end of the Occupation. However, progress towards the attainment of these goals is possible in the next three years even under adverse circumstances.

The national goals express the highest-level purposes of the PNA, all of which are regarded as equally important, and to which all public sector activities will be linked. They provide a clear indication of the principal priorities for national reform and development in the short, medium and long term, and will inform all policy-making, planning and budgeting processes. All other elements of the PNPA are directly linked to the achievement of these goals.

Table 3.1 National goals

<i>Safety and security:</i> a society subject to law and order, which provides a safe and secure environment in which the people of Palestine can raise their families and pursue their livelihoods and businesses, free from crime, disorder and the fear of violence	<i>Good governance:</i> a system of democratic governance characterized by participation of citizens, respect for the rule of law and separation of powers, capable of administering natural resources and delivering public services efficiently, effectively and responsively, and supported by a stable legal framework, a robust legislative process and accountable, honest and transparent institutions which protect the rights of all citizens
<i>Increased national prosperity:</i> economic security, stability, viability and self-reliance, achieved through an increase in sustainable employment and an equitable distribution of resources, leading to the reduction and eventual eradication of poverty and the growth of individual and national wealth	<i>Enhanced quality of life:</i> increases in material wealth and environmental quality are matched by the strengthening of social coherence and solidarity, so that the most vulnerable areas and groups in society continue to be supported and the culture, national identity and heritage of the Palestinian people are reinforced

3.3.3 Objectives

The objectives set out in the PNPA describe the results that must be delivered – or obstacles that must be overcome – in order to achieve the national goals. They are more specific than the national goals, and progress towards them can be measured using agreed indicators, subject to quantitative targets, for the delivery of results over time.

Objectives are on two levels, primary and intermediate. Primary objectives contribute directly to the attainment of national goals.

Table 3.2 Primary objectives

<i>In support of Safety and security:</i> • Strengthen the civil and criminal justice system • Increase the professionalism, accountability and effectiveness of the security services	<i>In support of Good governance:</i> • Enhance the efficiency and effectiveness of government • Strengthen public institutions
<i>In support of Increased national prosperity:</i> • Move towards fiscal stability • Restore economic growth	<i>In support of Enhanced quality of life:</i> • Reinforce social coherence • Provide social protection for those in need

Intermediate objectives represent significant intermediate milestones in progress towards delivering the primary objectives. For example, the creation of an enabling environment for private sector development, leading to an increase in employment opportunities, is presented as an essential precondition for economic growth, rather than as a primary objective in its own right.

Table 3.3 Intermediate objectives

• Develop human and physical capital through the provision of basic services in education, health and housing, and facilitate the growth of private sector enterprise as a source of sustainable employment, in order to establish the conditions for economic growth
• Develop the social capital of the nation, and preserve its culture and heritage, in order to reinforce social coherence
• Strengthen local government, as a major contributor to improvements in governance
• Slim down the PNA, leading to a reduction in costs and especially in the wage bill, as an essential prerequisite for the achievement of fiscal stability

3.3.4 Policy areas

Policy areas are specific topic areas in which the need for high-priority action is needed in order to support the achievement of objectives and national goals. They do not necessarily coincide with the boundaries of particular organisations or established programs. Some may represent only one part of a ministry or agency's responsibilities; some may require cross-cutting action by a number of bodies. However, ministries and agencies must be able to specify which of the policy areas their planned activities fit into and demonstrate their contribution to national goals and objectives.

It is at this level of the PNPA framework that detailed policy formulation is located. A policy is not simply an objective, but a statement both of what is to be achieved and how. The quality of policy making depends crucially on careful and realistic thinking at the ministry and agency level, based on the best evidence available, about what interventions are most likely to deliver the specified objective and about the risks of undesirable unintended consequences.

3.3 Linkage between the PNPA and the PRDP

The PNPA was used as the starting point for policy-making, planning and budgeting by all ministries and agencies. Ministries and agencies, through their Planning & Budgeting (P&B) submissions, provided the detailed information about the specific objectives being pursued, and the activities and projects being undertaken, in each policy area. Ministries and agencies were required to demonstrate how their own specific objectives and activities contribute towards the achievement of the national priorities, and to identify the level of resources dedicated to each activity. This enabled an assessment of the extent to which activities and resource allocations are aligned with national policy priorities. The information produced by ministries and agencies also covered all different types of expenditure (recurrent, capital and development) so that the full costs of undertaking different activities can be evaluated.

The P&B submissions from ministries and agencies were analysed and reviewed to ensure that directions being pursued by ministries are fully aligned with the national goals and objectives; that important activities that would contribute significantly to those objectives in the medium term are not omitted or unfunded; and, that objectives are clearly formulated. The review process also ensured that cross-cutting linkages, where activities contribute to objectives that are principally the responsibility of other bodies, were fully recognised and exploited.

Application of the PNPA in developing the PRDP was, in effect, an important first step on the path to reforming policy-making, planning and budgeting processes. In future years it is expected that there will be a more extended timetable for planning and budgeting, which will allow (as is normal practice) the process to begin with a stage of policy review. This will enable a thorough review of the existing government policies, consideration to be given to the impact, prioritisation and the continuing appropriateness of policies before attention is turned to the allocation of financial resources. In the future, continued application of the PNPA framework will drive the realignment of public sector activities and resources with national goals and objectives, and it will provide a much stronger basis for reviewing the performance of ministries and agencies in achieving their objectives and targets.

4. Medium Term Fiscal Framework

The PNA's medium term fiscal framework (MTFF) has been developed using a macroeconomic model to predict government revenue and expenditure during 2008 to 2010. These predictions have been used as a basis for allocating resources to PRDP programs, and for setting expenditure limits in the sectors and individual ministries and agencies within those sectors.

This chapter describes:

- the volatile macroeconomic context in which fiscal planning is conducted
- the macroeconomic model – the conceptual basis, key features, the scenarios and main variables, the data used, and model limitations and risks
- the model outputs and resource projections

4.1 Context

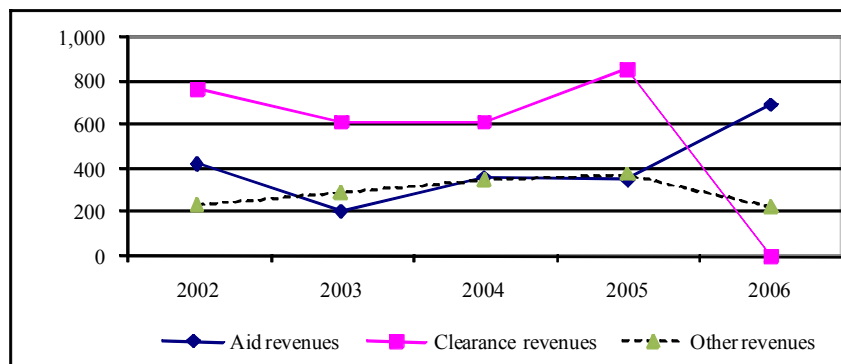
Political instability and conflict in the occupied Palestinian territory causes regular, severe economic fluctuations, which in turn have a major impact on socio-economic outcomes – including poverty, unemployment, consumption and price inflation. The key risks underpinning this volatility include uncertainty regarding the amount and timing of clearance revenue transfers and aid flows, which represent the majority of government revenues, and restrictions on movement and access of people and goods imposed by the occupation regime.

These risks are clearly illustrated by the impact of political developments in 2006. Israel suspended the transfer of clearance revenues and many major donors temporarily suspended or curtailed aid flows. This obviously had a negative impact on the economy, the effects of which are still being felt. In addition to rises in unemployment and poverty, it resulted in stoppages of wage payments for public sector employees which led to strike action and disruption of basic public services.

Restrictions on movement and access have also worsened economic outcomes. Checkpoints, road blocks and closures have steadily increased in the West Bank as settlements have expanded. Access into and out of Gaza has also been significantly reduced the point of almost complete closure since June 2007.

Figure 4.1 shows that all sources of PNA revenue fluctuated significantly during the period from 2002 to 2006. The decline in 2006 of clearance and other revenues amounted to nearly \$ 1 billion. External funding helped alleviate a small share of the burden, increasing the revenues by almost \$400 million.

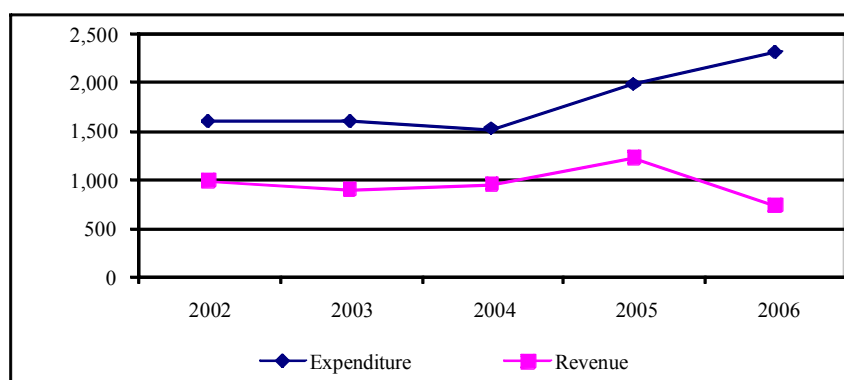
Figure 4.1: Trends in major PNA revenue sources (US\$ million)



As a result of this extreme volatility, government revenue projections are highly unpredictable over the medium term. Consequently, medium-term fiscal planning is extremely difficult, and greater emphasis is placed on short-term liquidity management.

Against the backdrop of these revenue trends, as Figure 4.2 shows, the gap between PNA's expenditure and revenue has been widening since 2004. This is clearly due in large part to the impact of political developments on clearance revenue transfers. However, the rapid rise in expenditures is not sustainable and, through fiscal reforms described in Chapters 5 and 6 of this document, the PNA is taking steps to address the problem.

Figure 4.2: Trends in PNA revenues & expenditures (US\$ million)



The impact of political risk in the broader economy is also quite pronounced. The economy has, at best, stagnated in recent years, propped-up only by large aid inflows and consumption. Investment in the productive base of the economy has been woefully inadequate, resulting in deep-seated structural weaknesses in the economy which will be very difficult to reverse.

Table 4.1 shows trends in GDP according to economic activity, and shows that real GDP experienced a small improvement in the period from 2001 to 2006, increasing from \$3.9 to \$4.1 billion. It also shows that the share of GDP from each of the activities are fairly stable except for *transportation, storage and communications*, which rose in 2006 due to increased road blocks, and *public administration and defense*, which declined by 4% as a result of the boycott of the PNA.

Table 4.1: GDP according to economic activity

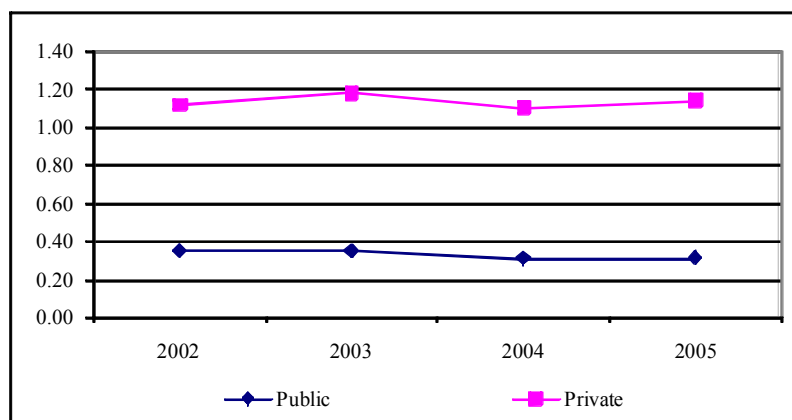
Activity	2001	2002	2003	2004	2005	2006
Agriculture, hunting & fishing	8.9%	7.6%	7.8%	7.5%	6.9%	8.1%
Mining, quarrying & manufacturing	15.7%	16.3%	13.3%	13.3%	12.5%	12.9%
Construction	2.2%	1.9%	2.4%	2.4%	2.7%	2.5%
Wholesale and retail trade	10.6%	9.8%	8.5%	8.5%	8.3%	9.3%
Transport, storage & communications	8.1%	9.8%	9.8%	10.5%	10.2%	11.3%
Financial intermediation	3.5%	4.2%	4.0%	4.0%	4.2%	4.5%
Other services	25.4%	25.3%	25.1%	24.7%	24.4%	22.9%
Public administration and defense	16.1%	16.3%	17.4%	17.3%	17.7%	13.5%
Other	9.6%	8.8%	11.6%	11.9%	13.0%	14.8%
Total	\$3,918m	\$3,556m	\$3,995m	\$4,248m	\$4,503m	\$4,107m

Table A1 in Annex 5 provides an alternative analysis of real GDP which illustrates the volatility in value-added by the different sectors. The figures also show that growth in construction value-added has fluctuated sharply, with an increase of 23% in 2003 to a decrease of 66% in 2006, reflecting

sensitivity to political risk. The data also illustrate the predominance of the services sector, which provides roughly 60%-65% of gross value added, reflecting the low productive base of the economy.

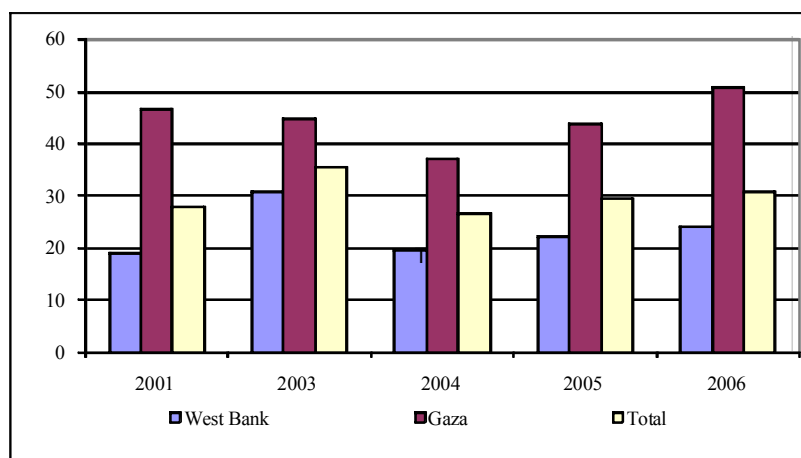
Balance of payments data (see Table A2 in Annex 5) show an improvement in the current account between 2005 and 2006. This was mainly due to a sizable increase in the income balance, rising from \$266 million in 2005 to \$491 million in 2006. The transfer balance also increased by \$470 million. Private consumption and investment account for more than 120% of GDP as shown in Figure 4.3. This is made possible by the net factor income and net transfers, and by a large current account deficit reaching as high as 60-70% of GDP.

Figure 4.3: Relative contribution of private and public sectors to GDP



The risk and associated volatility in the PNA's finances and the broader economy is also reflected in social indicators. For example, measures of people living below poverty line, summarized in Figure 4.4, illustrate the same volatility, with the number of people living below poverty line decreasing in 2004 to roughly 38%, and then increasing again to 50% in 2006. It is important to note that these fluctuations are not only felt by Palestinians in their day-to-day existence but also in their sense of human security and optimism, or lack thereof, for the future.

Figure 4.4: Percentage of population living under poverty line



4.2 Macroeconomic model

In order to prepare the MTFF, forecasts of the values and impacts of basic macroeconomic and budget variables must be made. These forecasts were developed using an econometric model developed by UNCTAD. More details of the model, scenarios and assumptions, data sources, and model risks are provided in Annex 4.

4.3 Macroeconomic framework

4.3.1 Overview

The macroeconomic forecast has been built to reflect current political and economic realities. The forecast assumes the progressive implementation of a series of fiscal reforms to tighten recurrent expenditures over the period to 2010. These reforms will mainly involve retrenchment of the public sector wage bill and measures to reduce the growth of net lending. It is assumed that other operating expenditures will remain broadly constant in real terms. Externally financed development and capital expenditures, however, are expected to increase significantly.

The forecast is therefore based on a prudent fiscal stance leading to a reduction in the budget deficit over the medium term. It is recognized, however, that there are a large number of external factors that could have a significant impact on the fiscal parameters of the PNA. Therefore, three scenarios for the MTFF have been developed. The difference between these three scenarios is based only on changes in external factors. Government policies are assumed to remain the same, and so the policy variables that relate to these are held constant throughout. The three scenarios developed are as follows:

Baseline scenario - The baseline scenario assumes modest improvements in the political and security environment, which should allow for a gradual reduction in movement and access restrictions. This lifting of restrictions and increased stability is expected to result in a gradual increase in trade and private sector confidence. This scenario shows what would happen to the key macroeconomic variables if the political and economic situation (e.g., employment in Israel, closures, GDP growth in Israel and Jordan) remained on their natural trend path. This scenario will therefore be calculated by extrapolating the growth rates of these variables over the last five years forwards, across the period of the MTFF.

Optimistic scenario - The optimistic scenario assumes that political progress and an improved security environment could accelerate the lifting of movement and access restrictions, and the slight recovery in economic indicators seen in 2007, would continue through 2008 -2010. It assumes a substantial increase in the level of public investment and private sector activity; the release of the clearance revenues from Israel on time and in full; an increase in the number of Palestinians employed in Israel; and, an increase in the level of donor assistance.

Pessimistic scenario - The pessimistic scenario assumes that there is no change in movement and access restrictions. This would make material increases in public investment and a substantive reconstruction effort virtually impossible. Any related reluctance on the donor side to finance the budget deficit would lead to further accumulation of arrears. If sustained, such a scenario would almost certainly take the PNA to the point of financial and institutional collapse (as so nearly the case in the second half of 2006) and further dissipate support for the PNA amongst its constituents. It would also lead to rising unemployment, increasing poverty, declining health and education services and further, perhaps irreversible, degradation of the private sector. This scenario will lower the values of the main variables below the baseline and will also depend on the magnitude of unemployment and GDP growth.

In the baseline scenario, real GDP is forecast to reach \$4.4 billion in 2010. Projections under the optimistic scenario indicate that GDP will reach \$4.7billion, but will be as low as \$3.6 billion in the pessimistic scenario. These figures, and the corresponding growth rates, are shown in Table 4.2. The forecasts indicate a range of potential growth rates from -4% to 11% across the three years under the different scenarios, illustrating the high sensitivity of the economy to exogenous factors.

Table 4.2: Overview of macroeconomic projections 2008-2010 under three different scenarios

	2008 Projection			2009 Projection			2010 Projection		
	Pess.	Base	Opt.	Pess.	Base	Opt.	Pess.	Base	Opt.
Real GDP (\$m)	3,679	3,987	4,017	3,622	4,157	4,273	3,649	4,401	4,726
Growth in real GDP	-4%	3%	4%	-2%	4%	6%	1%	6%	11%
Balance of trade (\$m)	-2,641	-2,654	-2,578	-2,665	-2,761	-2,787	-2,673	-2,884	-3,199
Total employment ('000s)	671	697	705	680	732	754	697	784	826

The balance of trade is expected to remain negative over the forecast period. This deficit has historically been large as a fraction of GDP. Typically, it improves during slowdowns as imports fall faster than exports. The converse is true during recovery. The projections echo the historical trends, with the trade deficit growing rapidly in optimistic scenario, and much more slowly in the pessimistic scenario.

Under the baseline scenario, total employment is forecast to rise by approximately 87,000, of which only 500 will be additional employment in Israel. Under all other scenarios, employment in Israel is expected either to decline or to increase only by similarly modest levels – any significant increase in employment is expected to be in the domestic market. Table A4 in Annex 5 provides more details of the employment projections, including an industry breakdown.

4.3.2 Macroeconomic framework

The macroeconomic framework, summarized in Table 4.3 below, is premised on a baseline scenario. This framework formed the basis of the MTFP described in section 4.4 below. It assumes modest improvements in the political and security environment – which should allow for a gradual reduction in movement and access restrictions. This lifting of restrictions and increased stability is expected to result in a gradual increase in trade and private sector confidence.

The framework is also based on the implementation of a series of fiscal reforms to tighten recurrent expenditures from 50.3% to 41.2% of GDP over the period to 2010. These reforms are described in detail in Chapters 5 and 6, but will mainly involve retrenchment of the public sector wage bill and measures to reduce net lending. Following retrenchment, growth of the wage bill is expected to be restricted to 2% per year during 2009 and 2010, allowing for modest levels of recruitment in the education and health sectors. Reductions in net lending will be achieved by implementing a set of measures to improve the collection of utility bills.

The framework reflects reduced recurrent spending in lower priority areas in favor of basic service provision and targeted funding to help poor households. Other operating expenditures (i.e. excluding salaries) are expected to remain relatively constant in real terms, and development expenditures are projected to grow based on donors' willingness to fund the reconstruction of damaged infrastructure and other medium-term development costs. In essence, this macroeconomic framework is based on a prudent fiscal stance leading to a steady reduction in the budget deficit over the medium term.

Table 4.3: Summary macroeconomic framework – baseline scenario

	2005	2006	2007	2008	2009	2010
	Act.	Est.	Est.	Proj.	Proj.	Proj.
Public Finance						
			<i>(in % of GDP)</i>			
Revenue	27.5	25.4	23.6	24.4	25.4	25.7
Expenditure and net lending	44.5	50.2	50.3	46.7	43.5	41.2
<i>Wage expenditure</i>	22.4	26.3	25.4	24.3	23.0	21.6
<i>Non-wage expenditure (incl. minor capex)</i>	14.5	16.5	14.4	15.8	14.7	14.4
<i>Net lending</i>	7.7	7.4	10.6	6.6	5.8	5.2
Recurrent balance - before external support	-17.0	-24.9	-26.7	-22.3	-18.2	-15.5
External support for recurrent budget	7.8	16.3	20.0	26.8	20.7	18.3
Overall Balance	-6.4	-5.6	-4.9	-7.1	-9.6	-10.7
External support for development expenditures	6.4	6.2	6.1	8.1	9.7	10.8
Investment						
			<i>(in % of GDP)</i>			
Public capital formation (gross)	7.4	6.4	6.7	9.0	10.7	12.2
Private capital formation (gross)	16.7	14.7	15.6	16.4	16.7	17.1
Output and Prices						
			<i>(Annual % change)</i>			
Real GDP	6.0	-4.8	0.0	3.3	5.5	6.5
CPI inflation rate (end of period)	2.3	3.3	6.9	3.5	3.0	2.5

(Note: The figures in the above table differ slightly from those presented in Table 5. This final version of the framework was derived through a collaborative effort between the PNA and the IMF.)

As a result of the fiscal policies described above, the projected recurrent budget deficit should decline from almost 26.7% of GDP to 15.5%. This significant reduction would bring the deficit back below its 2005 level. In real terms, the external recurrent budget support requirement would initially increase, but would return to 18.3% in 2010. However, to ensure long-term economic growth, external support for public investment would need to increase from 6.1% of GDP to 10.8% in 2010.

Assuming improvements in political and security conditions, and hence a more favorable trade environment and fiscal policy, coupled with substantial donor support, growth in private investment would accelerate rapidly from 2009. Real GDP growth is projected to rise from 3.3% in 2008 to 6.5% by 2010 as public and private investments gradually offset the contraction effects of fiscal retrenchment. However, against the backdrop of an expanding population, this growth is expected to yield only a slight rise in income per capita and, due to the expanding labor force, unemployment is not expected to decline significantly.

Other potential scenarios

A combination of political progress and an improved security environment could accelerate the lifting of movement and access restrictions. The level of foreign-financed public investment and private sector activity would increase substantially. The return of private sector confidence would boost private investment, employment, economic growth and social development. This would allow space for additional resources to be reoriented toward domestically-funded public investment and social safety nets. Under such a scenario public investment could increase by a further 50% and GDP growth could rise above 10% by 2010.

However, if there is no change in movement and access restrictions, the economic outlook is extremely poor. It would make material increases in public investment and a substantive

reconstruction effort virtually impossible and reluctance on the donor side to finance the budget deficit would lead to further accumulation of arrears. If sustained, such a scenario would almost certainly take the PNA to the point of financial collapse. It would also lead to rising unemployment, increasing poverty, declining health and education services, and further, perhaps irreversible, degradation of the private sector.

4.4 Medium term fiscal framework

Table 4.4 sets out the PNA's medium-term fiscal framework (MTFF) based on the baseline scenario macroeconomic framework. This MTFF is built on the assumption that Israel is willing to take steps to remove administrative and physical barriers to the movement and access of Palestinian people and goods. It assumes that donors will provide substantial levels of predictable aid to support the our recurrent budget and public investment program. It also clearly reflects our commitments to enforce the rule of law, and carry out fiscal and other reforms outlined in this document. Reforms aimed at fiscal consolidation and the freeing-up of resources for public investment are already being implemented.

Averaging approximately 25% of GDP, Palestinian revenue is one of the highest in the region and compares favorably with countries of similar *per capita* income levels. Revenue performance, which has been strong for many years, will improve modestly in absolute terms and remain relatively constant as a proportion of GDP. Expenditures, however, will be contained and, over time, will decline relative to GDP. Overall, the current budget deficit is projected to decline by 11.2% of GDP over the next three years to a level well below that in 2005.

Table 4.4: Medium term fiscal framework

	2006	2007	2008	2009	2010
<i>(millions of U.S. Dollars)</i>	<i>Act.</i>	<i>Est.</i>	<i>Proj.</i>	<i>Proj.</i>	<i>Proj.</i>
Revenue	1,149	1,194	1,486	1,665	1,832
Gross domestic	379	298	419	469	516
Gross clearance revenue	770	896	1,067	1,196	1,316
Expenditure and net lending	2,277	2,544	2,846	2,858	2,935
Wage expenditure	1,193	1,283	1,481	1,511	1,541
Non-wage expenditure	747	725	964	969	1,022
Net lending	337	535	400	379	373
Balance (commitment basis)	-1,128	-1,350	-1,360	-1,193	-1,103
Add: Expenditure arrears	887	-23	-217	-164	-194
Ded: Net clearance revenue withheld	473	-422	-	-	-
Balance (cash basis)	-714	-951	-1,577	-1,357	-1,297
Add: external budget support	741	1,012	1,634	1,361	1,301
Balance after budget support	27	61	57	4	4
Ded: Externally financed capital exp.	281	310	492	634	769
Overall balance	-255	-249	-435	-630	-765
Financing	255	249	435	630	765
Advances & other payments by PIF	146	78	-	-	-
Net domestic bank financing	-172	-132	-50	-	-
External financing for capital exp.	281	310	492	634	769
Net external debt	-	-	-4	-4	-4
Residual	-8	-6	-	-	-

This positive trajectory in our fiscal position will still require significant external financial support to cover the current deficit and repay accumulated arrears. However, external support will decline steadily as a proportion of GDP and will cover a significant and rising public investment program.

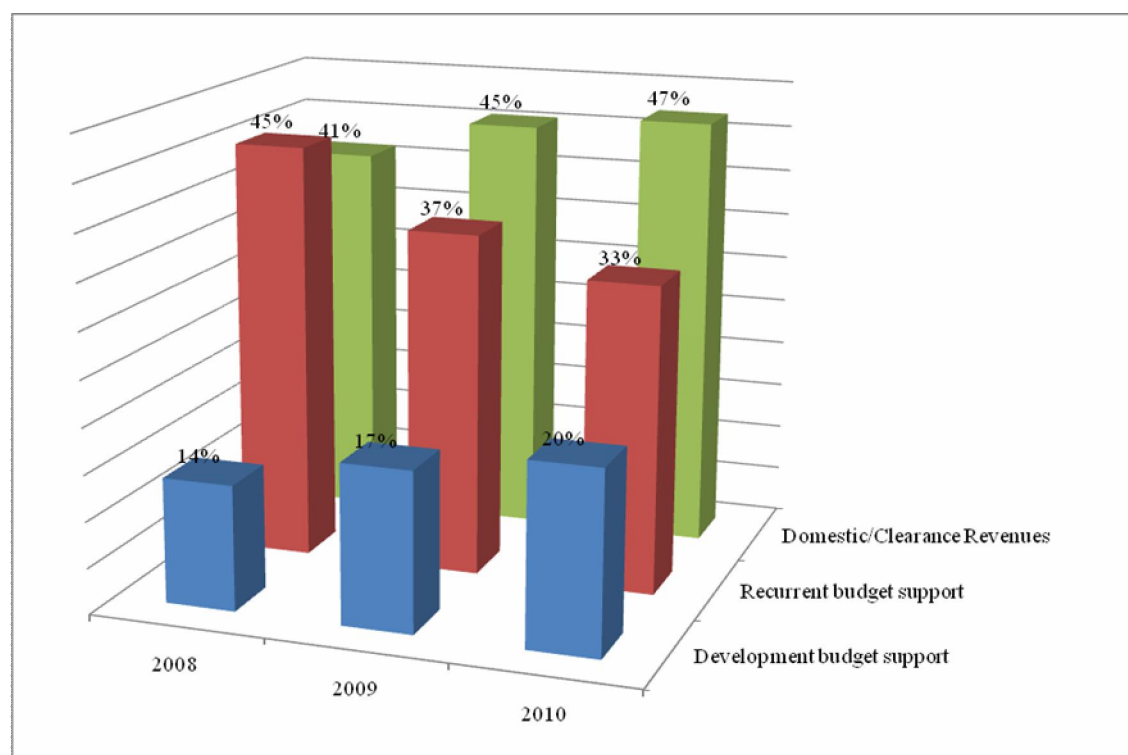
Table 4.5: External financing

	2006	2007	2008	2009	2010
<i>(millions of U.S. Dollars)</i>	<i>Act.</i>	<i>Proj.</i>	<i>Proj.</i>	<i>Proj.</i>	<i>Proj.</i>
Budget support	741	1,012	1,634	1,361	1,301
Public investment	281	310	492	634	769
Total external financing	1,022	1,322	2,126	1,995	2,070

Note: Budget support in 2006 excludes informal assistance not channelled through the banking system

However, in the baseline scenario, assuming positive parallel actions by all three parties, the contribution of clearance and domestic revenues to the overall resource envelope is expected to climb significantly over the medium term. As figure 4.5 illustrates, this would create space for significant reductions in recurrent budget support and considerable up-scaling of development budget support.

Figure 4.5: Contribution of revenue sources to the overall resource envelope



5. Sector Policy, Plans and Programs

This chapter sets out the policies, plans, programs and resource allocations in each of the four sectors – Governance, Social, Economy and Infrastructure. It also includes a special section on the development priorities of East Jerusalem, the capital of the future Palestinian state.

5.1 Governance

This section sets out the Palestinian reform and development agenda in the *Governance* sector and demonstrates how this contributes to the overarching Palestinian National Policy Agenda (PNPA) framework described in Chapter 3. It describes the overall policy priorities in the governance sector, the main constraints and challenges faced in the sector, and the related programs, strategic objectives and resource allocations at the sector, ministry and agency level.

5.1.1 Policy Agenda

The PNA aspires to establishing a system of democratic governance characterised by respect for the rule of law and separation of powers, capable of protecting and managing natural resources and delivering public services efficiently, effectively and responsively, and supported by a modern and stable legal framework, a robust legislative process and accountable, honest and transparent institutions which protect the rights of all citizens. Good governance is a fundamental pre-condition of sustainable development. It is an enabler of economic growth and social development.

Organizations in the Palestinian *Governance* sector include the Office of the President, the Prime Minister's Office, the Ministries of Finance and Planning, the General Personnel Council (GPC) and, at the sub-national level, the Ministry of Local Government. These organizations are *inter alia* responsible for ensuring the quality of policy analysis and management decision-making, public financial management and human resources management and development, and have a major role in ensuring the efficiency and effectiveness of the public sector as a whole. The *Governance* sector also includes organizations involved in delivering security and the rule of law such as the Office of the Attorney General, and the Ministries of Interior and Justice. The sector also includes organizations, including Financial Administration Control Bureau (FACB), involved in independent oversight of public sector bodies. Finally, the judicial and legislative branches of government play critical roles in the sector, not least as a check and balance on the executive branch.

Governance sector ministries and agencies therefore play a wide-ranging and a key role in enabling progress towards all four of the national goals laid out in the PNPA. The following points are intended to be illustrative, rather than exhaustive, in demonstrating the powerful impact of a better-functioning public sector on the achievement of national goals.

- *Good governance* – All three branches of government, and appropriate separation of their powers, have a vital role to play in ensuring transparent, accountable, effective and efficient government. The efficiency and effectiveness of public sector organizations in all three branches, and at the national and sub-national level, could be substantially improved by upgrading their institutional and organizational capacity.
- *Safety and security* – Improved institutional and organizational capacity of the Palestinian security services will clearly have a material impact on public safety and security. Increased capacity of the judiciary and the justice sector more generally will also promote the comprehensive and consistent application of the rule of law throughout the occupied territory. Increased capacity of the legislature and other oversight bodies will enhance the effectiveness of democratic oversight of the security services and ensure protection of human rights.

- *Increased national prosperity* – A stable and enabling legal framework, along with more efficient public sector organizations, will make a vital contribution to revitalizing the Palestinian private sector in the near-term and sustaining its growth over the medium-term. Improved social, economic and fiscal policy formulation at the centre of government will also help drive more equitable distribution of resources.
- *Enhanced quality of life* – Increased capacity of public sector organizations involved in social policy making, provision of well-targeted social assistance, and the delivery of basic education and health services will have a direct positive effect on the daily lives of citizens. Improved capacity of the public sector to regulate private sector and non-governmental organizations delivering basic services to the population will also have a positive impact.

Given the extent of the *Governance* sector's contribution towards the achievement of the four national goals, and recognizing the constraints on financial resources and implementation capacity, it is necessary to prioritize the sector's objectives and activities. For the purposes of this PRDP, the main focus is on activities that will make significant contributions to fiscal and socio-economic stabilization in the near-term and recovery over the medium-term. These will be an essential foundation for increased national prosperity and enhanced quality of life over the medium-term. Taking these priorities into account the PNPA framework includes the following high-level objectives that are of particular relevance to *Governance* sector ministries and agencies:

- *A strengthened civil and criminal justice system* – Strengthening the justice system requires action in a variety of policy areas to: enhance the independence and viability of the judiciary; upgrade court infrastructure and administrative systems; and, develop better criminal justice facilities (including better penal and forensic). These policy actions require strategic, coordinated contributions from the Supreme Judicial Council, the Attorney General, and the Ministries of Justice and Interior.
- *Increased professionalism in the security services* – A capable, well-trained and well-equipped security establishment that is professional and loyal in its service of the nation is critical to creating an enabling environment for social and economic development. This requires coordinated efforts by both the President's Office and the Ministry of Interior to upgrade the capacity of, and cooperation between, the various security services. Complementary to this objective are activities to address the need to reintegrate certain militia and other surplus security related personnel back into general society.
- *Enhanced efficiency and effectiveness of government* – All *Governance* sector ministries and agencies have contributions to make to enhancing efficiency and effectiveness. However, certain ministries and agencies at the centre of government bear special responsibilities. The Ministry of Finance and the GPC are responsible for ensuring the implementation of public expenditure management and civil service management processes that maximize the value-added of resources deployed. The FACB and internal audit functions within the Ministry of Finance are concerned with ensuring integrity, accountability and transparency.
- *Strengthened public institutions* – All *Governance* sector ministries and agencies play a role in strengthening public institutions. At the centre of government a variety of ministries and agencies have a role in developing an appropriate legal and regulatory framework for guiding the activities of the public sector. Line ministries are responsible for developing executive regulations and operating procedures that are consistent with the overarching legal framework. The Ministry of Justice and the PLC secretariat also play a vital part in the development of the public sector legal framework.
- *Strengthen local government* – Greater administrative and fiscal autonomy is essential to realizing the potential of local government to be more responsive to the needs of the people in

a fiscally responsible manner. The Ministries of Local Government and Finance will need to work with local government units (e.g., municipalities, village councils, etc.) to empower and increase the accountability and effectiveness of local government through intensive capacity building.

- *Slimmer PNA* – The public sector is a major provider of services, some of which might be better delivered through private sector providers. If political and economic conditions improve and confidence returns to the private sector, there may be an opportunity to reduce the scope and extent of directly delivered public sector activities. Various organizations at the centre of government, including the Prime Minister’s Office, Ministries of Planning and Finance, and the GPC should work together to develop a blueprint for the future structure, size and shape of the public sector.
- *Move towards fiscal stability* – A rapid and sustainable recovery of the Palestinian economy requires parallel actions to reduce the growth and increase the effectiveness of public sector spending (through better public expenditure management and better governance generally) and to stimulate private sector growth. These actions are mutually reinforcing. Private sector development and economic prosperity enhance the prospects for improving governance; in turn, better governance enables growth, and ensures equitable and sustainable development.

5.1.2 Context and Challenges

This section provides a brief summary of the context and challenges faced in key sub-sectors taken into account in formulating the reform and development programs for the *Governance* sector.

Security and rule of law

Security sector reform is a complex and difficult process even under the best conditions. The PNA is seeking to implement reform in the midst of conflict, political instability and highly challenging economic conditions. It is also embarking on the reform process in the context of an occupation which continues to undermine the reach, credibility and legitimacy of the Palestinian security services, and hinders the ability of the PNA to bring security and enforce the rule of law throughout the occupied territory.

Since the escalation of conflict in 2000, informal “law” enforcement mechanisms have tended to fill the vacuum left by incapacitated PNA security institutions. Continued lack of capacity to deliver security and rule of law is reinforcing the reliance on these informal mechanisms. This poses a number of problems: “law” enforcement is not always equitable (i.e., based on affiliation with and proximity to informal powers); discrimination against women and traditionally weak groups has increased; and, emergence of informal institutions undermines incentives to rehabilitate and develop formal ones. Reversing this legacy will require determined and sustained organizational capacity building; it will also require strengthening of democratic oversight mechanisms to ensure the accountability of the security services to the people.

Another major issue affecting the security services is the poor infrastructure on which it is forced to rely. This infrastructure has suffered severe damage during the years of conflict and regular incursions. Accommodation, training facilities and equipment are far below the standard required by a modern state security apparatus capable of responding to modern security challenges.

Increasing unemployment, particularly amongst the youth, has also emerged in recent years as a key challenge to maintaining law and order. Almost 50% of the population is under 15, and every year there are almost 50,000 new entrants to the labour market. The rapid economic decline since 2000, and associated unemployment, has played a large part in driving increases in public sector employment and wages – particularly in the security sector which now represents more than 40% of

the PNA wage bill. It is essential to recognize that adequate alternative employment opportunities are an essential ingredient for sustainable establishment of security and the rule of law.

Notwithstanding the need for parallel actions by Israel to end the occupation, security sector reform will involve rebuilding, restructuring and reforming the security services and developing democratic oversight mechanisms. It requires attention to: create of an appropriate legal and institutional framework; upgrade the professionalism and operational effectiveness of security forces; ensure the fiscal sustainability of the security forces; reinforce democratic governance and accountability; and, address the legacies of conflict (e.g., unlawful ownership and use of weapons).

Justice

The justice sector faces some challenges similar to those faced by the security sector. In particular, since 2000, informal arbitration and adjudication mechanisms have filled the gap left by weak formal justice sector organizations. The justice sector must be rehabilitated and strengthened significantly to ensure its viability and independence, and hence restore public trust in its capacity to dispense justice equitably.

The general breakdown in respect for the rule of law has created an environment of insecurity for judges and other justice sector employees. Adequate physical protection and better court infrastructure can undoubtedly play a role in enhancing the sense of security, and hence independence, of judges and public prosecutors. However, this is the absolute minimum requirement. In reality, general improvement in the overall security situation and demonstrable capacity of the security services to exercise monopoly on the use of force is essential to ensuring the long-term independence and viability of justice sector organizations.

Despite the weakened state of justice sector institutions, citizens and businesses continue to bring cases to the courts, as witnessed by the increasing backlog. Better case management and archiving systems and processes are required to increase the administrative capacity of sector organizations, and therefore reduce the time taken for cases to be heard.

The justice sector also needs to be backed by a modern and reliable penal system which is capable of secure detention of suspects and imprisonment of convicted criminals. Modern investigative tools, including forensic facilities, are also needed to ensure effective prosecution of criminal and civil cases.

Finally, whilst the years of insecurity and strictures of the occupation regime have clearly played a part in weakening the performance of the justice sector, the situation has not been helped by poor coordination between the various PNA organizations directly involved in the sector. It is essential that reform of the sector is in line with a vision and strategy agreed by all relevant sector organizations, in consultation with relevant civil society organizations.

Fiscal reform

Political instability and insecurity has created a state of almost permanent socio-economic distress in the occupied territory. In the periods of greatest instability, public expenditure has played a major role in maintaining consumption in a fragile economy, and averting a complete breakdown in law and order. In the face of a growing population, a rising labor force and a contracting private sector, public sector employment has served as a safety valve to relieve escalating unemployment. Similarly, the public sector pension system and 'net lending' have become integral, publicly-funded elements of the overall social safety net. Indeed, in the absence of a free and export-oriented private sector, the public sector and donors have become the main source of employment and personal income.

Over time rising public expenditure has created structural fiscal problems which are compromising our ability to govern effectively. Rapid growth in the wage bill and pension costs has crowded out non-salary expenditure and the budget deficit has risen sharply. Consequently, we have become increasingly dependent on international aid to fund development expenditure, and even the operating expenditure required to deliver basic services.

Also, a liquidity crisis, precipitated by economic sanctions and mismanagement during 2006, led to the accumulation of a large stock of arrears due to public sector employees (i.e., unpaid salaries), the pension fund and private sector suppliers. The accumulation of these arrears, which reached a peak of \$ 1.3 billion during 2007, has shaken the confidence of the people and markets in our long-term financial viability.

These fiscal issues must be addressed in order to bring fiscal stability and restore public and donor faith in the financial viability of the PNA.

Accountability and transparency

The main independent executive oversight bodies, namely the Palestinian Legislative Council (PLC) and the Financial Administration Control Bureau (FACB), have had mixed success.

- The PLC's performance as an effective check and balance to executive power has been limited and, in the current political climate, its prospects for further development are unclear. However, when viewed in the context of complex and dynamic politics its achievements, which included the passage of some of the most liberal legislation in the Arab world, are not insignificant. Once it emerges from its current deadlock, the PLC will need substantial support in rehabilitating and upgrading its capacity.
- The FACB has never functioned effectively as a truly independent external audit institution in line with modern standards. It needs a more appropriate legal framework and mandate and substantial capacity building in order to discharge its important responsibilities effectively.

Government policy formulation and decision-making have been transparent by regional standards. Although not consistent across government, there is a substantial degree of consultation and coordination with external stakeholders in sector policy and planning processes. Furthermore, with some interruptions, government policy and planning documents have been made freely available to the public.

However, policies and plans have not been reflected in the government's budgeting process and performance against the plans has not been systematically reviewed, and, as a result, they have often not been implemented. The budget itself has not been comprehensive – in particular, development expenditure has not been included – and the quality and timing of its presentation has made effective oversight by the PLC and civil society extremely difficult. In prior years, the budget process covered only one year and was not prepared on the basis of realistic projections of available resources over the medium-term.

Weaknesses in financial management systems and procedures have tended to undermine budget execution and line ministries' control over, and accountability for, resources. They have lacked the essential commitment control and cash management functionality required to constrain the accumulation of arrears. Also, production of government financial reports and accounts have been complicated and delayed by these system weaknesses.

Monitoring and evaluation (M&E) of the impact and outcomes of government spending has been limited. Some M&E takes place at the individual project level when required by donors, but there is no institutionalized, systematic process for assessing whether government expenditure is delivering desired results.

Administrative and civil service reform

The structure, size and shape of the public sector have developed organically over the last fourteen years. The number of organizations has increased, the relationships between them have become more complex and the number of employees has grown substantially. This has lead *inter alia* to gaps and overlaps in mandates, poor policy coordination and implementation, and the creation of an unwieldy and unaffordable bureaucracy. Gaps in, and poor drafting of, the public sector legislative framework do little to clarify roles and responsibilities and guide the activities and performance of the public sector.

Management of public sector employees is out-dated, with excessive focus on personnel administration (through a plethora of largely manual processes) rather than human resource management and development. A lack of strategic human resources planning and performance evaluation, based on regular reassessment of the human resource needs to meet the challenges faced by the public sector, has left space for the civil service to stagnate.

Local government reform

Conflict and occupation has created a state of fragmentation in Palestinian society which is reinforcing the creation of multiple constituencies with different needs and expectations of government. The inability to meet these different demands, coupled with the deep economic recession, has increased frustration at the perceived ineffectiveness of the central government. Territorial and social fragmentation limits the prospects for participatory policy formulation and planning, and has forced constituencies with competing demands to rely on informal connections to advance their interests. This is reinforcing informal governance and welfare networks at the local level.

Whilst a lasting solution to fragmentation clearly lies in ending the occupation, decentralization over the medium to long-term would have clear benefits. Following local elections, central government appointees in local councils were replaced with democratically-elected representatives. Some of these councils have demonstrated willingness and ability to communicate with constituents and solicit participation in policy formulation and decision-making. They have also demonstrated considerable resilience and resourcefulness in delivering public services under extremely adverse conditions. Building on these positive trends, through greater decentralization, can address perceptions that government is excessively centralized and unresponsive, and provide realistic alternatives to informal governance institutions.

However, it is important to be realistic about the scale of the capacity building assistance that will be required to enable local councils to move towards a significantly higher degree of administrative and fiscal autonomy.

5.1.3 Reform and Development Programs

This section provides a summary of the reform and development programs to be implemented by ministries and agencies in the *Governance* sector in each sub-sector. These programs are designed to provide a basis for planning and implementing the key initiatives and projects needed to achieve progress towards the national goals and objectives set out in the PNPA. The design and content of the programs, summarized in Annex 2, take into account the context and challenges faced by sector ministries and agencies, and are based on a realistic assessment of available resources and absorptive capacity.

Security and rule of law

Security is a national goal and an essential element of the enabling environment for economic growth and social development. Substantial progress in the short term towards safety and security is critical to facilitating progress towards the other three national goals: good governance, national prosperity and enhanced quality of life. It is also clearly a key underpinning of a free Palestinian state living in peace with its neighbors. The immediate goal is to return to the *status quo ante* before the escalation of conflict in September 2000 by resuming full security control in Area A. The ultimate goal is to assume full authority and responsibility for security within and at the borders of the future Palestinian state. The current situation in Gaza hinders the establishment of the rule of ‘one law, one gun’ throughout the occupied territory, but we remain committed to the formation of a united, professional security service that is accountable to the people.

The ‘Security Sector Reform and Transformation’ (SSRT) program is designed to deliver a capable, well-trained and well-equipped security establishment that is professional and loyal in its service of the nation. Substantial progress has already been made towards the creation of a leaner, better organized security service through the retrenchment of about 20,000 staff during the second half of 2007. Starting in 2008, the security establishment will be reorganized into an even leaner, more cost-effective structure. This will consist of three branches that deliver high quality policing, national security and intelligence services. Substantial investments in infrastructure will be made: including eight governorate headquarters – *Moqata’at* – detention facilities, barracks, training facilities, and a central prisoner rehabilitation facility. There will also be significant investments in equipment, communications systems, vehicles, and training to bring the services up to the required standard. The SSRT program will also provide technical assistance and training to upgrade the capacity of the Ministry of Interior to oversee and manage the security services.

The SSRT program therefore contains the following key elements:

- *Establishing a clear legal framework for the security sector:* Develop a revised basic security law that provides the clarity regarding roles and authority needed for the security services to operate effectively.
- *Policy and management capacity building:* Technical assistance and training to upgrade the capacity of the Office of the President, the Prime Minister’s Office, and the Ministry of Interior, to oversee and manage the security services.
- *Restructuring:* Institutionalize the reorganization of the security establishment into three branches (policing, national security and intelligence services) through the preparation of organizational development plans and their implementation with appropriate capacity building support.
- *Rightsizing:* Ensure the size of the security sector is in line with needs and is fiscally sustainable. Any necessary further reductions in the number of personnel will require detailed work to define needs and suitable pension arrangements in the light of prevailing political and economic conditions.
- *Security infrastructure:* Substantial investments in security infrastructure are required. Eight governorate headquarters – *Moqata’at* – will be constructed. These will house detention facilities, barracks, and training facilities. A central prisoner rehabilitation facility will also be constructed.
- *Equipping and training the security services:* Substantial investment in equipment, communications systems, vehicles, and training for priority security services is needed to ensure the security services can deliver quick improvements in performance.
- *Strengthening civil policing:* Upgrading the quality and visibility of the civil police is a high priority. In 2008 the first phase of a program to strengthen civil policing will be implemented. The program includes the following activities: training for basic, advanced and specialized crime investigation; upgrading police and criminal justice infrastructure; public order training; traffic policing; and, community policing. However, substantial additional investment assistance is needed in 2008 to fund this program.

The overall cost of the SSRT program over the next three years is estimated to be \$257 million. This estimate is based on a realistic assessment of the total amount of financing likely to be available with the support of the donor community. It also reflects a pragmatic view of absorptive and implementation capacity.

Ongoing discussions with stakeholders interested in scaling-up support to reforming and developing the security services may enable an acceleration and expansion of the SSRT program. Annex 3 provides an overview of how the program might be expanded.

Justice

A strengthened civil and criminal justice system is essential to achieving good governance and the rule of law in the occupied territory. An agreed reform strategy based on a coherent, agreed vision for the future of the Palestinian justice sector is an essential first step. Preserving the integrity, dignity and independence of the judiciary and the public prosecution service will be a cornerstone of this strategy. The strategy will be developed during 2008 and will include a thorough assessment of investment and technical assistance needs.

The development of the strategy will be the first phase in the 'Justice Now' (JN) program. The JN program will foster the integrity, dignity, and financial and administrative independence of justice sector bodies through the provision of institutional capacity-building to the High Judicial Council, the Attorney General and the Ministry of Justice. This will include:

- upgrading civil and criminal justice infrastructure (including court buildings, forensic laboratories and autopsy facilities);
- building the capability of the unit created within the police force tasked with enforcing court decisions and protecting judges and court employees;
- automation of processes and archiving systems (including criminal records and case processing systems); and,
- provision of dedicated facilities in the West Bank and Gaza to provide training and continuous professional development for judges and justice sector employees (including a Judicial Training Institute).

Fiscal reform

During the second half of 2007 a series of policy actions to address major fiscal stability and sustainability issues were implemented. These will be built upon during 2008.

- *Wage bill reduction:* The wage bill containment policy is premised on a baseline employment figure of 150,000, with a modest level of essential recruitment – particularly in the Education and Health sectors – to meet the basic service needs of a population growing at approximately 4% per year. Additional recruitment will be subject to a firm upper limit of 3,000 per year. In order to constrain real wage bill growth, there will be no general public salary increases over the next three years. As a result, the wage bill is projected to decrease from 27% of GDP to about 22% by 2010, a level similar to 2004.
- *Net lending:* The cost of subsidizing citizens' consumption of energy and utilities represents a significant drain on government financial resources. This is primarily driven by the 'net lending' phenomenon in the electricity sector which arises due to the non-collection (by municipalities and other electricity service providers) of consumers' electricity bills. This forces the central government to fund payments to the Israel Electricity Company (IEC) for bulk purchases of electricity in order to avoid service disruption. The cost of net lending accelerated rapidly in 2006 and is expected to reach a total of \$ 511 million for the year 2007. The Ministry of Finance is developing and implementing a plan to progressively reduce net

lending significantly from 10.6% of GDP in 2007 to 7.8% of GDP in 2010 (reaching 9.0% and 8.3% in 2008 and 2009 respectively). This plan, which incorporates enforcement measures such as a requirement for citizens to present a 'certificate of payment' of utility bills in order to receive public services, will progressively bring an end to the non-payment of electricity bills by all consumers. These measures will be accompanied by provisions to ensure continued access to utilities and other services for those suffering extreme poverty. These 'poorest of the poor' will be identified through an objective and transparent process implemented by the Ministry of Social Affairs, whereby a specific 'lifeline' level of electricity will be provided to ensure that poor and vulnerable families are not deprived of access. Beyond this, utility provision will be based on economic principles and will be provided under a full cost-recovery basis. It should be noted that, under the current circumstances, the plan to reduce net lending cannot be implemented in Gaza. Accordingly, whilst implementation of the plan is expected to yield a substantial reduction in net lending for electricity consumption in the West Bank (approximately 70% by 2010), these savings are partially offset by projected increases in net lending related to growth in electricity and water consumption in Gaza, and higher oil prices.

- *Tax administration reforms:* A series of reforms directed at increasing the collection of tax and customs revenues and reducing the costs of revenue administration will be implemented. These include a variety of administrative and technical measures, including the creation of a 'Large Taxpayer's Office', focused inspections on fast-growing businesses with high cash incomes, strengthened supervision at crossings, automation of administrative procedures, and specialized training.
- *Payment of arrears:* A substantial proportion of arrears due to the private sector, government pension schemes and government employees will be paid by the end of 2010. This will help jump start recovery by injecting approximately \$ 500 million into the economy during the next three years. It will also restore levels of confidence in the PNA and the domestic market place.
- *Pension system:* A thorough institutional review of the pension system is needed – with a view to establishing appropriate arrangements and plans for reforms that will ensure its fiscal sustainability, whilst maintaining a reasonable level of social protection for pensioners.

Accountability and transparency

Increased accountability and transparency are essential to strengthening public institutions. Substantial progress has already been made in restoring accountability and transparency to public financial management through reconstituting the single treasury account, preparing budgets for 2007 and 2008, and preparing the Palestinian Reform and Development Plan 2008-10. However, significant improvements to accounting and financial control systems and processes, and hence more effective budget execution and financial reporting, will yield important progress towards international best practice.

With effect from January 2008, an Accountant General will be appointed to supervise treasury, cash and debt management, budget execution, payroll, and accounting and financial reporting. An upgraded accounting system, including commitments control and cash flow management functionality, will also be implemented in early 2008, initially in the Ministries of Education and Health (the major spending ministries). The system, which will also allow for decentralized budget execution (and hence greater accountability), will be rolled out to the remaining ministries through 2008.

The PNA is committed to the principle of separation of powers and strengthened oversight of the executive branch by the legislature and the judiciary. In relation to the former, once the current political deadlock is ended and the normal functioning of the Palestinian Legislative Council (PLC) resumes, the PLC secretariat will require substantial technical support to strengthen the effectiveness of oversight.

Independent audit and other monitoring and evaluation (M&E) functions will also receive significant attention and capacity building in order to strengthen the integrity of the public sector and drive greater focus on service delivery outcomes and value for money.

The ‘Open and Accountable Government’ (OAG) program will consist of three sub-programs:

- *System and process re-engineering* - including capacity-building in implementing integrated policy-making, planning, budgeting and accounting processes (from the Prime Minister’s Office through to line ministries and agencies), capacity-building for the office of the Accountant General, implementation of a government-wide accounting and financial management information system, and strengthening of internal financial control functions;
- *Building effective oversight institutions* - including capacity-building for independent audit functions and the Palestinian Legislative Council secretariat; and,
- *Monitoring and evaluation of government performance* – including capacity-building for a dedicated function at the center of government to monitor, evaluate and report on the efficiency and effectiveness of government performance and service delivery.

Administrative and civil service reform

The efficiency and effectiveness of government can only be sustainably enhanced through a comprehensive program of activities to modernize public administration and civil service management. Public sector institutional and organizational reforms that enhance the professionalism and independence of the bureaucracy, whilst reinforcing the principle of the separation of powers, are at the heart of the reform strategy.

The ‘Efficient and Effective Government’ (EEG) program will consist of three sub-programs:

- *Reform of the public sector legislative framework* – drafting and upgrading laws and regulations that govern the mandates, structures and internal procedures of government bodies;
- *Organizational and institutional development* – including detailed functional and strategic capacity building reviews of all ministries and agencies, organizational restructuring and streamlining of the public sector, the introduction of e-government, assistance to ensure that the Central Elections Commission is properly prepared to conduct forthcoming elections, and upgrading of the post office system; and,
- *Civil service management* – including implementation of modernized human resources management systems and procedures, including merit-based appointments processes, employee performance evaluation mechanisms, reform of pay and grading structures, and leadership training.

Local government reform

The PNA is committed to bringing government closer to the people by ensuring that local government is both empowered and accountable. The ‘Accountable Local Government’ (ALG) program will: introduce new legislation to clarify and regulate the relationship between central and local government; establish a policy framework which promotes fiscal autonomy and discipline at the local level; and build the operational, administrative and financial management capacity of local government bodies.

The Municipal Development and Lending Fund (MDLF) is expected to be the primary source of development-linked assistance to municipalities, and to support essential administrative and financial management reforms. Several donors have already programmed significant assistance to the MDLF, and are likely to increase their assistance over the three-year period. The MDLF is the PNA's preferred mechanism for channelling reform and development assistance to local government and disbursements must be coordinated with the Ministry of Finance.

5.1.4 Resource Allocation

Substantial resources, amounting to 43.8% of the total budget in 2008 but reducing to 40.5% by 2010, have been allocated to the *Governance* sector. The sector accounts for approximately one quarter of the development budget throughout the next three years. This resource allocation reflects the vital importance attached to bringing safety, security and good governance in preparation for statehood. The reduction over the three years of the total percentage of resources allocated to the sector reflects a progressive rebalancing of available resources to social and economic development as expected improvements in the political and economic conditions emerge.

Development budget

The total development budget for the sector amounts to \$ 453 million. The allocation of resources to the programs described in section 5.1.3 is summarized in Table 5.1.1 below.

Table 5.1.1 Allocation of development budget resources

Program	2008 (\$m)	2009 (\$m)	2010 (\$m)	Total (\$m)
Security Sector Reform & Transformation	62	86	109	257
Justice Now	14	12	5	31
Open and Accountable Government	20	23	5	48
Efficient and Effective Government	15	21	35	71
Accountable Local Government	14	16	16	46
<i>Total</i>	125	158	170	453

Further analysis of the underlying development projects and initiatives, resource allocations and associated performance targets is shown at Annex 2.

Recurrent budget

The total recurrent budget allocations to individual ministries and agencies are set out in Table 5.1.2 below. The table provides an analysis of the resource allocations to individual strategic objectives.

Table 5.1.2 Allocation of recurrent budget resources

Ministry/agency	Strategic objectives	2008 \$ million
Ministry of Interior	Provide efficient and effective civilian services in accordance with the law	22.5
Civil Police	Build the capacity and capability of the civil police	X
	Enforce traffic regulations	X
	Fight crime and enforce public order	X
	Implement judicial orders	X
Preventive Security	Upgrade intelligence quality	X
	Build human resources capacity	X
	Upgrade infrastructure and equipment	X
	Upgrade intelligence technology	X
National Security	Build the capacity and capability of the NSF	X
	Upgrade military accommodation	X
	Ensure staff awareness of the law & citizens' rights	X

Intelligence	Protect NSF from infiltration	X
	Ensure security of intelligence personnel, facilities & info systems	X
Presidential Guard	Ensure protection of the President and other domestic and international VIPs	X
	Develop awareness of Palestinian culture, heritage and rights amongst the security services and civil society	X
Total		782
Ministry of Justice	A sound legal framework for administration of justice	4.5
	A sound and stable legal procedures and plans for the justice sector	0.5
	Safeguard citizens' rights and basic freedoms	0.6
	Strengthen justice sector organizations, facilities and systems	0.1
Total		5.7
High Judicial Council	Ensure fair trials	6.5
	Efficient & effective operation of courts in accordance with the law	5.2
Total		11.7
Attorney General	Ensure timely and efficient processing of all legal cases	3.3
	Strengthen respect for human rights	0.3
	Strengthen organizational capacity of the prosecution service	0.2
Total		3.8
Central Elections Commission	Support democracy and good governance through implementing the elections law to ensure, free, impartial and transparent elections	2.7
Total		2.7
Legislative Council	An effective and unified legislative system	6
	Effective scrutiny and monitoring of the executive branch	5.3
	Increased citizens' participation in the democratic process	4.4
Total		15.7
General Personnel Council	A comprehensive, modernized legal and institutional framework for human resources management and development	17
	Efficient and effective application of HRM and HRD policies, systems and processes	5.8
	Effective and appropriate institutional arrangements, human resources, physical resources, systems and processes to support efficient discharge of GPC functions	7.7
Total		30.5
Financial Administration Control Bureau	Audit and report on compliance with financial and administrative regulations and procedures and investigate public complaints	1.9
	Effective and appropriate institutional arrangements, human resources, physical resources, systems and processes to support efficient discharge of FACB functions	
Total		1.9
Ministry of Finance	A comprehensive, modernized legal and institutional framework for public financial management	20
	Maximize the collection of public revenues	1
	Public expenditure guided by a comprehensive, policy-led MTEF and effective budget execution mechanisms	3
	Public expenditure management through efficient and effective accounting, financial management and reporting systems	1
	Sound macroeconomic policy development, planning and reporting	0.5
	Effective financial control and internal audit functions	2
	Effective and appropriate institutional arrangements, human resources, physical resources, systems and processes to support efficient discharge of MoF functions	2
Total		29
Ministry of Foreign Affairs	Define and pursue foreign policies to promote Palestinian interests at home and abroad	5
	Efficient and effective consular and public information services	1.5
	Efficient and effective delivery of all other functions	0.5
Total		7

Ministry of Planning	Comprehensive, modernized legal and institutional framework for policy analysis and national planning	0.5
	Effective guidance and technical assistance to PNA organizations to enable them to prepare high quality plans and contribute to national and sector planning processes	0.5
	Preparing annual national reform and development plans by coordinating and facilitation government policy-making and planning processes	0.5
	Effective knowledge management and information sharing for planning purposes	0.5
	Preparing regular, high quality government performance monitoring and evaluation reports	0.2
	Effective aid management and resource mobilization	0.4
	Effective and appropriate institutional arrangements, human resources, physical resources, systems and processes to support efficient discharge of MoP functions	0.4
Total		3
Ministry of Local Government	Improve the efficiency and effectiveness of local government	22
	Improve public services at the local level	6
Total		28
Other organizations not participating in the 2007 PRDP process		
Dar Al Fatwa	N/A	2
Office of the President	N/A	45
PLO Organizations	N/A	30
Prime Minister's Office	N/A	6
General Administration of Crossings & Borders	N/A	2
Supreme Chief Justice	N/A	5
Research & Studies Center	N/A	6
NGO affairs	N/A	2
Negotiation Affairs Department	N/A	1
Embassies	N/A	33
Total		132
Grand Total		1,053

5.1.5 Summary of planned outcomes and targets

As shown in the sections above, our reform and development plan includes a comprehensive and integrated approach to all aspects of *Governance* sector development covering the range of needs from near-term fiscal stabilization to a set of broader development activities to build effective institutions of governance based on the principle of separation of powers.

The intended achievements and outcomes from our *Governance* sector plans are outlined in full in Annex 2, and the key performance indicators are summarised below. Indicators and targets have been specified for the majority of objectives. Unless otherwise indicated, the targets are specified for the end of the three year period. In a few cases, work is ongoing to ensure the feasibility of measuring certain indicators and, as such, the target is denoted with an 'X'.

Security Sector Reform and Transformation

The planned outcome of the program is to build the capacity and capability of security sector organizations to deliver safety and security for citizens. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Reduction of the crime rate by 10% in 2008 and by 5% in 2009 and 2010
- Reduction in the number of traffic violations by 5% per year
- Increase the number of court decisions executed by 10% per year
- Increase the quality and quantity of intelligence information aimed at reducing crime and public disorder, increasing the number of intelligence reports by 20% annually
- Reduce average response time to incidents (e.g., fire, man-made & natural disasters) by 10% annually
- Increase the number of establishment complying with safety regulations, thereby reducing the number of incidents by 10% annually
- Increase the effective execution of military orders by 10% per year
- Reduce infiltration of national security forces by disloyal personnel by 20% per year
- Ensure zero defects in VIP protection services (i.e., zero incidents)
- Establish eight *Moqata'at* in the governorates

Justice Now

This program is designed to build an effective justice sector with clear division of responsibilities, and to enforce the separation of powers between the executive, legislative and judicial branches of government. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Develop and implement a strategic plan for the justice sector
- Conduct a thorough review of the justice sector legal framework and implement a legal information system
- Conduct a 'rights and freedoms' review and upgrade the legal framework and systems to protect citizens' rights
- Upgrade criminal justice facilities through establishment of criminal and forensics laboratories and a modern criminal records system
- Increase the administrative capacity of the courts system, through upgrading infrastructure and systems, and reduce case backlog by 20% per year
- Provide modern and effective training and technical support arrangements for judges and judicial sector staff

Open and Accountable Government

This program is designed to increase the transparency and accountability of government through three sub-programs: (a) Systems and process re-engineering to upgrade policy making, planning and financial management systems and process; (b) Building effective oversight institutions; and, (c) Monitoring and evaluation of government performance. Over the period of the PRDP 2008-10 the main objectives and targets will be:

Systems and process re-engineering

- Full development and implementation of the PRDP approach to integrated policy making, planning and budgeting in line with the MTEF methodology
- Institutionalize modern budgeting processes to support implementation of MTEF methodology through upgrading financial management regulations and procedures
- Establish modern financial management information systems and reporting
- Upgrade internal control and internal audit capacity

Building effective oversight institutions

- Develop and implement revised public finance law and public audit law
- Build the capacity of a PLC public accounts committee to ensure effective scrutiny of the annual budget (and any in-year reallocations)
- Publish a comprehensive and user-friendly citizen's guide to the annual budget

- Develop FACB capacity to implement modern public audit principles and practices – completing audits of 20% of PNA bodies by 2010
- Clear the existing PLC legislative backlog and put in place comprehensive forward-looking legislative agenda
- Ensure proper planning and execution of free and fair national elections

Monitoring and evaluation of government performance

- Establish a central monitoring and evaluation (M&E) unit
- Establish fully functioning M&E units in 50% of PNA bodies
- Publish annual national M&E reports, starting in 2008
- Upgrade capacity of relevant public bodies (including PCBS and Ministries of Finance and Planning) to ensure integrity of government statistics and macro forecasting

Efficient and Effective Government

This program is designed to increase the efficiency and effectiveness of the public sector through three sub-programs: (a) Reform of the public sector legislative framework; (b) Organizational and institutional development; and, (c) Civil service management. Over the period of the PRDP 2008-10 the main objectives and targets will be:

Public sector legislative framework

- Develop new legislation – Public Finance Law, Public Audit Law, Civil Service Law, Executive Regulations for public financial management and civil service management

Organizational and institutional development

- Complete functional reviews of 50% of PNA bodies
- Upgrade physical infrastructure in line with a cost conscious ‘public sector buildings master plan’
- Develop and implement a comprehensive ‘e-Government’ program
- Expand and upgrade the post office network to deliver a greater range of public services to local communities

Civil service management

- Implement modern human resources management and development policies and procedures in line with amended civil service law and regulations
- Establish independent functions to oversee public sector appointments, promotions, discipline and appeals
- Conduct a comprehensive civil service job classification, grading and pay review
- Conduct a review of public sector pensions arrangements

Accountable Local Government

This program is designed to build empowered and accountable local government institutions that deliver cost effective services at the local level in line with the needs of the communities they serve. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Develop a national vision and strategy for local government – clarifying existing gaps and overlaps in the mandates and powers of existing bodies
- Implement a coherent capacity-building strategy for local government bodies in line with the national vision
- Establish a targeted initiative to provide special assistance to communities affected by the construction of the West Bank Separation Wall

5.2 Social

This section sets out the Palestinian reform and development agenda in the *Social* sector and demonstrates how this contributes to the overarching Palestinian National Policy Agenda (PNPA) framework described in Chapter 3. It describes the overall policy priorities in the social sector, the main constraints and challenges faced in the sector, and the related programs, strategic objectives and resource allocations at the sector, ministry and agency level.

5.2.1 Policy Agenda

The various institutions in the social sector have a critical role to play in achieving the PNA vision for the future Palestinian state, in particular the desire to be a state that:

- respects human rights and guarantees equal rights for all citizens
- promotes equality between men and women
- values highly its social capital, social coherence and solidarity, and identifies itself with Arab Palestinian culture, humanistic values and religious tolerance
- delivers basic services (such as health, education and social protection) effectively.

The PNA aspires to provide an integrated and comprehensive approach to the delivery of high quality basic social services which at least meet regional standards of performance outcomes. Within the constraints of the occupation, political instability and economic crisis we will seek to work effectively with all other service providers to maintain the supply of humanitarian assistance, the continued payment of public sector salaries and social transfers, and the provision of critical basic services - including health and education, and activities to protect human rights. We will continue to work closely with UNRWA, other UN agencies and non-governmental organizations providing relief to both refugee and non-refugee Palestinians in Gaza, to ensure that these needs are met.

There are numerous ministries and agencies active in the *Social* sector, providing services and promoting rights and culture. The ministries of Education, Health, and Social Affairs are primarily engaged in providing services as is, but to a lesser extent, the ministries of Awqaf & Religious Affairs. The ministries of Awqaf & Religious Affairs, Culture, Detainees & Ex-Detainees, Information, Women's Affairs, and, Youth & Sports are mainly involved in the promotion of rights and culture.

Several hundred Palestinian and international NGOs and other agencies deliver vital social services. The largest of these is UNRWA, which provides basic education, health and social protection services to over 1.6 million Palestinian refugees living in the West Bank and Gaza. NGOs have historically played a key role in providing specialist services, such as early childhood development, psychosocial services, elderly care, cancer treatment and neurology, but are increasingly dependent on the PNA for contracts.

Social sector ministries and agencies make a significant contribution towards achieving two of the national goals laid out in the PNPA. The sector supports a wide range of policy areas and activities including health, education, social safety nets, emergency relief, unemployment, gender, youth and children, disability, and martyrs and detainees.

The following points are intended to be illustrative, rather than exhaustive, in demonstrating the powerful impact of a better-functioning public sector on the achievement of national goals.

- *Increased national prosperity* – Economic security, stability, viability and self-reliance will be achieved through an increase in sustainable employment and an equitable distribution of resources, leading to the reduction and eventual eradication of poverty and the growth of

individual and national wealth. Key contributors to national prosperity are a healthy and well educated population which can serve the needs of economic and social development. Organisations in the social sector will be working to improve the range and scope of their activities to ensure that all marginal and vulnerable groups have access to health and education services to enable them to fully participate in planned economic development. The education system will be modernized to better prepare our young people for a better future.

- *Enhanced quality of life* – It is essential to ensure that the current economic difficulties do not lead to a breakdown in social cohesion. The welfare of vulnerable groups must be maintained while pursuing a private sector-led approach to economic growth. Investments must be made in social development and continued efforts to build effective mechanisms for social assistance and protection. Quality of life will be enhanced by better targeting of social assistance activities and ensuring that the unemployed, women, youth and the disabled have equitable access to services.

Given the broad scope of the *Social* sector's role in achieving national goals, and the scale of current social problems and constraints on financial resources and implementation capacity, it is necessary to prioritize the sector's objectives and activities. For the purposes of this PRDP, the main focus is on activities that will make significant contributions to maintaining and improving health and education core indicators, alleviating the impacts of the current economic situation and providing a framework for improving the efficiency and effectiveness of the sector as a whole to improve the quality of service delivery in a number of key areas.

Taking these priorities into account the PNPA framework includes the following high-level objectives that are of particular relevance to *Social* sector ministries and agencies:

- *Reinforce social coherence* – Palestinian society has been characterised by strong family and social connections which have been essential in enabling people to deal with the negative impacts of occupation. This traditional cohesion is currently under threat and the PNA can provide a framework of services to reduce the marginalization of vulnerable groups by ensuring that they are able to benefit from education and health services. A range of community, social and cultural services is also required to provide people with opportunities to maintain their family and community ties and preserve their culture and Palestinian identity.
- *Provide social protection* – The expanding Palestinian population is becoming increasingly poor and vulnerable. Given the ongoing economic decline and political instability, the proportion of the population dependent on social and humanitarian assistance looks set to increase in the near-term. The public is hard-pressed to meet this ever increasing demand for social protection. In the near-term, policy actions will focus primarily on addressing institutional weaknesses in the public sector that undermine its ability to meet the basic needs of the poorest and the most vulnerable. Over the medium-term, assuming a reasonable level of economic growth, increased employment and poverty alleviation, greater attention will be given to working with the non-governmental and private sector to provide specialized social services to vulnerable groups with special needs.
- *Restore economic growth* – Economic growth will require a work force which is healthy, has a strong work ethic, and has the appropriate knowledge, skills and experience required by the private sector. This will require a modern curriculum in primary and secondary schools and a range of relevant tertiary and education. Enrolment rates in Palestinian schools are high by regional standards and must be maintained. However, both the content and the quality of education need to be improved in close cooperation with other education providers, including private schools and UNRWA. Both the education and the health services will also need to expand to meet the needs of a growing population – this will require significant capital investment.

- *Preserve heritage and culture* – Palestinian culture is rich in religious diversity, intellectual and political pluralism, and is characterized by a predominantly agricultural, semi-urban lifestyle. Ties with the land and traditional village values are strong. The culture is also characterized by solidarity and social values, strong family connections, honour and dignity. Territorial fragmentation has disrupted family and personal relationships, and broader social interaction, thereby weakening the fabric of society and Palestinian identity. Given this alarming deterioration, near-term policy actions are directed at preserving and restore Palestinian heritage and culture within the occupied territory. However, given that Palestinians see themselves as belonging to the broader Arab culture and value open and positive interaction with other cultures, over the medium term, greater attention will be given to policies that promote cultural exchange regionally and internationally.
- *Develop human capital* – In recent years, faced with economic contraction and fiscal crisis, social sector spending has been largely directed at sustaining the delivery of basic services and providing a social safety net for the most vulnerable in society. Longer-term investment in human development is critical to realizing the social and economic recovery of the Palestinian people. Policy actions in the education, health and housing sectors are required not only to meet the service delivery needs of an expanding population, but also to provide it with the education, skills and well-being critical to ensuring social stability and sustainable development.

5.2.2 Context and Challenges

This section provides a brief summary of the context and challenges faced in key sub-sectors taken into account in formulating the reform and development programs for the *Social* sector.

Overview

Some important gains have been made in the delivery of social services in the years leading up to the 2006 elections. Healthcare and education services remain good by regional standards. However, the social sector is now under severe stress in coping with worsening socio-economic conditions. The deterioration has been compounded by rapidly increasing unemployment and steep rises in the price of food and basic household goods. Also, the occupation regime has hindered the predictable movement of goods and people and diminished access to basic social services.

Political instability and steep economic decline since 2000 have had severe social impacts. Unemployment more than doubled between 1999 and 2006, reaching almost 35% in Gaza and almost 20% in the West Bank. Approximately two-thirds of Gazans are living in deep poverty. With access to basic services limited by Israeli closures, health indicators have been declining steadily. Chronic diseases have risen by more than 30% since 2005. Chronic malnutrition amongst children rose by 3% between 2004 and 2006. The number of gastrointestinal infections in children under five increased by 42% during the period 2000-04 as households with access to safe drinking water dropped by more than 8%. Also, the fragmentation of Palestinian territory into a group of isolated cantons, precipitated by the tightening grip of occupation, settlement growth and mobility restrictions, has also had grave impacts on social cohesion. Ties of family and friendship have been weakened and opportunities for social and cultural exchange between different areas within the occupied territory have been limited.

With the population growing at approximately 4% per year, and with unemployment and poverty rising, the Palestinian social sector is under increasing stress. The education and health systems are hard-pressed to maintain adequate standards; this has distracted attention from the pursuit of more strategic development goals. Social safety net arrangements are becoming increasingly large (in terms of expenditure), poorly targeted, and difficult to manage.

Social protection

Living standards in the occupied territory have deteriorated sharply since the start of the second Intifada; 62% of households have lost more than 50% of their income and almost 60% of them are below the national poverty line. Almost 20% of households suffer from severe poverty according to actual spending patterns and nearly 45% suffer severe poverty in terms of income. Despite this, the poor have benefited from emergency relief and informal networks. Emergency assistance has contained the poverty rate and targeting compares favorably with other countries, but there is room to improve – especially in the rural areas, and in the central West Bank.

The social sector provides social safety nets in the form of public pensions, cash transfers (including the Special Hardship Case Fund, temporary employment schemes, the Martyrs and Injured Fund, Detainees Fund), food aid and various other services. The Ministry of Social Affairs (MoSA) is the primary public provider of social safety nets and is responsible for several programs: the Special Hardship Case Fund, a vocational training program for disadvantaged youth and in-kind shelter and institutional care for orphans, victims of family violence, the disabled and the elderly. MoSA provides aid to approximately 3.5% of the population of the Palestinian territory and 30% of the most impoverished households. The Ministry of Detainees and Ex-Detainee Affairs operates a cash transfer program for current and former detainees of Israeli prisons and their families, and a training and micro-credit program for former detainees. Many other UN agencies and NGOs also provide support for social hardship cases with, in particular, UNRWA providing support to refugees.

Preliminary estimates are that social protection spending nearly doubled in 2005, to 6.5% of GDP. The major source of the increase was the program for Temporary Employment (spending reached five times the level in 2004).

Education

Performance in this sub sector has been impressive. Enrolment in basic education is universal and the gross enrolment rate for secondary education is above 80%. Access to basic and secondary education is equitable with respect to gender, location (rural and urban), refugee status and household income. The introduction of a new curriculum and the availability of textbooks for all children in school are major achievements. Since 2000 nearly every teacher has been provided with some form of training. The student/teacher ratio declined from 28.6 in 1999/2000 to 24.9 in 2005/06. In the West Bank the ratio in 2005/06 was 25 and in Gaza strip it was 24.7. This is below the average of the region and in most middle income countries. The number of government schools rose from 1,289 schools in 1999/2000 to 1,661 in 2004/05; more than the percentage increase in the number of students during the same period. Projections suggest that secondary education will be the main area of expansion with enrolments growing at over 40% from now to over the next 5 years. Ensuring that all pupils complete 10 years of schooling is a top priority as currently 20% do not complete secondary education.

Rapid expansion of school enrolments over the last 5 years has driven increases in the annual education budget of 8-9% a year. Education expenditure as a percentage of GDP increased from 7.5% in 2000 to 11.5% in 2003. Government's share of total education expenditure fell from 42% to 34% during the same period, as private expenditures have increased. However, there are concerns about variability in the quality of education, the poor state of much of the infrastructure and the lack of provision in some areas such as early childhood development programs, vocational education and education for children with special needs. The Ministry of Education and Higher Education hopes to be able to make significant investments to accommodate the expected increases in enrolment, rehabilitate school building, improve teacher training and expand the range of education services.

Health

Until recently, the Palestinian population has enjoyed a quality of health care favourable in comparison to most middle income countries. Prior to 2000, the health care system in the West Bank

and the Gaza recorded high levels of immunisation coverage, prenatal care and effective basic health services. However, strains on the health care system are reflected in declining health indicators.

Prenatal care coverage has declined while homebirths have increased nearly ten-fold, particularly in rural areas, contributing to a rise in the number of stillbirths. The deterioration in the public health system is also evident in the increased incidence of waterborne communicable diseases, particularly among children. In the period 2000/04 gastrointestinal infections in children under five have increased 42 percent, and the prevalence of amoeba and *giardia* increased by 40–60 percent. Malnutrition rates have increased from 8 percent stunting in 2000 to 9 percent in 2002, and from 1.4 percent wasting in 2000 to 2.5 percent in 2002. Decreased access to care and to preventive programs contributes to the increased incidence of chronic conditions, such as diabetes, cardiovascular diseases and renal failure, and poorer treatment outcomes. However, most patients are not accurately screened for these conditions. The Ministry of Health has been increasingly unable to pay drug manufacturers and drug providers on a consistent basis raising the risk of problems of drug availability. While 75% of the population benefits from some form of health insurance, the system is becoming increasingly more difficult to finance as the number of non-contributing members has increased. Delivery of health care is particularly problematic in Gaza due to current restrictions on the movement of essential supplies and the rapidly deteriorating quality of health infrastructure.

Rights and culture

The ongoing economic and fiscal crisis has diverted attention and resources away from activities aimed at protecting the rights of vulnerable social groups and preserving national heritage and culture. The financial embargo placed on the PNA during 2006, and the resultant suspension of salary payments to those public servants not directly involved in the delivery of social services, brought the activities of the relevant ministries to an almost complete standstill. As a result, the institutional capacities of these ministries, which have never enjoyed sustained financial or capacity-building support, have deteriorated even further and there is significant reliance on NGOs to provide social and cultural activities.

Human rights issues are becoming increasingly pressing, with the need to develop clear policies and strategies to support groups such as women, children and ex-detainees and ensure that these policies are mainstreamed throughout the public service and beyond into the various NGOs and other organizations providing public services.

Conclusions

This brief review reveals a significant deterioration in the state of the Palestinian social sector. Developing policies to address the situation requires careful analysis of the main contributory factors and the common challenges faced across PNA *Social* sector organizations. Some of the common themes and challenges, which have informed the design and prioritization of reform and development programs summarized in section 5.2.3, are summarized below.

- *A social sector under stress* – With the population growing at approximately 4% per year, and with unemployment and poverty rising, the social sector is under increasing stress. The education and health systems are hard-pressed to maintain the service standards to which citizens have become accustomed; this has distracted attention from the pursuit of more strategic development goals. Social safety net arrangements are becoming increasingly large (in terms of expenditure) and difficult to manage. Without coherent PNA policies and institutions, there is a risk that donors will be further drawn into filling the vacuum and aid dependency will continue to rise. The state of almost permanent crisis in the sector has also distracted attention from, and strategic investment in, activities aimed at preserving Palestinian heritage and culture and protecting the rights of women and children.

- *Fragmentation of territory and restrictions on movement and access* – Lack of control over contiguous territory hinders the PNA's ability to ensure comprehensive and equitable access to social services and to ensure the consistency and quality of these services. Some communities' access to schools and health care facilities is constrained by restrictions on movement and access, and ministries involved in providing social assistance experience logistical barriers to reaching out to and effectively targeting vulnerable groups. Whilst construction of new facilities to improve equitable access to services is an understandable policy response, it limits the funds available for activities aimed at increasing service quality. Fragmentation of territory also limits the prospects for social interaction and cultural exchange within and between the West Bank, the Gaza Strip and the outside world.
- *Fiscal issues* – A rapid expansion in payroll costs, coupled with a major increase in contracting services, has almost completely eliminated discretionary spending and made the sector heavily dependent on external funding for virtually all non-salary expenditures. Fiscal constraints, and provision of donor funding to a complex web of NGOs and other external agencies, has resulted in the proliferation of uncoordinated projects. This increases the potential for wastage of resources, the dilution of impact on service delivery, poor targeting of social assistance, and a disincentive for introducing efficiency measures.

5.2.3 Reform and Development Programs

This section provides a summary of the reform and development programs to be implemented by ministries and agencies in the *Social* sector in each sub-sector. These programs are designed to provide a basis for planning and implementing the key initiatives and projects needed to achieve progress towards the national goals and objectives set out in the PNPA. The design and content of the programs, summarized in Annex 2, take into account the context and challenges faced by sector ministries and agencies and are based on a realistic assessment of available resources and absorptive capacity.

The PNA is focusing on a series of social development policies which it is hoped will have two phases over the next three years. In the short term, the focus will be on improving the targeting and effectiveness of our social protection and employment generation program to mitigate the impacts of the occupation and the resulting economic decline. Then, as the economy grows, we intend to invest heavily in social development and broader social cohesion, cultural and recreational initiatives.

Given the need to deliver a wide variety of social services and the diversity of social groups using these services, a combination of public, private and nongovernmental organizations is required to provide them. We recognize the importance of partnership and better coordination with private sector service providers and NGOs. Over the medium term, we aim to set explicit quality and service standards and monitor all service providers.

We will also continue to work closely with UNRWA, which faces similar challenges in the delivery of basic services to refugees, with a view to fostering comprehensive approaches to Palestinian development across different sectors and maximizing aid effectiveness, including in refugee camps.

Social protection

Government spending on social assistance programs has increased significantly in recent years. It doubled to approximately 6.5% of GDP in 2005 - the last year for which reliable figures are currently available. Given the increasing hardship and economic recession of 2006 and 2007, this figure will have risen sharply. Social assistance is provided through a complex web of PNA organizations (including at least three ministries), NGOs and other external agencies implementing a series of uncoordinated initiatives, including cash assistance and food aid. This has inevitably led to wastage

of resources and poor targeting of assistance, coherent reform of social safety net activities is essential.

The PNA will continue to take responsibility for ensuring that the poorest and most vulnerable in society receive a basic level of assistance. The ‘Social Protection Reform and Integration’ (SPRI) program, will develop an overall social assistance strategy which will improve the equity, efficiency and effectiveness of social protection. The Social Safety Net Reform Project, with backing from the World Bank, is already supporting the implementation of new operational procedures for the identification, verification and targeting of the truly poor in order to ensure efficient use of resources. During 2008, the Social Safety Net Reform Project will be scaled up considerably to provide a single, reliable and comprehensive database to support the provision of social safety net assistance for the most needy. This information will be shared with non PNA organizations in order to improve the targeting and impact of social safety net projects. This will include continuing close liaison with UNRWA, in the context of the ongoing reform of their Special Hardship Case program for refugees.

The package of services will also be reviewed to provide a combination of immediate and direct poverty alleviation activities, such as cash transfers and food aid, and complementary activities to enable the poor and vulnerable to become more self-reliant.

Education

We seek to guarantee citizens’ access to a comprehensive education system consisting of: pre-school, basic and secondary education; formal and non-formal education; technical and vocational education; and higher education. Our commitment to the education sector is illustrated by the fact that education accounts for more than 30% of proposed budget support for recurrent expenditures and approximately 20% of donor support requested for the public investment program. With the necessary levels of support from donors, we believe we can implement much-needed modernization of the education system and therefore better prepare our citizens, particularly the youth, for the future. This will include modernization of the curriculum in line with our vision of a future Palestinian state – a state with a knowledge-based economy, connected to the global community, which embraces humanistic values and is tolerant.

The ‘Access to Education’ (ATE) program will maintain an enabling physical environment for all students at all levels by providing adequate classroom space, facilities and text books. We will also resume financial support to the public universities and ensure that a well-targeted student loan facility is in place to improve access to tertiary education.

We will build on our achievements in securing high levels of access to education by implementing policies and programs that focus on further improving the quality of education. In order to deliver quick impact to those children and families in most need, and to field-test innovative approaches, the initial focus will be on delivering pre-service and in-service teacher training, upgrading mechanisms to evaluate and improve teacher performance, curriculum development, better (and cost effective) facilities, and modern equipment in the 600 lowest performing schools across Gaza and the West Bank. Once field-tested, this ‘Quality Education For All’ (QEFA) program will be rolled out to several hundred more schools. We are engaged in ongoing discussions with stakeholders interested in expanding and accelerating support to developing the education sector. This could lead to the establishment of dedicated funding and technical assistance over and above the investment indicated in section 4.2.4. The primary aim of this support would be to develop and implement innovative approaches to addressing the structural challenges faced in delivering quality education services to a growing population.

We will also launch the ‘Education Performance & Efficiency’ (EPE) program aimed at systemic reform of management and decision-making systems and processes. These reforms will focus on investing in more cost-effective infrastructure and facilities, provision of public financial management capacity building, and other measures that progressively increase the sustainability of sector spending.

The ‘Vocational Training Initiative’ (VTI) program will focus on the provision of vocational and technical training at the secondary and tertiary levels, to better prepare young Palestinians for the job market.

Health

The strains on the Palestinian health care system are reflected in declining health indicators in, for example, waterborne communicable diseases, access to vital services and substantial increases in malnutrition rates and conflict-related trauma. There is no doubt that the system faces a unique set of challenges related to occupation including, but not limited to, elevated levels of insecurity and restrictions on mobility. However, notwithstanding these critical problems, in addition to continuing its efforts to meet increasing demand for access to health care, the PNA will also focus on building strategic management capacity and reforming health financing in order to increase the quality and affordability of public health care.

The ‘Health Quality Improvement’ (HQI) program will invest in the quality of individuals, organizations and physical facilities. The HQI program will cover a wide range of infrastructure, equipment, training and other capacity-building needs, but only insofar as they are sustainable and cost-effective. For example, investment in tertiary health care facilities will progressively reduce the need for expensive medical referrals to private hospitals locally and overseas. There will also be an emphasis on preventative care and primary health care to improve the general health of the population and reduce the cost of treatment. The PNA will also give greater attention to building its capacity to fulfil its role as regulator of the sector.

The ‘Health Care Affordability’ (HCA) program will be directed at achieving a better allocation of resources to improve health service delivery to citizens. The HCA program will focus on developing effective policies, systems and processes for ensuring more cost-effective procurement of drugs and medical equipment. It will also strengthen accountability for the allocation of resources through, for example, upgrading internal financial management systems and providing training on public financial management.

Empowerment

We are dedicated to the empowerment of all our citizens through the establishment of an open, transparent and democratic society under the rule of law. However, there is an urgent need to implement proactive programs to empower youth and women in our society. There is also an urgent need to empower the unemployed, whilst also alleviating poverty, through employment generation initiatives.

The ‘Women’s Empowerment’ (WE) program will support the economic empowerment of women through the provision of special assistance and training to increase female participation in the job market and to enhance the role of women in the private sector. The program will also promote the role of women in the public sector and in the democratic process.

The ‘Youth Empowerment’ (YE) program will focus on assisting young Palestinians to make the transition into the work place through internship programs, developing entrepreneurial skills, and providing seed capital for business start-ups.

The ‘Employment Generation Initiative’ (EGI) will provide productive, paid employment and micro-financing programs (such as the ongoing DEEP program) to unemployed and vulnerable people across the West Bank and Gaza. The initiative will focus on small and medium-sized labor-intensive infrastructure projects which make meaningful contributions towards the achievement of our national goals of enhancing quality of life and increasing prosperity.

Rights and culture

Reform and development in relation to rights and culture is included in many of the broader programs outlined above. For example, the starting point for the development of the education programs is the recognition that education is a basic human right, so programs such as Quality Education for All will seek to increase access to mainstream education for children with special needs. In addition, all the programs in the Empowerment sub sector will support basic human rights for the unemployed, women and youth.

The Tourism Industry Development program in the economy sector will support the rehabilitation and culture sights, and the Affordable Housing program should provide greater access to acceptable housing for the poor. The provision of public recreational and cultural facilities will make a major contribution to improving the daily lives of citizens. The 'Public Recreation and Culture' (PRC) program will provide local government with funding and capacity to develop local sports, recreation and cultural facilities in accordance with local needs.

In addition to these linkages to other programs, there is a specific program aimed at preserving the culture, creativity and heritage of the Palestinian people. The 'Culture, Creativity and Heritage' (CCH) program will provide support to the preservation, production and promotion of Palestinian art and literature based on a national strategic plan to be developed under the leadership of the Ministry of Culture.

Links to other sectors and programs

It is also important to note that a number of other programs outlined in this plan will provide further support for social development, by providing improved living conditions for Palestinians. These include, but are not limited to the Affordable Housing program, the Road Improvement program, Electricity Sector Investment program, Water and Wastewater Management program and the Public Recreation and Culture program.

5.2.4 Resource Allocation

Resources, amounting to 45% of the total budget, have been allocated to the *Social* sector for each year from 2008 - 2010. This is substantial increase compared to prior years and reflects the high priority attached to maintaining access to basic social services. The sector also accounts for almost 31% of the development budget throughout the next three years. This resource allocation reflects the importance attached to investing in the sector to improve the quality of social services.

Development budget

The total development budget for the sector amounts to \$ 583 million. The allocation of resources to the programs described in section 5.2.3 is summarized in Table 5.2.1 below.

Table 5.2.1 Allocation of development budget resources

Program	2008 (\$m)	2009 (\$m)	2010 (\$m)	Total (\$m)
Social Protection Reform and Integration	5	5	2	12
Access To Education	34	46	76	156
Quality Education For All	45	50	51	146
Education Performance & Efficiency	2	2	1	5
Vocational Training Initiative	6	8	15	29
Health Quality Improvement	29	35	52	116
Health Care Affordability	8	10	5	23
Women's Empowerment	8	7	8	22

Youth Empowerment	5	5	3	13
Employment Generation Initiative	19	20	18	57
Culture, Creativity and Heritage	1	1	1	3
Total	162	189	232	583

Further analysis of the underlying development projects and initiatives, resource allocations and associated performance targets is shown at Annex 2.

Recurrent budget

The total recurrent budget allocations to individual ministries and agencies are set out in Table 5.2.2 below. The table provides an analysis of the resource allocations to individual strategic objectives.

Table 5.2.2 Allocation of recurrent budget resources

Ministry/agency	Strategic objectives	2008
		\$ million
Ministry of Education and Higher Education	Provide universal access to primary & secondary education and a range of other educational services for other target groups	438
	Improve the quality of education and learning	9
	The Ministry has adequate, effective and efficiently used resources, planning and management systems	5
	Total	451
Ministry of Health	Achievement of the best possible outcomes from health care services	246
	Ensure sustainable financing of health care system	0.3
	Efficient & effective infrastructure for provision of health services	1
	Ensure the Ministry has adequate and appropriate human resources	0.2
	Effective policy making, planning and management	0.4
	Total	248
Ministry of Social Affairs	Provide basic social safety net support to impoverished and marginalised households	93
	The MoSA provides high quality services	71
	Support the economic empowerment of poor households	1
	Total	165
Ministry of Labor	Ensure that all citizens work in a safe environment and that workers' rights are protected	3
	Ensure effective functioning of the labor market & ensure an appropriately developed labor force to meet needs of the economy	7
	Total	10
Ministry of Awqaf & Religious Affairs	Improve awareness of Islamic culture and religion in the society	33
	Provide social protection to the needy and under privileged	
	Ensure that the Ministry has sufficient capacity to fulfil its functions	
	Obtain maximum return from the ministry's property	
	Total	33
Ministry of Culture	Effective support for raising awareness of culture & arts	3
	Support increased participation in cultural activities	1
	Support preservation of heritage and culture	1
	Total	5
Ministry of Detainees and Ex-Detainees	Support rehabilitation & development of ex-detainees to enable them to integrate into society & economic activity	5
	Provide support & protection for prisoners, freed prisoners & their families	61
	Provide defense for prisoners and protect their rights	3
	Lobby international and regional support for Palestinian prisoners' cases at Israeli prisons	1
	Strengthen institutional and administrative structure of the ministry	3
	Total	73

Ministry of Information	Provide suitable environment for developing the performance of local media & build their capacities	2
	Raise public awareness about local issues	0.5
	Advocate the Palestinian cause locally & internationally	0.5
Total		3
Ministry of Women's Affairs	Support participation of women in policy and decision making	0.3
	Provide support for achieving an enabling environment for increased participation of women in the labour market	0.3
	Increase the level of participation of girls in professional and technical education and training	0.5
	Support an environment for reducing violence against women in Palestinian society	0.1
Total		1.2
Ministry of Youth and Sports	To provide maximum level of access to facilities/services for sports & youth activities; encourage participation in these activities	8
	An adequate and effective infrastructure for the development of the youth and sports sector	2
Total		10
Other organizations not participating in the 2007 PRDP process		
Palestine Broadcasting Corporation	N/A	21
Palestine News Agency	N/A	2
Commission of Public Information	N/A	2
Total		25
Grand Total		1,023

5.2.5 Summary of planned outcomes and targets

As shown in the sections above, our reform and development plan includes a comprehensive and integrated approach to all aspects of social development. It covers the range of needs from social protection for the poor and vulnerable, to a set of broader social development activities to strengthen social cohesion and support both social and economic development.

The intended achievements and outcomes from our *Social* sector plans are outlined in full in Annex 2, and the key performance indicators are summarised below. Indicators and targets have been specified for the majority of objectives. Unless otherwise indicated, the targets are specified for the end of the three year period. In a few cases, work is ongoing to ensure the feasibility of measuring certain indicators and, as such, the target is denoted with an 'X'.

Social Protection Reform and Integration

This program is designed to maximize the equity, efficiency and effectiveness of social protection activities and services. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Provision of social assistance aid to 60,000 poor households
- Development of a Social Protection Strategy, targeting database and a framework for cooperation with NGOs on policy formulation and service delivery

Access to Education

This program is designed to improve access to education at all levels. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- 99% enrolment at the primary level
- 98% enrolment at secondary school level
- 50% of pupils with special needs joining mainstream education
- 30% reduction in the number of poor quality, rented facilities
- No children without text books
- Increase percentage and numbers of persons with access to higher education by X%

Quality Education for All

This program is designed to improve the quality of education at all levels. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- 600 schools providing high quality learning environments
- Modern school curriculum developed
- Integrated teacher training strategy developed
- Tertiary education Quality Development Fund implemented

Education Performance and Efficiency

This program is designed to improve the quality of policy making, planning and administration in the education sector. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Comprehensive sector strategic plan, developed in coordination with other service providers, completed and being implemented
- Implement a comprehensive capacity building plan to upgrade policy-making, planning and financial resources management in the sector
- Implement modern teacher quality control and supervision mechanisms

Vocational Training Initiative

This program is designed to improve access to vocational training and to ensure high quality, relevant training that is responsive to the needs of the labor market. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Increase the number of secondary school leavers entering TVET by X%
- Increase the number of girls entering TVET by X%
- Modern school curriculum developed

Health Quality Improvement

This program is designed to improve the coverage and quality of health care services. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- 97% of all children immunized against the main communicable diseases
- 100% of population with access to primary health care services - construct 30 primary health care clinics
- Complete upgrade projects in 7 hospitals to improve access to, and the quality of secondary health care
- Develop and implement standard operating guidelines for all PHC and SHC facilities
- Develop and implement health worker training and continuous education program

Health Care Affordability

This program is designed to achieve better allocation of resources to ensure quality health care services at a reasonable, sustainable cost. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Increase revenue from health insurance system by 20%
- Increase amount of drugs purchased through competitive bidding process by 60%
- Strengthen coordination with other health care providers – increase the number of joint programs by 70%
- Establish a comprehensive program to build capacity of health policy, planning and financial management function in the Ministry of Health

Women's Empowerment

This program is designed to empower women in society by increasing their participation in economic activity. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- 1,000 women given sustainable incomes from micro enterprises
- 1,000 young female graduates receive relevant work experience to enable future paid employment
- 1,000 rural women given sustainable income from economic activities
- Remove gender discrimination from PNA policies & laws (incl. civil service, social insurance, personal status, and labor laws)

Youth Empowerment

This program is designed to empower the role of the youth in society by increasing their participation in economic activity and providing opportunities to develop their skills. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Total of 10,000 female and male youths between the ages of 18 to 29 receive support for skills development and employment
- Develop and implement a Palestinian Youth Law to address the needs and protect the rights of young Palestinians

Employment Generation Initiative

This program is designed to deliver near-term reductions in unemployment and provide economic stimulus. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Unemployment reduced by X% through direct intervention in the labour market in employment generation initiatives

Culture, Creativity and Heritage

This program is designed to establish a national plan for the preservation and promotion of Palestinian culture, creativity and heritage. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Develop, publish and begin implementation of a national plan to preserve and promote Palestinian culture, creativity and heritage

5.3 Economy

This section sets out the Palestinian reform and development agenda in the *Economy* sector and demonstrates how this contributes to the overarching Palestinian National Policy Agenda (PNPA) framework described in Chapter 3. It describes the overall policy priorities in the *Economy* sector, the main constraints and challenges faced in the sector, and the related programs, strategic objectives and resource allocations at the sector, ministry and agency level.

5.3.1 Policy Agenda

The various organizations in the *Economy* sector play a critical role in achieving the PNA's vision for the future Palestinian state, in particular the aspiration to be a state that:

- creates an enabling environment for a thriving private sector
- views its human resources as the driving force for national development
- has a knowledge-based economy that is open to other markets around the world and strives to produce high value-added, competitive goods and services.

Public sector organizations with a direct role in regulating and developing economic activity include a number of ministries and specialized agencies. At the centre of government, the Ministries of Finance, Planning, and National Economy have significant policy-making and regulatory roles. The Ministries of Agriculture, Tourism & Antiquities, Telecommunications & IT, and Transport operate at the sub-sector level. Various public sector agencies also have an important role in enabling economic activity and development. These include the Palestinian Central Bureau of Statistics (PCBS) and the Palestinian Monetary Authority (PMA), which are independent agencies, and the Land Authority. The Boards of Directors of the Palestinian Standards Institute (PSI), the Palestinian Investment Promotion Agency (PIPA), and the Palestinian Industrial Estates and Free Zones Agency (PIEFZA) are chaired by the Minister of National Economy.

A large number of non-governmental organizations are involved in advocacy and lobbying activities on behalf of the private sector. Most of these are business membership organizations and all operate as non-profit organizations. A number of these bodies (including the Federation of Chambers of Commerce (FPCCIA), the Palestinian Federation of Industries, PalTrade, the Palestinian Businessmen's Association, the Shippers' Council, and other more specialized bodies) are organized into the Private Sector Coordinating Council (PSCC). The PSCC is a loose-knit council through which members coordinate their agenda and activities. These private sector organizations are independent from any government agency, but maintain good working relationships with the public sector.

Economy sector ministries and agencies, in collaboration with non-governmental bodies, make a significant contribution towards achieving all of the national goals laid out in the Palestinian National Policy Agenda (PNPA). First and foremost, the sector strives to *increase national prosperity* by promoting the private sector as the engine for economic growth. However, such growth clearly has the potential to enable citizens to enjoy a better quality of life. Economic growth, driven by an expanding private sector, should also alleviate the upwards pressure on public sector spending and allow government focus on delivering more cost-effective basic services, safety and security.

Given the broad scope of the *Economy* sector's role in achieving national goals, and the scale of current socio-economic problems and constraints on financial resources and implementation capacity, it is necessary to prioritize the sector's objectives and activities. For the purposes of this PRDP, the near-term focus is on jump-starting economic growth, creating jobs, and restoring trust in the PNA's economic management capability. Over time, a more developmental approach is required that addresses the low productive capacity of the economy and promotes its development towards

production of higher value-added goods and services that are competitive in regional and international markets.

Taking these priorities into account the PNPA framework includes the following high-level objectives that are of particular relevance to *Economy* sector ministries and agencies:

- *Enable private sector development* –The private sector, and in particular the productive sectors, will be the main engine of sustainable, long-term economic growth. In the near-term, the private sector must be enabled to establish the basis for sustainable development by generating the productive employment, producing the goods and services, and creating the surpluses needed to enhance national prosperity. *Economy* sector ministries and agencies have a major role to play in establishing a modern institutional framework, securing and implementing international trade agreements, and facilitating the delivery of development assistance in a fashion that is conducive to private sector growth. In the near term, quick-impact initiatives can jumpstart an economic recovery and create jobs. However, a developmental approach is also required; one that encourages the productivity and growth of the industrial and tourism sectors, and allows the Palestinian economy to develop a diversified export portfolio.
- *Develop physical capital* - Palestine has limited natural resources, making effective utilization and allocation critical. The conservation and effective use of national resources, such as water and stone, land and sites of historical and cultural significance are also critical to Palestine's economic development. *Economy* sector ministries and agencies, working alongside public sector organizations in the *Infrastructure* sector, have a major role to play in developing and implementing policies to enhance trade infrastructure improve access to, better conserve and utilize natural resources.
- *Develop human capital* – The *Economy* sector, working in tandem with the education sector, has an important role in ensuring that the provision of suitable education and training contributes towards developing a capable labor force. The sector also needs to facilitate the provision of development assistance to increase the skills and capacity of the private sector, and increase incentives to establish and grow small and medium-sized enterprises.
- *Move towards fiscal stability* – A rapid and sustainable recovery of the Palestinian economy requires parallel actions to reduce the growth of public sector spending (through better public expenditure management and better governance generally) and to stimulate private sector growth. These actions are mutually reinforcing. Private sector development and economic prosperity enhance the prospects for improving governance; in turn, better governance enables growth, and ensures equitable and sustainable development. Policies, plans and resource allocations in relation to the *Governance* sector and, in particular, measures to bring public sector spending under control, are detailed in Section 4.1.

5.3.2 Context and Challenges

This section provides a brief summary of the context and challenges faced in key sub-sectors taken into account in formulating the reform and development programs for the economy sector. A detailed assessment of the Palestinian macro-economic and fiscal situation is provided in Chapter 2 and, as such, will not be repeated here.

Overview

Years of dependency on the Israeli market, political instability, the continued growth of settlements, and the related tightening of movement and access restrictions have deterred productive investment and stunted the growth of Palestinian industrial and productive capacity. Economic growth in more stable periods has been largely driven by agriculture, construction, and labor in Israel. There has also

been little investment in developing high value-added export businesses which could form the basis of a self-sustaining economy. In reality, the economic growth witnessed in 2003-05 was largely driven by public sector spending and private consumption funded by aid and remittances.

Since Israel's disengagement in 2005, Gaza has undergone a restrictive closure regime that has undermined the growth of its private sector. The illegal seizure of Gaza by Hamas, and the ensuing Israeli restrictions on the entry of all-but-humanitarian goods and on exports, has led to a collapse of the private sector (which represents more than half of the job market). As a result, unemployment is expected to increase further, making Gazans almost completely dependent on donor assistance. More generally, throughout the occupied territory, recent economic shocks, including periodic suspensions of overseas aid, had a major negative impact on the economy which put elements of the private sector under great stress. With a large fiscal deficit, the PNA needs time to clear arrears to both private sector suppliers and to employees – more rapid clearance of these arrears would clearly provide economic stimulus and build greater consumer and business confidence.

Despite the major structural challenges and the damage done by years of political instability and conflict, the Palestinian economy has enormous potential for future growth, and a revival from its current condition is urgently needed. However, continued political uncertainty, combined with deteriorating conditions on the ground due to continued settlement expansion, restrictions on movement and trade, and restrictions on access to resources, have led to a dwindling of investment and have stripped the economy of the bulk of its productive capacity. This has, in turn, resulted in increases in poverty levels and made the Palestinian economy more aid dependent, triggering relief-based provision of aid that perpetuates the cycle of de-development and dependency that could ultimately exacerbate the humanitarian crisis.

Sustainable, long-term growth of the Palestinian economy depends not only on political progress and stability. It also hinges on the development of industrial capacity to produce more competitive, higher value-added products that can reach new regional and international markets. Over the medium to long-term, the services sector (and the ICT sector in particular) offers the greatest potential for transition to a more knowledge-based economy.

Agriculture and agro-industry

The agricultural sector is a critical productive sector which has typically contributed approximately 10% of GDP, 20% of exports and 15% of total employment. The sector also makes a major contribution to food security. The main exports have included olives and olive oil, cut flowers, fruit and vegetables. If the political situation improves, the sector has high potential to contribute meaningfully to immediate economic recovery, through export development and by rebuilding and expanding established business models. Furthermore, under such a scenario, the expected increase in income levels and population (through influx of returnees) would also increase local demand for agricultural products. However, there are a variety of challenges of facing the sector, which have largely been driven by territorial fragmentation, geographic isolation, and physical damage brought about by years of conflict and occupation.

Securing access to, and conflict-related damage of, natural resources is a key issue in this sector. Substantial tracts of land are in need of reclamation and rehabilitation. Also, conservation and sustainable use of water is essential in a region in which it is an increasingly scarce resource. Without sustainable management of key natural resource inputs, the sector cannot realize its full potential as a source of national income and employment.

The physical and administrative barriers imposed by the occupation regime are a powerful inhibitor to sector growth. Fragmented local production, restricted access and confiscation of land, settler violence, and susceptibility to closures and delays in movement of goods all have a powerful negative impact. The sector is also highly vulnerable to political instability and escalation of conflict. This has been clearly demonstrated by recent events in Gaza. Agriculture accounts for a significant portion of

exports from Gaza, with nearly 5,000 farmers dependent on the export of cash crops. Production in 2007, which was expected to be around USD 14 million (USD 13 million for export), has been completely lost due to border closures.

Whilst, historically, Palestinian agricultural products have been quite successful in the export market during more stable and peaceful times, global markets are becoming increasingly competitive and demanding. Relatively isolated from these markets, Palestinian farmers have not kept pace with changing tastes, technical standards and quality requirements. Also, with the vast majority of agribusinesses being run by micro-entrepreneurs, who have limited access to finance and are understandably risk-averse, there has been limited investment in modern agricultural machinery, new farming methods and alternative crops. At the current time, arrangements for providing the financing, technical assistance and bulk processing services needed by the sector to modernize and hence develop its potential to compete in the global market place are clearly inadequate.

Industry

Decades of underinvestment and Israeli policies that effectively suffocated the development of industrial capacity have left this sub-sector in need of substantial investment. In addition to this long-term trajectory of stagnation and de-development, the ongoing crisis in Gaza has led to the near total collapse of its industrial sector. Recent reports on key industrial sectors (textiles, furniture, and food processing) show that less than 2% of 24,000 workers employed in January 2007 are still working today. In the construction sector, all 42,000 jobs held in January 2007 have been lost as construction materials cannot be imported. Furthermore, repeated and prolonged border closures have made it impossible for Gaza businesses to maintain exports. Many businesses have closed and set up production facilities in Egypt or Jordan. This new phenomenon is particular to Gaza: the loss of capital, entrepreneurial and technical talent, and market relationships will be difficult to reverse.

In recent years, efforts were made to create a support system to stimulate private sector investment in industry and facilitate forward and backward linkages with other sectors (e.g., agriculture and construction). In particular, the development of industrial estates was seen as a means of encouraging industrial development, export growth and private sector investment. The success of such initiatives has been constrained by volatility in the political situation and related physical and administrative actions taken by the occupation regime. Subject to progress on the political front and alleviation of restrictions imposed by the occupation, the establishment of serviced sites in strategic locations, with guaranteed access to labour and goods, remains an important potential contributor to development of the sector.

The development many industries in the sub-sector have also suffered as a result of long-standing isolation from global markets. This has inhibited the accumulation of market intelligence and capacity to meet product standards and specifications. Restricted access to finance, particularly for micro-entrepreneurs and SMEs, coupled with high political risk, has also militated against the development of new management methods, competitive products and business models.

Tourism

Historically, during more stable periods, tourism has played an important role in the Palestinian economy. In the years leading up to the turn of the millennium the sector saw substantial investment inflows and provided employment for an estimated 12,000 workers. The sub-sector's contribution to GDP has at times exceeded 10% but could increase substantially above this level given improvements in accessibility (which is currently heavily circumscribed by Israeli restrictions), and the real and perceived safety and security of visitors.

Tourism not only represents a major source of income for the future Palestinian state; it is also a way to build bridges with people from other countries and cultures. In addition to the obvious benefits of

our land's unique place in history, the value our culture places on hospitality and kindness represents a unique asset to the future development of a burgeoning tourist industry. In particular, Palestine can cater to niche markets that cater to specialized interests in the evolving global tourism industry. These include religious, historical, cultural and eco-tourism.

However, it is clear that years of conflict and stagnation have left the sub-sector with poor infrastructure, decaying heritage sites, low marketing capacity and weak regulation. Sustainable growth of the Palestinian tourism sector relies not only on improvement of political and security conditions, but also on systemic changes that upgrade the quality of the visitor's experience. Without this, the sub-sector is unlikely to penetrate significantly beyond the low-budget end of the market.

Construction and housing

The construction sector is a potential major contributor to economic growth and national prosperity. In 1999, employing more than 22% of the labor force, its contribution to GDP reached almost 11%. These figures were more than halved during the ensuing years of conflict. However, with a readily available, skilled and relatively inexpensive local work force, the potential for rapid recovery in the context of a serious resumption of the peace process is high. Construction is an important driver of growth throughout the economy due to forward and backward linkages with other sectors (especially construction materials and manufacturing) and its potential for significant employment generation.

The sector's international competitiveness (including for local donor-funded projects) is currently constrained by mobility restrictions, weaknesses in regulation, and low understanding of international standards and practices. However, in the near-term at least, local demand could be sufficient to stimulate significant growth in the sector.

A potential trigger for rising local demand in the near-term, in a gradually improving political and economic environment, is the housing sector. High population growth and household formation rates are putting pressure on household sizes, which stand at approx. 6 people in the West Bank and approx. 7 in Gaza. Most households have access to basic services but the quality is variable, with wide disparities between urban and rural dwellings. This indicates already rising local demand for affordable housing which looks set to increase in the event of improvement in political and economic conditions. However, there are a variety of issues which need to be addressed to better prepare the ground for major housing construction projects. Currently, housing construction is dominated by relatively small private sector operators who focus on constructing "shell" units (for completion by the owner) and on extensions to existing houses – this is not keeping pace with household growth and housing density is rising. The mortgage market is virtually non-existent, limited as it is by difficulties that borrowers experience in meeting collateral requirements – especially possession of clear land title. Also, rental laws penalize landlords and limit the incentives to the provision of rental housing.

Information and Communications Technology (ICT)

The ICT sector, as both a productive sector and an enabler of other sectors, has shown an impressive track record of growth during more stable periods in the occupied territory. An active industry association provides value leadership in the sector and businesses are relatively well managed by local standards. The sector is relatively well-positioned to play a central role in realizing the vision of a knowledge-based economy in a future Palestinian state. A well-educated labour force, with above average language skills by regional standards, has the potential to deliver services in the regional and global market place even in spite of existing movement and access restrictions which cripple other sectors. The sector could also play a valuable role in providing IT services to the public sector and, in particular, support the introduction of e-government initiatives aimed at increasing the efficiency and effectiveness of public service delivery.

Notwithstanding its great potential for future growth, the sector needs better regulation. Prices, particularly for telecommunications services, are high by regional standards – breaking down the existing monopoly and fostering competition would yield more options, better services and lower prices for consumers. Also, access to investment finance and development capital constrains the establishment and growth of sector SMEs.

Conclusions

This brief review reveals an alarming deterioration in the state of the Palestinian economy. Developing policies to address the situation requires careful analysis of the main contributory factors and the common challenges faced across PNA *Economy* sector organizations. Some of the common themes and challenges, which have informed the design and prioritization of reform and development programs summarized in section 5.3.3, are summarized below.

- *Political uncertainty and fragmentation of territory* - The continued lack of political progress, continued occupation, suffocating closures, Israeli settlement expansion, and the construction of the Separation Wall, are deeply inimical to Palestinian economic growth. Restrictions on movement and access in the West Bank, the isolation of Gaza, and restrictions on access to Israel and neighboring countries, prohibit free trade and discourage domestic and foreign investment. Israeli policies to discourage visiting *diaspora* also drain an important potential source of intellectual and financial capital. In Gaza there has been wholesale Palestinian divestment and redirection of investment into neighboring countries. A political breakthrough would represent an important opportunity to reinvigorate public and private investment in economic activity and infrastructure. Without such a breakthrough, the downward spiral of the Palestinian economy will continue.
- *Fiscal instability* - The growing budget deficit and almost exclusive deployment of public sector resources to cover salary and pension costs, and the social safety net, has a direct effect on economic activity. It is crowding out spending not only on investment and development, but also on public sector operating costs. It is also driving up private sector arrears, placing stress of the banking system and negatively affecting credit flows. This dampens enthusiasm for investment in the private sector, which is already severely inhibited by the poor political and security environment. Furthermore, the unpredictability of public sector salary payments has reduced spending by, and lending to, public employees and their families (together constituting approx. 25% of the population), with cascading effects on the economy.
- *Weak legislation and regulation* - The Palestinian economy is governed by its relationship with Israel under the quasi-customs union established by the Paris Protocol. The Paris Protocol has never been fully implemented, to the detriment of the Palestinian economy, and today is threatened with obsolescence as a result of the closure of Gaza and movement and access restrictions in the West Bank. Improving implementation of the Paris Protocol and amending current arrangements represents an important opportunity, and in some cases pre-condition, for economic recovery. In addition to the Paris Protocol, Palestinian economic activity is governed by a body of Palestinian laws and regulations that is still evolving. The Company Law, Competition Law, Tenancy Law and other key laws and regulations need to be finalized and implemented. Also, capable regulatory bodies are needed in a variety of business and utilities services sectors to drive progress towards increasing the competitiveness of Palestinian goods and services in domestic and international markets.
- *Restricted access to markets* – Israel remains an important destination for Palestinian products and a potential source of growth. However, high dependency on the Israeli market limits trade with other countries and has rendered the Palestinian economy highly susceptible to shocks resulting from closures and political instability. Regional Arab markets, while theoretically accessible through trade arrangements and preferential treatment granted by the Arab League, is still constrained by lack of adequate trade facilitation, relationships, and access for

Palestinian products through international borders (Allenby, Damieh, and Rafah). Access restrictions also compromise the Palestinian economy's ability to benefit from free trade agreements with Europe, the US and Canada. Expansion into these markets may represent an important long-term growth opportunity, but this does not diminish the critical importance of restoring access to and increasing market share in Israel.

- *Limited technical capacity* - Palestinian entrepreneurs have demonstrated their ability to transfer and adapt technology effectively. Agricultural, construction, and information technology capacity have been transferred from Israel and other countries by businesses in the West Bank and Gaza. In some respects the Palestinian economy is technologically more advanced than many other countries in the region. On the other hand, there has been limited investment in industrial and agricultural technology in the past few years, and most businesses operate with outdated machinery and equipment. Due to this lack of investment and sustained lack of opportunities to engage with overseas markets, the Palestinian private sector's 'market intelligence' has eroded and its ability to meet changing tastes and quality standards has not developed.
- *Physical capital limitations* - Palestine has few natural resources and access to them is limited or blocked by the occupation regime, making their judicious use critical. It has limited quantities of land and water, but more abundant natural gas and limestone. Its 10 million olive trees are also a valuable natural resource to be protected and exploited sustainably. It has a climatic advantage for agricultural produce allowing it to harvest and sell produce during the off-season in Europe (its key agricultural market). However, Israeli restrictions over movement, access and land use mean that large quantities of fertile land, in the northern Jordan Valley for example, lie idle. Also, the legal status of land and property is unclear; many properties (including most of the southern West Bank) are not formally registered and thus owners do not have clear titles. This retards the expansion of the private sector and the Palestinian economy in general. It also limits the ability of households and businesses to use their land as collateral for loans.
- *Human capital* - The Palestinian work force is highly educated by regional standards. The labor force is constantly growing and getting younger. The combination of low female participation in the work force and high fertility rates results in high dependency ratios. This increases the impact of unemployment throughout society. The private sector is a critical source of employment growth – the public sector cannot continue to provide an ever-increasing number of jobs without completely compromising the economic future. Accordingly, near-term policy emphasis on stimulating growth in labour intensive sectors, such as construction and agriculture, is essential.

5.3.3 Reform and Development Programs

This section provides a summary of the reform and development programs to be implemented by ministries and agencies in the Economy sector in each sub-sector. These programs are designed to provide a basis for planning and implementing the key initiatives and projects needed to achieve progress towards the national goals and objectives set out in the PNPA. The design and content of the programs, summarized in Annex 2, take into account the context and challenges faced by sector ministries and agencies, and are based on a realistic assessment of available resources and absorptive capacity.

It is important to recognize that the impact of the programs summarized below will be severely limited without a fundamental change in the movement and access regime (including establishment of a territorial link between the West Bank and Gaza), and material improvements in the investment climate. Therefore, parallel concrete, comprehensive and immediate steps must be taken by Israel to unshackle the movement of goods and people within the occupied territory, between the West Bank and Gaza, and out into Israel and other countries. Reversal of the current policies within the occupied

territory, and at the various crossing points, is required immediately. Without serious actions by Israel to remove the matrix of physical and administrative restrictions, PNA reforms and donor investments will not have a sustainable positive impact on the economy. Therefore, as one part of a broad medium-term agenda for developing the economy and private sector, we will work with the Quartet Representative to implement a series of Quick-Impact Projects (QIPs). The QIPs, which are incorporated in the programs summarized below, are designed to provide near-term stimulus but, more importantly, to illustrate the positive impact of parallel actions by the PNA, Israel and donors to create the proper environment for Palestinian businesses to flourish. Accordingly, the QIPs incorporated into the medium-term agenda set out below are selected based on the following criteria: (a) their ability to create economic stimulus, create jobs, and revitalize the labor market (through greater youth, women, and micro-enterprise participation); (b) their ability to build export-oriented businesses and supply chain linkages that can be replicated throughout the occupied territory; and, (c) their reliance on genuine commitment from Israel to remove existing restrictions and create a suitable environment for the re-emergence of investment and private sector growth.

Trade and Investment Promotion and Enterprise Development

We are committed to implementing institutional reforms to create an enabling environment for private sector investment, trade and growth. We will also work with private sector business associations and donors to establish mechanisms for enterprise capacity development and investment risk mitigation. We are already planning a conference with private sector investors in May 2008 in Bethlehem. Our intention is to invite business men and women from the local and global community to present and discuss investment opportunities and generate real enthusiasm for investment in Palestine.

We are upgrading our capacity to manage borders and crossings. We have made significant progress towards rehabilitating the General Administration for Crossings and Borders (GACB). The Cabinet has passed a new legal framework and plan for restructuring the GACB. This will, *inter alia*, lead to the formation of a management board, chaired by a minister, and consisting of representatives from key ministries and the private sector. This body will be accountable directly to the Cabinet and will drive the restructuring and development plan.

Over the medium-term, our efforts to promote trade, investment and growth will be delivered through three programs of activities aimed at institutional reform, enterprise development and trade facilitation. We believe that such reforms, coupled with parallel tangible progress towards peace and liberated from the stranglehold of the occupation, our economy could rapidly become a hub for regional trade and an attractive destination for foreign direct investment.

The 'Institutional Reform for Enterprise' (IRE) program will create a comprehensive and coherent legal framework, and improve enforcement and regulation. It will also provide support to private sector business and trade associations that play an important role in advocacy, policy development and building the capacity of their member organizations. Focus areas will include:

- *Upgrading the capacity of ministries and institutions regulating and promoting economic activity* – Key regulatory and supervisory institutions such as the telecommunications and utilities regulatory bodies and the Palestinian Standards Institute require a comprehensive program for institutional reform and development. Also, completion of the 2007 Census and continuation of other regular statistical surveys will help identify economic trends and opportunities, and enable monitoring of key economic performance indicators. Over the medium-term, we plan to strengthen PCBS capacity to ensure that credible, regular and timely information is provided to government policy makers and the private sector.
- *Enactment of a modernized, enabling legislative framework* – Revision of legislation to improve the business and investment climate, whilst at the same time encouraging competition and protecting the consumer is essential – e.g., a new Company Law, Competition Law, Land Law, Industrial Law, and Trade Law, and a new Landlord and Tenant Law.

- *Management of land and other natural resources* - The capacity of the Land Authority will be upgraded so it can undertake land management and registration. This is critical to enabling the release of vast reserves of capital currently tied up in property. This will be coupled with actions to encourage investment of the released capital into the domestic private sector, including developing the mortgage market. The reserves of valuable natural resources, such as water and limestone, also need to be more thoroughly assessed and policies implemented to ensure the effective and environmentally responsible utilization of these resources.

The ‘Enterprise Investment and Development’ (EID) program will create mechanisms to improve SMEs’ access to credit and investment finance. The program will have a particular focus on businesses producing and exporting high value-added goods and services. Program initiatives will include:

- *Development of human capacity* – Palestinian businesses have been isolated from regional and global markets and therefore cut off from key enterprise learning mechanisms for many years. Whilst business managers are well aware of their knowledge gaps, they are understandably reluctant to invest their scarce resources in training, research & development. Finance will be provided to deliver demand-driven training and R&D necessary to meet economic development priorities.
- *Access to finance* – We will work closely with donors and business associations to participate in the development and oversight of mechanisms aimed at providing direct investment, matching grants, investment guarantees and financial services to SMEs. Our core objective will be to ensure that there are incentives to invest in strategic sectors and to encourage investment in productive capacity.

The ‘Trade Infrastructure and Facilitation’ (TIF) program will focus on rehabilitating and reintegrating domestic trade and facilitating penetration of international markets. Key priorities include:

- *Reintegrating and rehabilitating the domestic market* – Rehabilitation of central produce markets, development of domestic supply chain linkages and more effective regulation (by the Ministry of National Economy and the Palestinian Standards Institute) of quality and safety of domestic products are needed to increase sales of Palestinian products and services in the domestic market.
- *Establishing appropriate arrangements and infrastructure to manage and facilitate trade through crossing points* - Export development requires infrastructure that facilitates trade through the borders with Israel, Jordan, and Egypt. The international border crossings at Allenby, Damieh, and Rafah need adequate capacity for the expeditious export of perishable as well as durable goods. The extent to which border crossings with Israel, which have been established and managed unilaterally, meet Palestinian trade needs will be assessed. A Palestinian presence to ensure that Palestinian trade needs are met will be established at these crossings. Supporting transport and telecommunications infrastructure must also meet the needs of key trade corridors.
- *Establishing and implementing trade agreements* – We will promote implementation of existing preferential trade agreements and arrangements with Arab, European, and North American countries and work towards establishing new preferential trade agreements with other key markets.
- *Export promotion* - Export promotion will need to be tackled on multiple fronts. Restoring and developing trade into Israel and expanding trade into the Arab and European markets are priorities. A National Export Council will be established to lead and monitor progress in meeting export growth targets. Diplomatic and trade missions to extend implementation of Arab League and other preferential trade arrangements will also be established. Other trade development and promotion initiatives will be needed to target key markets, as will measures to enhance trade through Jordan and Egypt to provide alternatives to trade with and through

Israel. Initiatives to invigorate elements of the service sector that provide export business and trade services (including packaging, marketing, certification, quality control, and other related services) will be launched.

- *Promoting restoration of trade with Israel, focusing on the implementation of the Paris Protocol and establishing appropriate arbitration mechanisms* – Addressing the lack of implementation of the Paris protocol and amending it to secure greater benefits for the Palestinian economy are key objectives. These are needed to increase trade with Israel, the Arab region, and the rest of the world. Re-establishing the Joint Economic Committee and lobbying internationally for equitable implementation of the Paris Protocol and for fairer, transparent arbitration mechanisms is critical to the creation of a more enabling environment for private sector growth. Advocacy and monitoring of restrictions on internal movement and access through border crossings with Israel, including establishing Palestinian border agency control at crossings is necessary.

Agriculture and agro-industry

Due to the hollowing-out of the productive base of the Palestinian economy, economic stimulus through private sector development will be a major challenge. In the near-term, sectors that are labour-intensive or focus on simple manufacturing processes, like agriculture and stone, will continue to play an important role in the economy in terms of the jobs they create and their export potential. Through rebuilding and expanding established business models, the agriculture sector has the most potential to contribute to economic recovery in the near-term and also has the potential to enhance food security.

The ‘Agribusiness Development’ (AD) program will promote the cultivation of higher value-added cash crops (including organic produce), create agricultural post-harvest and marketing services, promote agricultural exports to regional and global markets (including Israel, Europe and Arab states), and improve trade infrastructure. However, fragmented local production, highly competitive and demanding global markets, and susceptibility to closures and delays in movement of goods, make achieving growth in this sector particularly challenging. Accordingly, alleviation of movement and access restrictions are critical to the success of the AD program.

Construction of agro-industrial business parks will be a significant component of the AD program. This initiative, which is intended to have a quick impact, will be an opportunity to demonstrate the commercial viability of Palestinian agriculture once movement and access restrictions are lifted. However, while a significant project, its impact is necessarily limited and does not preclude the need for immediate removal of movement restrictions in other parts of the occupied territory.

The AD program will also focus on developing commercial ventures that deliver post-harvest services (including processing, packaging, distribution, marketing and export promotion) and on providing assistance to farmers to rehabilitate damaged land and infrastructure, improve productivity and enhance productive use of scarce natural resources.

Industry and Services

Notwithstanding the vital role the agriculture sector will play in revitalizing the economy in the near-term, its long-term growth potential is limited. The industrial and services sectors need to produce more competitive, higher value-added products and services, and to reach new markets. Over the medium-term, priority will be given to developing the services sector and the knowledge-based economy, particularly in the ICT sector and outsourcing services.

The ‘Industrial and Services Capacity Development’ (ISCD) program will be aimed at rehabilitating and replacing industrial assets, reintegrating domestic supply chains, promoting exports to existing and new markets, and providing demand-driven technical assistance to SMEs. Developing

agricultural, industrial and service assets such as bulk storage facilities, industrial zones, and trade facilities will help improve productive capacity in the medium term. We are currently reviewing options for the construction of one or more industrial parks. In the near-term, these construction projects will be an important source of employment, but their commercial viability will depend on the alleviation of movement and access restrictions. The location of the industrial parks will be carefully selected based on commercial viability and equitable geographic distribution.

Tourism

Historically, during more stable periods, tourism has played an important role in the Palestinian economy. Tourism clearly represents a major source of income for the future Palestinian state but is also a way to build bridges with people from other countries and cultures. In addition to the obvious benefits of our land's unique place in history, we firmly believe that the value our culture places on hospitality and kindness represents a unique asset to the future development of a burgeoning tourist industry.

We will give high priority to rehabilitating existing tourism assets, including restoration and preservation of archaeological sites, so the tourism sector can take full advantage of future improvements in the political and security environment. The 'Tourism Industry Development' (TID) program will include initiatives aimed at rehabilitating infrastructure, rebuilding the capacity of sector SMEs (including business associations), and marketing and international public relations activities. These are regarded as high priorities to prepare the ground for growth in the sector. However, the main prerequisite for the development of a vibrant Palestinian tourism sector will be the ability of Palestinian tourist agencies, hotels and the services sector to access international tourists and to provide a contiguous supply chain of tourism services. This, again, is directly linked to the lifting of restrictions on the movement of Palestinian firms and individuals. Previous experience, notably in the run up to Millennium celebrations, has shown that, in the absence of these necessary conditions, investments will not yield significant, lasting benefits.

Housing

Housing is a highly valued economic and social asset, and its construction provides a major source of employment. Housing construction is not keeping pace with household growth and overcrowding is rising. The PNA is committed to increasing access to affordable quality housing for low and middle income families. Housing construction, through the 'Affordable Housing' (AH) program, will be implemented primarily by the private sector – developers and contractors will be identified through a rigorous and transparent tendering process. Local government will play a substantial role in housing site selection and issuing licenses, and the Municipal Development Lending Fund (MDLF) will be an important source of support to the municipalities in securing funds for connecting new housing developments to public infrastructure networks.

The AH program will include capacity-building for leading government agencies (including municipalities, the Ministry of Public Works and Housing, and the Land Authority), and technical assistance to implement the legal and administrative reforms that are needed to ensure a fully-functional and sustainable housing market. Our work on developing a clear land administration policy is at an advanced stage – a land policy cabinet sub-committee has been established to supervise the Land Authority's work in registering properties in three pilot locations. Work has also begun on revising the tenancy law which currently inhibits the growth of the rental accommodation market. Also, with financial support and technical support from the international community, we will work to develop a mature mortgage market which allows Palestinians to use land as collateral and benefit from affordable mortgages from private banks in Palestine.

5.3.4 Resource Allocation

Resources, amounting to 5.9% of the total budget have been allocated to the *Economy* sector for 2008, rising to 6.2% in 2009 and 7.1% in 2010 . The sector also accounts for approximately 21% of the development budget throughout the next three years. This high development budget allocation reflects the importance attached to creating and enabling environment (including infrastructure) for private sector growth which, over time, is intended to replace the public sector as the engine of the Palestinian economy.

Development budget

The total development budget for the sector amounts to \$ 395 million. The allocation of resources to the programs described in section 5.3.3 is summarized in Table 5.3.1 below.

Table 5.3.1 Allocation of development budget resources

Program	2008 (\$m)	2009 (\$m)	2010 (\$m)	Total (\$m)
Institutional Reform for Enterprise	10	10	10	30
Trade Infrastructure & Facilitation	12	12	12	36
Enterprise Investment & Development	18	18	16	52
Agribusiness Development	18	24	24	66
Industrial Capacity Development	19	23	36	78
Tourism Industry Development	15	14	14	43
Affordable Housing	15	25	50	90
Total	107	126	162	395

Further analysis of the underlying development projects and initiatives, resource allocations and associated performance targets is shown at Annex 2.

Recurrent budget

The total recurrent budget allocations to individual ministries and agencies are set out in Table 5.3.2 below. The table provides an analysis of the resource allocations to individual strategic objectives.

Table 5.3.2 Allocation of recurrent budget resources

Ministry/agency	Strategic objectives	2008 \$ million
Ministry of National Economy	Create a conducive environment for the private sector to act as key source of national income	4
	Strengthen competitiveness of the private sector to enable it to play a pioneering role in sustainable development	8
	Open the economy to regional and international markets	1
Total		13
Ministry of Agriculture	Provide a supportive environment to facilitate development in agriculture	1.5
	Facilitate the sustainable use of agricultural land in order to ensure food security and to support economic growth	11
	Facilitate the processing and manufacturing of agricultural products to increase economic growth	0.5
	Mitigate the impacts of conflict and natural disasters on agricultural growth	8
Total		21
Ministry of Tourism & Antiquities	Facilitate the development of an internationally competitive tourism industry	3
	Preserve important historical, cultural and religious sites	2
Total		5

Ministry of Telecoms & IT	Develop, regulate and improve the competitiveness and performance of the telecoms sector	0.5
	Improve the efficiency and quality of service of the national postal system	6
	Enhance efficiency and effectiveness of government through promotion and implementation of e-government	0.5
Total		7
Land Authority	Confirm land ownership through a comprehensive registration process	2
	Effectively managed state owned land in support of economic development	0.5
	Establish an appropriate legal and institutional framework for effective land management	1.5
Total		4
Palestinian Central Bureau of Statistics	Maintain integrated demographic, social, economic & geographic statistics using standards & specifications in line with international standards	3
	Ensure the effective and efficient use and management of statistical data	0.5
	Establish an national statistical system that can be used to inform evidence-based policy making	0.5
Total		4
Other organizations not participating in the 2007 PRDP process		
Standards & Specifications Institute	N/A	1.5
Investment Promotion Commission	N/A	1
Industrial Estates & Free Zones Authority	N/A	1
Total		3.5
Grand Total		57

5.3.5 Summary of planned outcomes and targets

As shown in the sections above, our reform and development plan includes a comprehensive and integrated approach to all aspects of *Economy* sector development covering the range of needs from near-term employment generation to a set of broader development activities to build productive capacity and support a transition to a knowledge-based economy.

The intended achievements and outcomes from our *Economy* sector plans are outlined in full in Annex 2, and the key performance indicators are summarised below. Indicators and targets have been specified for the majority of objectives. Unless otherwise indicated, the targets are specified for the end of the three year period. In a few cases, work is ongoing to ensure the feasibility of measuring certain indicators and, as such, the target is denoted with an 'X'.

Institutional Reform for Enterprise

A modernised legislative and institutional framework is needed to support private sector development, economic growth and effective industry regulation. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Drafting of legislation and regulation – focusing on a new Company Law, Competition Law, Land Law, Industrial Law, and Trade Law, and a new Landlord and Tenant Law
- Increase the percentage of West Bank land registered with the Land Authority to 60%
- Reduce telecommunications services costs as a percentage of household expenditure by 40%

Trade Infrastructure and Facilitation

Modern trade infrastructure and effective trade facilitation policy initiatives are needed to support the private sector's ability to penetrate and build export markets. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Increase total exports by 15%
- Increase non-Israel exports by 30%
- Build infrastructure and capacity to effectively manage border crossing
- Complete lobbying activities for equitable implementation of the Paris Protocol and international trade agreements

Enterprise Investment and Development

Micro, small and medium-sized enterprises need support, through a range of activities to improve access to credit, financial services and enterprise learning opportunities, to make a full contribution to sustainable private sector growth and innovation. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Increase MSMEs contribution to GDP by X%
- Increase MSME employment by X%
- Increase average SME establishment size by X%
- Establish capacity in the PNA to oversee and regulate the provision of investment, credit and financial services to MSMEs

Agribusiness Development

The near-term growth potential of agribusiness needs to be exploited in order kick-start economic recovery and improvements in national income and food security. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Increase agricultural output by 15%
- Increase agriculture sector employment by 10%
- Increase agricultural exports by 25%
- Support construction of an agro-industrial park through provision of supporting infrastructure
- Support development of post-harvest services sector at multiple locations throughout the occupied territory
- Complete rehabilitation of damaged farms and orchards
- Establish land and water reclamation and conservation initiatives

Industrial Capacity Development

Reversal of decades of decline in industrial capacity must be addressed in order to build an economy capable of delivering high value-added goods and services. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Increase industrial output by 10%
- Increase industry and services sector employment by 15%
- Establish municipal industrial parks in Tulkarem and Hebron
- Establish border industrial parks in Jenin and Tarqumiya
- Build capacity of National Standards Institute and other government bodies to establish and enforce modern manufacturing and product quality standards

Tourism Industry Development

The near-term growth potential of the tourism industry needs to be exploited in order to kick-start economic recovery. The industry's strategic importance and the need to restore and preserve cultural and heritage sites must also be recognized. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Increase tourism sector value-added by 100%
- Increase tourism sector employment by 100%
- Build industry regulation capacity
- Establish initiatives to restore and preserve tourism sites
- Establish initiatives to build private sector capacity and market Palestine as a tourism destination

Affordable Housing

An increased stock of affordable housing is needed to relieve the upward pressure on housing density brought about by increasing population growth. Major housing projects also provide an opportunity to put the housing construction sector on a more sustainable footing and create significant employment opportunities. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Maintain housing density at current levels (despite 4% population growth)
- Number of housing units built for low and middle income families - 20,000 units
- Number of conflict-damaged houses rehabilitated

5.4 Infrastructure

This section sets out the Palestinian reform and development agenda in the *Infrastructure* sector and demonstrates how this contributes to the overarching Palestinian National Policy Agenda (PNPA) framework described in Chapter 3. It describes the overall policy priorities in the *Infrastructure* sector, the main constraints and challenges faced in the sector, and the related programs, strategic objectives and resource allocations at the sector, ministry and agency level.

5.4.1 Policy Agenda

The various public sector organizations involved in the *Infrastructure* sector have a critical role to play in achieving the PNA's vision for the future Palestinian state, in particular the desire to be a state that:

- is responsive to citizens' needs, delivering basic services
- creates an enabling environment for the private sector
- manages and protects natural resources.

There are numerous ministries and agencies active in the Infrastructure sector involved in the planning, construction, operation and regulation of public infrastructure. At the centre of government, the Ministries of Planning and Local Government have significant policy-making and planning roles. At the sub-national level, Governors, municipalities and village councils are engaged in policy, planning and service delivery. At the sub-sector level, the Ministries of Public Works and Housing, Telecoms and IT, and Transport have significant policy, regulatory and, in some cases, service delivery roles in their particular sub-sectors. There are also some public sector agencies with very significant policy, regulatory and service delivery roles; these are the Energy and Natural Resources Authority, the Water Authority, and the Environmental Quality Authority.

The PNA aspires to provide an integrated and comprehensive approach to the development of modern public infrastructure which at least meets regional standards. Sound infrastructure is a fundamental requirement for sustainable development; it is a basic enabler of growth in trade, productivity, living standards, public health and safety, and environmental protection. It can also facilitate the smoother operation of the public sector and hence have positive impact on governance, safety and security. As such, the Palestinian *Infrastructure* sector has a key role to play in enabling progress towards all four of the national goals laid out in the Palestinian National Policy Agenda (PNPA). The following points are intended to be illustrative, rather than exhaustive, in demonstrating the pervasiveness of the impact of better infrastructure on achievement of the national goals.

- *Safety and security* – Improved regulation of utilities, maintenance of the transport, water and electricity networks, and better solid, liquid and hazardous waste management can have a material impact on public safety. Also, Palestinian organizations operating in the security and justice sectors need improved facilities (e.g., courts, prisons, barracks, offices, etc.) in order to strengthen the justice system and increase the professionalism of the security services.
- *Good governance* – The efficiency and effectiveness of public sector organizations at the national and sub-national level could be substantially improved by upgrading physical infrastructure. Better, more cost-effective schools, health care facilities and office buildings, and better roads (both within and between the West Bank and Gaza Strip) could significantly improve the public sector's ability to deliver services equitably throughout the occupied territory. More effective regulation and management of utilities can improve fee collection rates and encourage private sector investment in the sector.
- *Increased national prosperity* – Efficient infrastructure can provide a platform for revitalizing the Palestinian private sector in the near-term and building a balanced and independent

economy over the medium-term. The future development of Palestinian trade, agriculture, industry and tourism all critically depend on modern, functioning infrastructure. For example, internal trade depends on a functioning internal road network; export growth requires better infrastructure at border crossings. Also, provision of industrial estates could play a vital role in kick-starting the growth and modernization of the industrial sector if efficient infrastructure and improved access to labour markets and raw material and inputs are secured.

- *Enhanced quality of life* – Improving the regulation and management of public and private sector utilities, maintenance of the transport, water and electricity networks, better waste management, provision of affordable housing, and provision of public recreational and cultural facilities can make a major contribution to improving the daily lives of citizens.

Given the broad scope of the *Infrastructure* sector's role in achieving national goals, and the scale of current socio-economic problems and constraints on financial resources and implementation capacity, it is necessary to prioritize the sector's objectives and activities. For the purposes of this PRDP, the main focus is on infrastructure repair and rehabilitation activities that will make significant contributions to socio-economic stabilization and recovery in the near-term and improving the efficiency and effectiveness of utilities service delivery. Over the long-term, we will work towards ensuring that public infrastructure and utilities are managed on a commercially-oriented and financially viable basis and, over time, increase the level of private sector investment and participation in infrastructure and utilities.

Accordingly, relatively more attention is given to the following high-level objectives in the PNPA framework:

- *Develop physical capital* – In the near-term, the repair and rehabilitation of existing infrastructure is critical to the sustainable use of natural resources, and building a foundation for restoring economic growth. Over the medium to long-term, if the political and economic environment becomes more conducive, focus will shift towards modernization and development of infrastructure in partnership with the private sector. Policy measures directed at the conservation, recycling and generally more efficient utilization of natural resources will focus initially on water, waste water and solid waste management.
- *Enable private sector development* – Better infrastructure is needed to support the private sector development. Upgrading trade and transport infrastructure, providing facilities for improving access to agricultural land, preventing water and soil contamination, and stimulating industrial development (e.g., industrial estates) are important priorities. Over the medium to long-term, political and economic conditions permitting, policy actions to encourage greater private sector investment in the development of infrastructure and the delivery of infrastructure-related services will be pursued.
- *Develop human capital* – The key policy areas contributing to the objective of developing human capital are education, health, and housing. While these policy areas are directly linked to social and economic development (addressed in Sections 4.2 and 4.3 respectively), construction of schools, hospitals, affordable housing, public recreation facilities and cultural centers is treated as a key priority area.

5.4.2 Context and Challenges

This section provides a brief summary of the context and challenges faced in key sub-sectors that were taken into account in formulating the reform and development programs for the *Infrastructure* sector.

Overview

Due to the ravages of years of conflict and under-development, Palestinian public infrastructure networks and systems offer limited coverage, are poor in quality, and are unaffordable for some vulnerable groups. Whilst household connection rates to utilities are high compared to the regional average, actual consumption rates are low due to a combination of supply shortages and inefficient distribution systems. Accordingly, substantial investment in public infrastructure is required. This will require significant public investment.

Transport

Roads are essentially the only functional mode of transport for people and freight within the occupied territory; railroads in the West Bank and Gaza Strip have not operated since 1948. There are only two international crossings; the Allenby Bridge, serving the West Bank, is only open for around 6 hours per day resulting in congestion during peak periods, and the Rafah crossing, which serves the Gaza Strip, is closed. Neither of the airports (Gaza and Jerusalem) is operational and the seaports have not been functional since 1967. Poor internal transportation networks and lack of access to other countries and markets represent a major constraint of economic and social activity and development.

Almost 50 percent of the network (estimated at about 2,870 km, of which 620 km is in Gaza) is in poor, very poor, or failed condition, and hence beyond economic repair. This has been caused by an under-funding of regular maintenance over many years, as well as damage caused by the Israeli military incursions since the second *Intifada*. Unpaved roads have increased since 1993 from 800 km to 2,400 km, as drivers have sought alternative routes due to movement restrictions and the poor condition of paved roads. Within the West Bank, Palestinians are prevented from using 1,000 km of roads designated as bypass and settlements roads for the exclusive use by Israelis. The effects of poor roads and restrictions on movement have resulted in increased travel costs and time, and have led to increased wear and tear on vehicles.

Within the urban areas, pollution, congestion and road safety have all significantly worsened due to the proliferation of taxis and an increase in the number of unlicensed vehicles. Public transport is largely provided by privately owned buses, shared taxis and taxis. It is estimated that the annual fatality rate per 10,000 vehicles increased from 12.8 in 1996 to 15.3 in 2000, and is about 10 times that in Western Europe. This is partly a consequence of the relatively poor condition of the road network, lack of traffic regulations and the breakdown of enforcement mechanisms.

The PNA has access only to that part of the network that it is within Areas A and B; the rest of the network remains under Israeli jurisdiction or control, limiting the PNA's ability to implement improvements. However, even within these confines there is some confusion over the respective roles of the Ministries of Transport, and Public Works and Housing, and PECDAR. This greatly weakens policymaking, planning, management and development in the sub-sector.

Electricity

There is no integrated electricity distribution network. There are a number of isolated distribution systems and a high level of dependence on Israel, with only 10 to 15% of Palestinian demand being locally met. A substantial portion of Gaza's electricity is supplied from Israel, with the remainder provided by the Palestine Electric Company (PEC) and, more recently, through imports from Egypt. In the West Bank there is no power generation capacity or transmission network, with all lines supplied by the Israeli Electric Company (IEC). There are several utility companies in the West Bank that distribute electricity, including in Jerusalem, Hebron and the Southern District, but many communities are served directly by the IEC.

The percentage of households connected to electricity is high (c.99%), though there are some villages, especially in the south of the West Bank, that do not have access to the public network. Despite this

high connection rate, customers often experience voltage fluctuations and lengthy blackouts, especially in Gaza. Poor service levels and high rates of system losses result in total consumption rates that are around half the regional average. Despite these poor service levels, the cost to the consumer is high relative to household expenditures.

Water and wastewater

Almost 10% of Palestinian households have no access to running water, with an even higher percentage of the overall population not served by either municipal or industrial water supply. Those households that do have access to running water receive low volumes with high disruptions, resulting in low consumption rates of around 60 litres per capita per day (l/c/d). In some areas, water consumption may be as low as 10 l/c/d; a significant contrast to the WHO recommended consumption of 100 l/c/d and 280 l/c/d in Israel. In some areas the water quality is poor with an estimated 90% of water from municipal wells being considered unsuitable for human consumption according to WHO standards (exceeding recommended guidelines on nitrates and chlorine levels). The water quality problem is particularly acute in Gaza where salination due to over-pumping is a serious problem.

The primary source of water in the West Bank and Gaza is groundwater aquifers, including springs. The West Bank is highly dependent on Israel for water and the majority of the total water supplied is bought from Mekoroth (an Israeli company), which controls access to ground water resources, and owns much of the transmission network. Surface water is limited to rain water harvesting in cisterns and the Jordan River, although this later source has been denied to Palestinians after the occupation of 1967 with the loss of 140 pumping units along the River Jordan.

The water distribution system suffers from various operational inefficiencies such as a high volume of leakages (c. 40%). The private sector directly provides services in the water distribution networks in the Jerusalem and Ramallah areas but in many cases, especially in rural areas, local councils administer water distribution networks.

Sewerage infrastructure is the least developed of the public infrastructure networks; it is estimated that around 54% of the population is connected to the public sewerage network. Rapid migration from rural to urban areas is applying increasing pressure on the existing networks, which were barely serving the needs of the existing population. Many communities rely on cesspits or open sewers running through streets and *wadis*, leaving untreated sewerage to collect in open pools. Other than the new Al-Bireh treatment plant, most plants are not functioning or are highly inefficient. Only a small amount of wastewater collected from the West Bank and Gaza (approx. 40%) is treated before it is discharged. Similarly, approx. 34% of wastewater from Israeli settlements is discharged without treatment into the West Bank *wadi* systems. General public health is directly put at risk by this poor infrastructure. Furthermore, there is the potential for a repeat of the fatal disaster in 2006 when the collapse of the walls of a sewerage collection pool killed and injured dozens of Gazans.

Solid waste

Solid waste management infrastructure and systems are inadequate. Equipment for waste collection, transport and processing are in short supply. Lack of supply of appropriate dumping sites is leading to the proliferation of random pits in residential and agricultural areas. These pits include domestic, construction and even medical waste that are scarring the Palestinian landscape and environment, with grave consequences for public health, agricultural development, and quality of life in general. Institutional (financial and human) capacity to plan, manage and maintain the waste management systems is also inadequate. With the exception of emerging, more affordable and sustainable regional arrangements in the northern West Bank, management of solid waste has been primarily dealt with on local level.

Public recreation and culture

Public recreation and cultural facilities play an essential role in promoting social coherence and preservation of cultural identity and heritage. However, such facilities are scarce throughout the occupied territory. Palestinians of all ages, but most particularly the youth, are impacted by the resultant limitation on the available outlets for their energy and enthusiasm, and scope for broader interaction with their fellow citizens.

Conclusions

This brief situation assessment reveals the severely damaged and under-developed state of Palestinian infrastructure which, when viewed in the context of an ever-expanding population and hence rising demand, represents a ticking time bomb. Developing rational and practical policies to address the situation requires careful analysis of the main contributory factors and the common challenges faced across PNA *Infrastructure* sector organizations.

- *Lack of sovereignty and control* – Sovereignty over resources, including land, water, sea, airspace, and radio spectrum is critical to the development of modernized infrastructure and the delivery of a reasonable level of utilities services to the population.
- *Political instability and poor security* - The continued lack of political progress, restrictions on movement and access in the West Bank, the isolation of Gaza, restrictions on access to Israel and neighbouring countries, and, the poor security environment discourage both public and private investment. Given the large capital sums required to develop and operate infrastructure and the long investment payback periods involved, this creates an overwhelming disincentive to upgrade Palestinian infrastructure. Also, lack of access to external utilities markets (e.g., electricity and water) reinforces dependency on Israel and inhibits price and quality-based competition.
- *Territorial fragmentation* – Fragmentation and mobility restrictions compromise the ability of the public and private sectors to efficiently and effectively tap natural resources, and to develop and operate trunk (backbone) infrastructure networks. This places severe limitations on the ability to develop national and regional systems that would ordinarily yield economies of scale, lower prices, better services, and reduced external dependency.
- *Institutional capacity and coordination* – In some sub-sectors, there is duplication of responsibilities and confusion over mandates between various public sector organizations (at both the national and sub-national level); this undermines coordination of policy-making, planning and service delivery in line with overall sector goals and objectives. The infrastructure sector legislative and regulatory framework is still developing and, at this stage, has not been effective in facilitating increased private sector participation, better regulation, fair competition, better planning and targeting, and public and private service quality improvement.
- *Commercial orientation and financial viability* – The general economic crisis prevailing in the occupied territory has made the setting and collection of municipal utility fees problematic. However, poor service levels and ineffective administrative systems for fee collection have also played a part. As a consequence, the central government (which is the *de facto* financier of last resort) is forced to subsidize the delivery of utilities services. These subsidies are poorly targeted in that households' actual ability to pay is rarely and inconsistently factored-in. This has created an endemic culture of non-payment which, along with other factors described above, is a powerful disincentive to private sector participation in the sector.

- *Donor dependency* – Deficits in the huge reserves of finance and technical capacity required to upgrade and manage public infrastructure has created a high level of reliance on a multiplicity of donors. This, coupled with fragmentation and localization of decision-making, has tended to reinforce the lack of national-level policy-making and planning in the sector.

5.4.3 Reform and Development Programs

This section provides a summary of the reform and development programs to be implemented by ministries and agencies in the *Infrastructure* sector in each sub-sector. These programs are designed to provide a basis for planning and implementing the key initiatives and projects needed to achieve progress towards the national goals and objectives set out in the PNPA. The design and content of the programs, summarized in Annex 2, take into account the context and challenges faced by sector ministries and agencies and are based on a realistic assessment of available resources and absorptive capacity.

The main focus is on infrastructure repair and rehabilitation activities that will make significant contributions to socio-economic stabilization and recovery in the near-term, and on improving the efficiency and effectiveness of utilities service delivery. Over the long-term, we will work towards ensuring that public infrastructure and utilities are managed on a commercially-oriented and financially viable basis and, over time, increase the level of private sector investment and participation in infrastructure and utilities.

Through the implementation of these programs it will be necessary to address various cross-cutting institutional capacity weaknesses that have a negative impact on performance in most, if not all, of the sub-sectors.

- *Improving coordination of policy & planning* – Overlapping mandates, poor communication and pursuit of parochial interests within the sector is critically undermining the development of rational and equitable plans for upgrading Palestinian infrastructure, and the delivery of better services to citizens. Clear mechanisms are needed to ensure coordination between ministries, agencies and the private sector. These mechanisms need to have the full support of donors. With immediate effect, no new infrastructure-related projects will be allowed to proceed without a clear decision from the PNA Cabinet on institutional arrangements to guide project implementation in line with national level plans and priorities.
- *Implementing a targeted set of high impact infrastructure projects* – Resources will be focused on a small number of labour-intensive projects, distributed equitably across the occupied territory, that build and demonstrate the capacity of the PNA, in partnership with the private sector, to bring quality of life enhancements to citizens. These will include the development of a new solid waste management facility, construction of an industrial estate that is well-connected to the road network, construction of a major public housing project, and a significant extension to the public sewerage network.
- *Upgrading the legislative and regulatory framework* – Better legislation and regulatory institutions are needed to improve service delivery, and encourage private sector participation and competition. The regulatory environment should encourage private investors to expand and build new networks, whilst protecting consumers from monopolistic behaviour in the sector.
- *Introducing more efficient municipal fee billing and collection systems* – There is a significant fiscal cost to the continuation of poorly targeted subsidies of water and electricity services managed by local government. There is an urgent need to increase the consistency and transparency of fees charged, and to establish appropriate systems and incentives to ensure that local government units collect fees due.

Transport

The 'Road Improvement' (RI) program will focus on the rehabilitation of the road network and will include capacity building for sector ministries and agencies to ensure more effective planning and coordination of construction and maintenance. A large portion of the road network lies within the PNA's jurisdiction. Therefore, whilst planning and implementation may be constrained by lack of access to parts of the network in Area C, many of the road rehabilitation projects will not be conditional on Israeli approval of individual projects. The RI program will focus initially on access roads between urban centers and their surrounding areas, and also roads that connect to commercial crossing points. Over the longer-term, subject to availability of the substantial funding required, work will begin on major roads – such as the Nablus-Jenin road, the Gaza coastal road, and the Wadi Al Nar road.

The 'Road Safety' (RS) program will complement the RI program by strengthening planning, regulatory and enforcement capacity, and rehabilitating and upgrading public transport.

The 'Air and Sea' (AAS) program will focus on rehabilitation and development of the Gaza airport and seaport. It will also include a feasibility study for the development of an airport in the West Bank.

Electricity

We are committed to improving services to citizens, whilst reducing the costs of government subsidies, and to creating opportunities to enter more cost effective long-term supply agreements with a range of neighboring countries. The 'Electricity Sector Investment' (ESI) program will deliver major infrastructure upgrades in both Gaza and the West Bank, including the development of a unified distribution system (West Bank only), rehabilitation and expansion of the networks, construction of control centers, and installation of pre-paid meters. It will provide technical assistance and capacity building aimed at consolidation and better regulation of utility companies. It will also include a component aimed at exploring alternative energy sources (e.g., solar power).

Water and wastewater

The 'Water and Wastewater Management' (WWM) program includes an immediate response to reduce the level of the Beit Lahia sewage lake and to construct a new treatment plant. The program also includes projects that will: rehabilitate damaged networks; build wells and new networks (including a national water carrier in Gaza); repair and build more sewage treatment plants; and, over the longer term, operationalize a desalination plant in Gaza. The WWM program will also include a component to improve policy, coordination, regulatory and engineering capacity. It will also include study and implementation of approaches to water conservation and wastewater re-use schemes.

Solid waste

The construction of Jenin landfill was an important development in the PNA's efforts to improve management of solid waste in the occupied territory. There are now ongoing efforts to develop a similar facility in Ramallah to serve the central West Bank - Ramallah, Jerusalem, Jericho and Salfeet. The 'Solid Waste Management' (SWM) program will build on this progress towards development of affordable and sustainable regional waste management by building facilities in the rest of the West Bank and Gaza, and potential recovery and recycling efforts will be explored (e.g., energy, recycling, composting, etc.).

Public recreation and cultural facilities

The provision of public recreational and cultural facilities will make a major contribution to improving the daily lives of citizens. The 'Public Recreation and Culture' (PRC) program will provide local government with funding and capacity to develop local sports, recreation and cultural facilities in accordance with local needs.

5.4.4 Resource Allocation

Resources, amounting to 5.5% of the total budget have been allocated to the *Infrastructure* sector for 2008, rising to 7.4% in 2009 and to 8.5% in 2010. The sector accounts for approximately one quarter of the development budget throughout the next three years, rising from 20% in 2008 to 27% in 2010. This progressively increasing investment in the sector reflects up-scaling of our activities to modernize public infrastructure over the medium term.

Development budget

The total development budget for the sector amounts to \$ 464 million. The allocation of resources to the programs described in section 5.4.3 is summarized in Table 5.4.1 below.

Table 5.4.1 Allocation of development budget resources

Program	2008 (\$m)	2009 (\$m)	2010 (\$m)	Total (\$m)
Road Improvement	32	40	60	132
Road Safety	5	8	12	25
Air & Sea	4	13	18	35
Electricity Sector Investment	18	24	26	68
Water & Wastewater Management	30	54	54	138
Solid Waste Management	5	14	18	37
Public Recreation & Culture	4	8	17	29
Total	98	161	205	464

Further analysis of the underlying development projects and initiatives, resource allocations and associated performance targets is shown at Annex 2.

Recurrent budget

The total recurrent budget allocations to individual ministries and agencies are set out in Table 5.4.2 below. The table provides an analysis of the resource allocations to individual strategic objectives.

Table 5.4.2 Allocation of recurrent budget resources

Ministry/agency	Strategic objectives	2008 \$ million
Ministry of Public Works and Housing	Improved transport through maintenance & expansion of road network	8
	Ensure Ministries/Agencies have adequate & appropriate accommodation	3
	An improved and enlarged stock of housing supported by strengthened regulatory oversight of the housing sector	3
Total		14
Ministry of Transport	Effectively facilitate road transport and improve road safety through a strong regulatory framework	10
	Effective Ministry in providing regulatory oversight of sea transport sector	0.6
	Effective Ministry in providing regulatory oversight of air transport sector	3.4
	The transport sector has access to timely meteorological information	-
Total		14

Energy & Natural Resources Authority	Increased volume and improved security of supply to consumers in the Gaza strip	1.5
	Increased volume and improved security of supply to consumers in the West Bank	0.9
	Ensure greater value for money for Palestinian consumers through effective regulatory oversight	0.2
	Improve energy security in the future through increased use of renewable energy sources	-
	Ensure the safe use of nuclear materials in medicine through strong regulatory oversight	-
Total		2.6
Water Authority	Ensure an equitable and efficient distribution of water resources	3.5
	Ensure the Palestinian Water Authority has sufficient institutional capacity to provide effective services	0.7
	An improved and enlarged sewerage network system	0.6
Total		4.8
Environmental Quality Authority	Improved awareness of the importance of protecting the environment	0.5
	Ensure the PNA has a sound legal and regulatory basis to protect the environment	0.7
	Ensure the PNA has a sound legal and regulatory basis to manage environmental pollution	0.7
	An effective Environmental Quality Authority in delivering its functions	1
Total		2.9
Grand Total		38

5.4.5 Summary of planned outcomes and targets

As shown in the sections above, the reform and development plan includes a comprehensive and integrated approach to all aspects of *Infrastructure* sector development, covering the range of needs from improving public service delivery to a set of broader *Infrastructure* development activities to support both social and economic development.

The intended achievements and outcomes from our *Infrastructure* sector plans are outlined in full in Annex 2, and the key performance indicators are summarised below. Indicators and targets have been specified for the majority of objectives. Unless otherwise indicated, the targets are specified for the end of the three year period. In a few cases, work is ongoing to ensure the feasibility of measuring certain indicators and, as such, the target is denoted with an 'X'.

Transport

A more extensive, better quality and safer road network for citizens and businesses, and progress towards opening international gateways will make a major contribution to national prosperity and enhanced quality of life. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Develop a road network master plan by end of 2008
- Construct 200km of regional, main and access roads by end of 2010
- Reduce number of road traffic accidents and fatalities by 10% end of 2010
- Establish fully-functioning fisheries port in Gaza by end 2009
- Complete Gaza and West Bank airport construction feasibility studies and plans by end of 2009
- Commence construction of Gaza airport in 2010

Electricity

Citizens and businesses need uninterrupted access to affordable electricity. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Ensure that all localities have access to electricity by end of 2010
- Install 300,000 prepaid meters by the end of 2010
- Establish a competent regulatory body by end of 2010
- Reduce cost as a proportion of household income by 10% by the end of 2010

Water and wastewater

Citizens need access to clean and reliable water supply. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Increase amount of households with access to piped drinking water to 95% by end of 2010
- Reduce system leakages to 10% by year 2010
- Increase volume and quantity of water consumed to WHO recommended levels by end of 2010

Increased access to public sewerage networks to reduce the health and environmental impacts associated with the unregulated disposal of sewerage, wastewater and hazardous materials is essential. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Increase amount of households connected to public sewerage networks to X% by end of 2010
- Increase percentage of waste water processes to X% by end of 2010
- Establish a competent regulatory body by end of 2010

Solid waste

There are considerable health and environmental problems associated with the lack of adequate systems to deal with the disposal of solid and hazardous waste. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Complete construction of new sanitary landfill in West Bank and commence construction of two more (one in Gaza)
- Increase number of tons of municipal waste properly disposed of in regional sanitary landfills to 500 tons per day by end of 2010

Public recreation and cultural facilities

Public recreation and cultural facilities play an essential role in promoting social coherence and preservation of cultural identity and heritage. Over the period of the PRDP 2008-10 the main objectives and targets will be:

- Develop and begin implementing a master plan to construct recreation and cultural facilities throughout the West Bank and Gaza

5.5 East Jerusalem

5.5.1 Introduction

The PRDP 2008-10 is an integrated reform and development plan covering all of the occupied territory – Gaza, the West Bank and East Jerusalem. The policy agenda that drives the specification of the PRDP programs and resource allocations is articulated on a sector basis (i.e., Governance, Social, Economy and Infrastructure). However, recognizing that it is essential that East Jerusalem has all the necessary foundations – social, economic and physical – to operate effectively as a capital city of the future Palestinian state, this section provides an overview of the PNA policy agenda with respect to the city. It outlines the challenges faced in developing East Jerusalem and delivering services to its Palestinian citizens, and identifies a specific set of policy priorities which will be addressed within the framework of the PNPA and the PRDP programs.

It is worth noting that the Multi-Sector Review and the Strategic Development Plan (MSSDP) for East Jerusalem (EJ), initiated by the Arab Studies Society and published in 2003, represented the first systematic attempt at development planning for the city. This was complemented with additional EC funding to a Monitoring and Coordination unit 2004-2006 to facilitate the implementation of a rational integrated development strategy for EJ that addresses population needs. Its role was to attract funding for EJ, update sector needs and evaluate the mechanisms necessary for the implementation of the plan. To date, the MSSDP has attracted more than US\$ 15 million of funding to EJ and remains an important frame of reference for developing the city. Whilst it would now be appropriate to update this plan, it still provides a useful framework for identification of policy priorities.

5.5.2 Policy Agenda

The Palestinians of EJ, the future state capital, make up 11% of the Palestinian population of the occupied territory – including 6% behind the Separation Wall. The development of the city and its residents deserves sustained, equitable attention from the PNA and the international community. Serious commitment to the development of EJ entails strategic interventions aimed at:

- Development of clear political and administrative policies for the city and its inhabitants, including a proactive approach towards the reopening of Palestinian institutions, and systematic work with the international community towards undertaking final status negotiations over Jerusalem.
- Implementation of media, marketing and fund-raising campaigns explaining the city's significance to Palestinians and the suffering of its Palestinian inhabitants.
- A comprehensive approach to advocating and asserting the legal and human rights of Palestinians in EJ.
- Ensuring consistency of basic service delivery standards with the remainder of the occupied territory.

The policy agenda for EJ is in line within the overarching vision of a future Palestinian state on the 1967 borders, with EJ as its capital and a prospering socio-economic environment for all of its citizens. In the near-term, development efforts in EJ are hampered by the many and varied restrictions of the occupation regime. However, it is both possible and essential to pursue development activities focussing on the following priorities:

- Strengthening organizations involved in raising Palestinians' awareness of their rights and entitlements, providing support for lobbying and advocacy, and providing legal advice and representation.

- Development of social and human capital through the empowerment of basic service providers – with a focus on health, education, housing and empowerment of citizens (with a special focus on women, children and youth).
- Reinforcing cultural identity and rooting people in their city - counteracting Israeli actions especially in the Old City and areas around the Separation Wall.
- Provision of urgent humanitarian assistance (with particular focus on communities affected by the Separation Wall).

5.5.3 Context and Challenges

Overview

Following the occupation of the city in 1967, the Israeli government has significantly changed the geography and demography of East Jerusalem (EJ). Its municipal borders were extended to nearly 12 times the area under Jordanian rule and 85% of land in EJ was confiscated. This started with the demolition of the Moroccan quarter in the old city and building the Jewish quarter on its ruins. Confiscation of Palestinian land, demolition of houses (around 4,000 since 1967 and over 20,000 currently threatened due to the lack of official building permits) and Israeli settlement activities resulted in a Jewish population shift in EJ from zero in 1967 to over 250,000 in 2006 residing in over 40 settlement centers.

Recent statistics indicate a total population of 420,409 in the Jerusalem governorate with 250,000 residing within the municipal borders. The Jerusalem governorate includes parts of Jerusalem under the jurisdiction of the PNA and parts illegally annexed by Israel, where the PNA is prohibited from functioning. The gradual expansion of the occupation regime in EJ culminated in the engulfment of the city by the Separation Wall, cutting the city off from its suburbs and natural extensions in the West Bank and severely threatening the livelihood of Palestinians, especially those in the Old City. There is increasing migration towards the city center due to the negative impact of the Wall on daily living conditions and the retraction of Jerusalem ID cards from over 8,000 persons from 1997-2006 (90,000 Palestinians behind the Wall are under the threat of losing their residency rights in their city under the pretext of the Israeli ‘center of life’ policy).

Israeli policy places numerous restrictions on residents of EJ, including restrictions on economic development, land use and housing construction, access to, and protection of, Islamic and Christian holy sites, and social activity. Greater control has also been taken over basic services, including education, health and social welfare, creating a city without indigenous service provision. Many Palestinian institutions have been uprooted, and infrastructure in EJ is neglected. Residents of EJ are becoming increasingly dependent on the Israeli economy, whilst flight from the city has created flourishing centers outside. EJ has changed from being the hub of Palestinian economic, cultural and social life to an isolated ghetto.

NGOs are the main vehicle through which Palestinian institutions and society are sustained in EJ. They attempt to fill the gaps in Israeli municipal services and seek to preserve Palestinian rights, culture and heritage in the city. They account for a large portion of health and disability services (6 hospitals with 530 beds, 22 primary health care clinics and UNRWA services), education at all levels (all preschool education, around 60% of schools including PNA government schools and 15 out of 20 institutions providing formal and non formal vocational training), housing, youth (over 100 organizations including clubs), welfare, and human rights and cultural activities. These services and activities employ about 50% of Palestinians whilst the rest are employed in West Jerusalem.

To further compound the above problems, the international community’s assistance has largely bypassed EJ due to political sensitivities. Additionally, the PNA was prohibited from supporting EJ

institutions and residents while the Palestinian NGO sector has continuously faced financial constraints due to limited and ever decreasing funding. International NGOs have continued to provide funding for several projects in EJ but with duplication at times, lack of coordination, and, most importantly, much less support than required.

Education

All preschool service initiatives in the city have emerged from the NGO sector. These services are limited and often of questionable quality. School education is characterized by multiple providers and the absence of a national authority to lead its development. There is significant shortage of classrooms as well as overcrowding in schools. Low school budgets and salaries, especially at NGO schools, adversely affect the quality of education, and encourage Palestinian teachers to move to Israeli government schools. Vocational education is fragmented amongst training centres, secondary schools, community centres and colleges with limited funding. University education also suffers from shortage of funding and degree accreditation and certification issues.

Health

Medical centres in EJ must comply with Israeli law, tight restrictions on licensing accreditation and high taxation. Compulsory health insurance forces the insured to use Israeli-accredited facilities only. Restrictions on movement and access to health care services in EJ are draining staff and patients from Palestinian health centres. EJ health facilities also lag behind Israeli ones in terms of equipment, staffing and systems.

Social protection and welfare

EJ municipal welfare services remain far behind West Jerusalem and residents are often unaware of their entitlements from the Israeli municipality – and mechanisms to support Palestinian residents in accessing their entitlement are weak. The Palestinian NGO sector is left to fill the gaps, but is highly dependent on external donor support.

Youth

The Palestinian youth and children of EJ live in a melting pot of contradictions, confusion and marginalization, struggling for a clear identity and socio-cultural rooting and belonging. Their isolation from the rest of Palestine results in their disconnectedness and disempowerment. There are very few recreational facilities, resulting in a variety of social problems including rising drug use and addiction. Most youth institutions are small with limited infrastructure and capacity, focusing on sports rather than cultural, conceptual and creative activities.

Culture and heritage

Despite the fact that EJ possesses tremendous archaeological treasures inside and outside the old city, these sites are neglected and deteriorating. There is also poor planning for investment, and limited public awareness of importance of preservation of heritage. The city's museums lack basic infrastructure needs, proper publicity and marketing. There are a relatively large number of small and unique libraries possessing rare collections, but they are underdeveloped physically and operationally.

Economic activity

The main sources of personal income in EJ are tourism, retail trade and small workshops. The economic situation has been severely deteriorating since 2000 with the tightening closure and separation restrictions. Land expropriation, control of water sources, stringent business licensing, and the high cost of land and capital further contribute to the economic deterioration. Of major policy concern is the high dependence on the Israeli labour market, which increases the cost of labour to

Palestinian businesses and weakens prospects for expanding and developing the economy as well as the recent loss of educated and skilled labour. Additionally, EJ is at the mercy of Israeli banks depriving its economy from the ability to accumulate resources to be invested in the productive sectors and forcing many businesses to relocate.

Tourism

The political sensitivity of tourism and Israeli policies and rules and regulations governing growth of Palestinian tourism represent a major impediment to development of the tourism industry. Israeli closure policies and risks associated with debt financing have been a major contributor to the cutbacks and the continuous downsizing of the industry and downgrading the hotels sector and associated services.

Housing and land use

Land ownership documentation and huge increases in land prices are two major issues impacting housing development in EJ. Until proper land registration and title issues are resolved, this will be a serious impediment to housing development.

5.5.4 Resource Allocation

Planning and resource allocation for operating and development expenditure in relation to EJ is conducted as part of the overall integrated planning and budgeting process for the entire occupied territory. Accordingly, there is no unique, separate plan and budget for EJ (similarly, there are no separate plans for Gaza and the West Bank). At the policy level, the needs of EJ are referenced through all four of the PNPA goals; at the program level, they are included in the PRDP programs described in the sector sub-sections of this chapter; and, at the project/initiative level, they are referenced in the detailed planning and budgeting submissions of line ministries.

However, acknowledging the special significance of EJ, the table below summarises the priority needs of the city; indicates how these will be delivered through the PRDP program framework; and provides estimates of the minimum development budget resources required to implement projects, specifically addressing the city's development needs. In the short and medium term, development programs and activities for EJ necessarily focus on areas where it is feasible to intervene given the political impediments, and target activities which benefit the largest possible population and with highest potential impact.

Table 5.5.1 Allocation of development budget resources

Sector	Priority Needs	PRDP Programs	2008 (\$m)	2009 (\$m)	2010 (\$m)
Governance	- Effective planning & coordination of equitable services to the residents of EJ on the basis of policy priorities and needs - Strengthening organizations involved in advocacy, lobbying and legal support to secure entitlements and rights	Open and Accountable Government (OAG); Efficient and Effective Government (EEG) Justice Now (JN)	1	3	3
Special Governance	- Special support for communities in areas affected by the Wall (covering all sectors)	Accountable Local Government (ALG)	3	5	5

Sector	Priority Needs	PRDP Programs	2008 (\$m)	2009 (\$m)	2010 (\$m)
Education	- Sustaining and developing schools (special focus on: improving teacher pay and conditions, renovation of existing buildings, upgrading equipment and teacher development). - Strengthening the sustainability of vocational training (increased support to existing programs; diversifying offerings and upgrading infrastructure)	Access to Education (ATE); Quality Education For All (QEFA); Education Performance & Efficiency (EPE) program Vocational Training Initiative (VTI)	5	6	7
Health	- Improving cooperation & rationalization across health care providers - Improving referral and accessibility to Jerusalem hospitals - Developing mental health and counselling and guidance services - Counselling, guidance and drug rehabilitation services	Health Quality Improvement (HQI); Health Care Affordability (HCA) program	2	2	2
Social protection and welfare	- Effective, targeted social safety net for immediate needs of the most vulnerable residents - Job creation initiatives	Social Protection Reform & Integration (SPRI) Employment Generation Initiative (EGI)	5	6	7
Women, children and youth	- Infrastructure and support for women, children and youth organizations to focus on developing diversified services and activities - Development of the early childhood sector	Women's Empowerment (WE) program; Youth Empowerment (YE)	3	4	4
Culture and heritage	- Maintenance, renovation, operation and security of the holy Islamic and Christian sites & other historic & cultural sites - Support to culture and heritage organizations - Support to initiatives to declare Jerusalem as the Capital of Arab Culture in 2009	Culture, Creativity & Heritage (CCH); Tourism Industry Development (TID); Public Recreation and Culture (PRC)	5	5	6
Economy	- General support for economic development - Rehabilitation of tourist sites and infrastructure - Support to tourism industry debt management and	Enterprise Investment and Development (EID); Tourism Industry Development (TID); Trade Infrastructure	4	5	6

Sector	Priority Needs	PRDP Programs	2008 (\$m)	2009 (\$m)	2010 (\$m)
	restructuring - Tourism marketing initiatives - Support for souvenir handcrafts industry	and Facilitation (TIF); Industrial and Services Capacity Development (ISCD)			
Housing	- Improving access to mortgage finance - Rehabilitation of housing in the Old City - Housing projects and rent subsidies for low income families (priority to areas close to settlements & threatened with confiscation)	Affordable Housing (AH)	4	5	6
Total for East Jerusalem			32	41	46
Total for Occupied Territory			492	634	769
Percentage allocated to East Jerusalem			6.5%	6.5%	6.0%

5.5.5 Summary of planned outcomes and targets

Planned outcomes and targets for the PRDP are set primarily at the program level. As noted in the sections above, the PRDP 2008-10 sets out a comprehensive and integrated approach to all reform and development throughout the occupied territory. Accordingly, monitoring and evaluation of outcomes and targets will take place primarily at the program level.

During the detailed planning phase for the PRDP programs, these projects will be integrated into the PRDP program structure and the specific allocations, proposals, activities and performance indicators for Jerusalem will be developed.

It is envisaged that the statistics and indicators which will be monitored to assess the development of Jerusalem will include:

- Palestinian population levels in EJ
- tourism activity indicators
- the number of families receiving support and amounts of support
- impact of housing initiatives and number of beneficiaries
- numbers of Palestinian operated schools, preschools and student population
- impact of job creation opportunities and their effect on employment levels of Palestinian workers
- access to health care
- numbers and types of cultural activities

6. Resource Allocation

This Chapter sets out a summary of the budget process, the budget assumptions and framework, the allocation of recurrent and development budget resources across sectors, and the mechanisms by which the budget will be executed to ensure that resources are used for the purposes intended.

6.1 Budget process

Due to time constraints and existing legal requirements, the PNA budget for 2008 was prepared on the pre-existing line item basis, with resources allocated to PNA ministries and agencies against different input elements, such as salaries and operating expenditure. However, in order to begin the process of shifting to a more output-based budgeting process, these budget allocations have been applied to Strategic Objectives identified by ministries and agencies in their PRDP Planning and Budgeting Submissions. Chapter 4 illustrates the notional distribution of resources to each ministry and agency's Strategic Objectives on a sector-by-sector basis. Existing accounting and reporting systems do not permit effective monitoring of expenditures against strategic objectives. However, the notional figures represent a useful perspective on how individual ministries and agencies view their priorities, and they will be used as baseline data for the enhanced budget process envisioned for 2009.

From 2009 onwards, the budget process, along with other core public financial management processes, will be significantly enhanced to reinforce this migration towards output-based budgeting and to introduce a fully integrated, policy led budget process. These enhancements are summarized in section 6.8 at the end of this Chapter.

The 2008 budget was adopted by the Cabinet on 31st March 2008 and signed by the President. The current political deadlock in the Palestinian Legislative Council precluded review and approval of the budget by the legislature. However, as indicated in section 6.8, planned public financial management reforms have been developed taking into full account the important role of the legislature in budget review, debate and approval.

6.2 Budget assumptions

The guiding principles of the 2008 budget as set out in the 2008 budget circular included:

- Preparation of the budget on a sound economic, administrative, and legal basis.
- The budget must take into account the difficult political and economic context and consequent limitations on absorptive capacity and financial resources.
- Budgeted expenditure is within the limitations of a realistic estimate of available resources (internal revenues and external funding).
- The need to contain salary and benefits costs as a proportion of total expenditures – the Budget Circular explicitly stated that new recruitment will be restricted to essential employment of teachers and health, social and judicial sector employees to achieve critical national policy goals.
- The government will make determined efforts during 2008 and beyond to reduce the burden on the treasury created by 'net lending' (i.e., consumers' failure to pay the utility bills).
- Overall, the intention is to increase clearance and tax revenues and contain expenditure such that, over the medium-term, the PNA becomes substantially less dependent on foreign aid.

6.3 Medium term budget framework

This section provides an overall summary of the medium term budget framework – with further details of the different elements of the budget provided in later sections.

The PNA is emerging from a period of extreme financial liquidity problems which began in 2005. They followed a series of substantial pay rises to public service employees, and were compounded by the policy responses of Israel and the international community to the formation of the Hamas-led government in early 2006. However, the fiscal outlook for the PNA over the medium-term is likely to continue to be extremely challenging due to the accumulation of structural fiscal problems, including an escalating wage bill, high pension costs, and 'net lending'.

Budgetary resources in 2006 fell by over a third compared to 2005, leading to a severe contraction in cash spending. The reduction in PNA-managed budgetary resources was caused by a combination of the withholding by Israel of clearance revenues, a fall in domestic revenues due to the contraction in economic activity, and a temporary suspension and redirection of aid revenues. The full effects of earlier salary rises on the PNA wage bill were felt in 2006, and further large increases in government employment (mainly the security services) added to wage bill growth. Non-wage expenditure also increased to deal with the emergency needs of the population, and the increasing cost of energy and utilities. By 2006 the recurrent budget deficit reached \$1.7 billion (25% of GDP) and expenditure arrears (mainly public sector wages and liabilities to private sector suppliers) reached a peak of \$1.3 billion.

Budget composition has been dominated in recent years by the need to reduce erosion in living standards and rising unemployment stemming from closures, intensified trade restrictions, population growth, conflict and insecurity. The PNA has absorbed large numbers of new employees and increased direct and indirect social transfers to counter growing unemployment, poverty and social unrest. In 2007 the wage bill accounted for more than half of recurrent budget expenditures and significantly exceeded total clearance and tax revenues. Transfers and net lending represented more than a third of recurrent expenditure. This left little space for other operating expenditures which amounted to only 7% of the recurrent budget in 2007. In effect, the vast majority of government resources has been diverted from institution-building and improving service delivery toward emergency assistance, social transfers and subsidies, and the use of government employment as a *de facto* social safety net.

Based on the fiscal policy reforms outlined in Chapter 4 (see section 4.1) and reflected in the medium term fiscal framework (see Chapter 5), a sustained reduction in the recurrent budget deficit is envisaged, from 26.7% of GDP in 2007 to 15.5% of GDP in 2010 (about the same level as in 2005). Total recurrent expenditures will be reduced from 50.3% to 41.2% of GDP over this period. While all categories of recurrent expenditure will fall as a share of GDP, the majority of savings will come from the containment of the wage bill. Revenue performance, which has traditionally been strong, will increase modestly through better compliance and improvements in tax administration – largely through projected economic growth. Overall, revenues are projected to increase from 23.6% of GDP in 2007 to 25.7% of GDP in 2010.

Table 6.1: Summary macro-fiscal framework (as % of GDP)

(% of GDP)	2006 Act.	2007 Est.	2008 Proj.	2009 Proj.	2010 Proj.
Revenue	25.4	23.6	24.4	25.4	25.7
Expenditure and net lending	50.2	50.3	46.7	43.5	41.2
<i>Wage expenditure</i>	26.3	25.4	24.3	23.0	21.6
<i>Non-wage expenditure (incl. minor capex)</i>	16.5	14.4	15.8	14.7	14.4
<i>Net lending</i>	7.4	10.6	6.6	5.8	5.2
Recurrent balance - before external support	-24.9	-26.7	-22.3	-18.2	-15.5
External support for recurrent budget	16.3	20.0	26.8	20.7	18.3
Overall Balance	-5.6	-4.9	-7.1	-9.6	-10.7
External support for development expenditures	6.2	6.1	8.1	9.7	10.8

During 2008, the PNA will launch a thorough institutional review of the pension system, with a view to establishing appropriate arrangements and plans for reforms that will ensure its fiscal sustainability, whilst maintaining a reasonable level of social protection for pensioners.

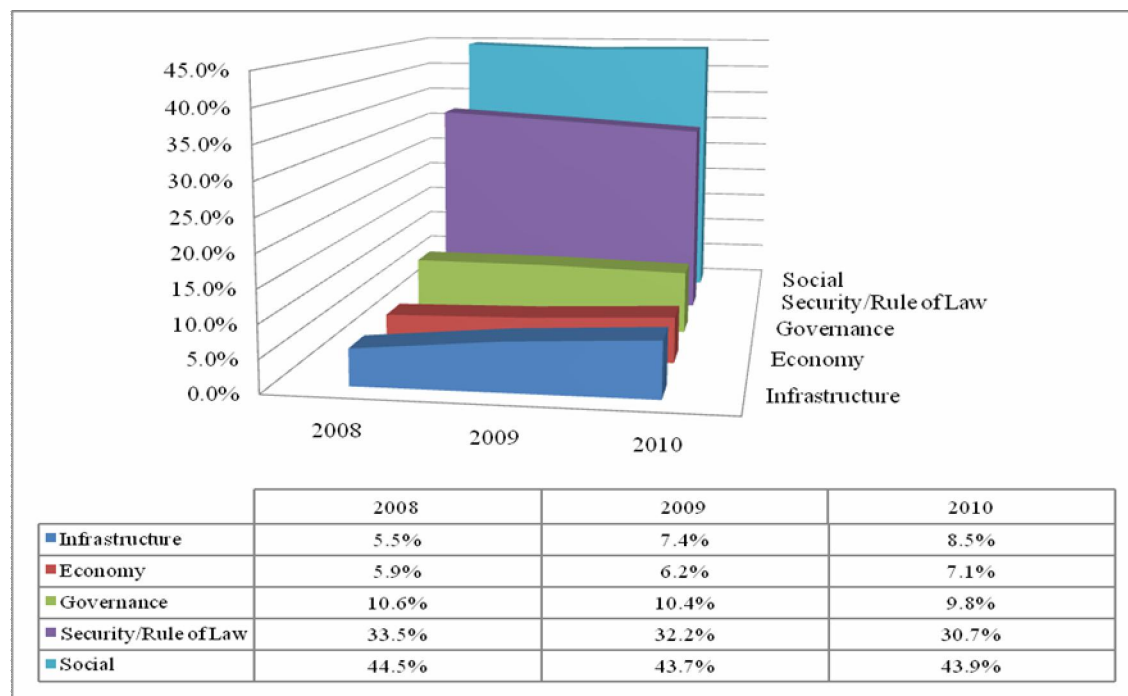
There are two other key structural problems in the public finances to be addressed; net lending and accumulated arrears. Net lending is the cost of subsidizing citizens' consumption of energy and utilities, and is a significant drain on government financial resources. Net lending arises due to the non-collection (by municipalities and other service providers) of consumers' utility fees. This forces the central government to fund payments to, for example, the Israel Electricity Company (IEC) for bulk purchases of electricity in order to avoid service disruption. The cost of net lending accelerated rapidly in 2006 and 2007. The PNA is currently working to implement a plan that will progressively reduce net lending significantly from 10.6% of GDP in 2007 to 5.2% of GDP in 2010. The plan is based on a variety of enforcement measures, but there will be provisions to ensure continued access to utility services for those suffering extreme poverty. Beyond this, utility provision will be based on economic principles and will be, within a finite timeline, provided under a full cost-recovery basis.

Accumulation of high levels of arrears (unpaid liabilities) became especially acute due to the liquidity crisis and economic mismanagement during 2006. The PNA accumulated a large stock of arrears including unpaid salaries of public sector employees, debts to private sector suppliers, and non-payment of contributions to pension funds. Arrears reached a peak of \$1.3 billion during 2007, creating a significant additional burden on the already over-stretched public finances for the next few years. The PNA's arrears-reduction plan is already well under way, with more than \$400 million repaid during 2007.

The budget framework for 2008-10 also envisages a gradual shift of resources in favour of capital and other development expenditure. Development expenditures are planned to rise from 6.1% of GDP in 2007 to 10.8% in 2010. In order to meet these targets, substantial external financing will be needed, both to finance the recurrent budget deficit (an average of \$1.4 billion per year over 2008-10 on a cash basis) and for the public investment program (an average of \$630 million per year).

The following sections in this chapter describe in more detail how public revenues and external financing will be allocated to PNA sectors, ministries and agencies, and across the various PRDP programs over the next three years. However, figure 6.1 illustrates forecast trends in the allocation of total resources to each sector over the medium-term. It shows that spending on the security and rule of law sector will remain substantial at more than 30% of total expenditure by 2010. However, retrenchment of staff during 2007, coupled with a moratorium on salary increases, will release substantial resources from the recurrent budget to fund spending in other areas. These additional resources will be used primarily to fund recruitment of teachers and healthcare workers, and for operating expenditures in the social sector. The social sector also receives high priority in the allocation of development budget resources – especially in 2008 during which the sector will benefit from approximately third of total development expenditure. As a result, spending in the social sector will predominate, averaging approximately 44% of total expenditure throughout the medium-term.

Figure 6.1: Sector distribution of total recurrent and development budget resources



6.4 Recurrent budget

This section summarises the allocation of recurrent budget resources to PNA ministries and agencies at the sector level, and the composition of the budget with respect to the different categories of expenditure.

The recurrent budget allocated to sectors in pursuit of national policy goals (as described in Chapter 4) are summarized in Table 6.2.

Table 6.2: Summary recurrent budget allocations by sector

	2007		2008	
Total recurrent expenses				
<i>(excl. pension payments, debt servicing costs & net lending)</i>	<i>Budget</i>		<i>Budget</i>	
	NIS million	%	NIS million	%
Governance - Civil	765	10.1%	854	10.8%
Governance – Security & Rule of Law	3,266	43.3%	2,971	37.5%
Social	3,152	41.8%	3,729	47.1%
Economy	176	2.3%	183	2.3%
Infrastructure	185	2.4%	183	2.3%
Total	7,544	100%	7,920	100%

The recurrent budget allocations in 2008, when compared with 2007, reflect a major shift of resources into the social sector. This has been made possible primarily through cost savings achieved by the retrenchment of surplus staff in the security services. These savings have also allowed a 12% increase in resources allocated to civil governance sector; including significant increases for the Ministry of Local Government and the Central Elections Commission.

Figure 6.2 illustrates how the recurrent budget allocations are forecast to evolve over the medium term. The chart shows a continued shift of resources to the social sector, reflecting a policy of restricting the majority of public sector hiring to the education and health sectors.

Figure 6.2: Forecast recurrent budget allocations by sector

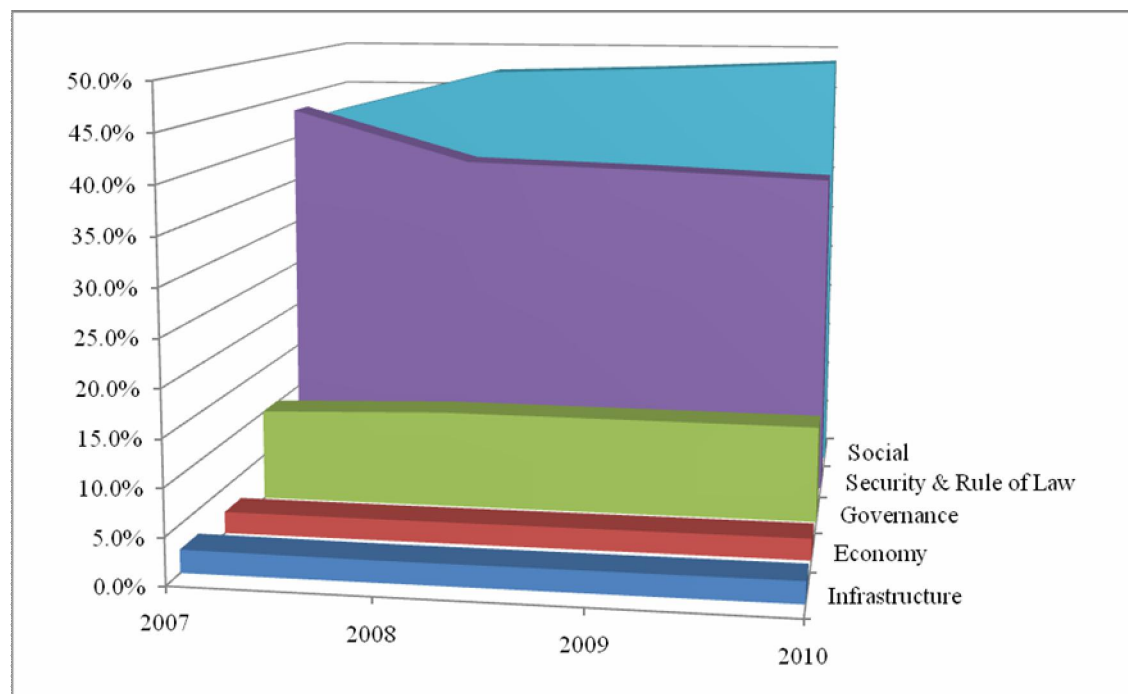


Table 6.3 summarizes the composition of the budget with respect to the different categories of expenditure.

Table 6.3: Summary of recurrent budget allocations by line item

	2007		2008	
	<i>Budget</i>		<i>Budget</i>	
Total recurrent expenses	NIS million	%	NIS million	%
Salaries	5,736	53.2%	5,333	52.1%
Operating expenses	755	7.0%	1,154	11.3%
Transfers	1,750	16.2%	2,037	19.9%
Minor capital/development outlays	66	0.6%	106	1.0%
Debt servicing costs	375	3.5%	175	1.7%
Net lending	2,100	19.5%	1,440	14.1%
Total	10,716	100%	10,139	100%

Overall, budgeted recurrent expenses have been reduced by 5.4% in 2008 compared to 2007. Significant savings are already being realized through a series of reforms aimed at reducing the public sector wage bill and curtailing net lending. This is not only leading to a reduction in recurrent expenses, but is also liberating resources to fund operating expenses which, in recent years, have been crowded out by the expanding costs of public sector salaries. It is also increasing the amount of budget resources available to provide social assistance (through the 'Transfers' budget line item) to the most needy.

6.5 Development budget

This section sets out a summary of how the development budget is distributed across the PRDP programs. Due to time constraints, this budget has been prepared through an interim process which included:

- Stock-taking of on-going development initiatives and projects.
- Soliciting from ministries and agencies an overview of their priority development initiatives and projects through the PRDP Planning and Budgeting Submissions.
- Reviewing existing information on development needs from earlier policy and planning documents – e.g., prior medium term development plans, sector strategic and development plans.
- Consultations with stakeholders to obtain current views about development needs and priorities.
- A consideration of the broader development issues such as the need to balance economic and social development needs and the absorptive capacity of the PNA.

These inputs were assessed in relation to national policy goals, key economic and social indicators and strategic objectives developed by PNA ministries and agencies.

The PNA's development plans have historically included very large numbers of individual projects with no clear prioritisation or defined outcomes. If they had ever been fully-funded, the PNA would not have been able to manage these projects due to constraints on absorption and implementation capacity. For the purpose of the PRDP 2008-10, a more manageable and realistic development budget has been constructed. The development budget is explicitly designed to support the establishment and implementation of a set of programs with more clearly defined objectives and measurable performance indicators. The development budget has also been constructed within the capital and development expenditure limits defined in the MTFF, and with an appreciation of the need to constrain recurrent costs.

The overall result is a development budget (and associated programs and activities) which are explicitly guided by policy priorities, focussed on the real development needs, equitable in their coverage of sectors and territorial areas, realistic in scope (in terms of resource availability and, absorption and implementation capacity) and sustainable in terms of their on-going recurrent costs. The development budget represents an estimate of aid disbursements to finance development expenditure over the next three years, not the total cost of completing all identified initiatives and projects – many of which will span more than three years and some of which will not commence until 2009 or later. The estimates take into account a realistic assessment of the availability of external financing for development expenditure over the next three years based on prior experience. If commitments for larger amounts of funding are received in relation to a particular initiative or project, it may be possible to up-scale activities in certain areas. This will be considered on a case by case basis as commitments are received.

The budgeted cash disbursements in relation to development expenditure are \$492 million in 2008, rising to \$634 million in 2009, and to \$769 million in 2010. Table 6.4 provides a summary of the allocation of the development budget to PRDP programs. Further details of the individual programs are provided in Chapter 4 and Annex 2 provides a more detailed breakdown of how resources are allocated at the program objective level.

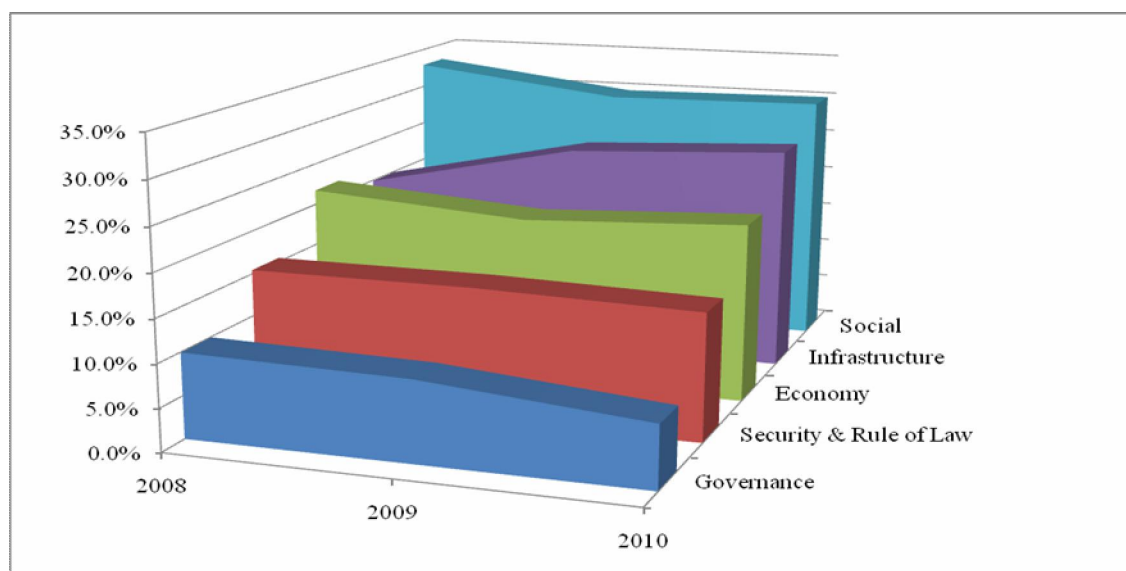
Table 6.4: Summary of development budget allocations by program

Program	2008 (\$m)	2009 (\$m)	2010 (\$m)	Total (\$m)
Security Sector Reform & Transformation	62	86	109	257
Justice Now	14	12	5	31
Open and Accountable Government	20	23	5	48
Efficient and Effective Government	15	21	35	71
Accountable Local Government	14	16	16	46
Governance total	125	158	170	453
Social Protection Reform and Integration	5	5	2	12
Access To Education	34	46	76	156
Quality Education For All	45	50	51	146
Education Performance & Efficiency	2	2	1	5
Vocational Training Initiative	6	8	15	29
Health Quality Improvement	29	35	52	116
Health Care Affordability	8	10	5	23
Women's Empowerment	8	7	8	23
Youth Empowerment	5	5	3	13
Employment Generation Initiative	19	20	18	57
Culture, Creativity & Heritage	1	1	1	3
Social total	162	189	232	583
Institutional Reform for Enterprise	10	10	10	30
Trade Infrastructure & Facilitation	12	12	12	36
Enterprise Investment & Development	18	18	16	52
Agribusiness Development	18	24	24	66
Industrial Capacity Development	19	23	36	78
Tourism Industry Development	15	14	14	43
Affordable Housing	15	25	50	90
Economy total	107	126	162	395
Road Improvement	32	40	60	132
Road Safety	5	8	12	25
Air & Sea	4	13	18	35
Electricity Sector Investment	18	24	26	68
Water & Wastewater Management	30	54	54	138
Solid Waste Management	5	14	18	37
Public Recreation & Culture	4	8	17	29
Infrastructure total	98	161	205	464
Grand Total	492	634	769	1,895

(Note: The development budget allocations in the above table (and incorporated in the approved budget) include contingency funds totalling \$120 million divided across sectors as follows: Governance, \$18m; Social, \$18m; Economy, \$43m; and, Infrastructure, \$41m. These funds are intended for emergency, community-based projects. In all cases, disbursements will be aligned with PRDP program objectives and, as such, these contingency funds are included in the above program allocations.)

As figure 6.3 illustrates, the development budget in 2008 reflect the high priority attached to maintaining access to quality education services through rehabilitation and modernization of the classroom environment as well as upgrading the curriculum and improving teaching standards. Over time, whilst still increasing, the development budget allocation to the social sector will decline as a proportion of the total budget, freeing-up resources to make long-term investments in public infrastructure

Figure 6.3: Development budget allocations by sector



6.6 Budget execution

Effective budget execution was undermined in the past by a variety of factors including: highly unpredictable revenues (leading to significant levels of ad hoc in-year budget reallocations), lack of integration of the recurrent and development budgets, lack of in-year commitment controls (which undermined overall financial control and allowed high levels of arrears to accumulate), and highly centralized budget execution which gave line ministries limited incentives to use their resources efficiently and judiciously. In addition, the preparation of the budget on a line item basis meant that it was possible to see the types of expenditure being made, but not the purpose or planned outcomes of those expenditures. The PNA recognises the need to improve the efficiency and effectiveness of budget preparation and execution. This section outlines specific reforms being introduced in 2008 to strengthen budget execution and the next section summarises a broader set of public financial management reforms that will also begin in 2008.

This PRDP is the result of the first attempt to prepare a fully integrated budget based on a hard budget constraint and led by clearly articulated, policy and priority based directions. A more strategic focus was introduced to the budget process this year, with ministries and agencies asked to consider how they would allocate resources to the national goals which their functions support, and in particular how resources would be distributed between their strategic objectives.

However, the improvements in budget preparation achieved through the PRDP initiative will be undermined if the budget is not executed efficiently and effectively. Therefore, the PNA has put in place some important improvements to budget execution processes which address many of the problems experienced in previous years. As a starting point, the budget has been framed within a realistic overall budget ceiling which, subject to obtaining sufficient and predictable external support, should be fully funded. This should reduce the risk of having to make unplanned re-allocations of resources, which would undermine the overall credibility of the budget.

The PNA will also continue to build on the restoration of cash controls and the re-establishment of the Single Treasury Account (STA), and will further strengthen the public financial management system, focusing on budget compliance, expenditure control, and cash management. A major change will take effect in early 2008, with the establishment of a new Accountant General's Department (AGD) in the Ministry of Finance, accompanied by a new accounting system. The Accountant General will

supervise treasury, cash and debt management, budget execution, payroll, and accounting and reporting. The upgraded accounting system, which will cover the entire expenditure cycle, will initially be implemented in the Ministry of Finance, the Ministry of Education and Higher Education, and the Ministry of Health, and will be progressively rolled-out to all other ministries. It will provide monthly expenditure allocations, based on the overall limits set out in the Budget Law to all ministries and agencies. The ministries and agencies will have their own expenditure sub-accounts and will be required to record requests to make expenditure commitments against their own budgets. This will enable line ministries as well as the Ministry of Finance to keep track of both committed and actual expenditures. Line ministries will provide monthly reports of commitment and cash spending plans to the Accountant General; the Cash Management Unit in the AGD will prepare cash forecasts, which in turn will guide the directives to line ministries about spending envelopes for the coming period. As a result, the risks of accumulating new arrears will be reduced.

All of the changes outlined above, will improve the execution of the recurrent budget. Work is also being done to fully integrate the management of the development budget into the overall PNA budget to ensure effective channelling of all project-related disbursements through sub-accounts of the STA. Full integration will improve the monitoring of the implementation of all investment projects, in close coordination with the Ministry of Planning, and the preparation of periodic reports on the status of projects financed from the PNA's own resources. In future, information about upcoming investments, provided by the donors will be consolidated into a comprehensive database of development projects that is routinely updated.

The Ministries of Planning and Finance have already taken steps to establish expenditure tracking and performance management mechanisms overseen by a Ministerial Steering Committee, chaired by the Prime Minister. Going forward, channelling of external financial assistance through appropriately designed budget support mechanisms and technical assistance trust funds will play an important role in ensuring that both elements of the budget can be effectively executed, thereby facilitating the implementation of the PRDP. The aid coordination strategy groups will assist in tracking the conversion of pledges into commitments, disbursements and project implementation within their sectors. Also, on a monthly basis the Ministry of Finance and Ministry of Planning, in coordination with the Local Development Forum (LDF), will review and report commitments and disbursements versus pledges to the chairs and co-chairs of the Paris Conference 2007.

The Ministry of Finance will also work with the World Bank and IMF to establish quarterly financial reporting arrangements to track progress towards implementing fiscal and other financial management reforms. Both these monitoring mechanisms will be overseen by the Ministerial Steering Committee, chaired by the Prime Minister.

6.7 Public financial management reforms

The changes being introduced to manage the 2008 budget should make a significant contribution to improving budget execution. However, this is only one element of a much broader set of public financial management reforms that will be implemented over the coming years. These reforms fall within the Governance sector PRDP programs described in Chapter 5. The full set of reforms will be more clearly defined as part of the ongoing process of developing detailed project proposals within the PRDP program framework. However, Table 6.5 provides an overview of the envisaged reforms.

Table 6.5: Overview of planned public financial management reforms

Objective	Indicators	Targets
Open and Accountable Government – systems and process re-engineering sub program		
Public expenditure is guided by a comprehensive, policy led medium term expenditure framework and effective	MTEF methodology implementation Effective legislative scrutiny of the budget	- MTEF approach institutionalized - Complete set of financial regulations and associated procedures in place - Resource allocation reflects policy priorities

Objective	Indicators	Targets
budget execution mechanisms		- Draft Budget Law comprehensively scrutinized and approved by the PLC
Public expenditure management supported by efficient & effective financial management, accounting & reporting systems	Financial accounting/reporting complies with best practice Comprehensive reports on progress in relation to planned results	- GFS-compliant chart of accounts in use by end 2008 - Monthly revenue and expenditure statements published - End of year performance reports published
Effective financial control and internal audit procedures	Comprehensive set of system-based internal controls in place An efficient and effective internal audit function	Effective internal control procedures and systems in place by end 2008 - Reductions in the number of internal control failures - Comprehensive, regular internal audit plans/reports being produced by end 2008
Open and Accountable Government – Building effective oversight institutions sub program		
Comprehensive legal framework for public financial management which meets international standards	All necessary PFM institutions, committees, roles and responsibilities are established in accordance with the public finance legislation and operating effectively	Revised Public Finance Law - Legal mandate and organization structure of the MoF reflect best practice - PLC Accounts Committee established
Public expenditure is guided by a comprehensive, policy led medium term expenditure framework and effective budget execution mechanisms	Legislative scrutiny of budget Budget Book provides comprehensive information about policies, resource allocation plans & performance	- Publish a comprehensive guide to the Budget - All in-year budget reallocations approved by the PLC
Open and Accountable Government – Monitoring and evaluation of government performance sub program		
Sound macroeconomic policy, development planning and reporting	Macroeconomic forecasting and planning unit capacity Macroeconomic policies based on sound assumptions	Sustainable macroeconomic forecasting and management unit by end 2008 - Medium term budget preparation is based on credible macroeconomic forecasts
Efficient and effective government – Organization and institutional development sub program		
Effective and appropriate institutional arrangements and distribution of resources across the public sector	Role, structure & mandates of PNA entities meet the requirements of modern public service management & can deliver against PRDP	Functional reviews of 50% of PNA ministries and agencies completed

7. Foundations for Implementation

Implementation of the fiscal consolidation, reform and development objectives set out in the PRDP 2008-10 would be challenging in any context. Implementation of such a plan by a non-sovereign, geographically non-contiguous nation under military occupation is unprecedented. Given the vulnerability of the Palestinian economy, security and social conditions to exogenous factors (particularly political relations with the international community as well as political and security relations with Israel), it is a self-evident truth that the PRDP cannot be implemented without mutually reinforcing actions by all parties. Therefore, in setting out the foundations for successful implementation of the PRDP, this Chapter reflects the important role that all three of the parties can and must play in building a peaceful and prosperous Palestinian state.

7.1 External financing

The macroeconomic and fiscal framework set forth in Chapter 5, based on multiple scenario analysis, indicates that the successful implementation of the PNA's fiscal and other reform commitments alone will not yield even the modest growth needed to support implementation of the PRDP. Substantial external financing of \$5.6 billion is needed, comprising \$3.64 billion of recurrent budget support and \$1.64 billion of development budget support.

The timing and predictability of this financing is also critical; \$1.79 billion is needed in 2008, \$1.88 billion in 2009 and \$1.92 billion in 2010. If these targets are not met, growth will likely be negative and poverty and unemployment levels will increase. The extent of the decline will depend on the extent and timing of shortfall in aid. In short, Palestinian reform alone will not be sufficient to reverse the economic decline.

The pledges for the next three years reported at the Paris conference in December 2007 substantially exceeded the requested level of external financing. However, it is essential that these pledges are translated into timely disbursements. The PNA and the donor community will need to work together closely to track realization of pledges into disbursements, and act rapidly and decisively to address significant shortfalls.

7.2 Private sector growth

In the baseline scenario, the three-year macroeconomic and fiscal framework assumes: (a) the successful advancement of fiscal and other reforms, including law and order; (b) sufficient external financing to maintain operations and finance development programs; and (c) a gradual easing of movement and access restrictions. These, along with general improvements in political and security conditions, are needed to create a more favorable trade and investment environment.

Under such a scenario, growth in private investment is expected to accelerate rapidly from 2009. Real GDP growth would rise from 3.5% in 2008 to 6% by 2010, as public and private investments gradually offset the contraction effects of fiscal retrenchment. However, even with the full amount of anticipated aid, without easing of movement and access restrictions, total real growth will continue to be negative, averaging around -2% during the period 2008-2010.

Therefore, achieving growth rates of 5% and higher will depend not only on the commitment of the international community to fill the total fiscal gap over the next three years, but also on the revival of the private sector. Without such a revival, the PNA will not be able to increase its own clearance and tax revenues, nor will it be able to cut spending without increasing poverty and unemployment.

Initiating a sustainable revival of the private sector requires policy actions by the PNA to create an enabling institutional environment, to support capacity building in strategic productive sectors, and to improve access to finance. However, such actions will not have a material, sustainable impact without permanent easing of movement and access restrictions.

7.3 Internal financing

Clearance revenues are the PNA's main source of non-aid finance. On average, they represent approximately 70% of internally generated revenues and 30% of total revenues (including external financing). As noted above, the level of accrued clearance and tax revenues will depend on external aid levels and private sector growth. However, the amount of clearance revenues actually received by the treasury depends on the willingness of Israel to meet its obligation to transfer such revenues to the PNA in full and on a timely basis. Historically, the suspension of clearance revenue transfers has been an extremely powerful tool for Israel to precipitate socio-economic crisis and to contain and frustrate Palestinian development. Israel therefore has the proven ability to undermine implementation of this PRDP.

7.4 Political stability

Political instability, both internally and with respect to relations with Israel and the broader international community, represents a major risk to successful implementation of the PRDP. Such instability elicits a state of insecurity and social unrest which is profoundly inimical to reform and development. As indicated above, it inhibits public and private sector investment and shifts external aid towards short-term emergency and humanitarian assistance. It also interrupts the smooth operation of the machinery of government tasked with implementing programs and projects on the ground.

For example, the current Council of Ministers is the twelfth since July 1994 and, on average, Councils of Ministers last only one year. This tends to undermine the credibility of medium-term plans amongst public employees, who have experienced many leadership changes and many changes in policy direction. Any major change in the composition of the Council of Ministers will almost certainly have a negative effect on the prospects for successful implementation of this PRDP. In other environments, such a risk could be mitigated by ensuring that the medium-term plan is endorsed by the legislative branch of government. However, due to the incarceration by Israel of a significant proportion of the members of the Palestinian Legislative Council (PLC), this has not been possible.

Also, the current isolation of Gaza has undermined engagement of PNA staff in Gaza in the preparation of this PRDP. This has already had a somewhat negative impact on the legitimacy and quality of the PRDP 2008-10. If the isolation continues, it will almost certainly render nearly all of the key aspects of this PRDP related to Gaza impossible to implement.

The political turmoil of the preceding two years has also had a negative impact on the morale of PNA staff and the Palestinian public in general. So has the ongoing lack of any progress towards a final settlement with Israel, continued closures and military action against Palestinian citizens in the occupied territory. This environment creates a serious risk that PNA staff, whose efforts are critical to the successful implementation of the PRDP, will lose focus on meeting their commitments. It is quite clear that a sustained period of political stability, resumption of the normal functioning of the legislature, unification of the West Bank and Gaza, and tangible progress towards a lasting peace with Israel are essential to the sustainable implementation of the Palestinian reform and development agenda over the medium-term.

7.5 Institutional capacity

It is very important to recognize that, as has been the experience in sovereign countries throughout the world, it will take several years to fully implement the MTEF methodology and realize its full

benefits. International experience has identified a number of institutional pre-conditions for successful implementation of MTEFs. Many developing and transitional countries who have prepared MTEFs have needed to conduct major reforms of their public financial management legislation, procedures and systems to support effective budget preparation, budget execution and financial reporting. The PNA is in a similar position and it is important to recognize that many of the public financial management reforms described in this PRDP (see Chapter 4.1 and Chapter 6) are designed to facilitate progressive improvements in the integration of policy-making, planning and budgeting processes. Therefore, as these reforms are delivered over time, the quality of PRDPs and their implementation in practice will improve.

Institutional capacity to monitor and evaluate implementation of the PRDP, and indeed government performance more generally is also critical. Currently, with the exception of a few of the larger ministries, there is a general lack of public sector performance management processes and systems in the PNA. There is also no central function to gather, analyze and report information regarding public sector performance. As such, there is a long-standing lack of detailed review of organizational and individual performance which tends to undermine efforts, like the PRDP initiative, to create a culture of accountability for delivery of tangible development and service delivery outcomes. Chapter 8 provides an outline of the PNA's plans for implementing performance management functions and processes.

7.6 Budget support

International experience has repeatedly demonstrated that budget support is critical to successful implementation of multi-year development plans and budgets. The document the PNA presented to donors at the December Paris conference appealed to donors to provide assistance as direct, un-earmarked budget support through the single treasury account. However, in recognition of the constraints some donors operate under, the PNA will accept alternative funding mechanisms that meet reasonable standards of efficiency, effectiveness and transparency. This request, which is reiterated here, gives the PNA control over the targeting and timing of disbursements and will enable it to execute the reform and development plan more effectively.

Going forward, channelling of multilateral assistance through the integrated policy-making, planning and budgeting processes which underpin the PRDP is essential. This assistance should cover both recurrent and development expenditure. Donors and the PNA need to work together, through the LDF and its associated aid coordination strategy groups, to progressively reduce the level of bilateral project-based assistance to individual PNA ministries and agencies. The PRDP initiative also provides a good opportunity to re-evaluate the effectiveness, composition and terms of reference of the strategy groups and their underlying sector working groups, and for more clearly defining Palestinian and donor participation in order to further enhance their relevance and performance. It would also be extremely helpful if the donor community collectively and explicitly commits to applying the principles of the Paris Declaration on Aid Effectiveness to their activities in the occupied territory.

8. Monitoring and Evaluating Implementation

As this is the first iteration of the PRDP, this chapter does not include any specific performance management information to illustrate progress in implementing PRDP goals and objectives. Instead, this chapter sets out the PNA's rationale and plans for establishing arrangements for evaluating its performance in implementing the PRDP. These arrangements will take some time to develop and will be progressively implemented through 2008 and 2009.

8.1 Background

Performance management involves systematic review of activities to enable an organisation to:

- identify successes and problems during implementation of policies and plans
- provide the basis for informed and timely decision-making to support plan implementation (and, where necessary, redesign)
- ensure accountability for resources used and results achieved
- provide sufficient public information to facilitate stakeholder awareness and participation
- conduct effective and independent audits of performance and value for money.

Good information on government performance is crucial for ensuring that implementation of policies and plans remain on target, and that activities and expenditures are delivering the expected results. Good performance information also helps government to adjust its policies and plans, and even the way it functions, if it is not achieving its objectives and meeting targets.

Therefore, to ensure the PRDP has a significant and sustainable impact on the efficiency and effectiveness of the PNA, its implementation will be monitored and evaluated through a formal, rigorous performance management process.

8.2 Objectives and principles

The PRDP outlines specific reform and development goals and associated objectives, performance indicators and targets. It includes responsibilities and performance targets throughout the PNA hierarchy, from the Council of Ministers (at the national goal level) to ministries and agencies (at the strategic objective and activity level). The planned deployment of internal and external resources has also been linked to the achievement of specific objectives. Accordingly, the PRDP provides a solid basis for performance management through the implementation of a comprehensive monitoring and evaluation (M&E) process to measure, evaluate, and report on progress against PRDP goals and targets.

The **objective** of the PRDP M&E process is to contribute to the enhancement of government performance and accountability by providing comprehensive, consistent, reliable, credible and timely information on the PNA's progress in implementing the PRDP.

The **core principles** of the PRDP M&E process are:

- Performance M&E is a basic management responsibility – all ministries and agencies must collect, analyze and report data on their operational and financial performance
- Performance is comprehensively measured and managed at all levels of government
- Credible, reliable, relevant and timely information is provided to the Council of Ministers and the Legislative Council to help them make decisions about policies and resource allocation
- Performance information will be published in order to improve transparency and accountability for the use of PNA resources.

8.3 Institutional arrangements

Ministries and agencies are responsible for monitoring and evaluating their performance against their objectives and targets in the PRDP. All ministries and agencies will be required to prepare detailed project proposals based on the programs specified in the PRDP 2008-10. These proposals will provide more detail on ministry and agency responsibilities and targets in relation to the PRDP programs. Operational and financial performance at the ministry and agency level will continue to be monitored and managed through ministries' and agencies' own management and review processes.

At the overall PNA level, a new PRDP M&E process will capture and consolidate performance information from all ministries and agencies. A central M&E unit will be established to administer the M&E process, provide analysis and disseminate findings through regular reports.

The central PRDP M&E function will collect information from a variety of sources and institutional arrangements will be put in place to facilitate effective communication between the key stakeholders and ensure that there is an effective mechanism to manage the flow of information into the M&E system. The key actors and their contributions will include:

- Ministry of Planning – to provide and analyse information about progress at sector and national levels against the detailed plans supporting the PRDP, and provide information about the progress of development projects as recorded in the Palestinian Assistance Monitoring System (PAMS)
- The Ministry of Finance – to provide reports about the execution of the recurrent budget and receipt of external funds for both budget support and development activities
- Focal point representatives from each ministry and agency – to provide progress reports against their own objectives, indicators and targets
- The Palestinian Bureau of Statistics – to provide national level statistics

The aid coordination strategy groups have an important role to play in helping the PNA track the conversion of pledges into commitments, disbursements and project implementation within their sectors. This information will need to be included in the PNA's regular PRDP progress reports in order to give a full picture of the relationship between outcomes and resource inputs. On a monthly basis, the Ministries of Finance and Planning, in coordination with the Local Development Forum (LDF) co-chairs (and 'friends of the co-chairs'), will review and report commitments and disbursements versus pledges to the chairs and co-chairs of the Paris Conference.

Box 8.1: Key responsibilities of the PRDP M&E function

- Develop and publish an annual PRDP M&E timetable of activities and deliverables
- Provide a framework and operational tool for M&E activities which can be further developed and enhanced in the future
- Arrange for technical assistance for ministries and agencies who require support to develop operational plans and establish M&E processes
- Provide support to ministries and agencies in the defining indicators, identifying reliable data sources, and the collecting of relevant monitoring information, to ensure quality and consistency of reporting
- Ensure that all PRDP performance indicators and targets for each goal and objective are entered into the PRDP M&E database and updated as necessary
- Collect performance information from ministries, agencies and other sources and record it in the PRDP M&E database
- Liaise with the Ministry of Finance to agree on a process for monitoring expenditure against PRDP goals and objectives
- Liaise with the aid coordination strategy groups and the LDF to ensure effective tracking of conversion of pledges into disbursements
- Prepare quarterly and annual government performance reports which analyse overall PNA performance and provide recommendations for improvement

- Commission at least one independent impact assessment in the months prior to the completion of the PRDP Annual Report
- Lead an annual review of progress against PRDP goals and objectives, and examine implementation issues for the following year
- Provide advice and guidance to update the PRDP indicators and targets on an annual basis, to ensure that they meet international standards and best practice criteria, and that they are measured on a credible and consistent basis.

8.4 Key outputs

The main outputs of the PRDP M&E function will be regular and comprehensive M&E reports including:

- Consolidated quarterly reports on ministries' and agencies' progress in relation to outputs and performance targets specified in the PRDP
- A consolidated Annual Report on the activities and performance of the PNA

Ministries and agencies will prepare quarterly and annual reports on a consistent basis to feed into these consolidated reports. These reports will include both quantitative and qualitative information including:

- *Quantitative information*
 - Operational progress - inputs, activities, outputs and outcomes, performance indicators
 - Financial progress - budgeted and actual expenditure
- *Qualitative information*
 - Satisfaction of citizen target groups with government activities and their results (e.g., quality of services and facilities, attitudes or practices of government employees)
 - Detailed analysis of adverse responses from target groups, and proposed or ongoing remedial action to address underlying problems
 - Citizens' perceptions of the overall performance on the PNA in terms of both outcomes and process

As far as possible, information will be disaggregated by key characteristics of the target groups. This will help identify where the policy, objectives and associated activities are succeeding and where they are not, thus helping identify where improvements are needed. For example, outcome data relating to target groups could be defined by:

- Demographic characteristics such as gender, age, and geographical location;
- Individual service delivery units (so that individual managers have feedback on the services for which each is responsible); and,
- Comparisons of current performance levels to that of previous years, or between units or offices that provide similar services. Other comparisons can be made between successive governments, and with non-governmental and private sector organizations.

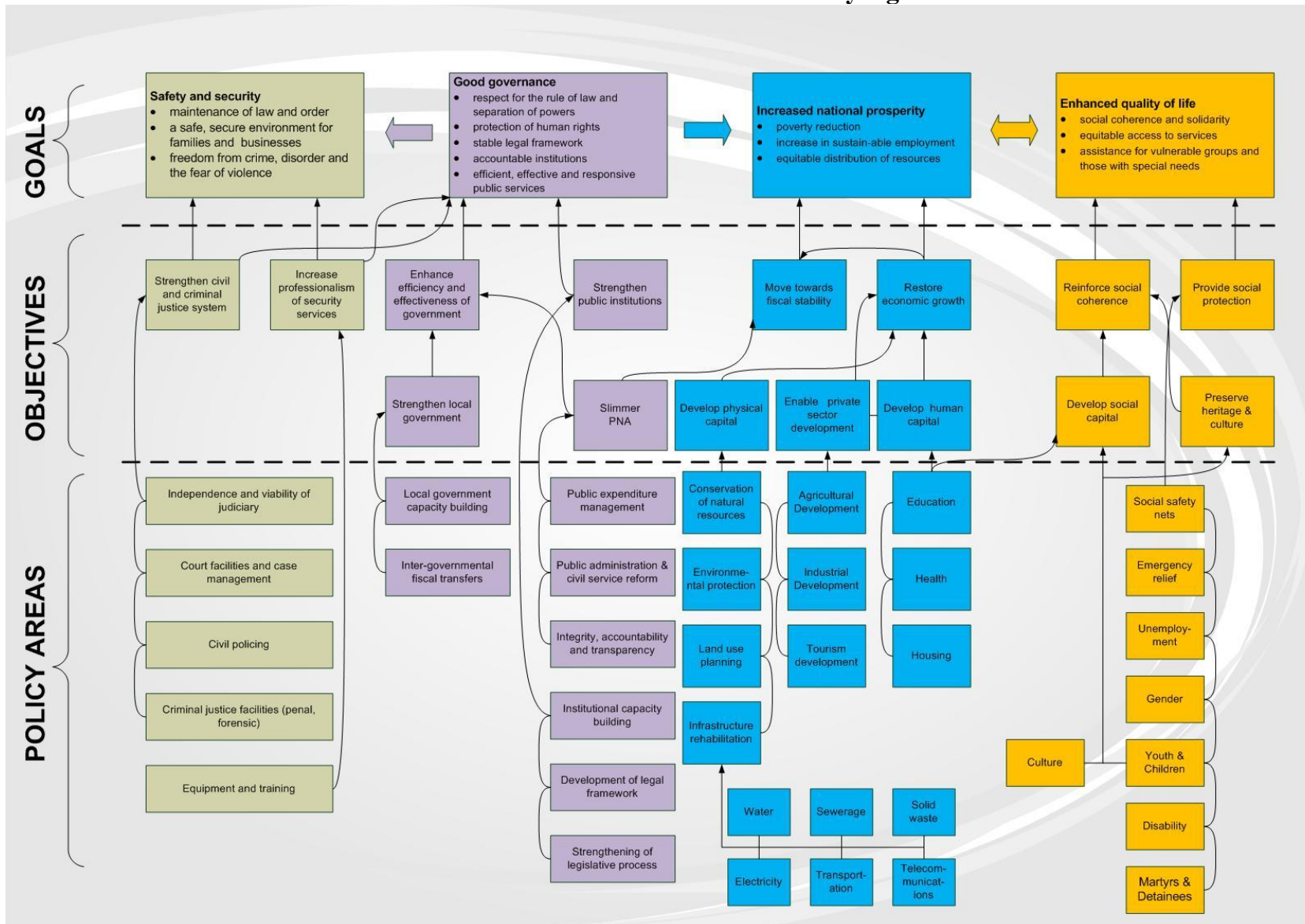
8.5 The key challenges and timetable for 2008

The PRDP M&E function will be initiated in 2008. The key challenges in 2008 will be:

- Completing the development of the M&E tool and associated database
- Aligning further the central M&E process and databases with existing ministry and agency M&E processes and databases
- Building capacity in ministries and agencies to establish or improve their M&E processes and databases

- Establishing and refining mechanism for collecting and maintaining credible performance data
- Designing and implementing specific M&E tools (e.g., citizen surveys)
- Designing, preparing and publishing quarterly and annual government performance reports
- Introducing some form of basic financial monitoring (given that the existing financial systems are not able to report against resource allocations in format set out in the PRDP) and developing accounting and reporting systems so that they are aligned with the PRDP formats by 2009.

Annex 1: Palestinian National Policy Agenda Framework



Annex 2: Reform and Development Programs

Explanatory Note

This annex reflects an estimate of aid disbursements to finance development expenditure over the next three years, not the total cost of completing all identified initiatives and projects – many of which will span more than three years and some of which will not commence until 2009 or later.

The estimates take into account a realistic assessment of the availability of external financing for development expenditure over the next three years based on prior experience. If commitments for larger amounts of funding are received in relation to a particular initiative or project, it may be possible to up-scale activities in certain areas. This will be considered on a case by case basis as commitments are received.

The estimates also take into account the PNA's absorptive capacity for public investment based on the resource ceilings set out in the medium term fiscal framework. This is very different from the approach taken in preparing the PNA's medium-term development plan (MTDP) in previous years. The last published MTDP (2005-07) included 420 projects at a total cost of \$ 5.6 billion – an amount that clearly did not reflect fiscal realities or absorptive capacity.

Indicators and targets have been specified for the majority of objectives. Unless otherwise indicated, the targets are specified for the end of the three year period. In a few cases, work is ongoing to ensure the feasibility of measuring certain indicators and, as such, the target is denoted with an 'X'.

Annex 2: Reform and Development Programs

SECTOR: GOVERNANCE

SUB SECTOR: SECURITY

Program: Security Sector Reform and Transformation			Lead : Interior, NSF, PG			
PNPA Goal: Safety and security			Primary objective: Increase professionalism of security services			
Planned outcomes: Upgraded capacity and capability of security organizations				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Improved capability of civil police to deliver on law and order. The Palestinian civil police have efficient and effective capacities and capabilities to ensure internal order	Crime rate	Reduce crime rate by 10% in 2008 and by 5% in 2009/2010	1.Training; special protection arrangements for banks, prisons & security services sites 2. Traffic management: provision of special uniforms for police, procurement of vehicles and motorcycles 3. Prison system: establish 7 telecoms stations; establish central computer; rehabilitate 12 police sites	\$6m	\$9m	\$11m
	Number of traffic violations	Traffic violations are reduced by 5% per year		\$2m	\$3m	\$5m
	Number of executed court decisions	Increased by 10% per year		\$3m	\$5m	\$7m
Preventive security is capable of providing on time quality information to support law and order	Quantity and quality of intelligence information to prevent crime and disorder	Number of intelligence reports prepared on time increased by 20% annually	1.Intelligence training; rehabilitation of headquarters, establish admin and security information systems; special intelligence devices and systems	\$3m	\$5m	\$5m
The civil defense system is well equipped and developed to ensure safety and protection of citizens, properties and institutions	Response rate to incidents (fire, manmade catastrophes and natural disasters)	Average response time decreases by 10% annually	1. Training, equipment for the operations room; establish new centers to maximize outreach (20); procurement of vehicles and machines; establish and equip monitoring offices (9) and first aid centers in all locations; procurement of ambulances (10)	\$3m	\$5m	\$6m
	Number of establishments committed to safety regulations	Incidents decreases by 10% annually				
National security forces is capable of supporting the civil police and other security forces to ensure law and order internally & at borders	Execution of military orders	Execution of military orders increases by 10% per year	1. Training; rehabilitation of training centers; procure 400 civil and security vehicles; procure telecoms network; establish a military hospital and clinics	\$15m	\$20m	\$25m
	Infiltration by disloyal personnel	Reduced by 20% per year				
The Presidential Guard is capable of protecting the President and international missions	Number of incidents	Zero defects	1. Capacity building: training, accommodation, equipment and vehicles	\$6m	\$9m	\$10m
Central infrastructure and command & control facilities for security organizations at the district level	Number of district level facilities	8 Moqata’at constructed	1. Moqata’at construction – incl. HQ, detention centers, comms systems, operations rooms, maintenance facilities, storage, small-scale training facilities	\$24m	\$30m	\$40m
				\$62m	\$86m	\$109m

Annex 2: Reform and Development Programs

SECTOR: GOVERNANCE				SUB SECTOR: JUSTICE		
Program: Justice Now			Lead Ministry: Justice, Attorney General, High Judicial Council			
PNPA Goal: Safety & security, Good governance			Primary objective: Strengthen civil and criminal justice system			
Planned outcomes: An effective justice sector with clear division of responsibilities and separation of powers				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Clear and appropriate division of responsibilities and powers of justice sector bodies	Effective sector-wide policy coordination planning mechanisms	Justice sector reform and development strategy developed	1. Develop and implement strategic plan for justice sector – in consultation with civil society	\$1m	-	-
			2. Review of justice sector legal framework and regulations	\$1m	-	-
A stable and clearly defined legal framework	Systems and processes for effective review and development of legal framework	Legal information system implemented	1. Legal information system	\$2m	-	-
Safeguard citizens' rights and basic freedoms	- Legal framework for protecting human rights - Public complaints systems - Coordination with human rights organizations - Prison inspections	- Complete a full review of relevant legislation - Establish complaints system - Establish coordination arrangements - Review and upgrade prison inspections processes	1. Rights and freedoms review	\$1m	-	-
Effective criminal justice facilities	Improved facilities and resources	Establish criminal and forensics labs Establish a criminal records system	1. Criminal-forensics lab	\$2m	\$2m	-
			2. Criminal records system	\$2m	\$1m	-
Ensure fair trials in accordance with the time limits and processes defined in law	Reduction in the number of cases outstanding	Reduce judicial overload by 20% per year	1. Roll-out of MIZAN system 2. Upgrading court infrastructure and equipment	\$1m	\$1m	-
	Effective computerized system at Palestinian courts	Computerize and network 100% of Palestinian courts		\$2m	\$6m	\$5m
	Suitable buildings available for legal proceedings	Build 2 courts, develop Bethlehem court, rent additional court space				
Judges and other sector staff have the skills, knowledge, and expertise to provide services with integrity, effectiveness, and impartiality	Effective training and technical support arrangements for judges and justice sector staff	Establish effective training and technical support arrangements for judges and other sector staff	1. Develop capacity of Judicial Institute	\$1m	\$1m	-
			2. Technical support unit and training for Attorney General staff	\$1m	\$1m	-
				\$14m	\$12m	\$5m

Annex 2: Reform and Development Programs

SECTOR: GOVERNANCE			SUB SECTOR: ACCOUNTABILITY & TRANSPARENCY			
Program: Open and Accountable Government – systems and process re-engineering			Lead Ministry: Finance, Planning			
PNPA Goal: Good governance		Primary objective: Enhance efficiency and effectiveness of government				
Planned outcomes: Effective and comprehensive policy-making, planning and accounting systems and processes				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Effective, coherent and participatory policy-making and planning	Effective PNA-wide policy analysis and planning systems	Full development and implementation of the PRDP approach	1. PRDP support	\$2m	\$2m	-
Public expenditure is guided by a comprehensive, policy led medium term expenditure framework and effective budget execution mechanisms	MTEF methodology implementation Legislative scrutiny of budget	- MTEF approach institutionalized in law and practice in 2008 - Complete set of financial regulations and associated procedures in place - Resource allocation clearly reflects policy priorities in budget and beyond - Draft Budget Law comprehensively scrutinized and approved by the PLC	1. Budget process reform	\$2m	\$1m	-
Public expenditure management supported by efficient & effective financial management, accounting & reporting systems	- Financial accounting/reporting complies with best practice - Comprehensive reports on progress in relation to planned results	- GFS-compliant chart of accounts in use by end 2008 - Monthly revenue and expenditure statements published - End of year performance reports	1. Accounting and reporting reform – including IFMIS	\$1m	\$1m	\$1m
Effective financial control and internal audit procedures	Comprehensive set of system-based internal controls in place An efficient and effective internal audit function	- Effective internal control procedures and systems in place by end 2008 - Reductions in the number of internal control failures in each year - Comprehensive, regular internal audit plans/reports being produced by end 2008	1. Internal control and internal audit capacity building (incl. support to the Accountant General)	\$2m	\$2m	-
				\$7m	\$6m	\$1m

Annex 2: Reform and Development Programs

SECTOR: GOVERNANCE			SUB SECTOR: ACCOUNTABILITY & TRANSPARENCY			
Program: Open and Accountable Government – Building effective oversight institutions			Lead Ministry: Finance, PLC, FACB			
PNPA Goal: Good governance			Primary objective: Strengthen public institutions, Efficiency/effectiveness of government			
Planned outcomes: Effective and efficient oversight bodies to monitor the performance of government			Development Costs			
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Comprehensive legal framework for public financial management which meets international standards	All necessary PFM institutions, committees, roles and responsibilities are established in accordance with the public finance legislation and operating effectively	- Revised Public Finance Law (2008) - Legal mandate and organizational structure of the MoF reflect international best practice (2008) - PLC Accounts Committee established	1. PFM legislative reform	\$1m	-	-
Public expenditure is guided by a comprehensive, policy led medium term expenditure framework and effective budget execution mechanisms	- Legislative scrutiny of budget - Budget Book provides comprehensive information about policies, resource allocation plans & performance	-Budget Law comprehensively scrutinized and approved by the PLC - Publish a comprehensive guide to the Budget at the beginning of financial year - All in-year budget reallocations approved by the PLC	1. Public budget transparency	\$1m	\$1m	-
Independent auditing and reporting on compliance with financial and administrative procedures and regulations, and complaints from the public	- Modern external audit law adopted and implemented - FACB applies best practice external audit methodology - % of audited institutions - Respond to all public complaints efficiently, effectively and transparently	- Revised Public Audit Law (2008) - Develop audit principles, methods, standards and procedures - Inspect and report on 20% of institutions - 100 complaints processed in 2008	1. FACB capacity building	\$2m	\$2m	-
Effective PLC scrutiny and monitoring of the executive branch	- Clear legislative agenda - Timely review of laws - MPs’ capacity to question - Compliance with Budget process and timetable	- Legislative agenda in place for full term - Reduced backlog of laws - Increase questions by 100% per annum - Budget law reviewed and passed promptly after rigorous review/discussion	1. PLC capacity building	\$1m	\$1m	\$1m
Ensuring democratic oversight of the executive branch	Free and fair national elections	Elections completed – favorable reports from local international observers	1. Conduct free and fair national elections – legislature and presidential	\$2m	\$10m	\$1m
				\$7m	\$14m	\$2m

Annex 2: Reform and Development Programs

SECTOR: GOVERNANCE			SUB SECTOR: ACCOUNTABILITY AND TRANSPARENCY			
Program: Open and Accountable Government – Monitoring and evaluation of government performance			Lead Ministry: PM’s Office, Finance, Planning, PCBS, PLC			
PNPA Goal: Good governance			Primary objective: Strengthen public institutions, Efficiency/effectiveness of government			
Planned outcomes: The performance of government is systematically and comprehensively monitored and reported upon				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Regular, high quality, monitoring and government performance assessment	- Effective M&E units - Regular M&E reporting (to public and PLC)	- Central M&E unit established - M&E units established in 50% entities - 2008 M&E report published	1. M&E capacity building	\$1m	\$1m	\$1m
Public expenditure management supported by efficient & effective financial management, accounting & reporting systems	- Financial accounting/reporting complies with best practice - Comprehensive reports on progress in relation to planned results	Published: - Monthly revenue/expenditure reports - Complete financial statements within 6 months of the end of the financial year - End of year performance reports	N/A – covered by “Accounting and reporting reform” (in “Open and Accountable Government – systems and process re-engineering” sub-program)	-	-	-
Effectively manage and share knowledge for planning purposes	- Regular, timely and accurate reports on key planning info - Plans based on high quality research - High quality, timely public information regarding govt plans	- Knowledge management strategy developed and implemented - Research strategy and associated protocols developed and implemented - Communications strategy developed and implemented	N/A – covered by “PRDP support” initiative (in “Open and Accountable Government – systems and process re-engineering”)	-	-	-
Sound macroeconomic policy, development planning and reporting	- Macroeconomic forecasting and planning unit capacity - Macroeconomic policies based on sound assumptions	- Sustainable macroeconomic forecasting and management unit by end 2008 - Medium term budget preparation is based on credible macroeconomic forecasts by end 2008	1. Macroeconomic forecasting capacity building	\$1m	-	-
An integrated statistical system (demographic, social, economic and geographic) using standards and specifications that meet national requirements in line with international standards	Timely publication of all reports in the statistical calendar on statistical and economic indicators	Publish annual statistical data on macro economic data, social and population trends, and national accounts	1. PCBS support	\$4m	\$2m	\$1m
				\$6m	\$3m	\$2m

Annex 2: Reform and Development Programs

SECTOR: GOVERNANCE				SUB SECTOR: ADMINISTRATIVE & CIVIL SERVICE REFORM		
Program: Efficient and effective government – Reform of the public sector legislative framework				Lead Ministry: Prime Minister's Office, GPC, Finance		
PNPA Goal: Good governance				Primary objective: Efficiency/effectiveness of government, slimmer PNA, fiscal stability		
Planned outcomes: Modern and comprehensive legal framework for efficient and effective government performance and accountability				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Comprehensive set of modern legislation to support an effective public service	Modern, public administration legislation in all areas	Prepare new legislation: - Public Finance Law - Public Audit Law - Civil Service Law - Executive regulations for MoF - Executive regulations for GPC	N/A (a) PFM & audit covered in “Open & Accountable Govt – building effective oversight institutions” (b) HRM covered in “Efficient & Effective Govt – Civil service management”	-	-	-

SECTOR: GOVERNANCE				SUB SECTOR: ADMINISTRATIVE & CIVIL SERVICE REFORM		
Program: Efficient and effective government – Organization and institutional development				Lead Ministry: Planning, Finance, GPC, Telecoms/IT, Public Works		
PNPA Goal: Good governance				Primary objective: Efficiency/effectiveness of government, slimmer PNA, fiscal stability		
Planned outcomes: Public sector organizations have clearly/appropriately defined roles, mandates and structures & standardized support systems				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Effective and appropriate institutional arrangements and distribution of resources across the public sector	Role, structure & mandates of PNA entities meet the requirements of modern public service management & can deliver against PRDP	Functional reviews of 50% of PNA ministries and agencies completed	1. Functional review program	\$3m	\$4m	\$6m
Upgrade basic infrastructure and equipment used by public sector organizations	Fit for purpose, cost-effective buildings and equipment for public sector organizations	- Build a building complex for central government bodies (initially for 8 orgs) - Meet other pressing accommodation needs (e.g., Attorney General's office) - Public sector buildings master plan	1. Public sector organization facilities upgrade (<i>N.B. excludes security facilities – included in 'Security Sector Reform & Transformation'</i>)	\$3m	\$7m	\$17m
Improve the efficiency and effectiveness of government ICT systems	Efficient and standardized ICT facilities across public sector entities	Implement standard ICT facilities in 50% of public sector organizations	1. e-Government program	\$2m	\$3m	\$5m
Improve the efficiency and quality of postal services	- Number of Post Offices - Services provided by Post Offices	- Increase to 78 - Increase in range of services provided (based on needs assessment)	1. Post Office improvement	\$1m	\$4m	\$7m
				\$9m	\$18m	\$35m

Annex 2: Reform and Development Programs

SECTOR: GOVERNANCE			SUB SECTOR: ADMINISTRATIVE & CIVIL SERVICE REFORM			
Program: Efficient and effective government – Civil service management			Lead Ministry: GPC, Finance, Planning, Prime Minister’s Office			
PNPA Goal: Good governance			Primary objective: Efficiency/effectiveness of government, slimmer PNA, fiscal stability			
Planned outcomes: The PNA is efficiently and effectively managed to maximise the performance and outcomes of government				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Effective human resource management (HRM) and human resource development (HRD)	- A comprehensive legal framework for HRM & HRD - Modern policies and procedures for HRM & HRD - Merit-based appointments, promotions, appeals processes - Public sector employee performance management - Employees adhere to public service employment regulations - Appropriate pay, benefits & grading in the civil service	- Amended Civil Service Law and related executive regulations - Implement modern policies and procedures in HRM & HRD - Establish capable, independent appointments, promotions and appeals functions - Establish effective performance evaluation procedures and systems - Establish and enforce appropriate disciplinary procedures - Full review and classification exercise	1. HRM & HRD legal and procedural reform	\$1m	-	-
			2. Capacity building for government HRM & HRD functions	\$1m	\$1m	-
			3. Pay, grading and job classification review	\$1m	\$1m	-
			4. Review of pensions arrangements (incl. security services)	\$1m	-	-
Effective and appropriate training	- Set up national training policy and strategy for civil servants	Training policy and strategy in place and being implemented	1. Civil service training – including leadership training	\$2m	\$1m	-
				\$6m	\$3m	-

SECTOR: GOVERNANCE				SUB SECTOR: LOCAL GOVERNMENT		
Program: Accountable Local Government			Lead Ministry: Local Government, CEC			
PNPA Goal: Good governance			Primary objective: Strengthen local government			
Planned outcomes: An empowered and accountable local government delivering cost effective services				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Improve the efficiency and effectiveness of local government	Service delivery by local government	Performance targets to be defined through vision/strategy process	1. Develop vision and strategy for local government	\$2m	-	-
	Revenue collection rates	Reduce net lending in line with medium-term fiscal framework	2. Capacity building for local government units	\$4m	\$8m	\$10m
			3. Conduct free and fair local elections	\$4m	\$2m	-
			4. Special program to address issues in wall-affected areas	\$4m	\$6m	\$6m
				\$14m	\$16m	\$16m

Annex 2: Reform and Development Programs

SECTOR: SOCIAL			SUB SECTOR: SOCIAL PROTECTION			
Program: Social Protection Reform and Integration (SPRI)			Lead Ministry: Social Affairs			
PNPA Goal: Enhanced quality of life			Primary objective: Provide social protection			
Planned outcomes: To maximize the equity, efficiency and effectiveness of PNA social protection activities and services				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Provide basic social security and safety nets	Number of impoverished marginalized household in the Palestinian territory	Provide aid to 60,000 poor households	1. Social safety net reform & capacity building – incl. development of Social Protection Strategy, targeting database, framework for cooperation with NGOs, policy formulation & coordination capacity building (N.B. excludes budget support for cash transfers)	\$5m	\$5m	\$2m
				\$5m	\$5m	\$2m

SECTOR: SOCIAL				SUB SECTOR: EDUCATION		
Program: Access to Education				Lead Ministry: Education and Higher Education		
PNPA Goal: Increased national prosperity, enhanced quality of life			Primary objective: Develop social & human capital, restore economic growth			
Planned outcomes: To provide access to education at all levels				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Access to education for those all children of primary and secondary school age	- % availability of primary and secondary school places for all, including those with special needs -School premises and facilities meet minimum acceptable standards - All pupils are provided with essential text books	- 99% enrolment at primary level - 98% enrolment at secondary level - 50% of pupils with special needs joining mainstream education 30% reduction in number of unacceptable rented facilities No children without text books	1. Build, extend furnish and equip schools and other education facilities	\$18m	\$29m	\$59m
			2. Provision of text books	\$9m	\$9m	\$10m
Access to higher education	Percentage of students completing higher education	Increase percentage by X%	1. Establish targeted higher education student loan scheme	\$3m	\$4m	\$5m
			2. Enlarge/equip universities	\$4m	\$4m	\$2m
				\$34m	\$46m	\$76m

Annex 2: Reform and Development Programs

SECTOR: SOCIAL			SUB SECTOR: EDUCATION			
Program: Quality Education for All			Lead Ministry: Education and Higher Education			
PNPA Goal: Increased national prosperity, enhanced quality of life			Primary objective: Develop social & human capital, restore economic growth			
Planned outcomes: To further improve the quality of education outcomes				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Improve the quality of primary and secondary education	Improved and better equipped learning environments in low performing schools	600 schools provided with high quality learning environments	1. Education quality improvement initiative – targeting 600 lowest performing schools (holistic approach including funds for infrastructure, equipment, training, text books, etc.)	\$8m	\$13m	\$14m
	Modernized curriculum	Modern curriculum developed	2. Curriculum development	\$4m	\$3m	\$3m
	Integrated teacher training strategy	Integrated training strategy implemented	3. Develop and implement training strategy	\$5m	\$4m	\$4m
	Standards and measurement tools being consistently applied for all pupils	Standards and measurement tools implemented	4. Develop and implement single system for quality monitoring and quality assurance	\$3m	\$3m	\$3m
	% of schools with adequate ICT tools, laboratories and libraries	Increase by 10%	5. Computer labs, ICT equipment & ADSL	\$6m	\$5m	\$4m
	% of schools with special needs facilities	Increase by 5%	6. Libraries	\$5m	\$4m	\$3m
	% of students benefiting from medical inspection programs	100%	7. Laboratories	\$4m	\$3m	\$4m
			8. Facilities for special needs and counselling	\$3m	\$3m	\$3m
			9. School health and nutrition programs	\$5m	\$5m	\$5m
			10. Sports & extra-curricular activities facilities	\$2m	\$2m	\$2m
Improve the quality of tertiary education	Fund for improving quality of higher education	Quality development fund implemented	1. Quality development fund for higher education	-	\$5m	\$6m
				\$45m	\$50m	\$51m

Annex 2: Reform and Development Programs

SECTOR: SOCIAL				SUB SECTOR: EDUCATION		
Program: Education Performance and Efficiency				Lead Ministry: Education and Higher Education		
PNPA Goal: Increased national prosperity, enhanced quality of life				Primary objective: Develop human capital, restore economic growth, fiscal stability		
Planned outcomes:				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Efficient and effective policy making, planning and administrative resources to support improved education service delivery	- Management of education decentralized - Effective planning systems at all levels - Effective financial planning and management systems in place - Effective and efficient use of human resources - Effective quality control and supervision of teachers - Effective coordination with other stakeholders	- Comprehensive education strategic plan being effectively implemented - Planning and monitoring capacity improved - Key staff have appropriate financial management skills - Human resource management and assessment plans developed - Senior staff trained in supervision - Effective coordination with ministries, development partners and UN agencies	1. Broad-based capacity building program for MoEHE and Council for Higher Education	\$2m	\$2m	\$1m
				\$2m	\$2m	\$1m

SECTOR: SOCIAL				SUB SECTOR: EDUCATION		
Program: Vocational Training Initiative				Lead Ministry: Education and Higher Education		
PNPA Goal: Increased national prosperity, enhanced quality of life				Primary objective: Develop human capital, restore economic growth		
Planned outcomes:				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Access to technical and vocational education and training	- % of secondary school leavers with access to TVET - Numbers of girls in TVET	- Increase by X% - Increase by X%	1. Construct and expand TVET schools and colleges	\$4m	\$6m	\$13m
Improved quality of technical & vocational education & training	Modernized curriculum	Modern curriculum developed	1. Update and develop TVET curriculum – linked to job market needs	\$2m	\$2m	\$2m
				\$6m	\$8m	\$15m

Annex 2: Reform and Development Programs

SECTOR: SOCIAL

SUB SECTOR: HEALTH

Program: Health Quality Improvement				Lead Ministry: Health, Local Government		
PNPA Goal: Enhanced quality of life, Increased national prosperity			Primary objective: Develop human capital, restore economic growth			
Planned outcomes: Improve the coverage and quality of health care facilities				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Better health care outcomes through provision of better support services, equipment and training	% of children immunized	97% of children	1. Child immunization	\$2m	\$1m	-
	Preparation and implementation of guidelines: - for diagnosis and treatment of prevalent diseased - for secondary and tertiary care referrals - introduction of triage system	Adoption of guidelines in all PHC and SHC facilities as applicable	2. Avian flu control	\$4m	-	-
			3. Community mental health program	\$2m	\$2m	-
			4. Non-communicable disease control program	\$1m	-	-
			5. Upgrading guidelines and procedures at all HC facilities	\$2m	\$1m	-
			6. Rehabilitate delivery rooms	\$1m	-	-
	Quality Improvement Programme institutionalised	60% of health professionals trained in quality issues	7. Construct central stores in WB & G	\$1m	\$3m	-
			8. Construct blood bank and laboratories	\$1m	\$2m	\$5m
	Improved standards of health training and education	Continuing Education Pro gram	9. Equipment upgrade program	\$2m	\$2m	-
			10. Training hospital	\$4m	\$9m	-
			11. Nursing college	\$1m	\$3m	-
			12. Health Quality Improvement Program - develop systems & materials	\$1m	\$2m	\$26m
			13. Continuing Education Program - develop systems & materials	\$1m	\$1m	-
Access to efficient and effective primary and secondary health care services	Number of PHC facilities	Construction of 30 clinics	1. PHC facility construction	\$3m	\$4m	\$6m
	% of population with access to PHC	100% of population	2. SHC facility construction	\$3m	\$5m	\$15m
	Upgrade SHC facilities	Complete upgrade projects in 7 hospitals				
				\$29m	\$35m	\$52m

Annex 2: Reform and Development Programs

SECTOR: SOCIAL				SUB SECTOR: HEALTH		
Program: Health Care Affordability			Lead Ministry: Health			
PNPA Goal: Increased national prosperity, Enhanced quality of life			Primary objective: Develop human capital, fiscal stability			
Planned outcomes: Achieving a better allocation of resources to improve health service delivery to citizens.				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Increasing revenue to recover costs of health care	Increased revenue from health insurance system	Increase revenue by 20%	1. Review health insurance system	\$2m	\$2m	-
Controlling expenditure	Rationalized health expenditure through implementation of : - improved procurement procedures - guidelines on referral system	Expenditure rationalization criteria and guidelines implemented	2. Review and development of procurements and referral procedures and guidelines	\$1m	\$1m	-
		Increase % of drugs purchased through bidding process by 60%	3. Build capacity of health policy and planning unit	\$1m	\$2m	\$1m
Improved policy, coordination and managerial capacity	- Effective policy making, planning and budgeting - Strengthened coordination/ integration between providers	- Prepare financial budgets consistent with objectives and plans - Increase the number of joint programs by 70%	4. Training for HR professionals	\$1m	\$1m	\$1m
			5. Develop HMIS	\$2m	\$2m	-
			6. Conduct efficiency studies and reviews	\$1m	\$2m	\$3m
				\$8m	\$10m	\$5m

SECTOR: SOCIAL				SUB SECTOR: WOMEN		
Program: Women’s Empowerment			Lead Ministry: Women’s Affairs			
PNPA Goal: Increased national prosperity, Enhanced quality of life			Primary objective: Develop human capital, restore economic growth, develop social capital, reinforce social coherence			
Planned outcomes: Empower women by increasing their participation in economic activities				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
To provide women entrepreneurs with technical skills in business	Number of women with sustainable income from micro enterprises	1,000 women have sustainable income from micro enterprises	1. Women’s Economic Empowerment Program 2. Establish loan schemes program for rural and marginalized women	\$3m	\$4m	\$7m
To provide internships and work experience for unemployed female graduates	Number of young female graduates receiving work experience	1,000 young female graduates receive relevant work experience to enable future paid employment		\$2m	-	-
To support rural women’s economic activities	Number of rural women with income from economic activities	1,000 rural women have sustainable income from economic activities				
Provide support for achieving an enabling environment for increased participation of women in the labour market and public life	Reduction in number of discriminatory policies and laws	Remove gender discrimination from PNA policies & laws (incl. civil service, social insurance, personal status, and labor laws	1. Legal framework audit 2. Comprehensive training and education strategy and program for women’s engagement in public life & democratic process	\$1m \$2m	\$1m \$2m	- \$1m
	Training for women working in the public sector	Training program implemented				
				\$8m	\$7m	\$8m

Annex 2: Reform and Development Programs

SECTOR: SOCIAL				SUB SECTOR: YOUTH		
Program: Youth Empowerment				Lead Ministry: Ministry of Youth and Sports		
PNPA Goal: Increased national prosperity, Enhanced quality of life			Primary objective: Develop human capital, restore economic growth, develop social capital, reinforce social coherence			
Planned outcomes:				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
To empower the economic activities of youth by providing opportunities for them to generate income and develop their own skills	- Number of young people - with relevant work experience - receiving micro credit - with sustainable income from micro and small enterprises	Total of 10,000 female and male youths between the ages of 18 to 29 receive support	1. Palestinian Youth Empowerment Program	\$4m	\$4m	\$3m
Conducive legal environment for developing the youth	Needs and rights of young people protected by law	Implement Palestinian Youth Law & establish ongoing monitoring	1. Legal environment to protect and develop the youth	\$1m	\$1m	-
				\$5m	\$5m	\$3m

SECTOR: SOCIAL				SUB SECTOR: LABOR		
Program: Employment Generation			Lead Ministry: Labor			
PNPA Goal: Increased national prosperity, Enhanced quality of life			Primary objective: Develop human capital, restore economic growth, develop social capital, reinforce social coherence			
Planned outcomes: Reduce unemployment and provide economic stimulus				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Direct and effective intervention in the labor market	Reduce unemployment	Unemployment reduced by X%	1. Various employment generation programs	\$19m	\$20m	\$18m
				\$19m	\$20m	\$18m

SECTOR: SOCIAL				SUB SECTOR: CULTURE		
Program: Culture, Creativity & Heritage			Lead Ministry: Culture			
PNPA Goal: Enhanced quality of life			Primary objective: Develop human capital, develop social capital, reinforce social coherence			
Planned outcomes: Preserve and promote Palestinian Culture, Creativity and Heritage				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Promote the preservation of Palestinian Culture, Creativity and Heritage	Effective strategic planning	Complete a strategic plan	1. Strategic plan for preservation of culture/heritage	\$0.5m	-	-
			2. Support production/ promotion of art and literature	\$0.5m	\$0.5m	\$0.5m
			3. Establish children’s libraries	-	\$0.5m	\$0.5m
				\$1m	\$1m	\$1m

Annex 2: Reform and Development Programs

SECTOR: ECONOMY			SUB SECTOR: ENABLING ENVIRONMENT FOR PRIVATE SECTOR			
Program: Institutional Reform for Enterprise			Lead Ministry: National Economy, Telecoms & IT, Land Authority			
PNPA Goal: Increased national prosperity			Primary objective: Restore economic growth			
Planned outcomes: Implement institutional reforms to support economic and social development				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Coherent and comprehensive legal and regulatory framework for private sector	Telecoms cost as % of household expenditure	Reduce by 40%	1. Telecoms regulation 2. Company law and competition law drafting and regulatory capacity-building	\$2m \$3m	\$1m \$2m	\$1m \$2m
	Drafting of legislation and regulation	Company law, competition law and telecoms regulations drafted				
Land management reform	Percentage of land registered with the Land Authority	Increase the percentage of West Bank land registered with the Land Authority to 60%	1. Develop and implement effective land administration policy and legislation	\$5m	\$7m	\$7m
				\$10m	\$10m	\$10m

SECTOR: ECONOMY			SUB SECTOR: ENABLING ENVIRONMENT FOR PRIVATE SECTOR			
Program: Trade Infrastructure and Facilitation			Lead Ministry: GACB, National Economy			
PNPA Goal: Increased national prosperity			Primary objective: Restore economic growth			
Planned outcomes: Facilitate an efficient and competitive export sector				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Predictable, timely and efficient movement of goods at crossing points	Total exports	Increase total exports by 15%	1. Improved institutional arrangements at border crossings – incl. GACB capacity building	\$8m	\$8m	\$8m
	Non-Israel exports	Increase non-Israel exports by 30%	2. Improved infrastructure at border crossings	\$2m	\$2m	\$2m
1. (a) Supporting marketing and export promotion; (b) Implementation of trade agreements; (c) Implementation of Paris Protocol			\$2m	\$2m	\$2m	
Promoting economic and trade relations with other countries						
				\$12m	\$12m	\$12m

Annex 2: Reform and Development Programs

SECTOR: ECONOMY

SUB SECTOR: ENABLING ENVIRONMENT FOR PRIVATE SECTOR

Program: Enterprise Investment and Development			Lead Ministry: National Economy			
PNPA Goal: Increased national prosperity			Primary objective: Restore economic growth			
Planned outcomes: Increased private sector investment				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Increased access to credit, investment finance and capacity-building for MSMEs	MSMEs contribution to GDP	Increase contribution of MSMEs to GDP to XX%	1. Enterprise learning fund – focus on export-oriented SMEs	\$7m	\$8m	\$9m
	MSME employment	Increase by XX%	2. Micro-finance and micro-credit services for rural and urban entrepreneurs	\$3m	\$3m	\$3m
	Average SME establishment size	Increase by XX%	3. Finance & credit services to encourage establishment of businesses in ‘strategic’ sectors – e.g., trade services & logistics	\$6m	\$6m	\$4m
Better regulation of credit, investment and financial services provided to MSMEs			1. Build PNA capacity to oversee the provision, financial investment and credit services	\$2m	\$1m	-
				\$18m	\$18m	\$16m

SECTOR: ECONOMY

SUB SECTOR: AGRICULTURE

Program: Agribusiness Development			Lead Ministry: Agriculture, Standards Institute			
PNPA Goal: Increased national prosperity			Primary objective: Restore economic growth			
Planned outcomes: Increased contribution of the agriculture business to national income				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Develop agricultural services sector	Agricultural output	Increase by 15%	1. Agro-industrial park (Jericho)	\$6m	\$9m	\$9m
	Agriculture sector employment	Increase by 10%	2. Development of post-harvest services sector – processing, packaging, distribution, marketing, export promotion	\$5m	\$4m	\$4m
	Agricultural exports	Increase by 25%				
Increased efficiency of use of land and other natural resources			1. Rehabilitate farms, orchards & other damaged infrastructure	\$2m	\$3m	\$3m
			2. Natural resources conservation and reclamation – land and water	\$3m	\$4m	\$4m
Improved sector policy development and regulation			1. Capacity building for Ministry of Agriculture and Standards Institute	\$2m	\$4m	\$4m
				\$18m	\$24m	\$24m

Annex 2: Reform and Development Programs

SECTOR: ECONOMY				SUB SECTOR: INDUSTRY & SERVICES		
Program: Industrial Capacity Development				Lead Ministry: National Economy, Standards Institute		
PNPA Goal: Increased national prosperity			Primary objective: Restore economic growth			
Planned outcomes: Increased contribution of the industrial sector to national income				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Supporting industrial development and modernization	Industrial output	Increase by 15%	1. Build municipal industrial parks – Tulkarem & Hebron	\$5m	\$6m	\$12m
	Industry and services sector employment	Increase by 15%	2. Build border industrial parks – Jenin & Tarqumiya	\$8m	\$12m	\$20m
			3. Capacity building for SME industrial establishments – productive & managerial capacity, quality standards	\$6m	\$5m	\$4m
				\$19m	\$23m	\$36m

SECTOR: ECONOMY				SUB SECTOR: TOURISM		
Program: Tourism Industry Development			Lead Ministry: Tourism and Antiquities			
PNPA Goal: Increased national prosperity			Primary objective: Restore economic growth			
Planned outcomes: Increased contribution of the tourism industry to national income				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Develop an internationally competitive tourism sector	Tourism sector value added	Increase by 100%	1. Restoration and preservation of tourism sites	\$5m	\$7m	\$6m
	Tourism sector employment	Increase by 100%	2. Marketing of Palestine as a tourism destination	\$4m	\$3m	\$3m
			3. Research & development – database, identify target areas	\$2m	\$1m	\$1m
			4. Improving industry regulation	\$2m	\$1m	\$1m
			5. Private sector training & capacity building	\$2m	\$2m	\$2m
				\$15m	\$14m	\$14m

Annex 2: Reform and Development Programs

SECTOR: ECONOMY				SUB SECTOR: HOUSING		
Program: Affordable Housing			Lead Ministry: Public Works & Housing, Local Government			
PNPA Goal: Increased national prosperity, Enhanced quality of life			Primary objective: Restore economic growth, Develop social capital			
Planned outcomes: Increase the stock of affordable housing; promote employment and investment				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Meet increasing demand for affordable housing	Housing density	Housing density remains unchanged (despite 4% population growth)	1. Provide public infrastructure to support a major private-sector led program of housing construction (incl. social housing)	\$10m	\$20m	\$40m
	Number of housing units built for low and middle income families	20,000 units				
Rehabilitate damaged housing stock	Number of houses rehabilitated	X houses per year	Repair conflict-damaged houses in West Bank & Gaza	\$5m	\$5m	\$10m
				\$15m	\$25m	\$50m

SECTOR: INFRASTRUCTURE				SUB SECTOR: TRANSPORT		
Program: Road Improvement				Lead Ministry: Public Works & Housing, Local Govt, Transport		
PNPA Goal: Increased National Prosperity			Primary objective: Restore Economic Growth			
Planned outcomes: Rehabilitation of road network				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
A cost-effective and safe road network to support economic and social development	Length of constructed or rehabilitated roads	- Regional, main & access – 200km - Municipal – 325km	1. Construction/rehabilitation of regional, main & access road network	\$12m	\$12m	\$23m
	Master planning	Master plan developed	2. Construction/rehabilitation of municipal road network	\$17m	\$23m	\$35m
			3. Develop Road Master Plan - including capacity-building (incl. maintenance capacity) and feasibility/design work for main roads (Nablus-Jenin, Gaza Coastal, Wadi Al Nar)	\$3m	\$5m	\$2m
				\$32m	\$40m	\$60m

Annex 2: Reform and Development Programs

SECTOR: INFRASTRUCTURE				SUB SECTOR: TRANSPORT		
Program: Road Safety			Lead Ministry: Transport			
PNPA Goal: Increased National Prosperity			Primary objective: Restore Economic Growth			
Planned outcomes: Improved road safety				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
A cost-effective and safe road network to support economic and social development	Road traffic accidents and fatalities	Reduce the number of road accidents by 10%	1. Strengthening regulation – upgrading vehicle licensing system, establish road traffic accident database, develop public transport and HGV regulations	\$3m	\$5m	\$6m
		Reduce the number of road accident fatalities by 10%	2. Road safety infra. - markings, side protections, signage	\$2m	\$3m	\$6m
				\$5m	\$8m	\$12m

Program: Air & Sea			Lead Ministry: Transport			
PNPA Goal: Increased National Prosperity			Primary objective: Restore Economic Growth			
Planned outcomes: Open international gateways				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Transport infrastructure to enable international movement of goods and people	Air and sea access for people and goods	Functional fish port in Gaza	1. Regulation/safety - meteorological database	-	\$1m	-
		Functional airport in Gaza	2. Rehabilitate Gaza fish port	\$2m	\$4m	-
			3. Design/feasibility studies	\$2m	\$1m	\$3m
			4. Airport rehabilitation	-	\$7m	\$15m
				\$4m	\$13m	\$18m

Annex 2: Reform and Development Programs

SECTOR: INFRASTRUCTURE				SUB SECTOR: ELECTRICITY		
Program: Electricity Sector Investment			Lead Ministry: Energy Authority, Local Government			
PNPA Goal: Increased National Prosperity			Primary objective: Restore Economic Growth			
Planned outcomes: Improved, cost-effective electricity service delivery				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
A well functioning, cost-effective electricity supply network in the West Bank and Gaza that meets the required and increasing demand	Localities without access to electricity	Zero localities without access	1. Unified distrib system in WB	\$5m	\$10m	\$8m
			2. Control centers to manage distribution networks in WBG	\$2m	\$4m	\$3m
	Number of households using prepaid meters	300,000 prepaid meters installed	3. Install prepaid meters	\$2m	\$3m	\$7m
			4. Rehabilitation and expansion of electricity network in WBG	\$5m	\$5m	\$6m
Well regulated, cost effective delivery of electricity services	- Improved regulation and efficiency - Reduced cost of service	- Establish competent regulatory body - Build capacity of electric distrib. Co's - Reduce cost by X% household income	1. Capacity building support to PNA and to electricity distribution companies in WBG	\$4m	\$2m	\$2m
				\$18m	\$24m	\$26m

SECTOR: INFRASTRUCTURE				SUB SECTOR: WATER/WASTEWATER		
Program: Water & Wastewater Management				Lead Ministry: Water Authority, Local Government		
PNPA Goal: Increased National Prosperity, Enhanced Quality of Life			Primary objective: Restore Economic Growth, Reinforce Social Coherence			
Planned outcomes: Improved, cost-effective water and wastewater service delivery				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Equitable and efficient management and distribution of water resources	Number of households connected to drinking water	Increase households with access to piped drinking water to 95%	1. Construction of water supply facilities – main pipeline, water network, Tammoun well	\$6m	\$10m	\$10m
	Reduced water losses	Reduce water losses to 10%	2. Rehabilitation of networks	\$3m	\$5m	\$6m
	Increase consumption rates water quality	Increase volume & quality of water consumed to WHO recommended levels	3. Drilling/equipping 6 wells 4. Feasibility/design – Gaza water carrier/desalination plant	\$4m -	\$9m \$1m	\$8m \$1m
Efficient and effective wastewater collection and management	- Percentage of wastewater processed	- Increase percentage of wastewater processed to XX%	1. Beit Lahia treatment plant	\$11m	\$17m	\$11m
	- Number of households connected to sewerage networks	- Increase percentage of households connected to network to XX%	2. Two treatment plants and sewerage networks	\$5m	\$11m	\$17m
Regulated, cost effective delivery of water/wastewater	Improved regulation and efficiency	- Establish competent regulatory body - Build capacity of water utilities	1. Institutional capacity building support to PNA – central /local	\$1m	\$1m	\$1m
				\$30m	\$54m	\$54m

Annex 2: Reform and Development Programs

SECTOR: INFRASTRUCTURE				SUB SECTOR: SOLID WASTE		
Program: Solid Waste Management				Lead Ministry: Local Government, Environmental Quality Auth.		
PNPA Goal: Enhanced Quality of Life			Primary objective: Reinforce Social Coherence, Preserve Heritage & Culture			
Planned outcomes: Affordable and environmentally sustainable management of solid waste				Development Costs		
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Equitable, efficient and environmentally friendly management of solid waste	Volume of solid waste safely disposed	500 tons per day	1. Garbage collection eqpt	\$3m	\$2m	\$1m
			2. Construct sanitary landfills – central & southern WB & Gaza	\$1m	\$11m	\$17m
			3. Institutional capacity building support to EQA	\$1m	\$1m	-
				\$5m	\$14m	\$18m

SECTOR: INFRASTRUCTURE			SUB SECTOR: RECREATION/CULTURE			
Program: Public Recreation and Culture			Lead Ministry: Local Government, Youth and Sport			
PNPA Goal: Enhanced Quality of Life		Primary objective: Reinforce Social Coherence, Preserve Heritage & Culture				
Planned outcomes: Improve public recreational and cultural facilities			Development Costs			
Objectives	Indicators	Targets	Projects/Initiatives	2008	2009	2010
Create opportunities for positive social and cultural interaction	Number of public recreational and cultural facilities constructed	Increase the number of facilities to [XX]	1. Public recreational and cultural facilities – parks, sports facilities, cultural centers	\$4m	\$8m	\$17m
				\$4m	\$8m	\$17m

Annex 3: Security Sector Reform and Transformation (SSRT) Program: Expanded Version

If sufficient funding is available, coupled with the needed technical assistance to bolster absorptive and implementation capacity, it is possible to expand the SSRT program significantly. This three year program was developed based on a ‘requirements-based’ methodology, and not an ‘available funds-based’ methodology.

Objective (desired end-state)

The PNA has the security capability and capacity to establish law and order throughout the future Palestinian state, ensuring a safe and secure environment that facilitates flourishing of all domestic, governmental, civic and economic activities.

Assumptions

- The PNA will pay salaries of all security services employees from its recurrent budget.
- The PNA will pay all operations and other sustainment costs from its recurrent budget.
- Additional funds will be available to finance up-scaled activities in the areas described below.

Description of Activities

Program Areas	Description
Ministry of Interior	Enhance the capability of the Ministry of Interior to fulfil its functions under a clear legislative framework and establish national-level security oversight/policy organizations
Civil Police	Training support, infrastructure, building and equipping Police Training Center, procurement of vehicles and equipment, uniforms, patrol equipment, weapons and other equipment, and funding for establishing a complete prison system (including a central prison facility)
National Security (NSF) & Presidential Guard (PG)	Upgrade NSF and other training facilities. Establish the new Palestinian-International Training Center (PITC). Build 5 permanent camps for the five WB NSF 700 battalions. Complete the PG training center to support training of PG and to support joint training. Bring training centers to FOC. Establish a multipurpose range to support the full range of weapons training. Provide barracks and unit compounds in each major city and governorate. Build an academy to train cadets for service as officers. Build an academy to train NCOs for service.
Preventive Security	Develop, train and equip the Preventive Security Organization
Civil Defense	Develop, train and equip the Civil Defense Service
Facilities Protection	Develop, train and equip the Facilities Protection Service
Diplomatic Protection	Develop, train and equip the Diplomatic Protection Service
Border Crossings & Maritime Service	Develop, train and equip the Border, Crossing and Maritime Service
Communications	Communications upgrades to maintain analog system until replaced. Establish a new communications architecture and system to replace the outmoded and outdated analog system with a new digital communications system, including a service-wide IT system.
Pension needs	To address excess security personnel and ease their entry into civilian life.

Annex 4: Macroeconomic Model

Nature of the Model

There are two main types of macroeconomic model; econometric and computable general equilibrium (CGE). These are similar in the sense that they both consist of a set of equations with parameters and include equilibrium identities. In an econometric model, parameters are estimated from long time series data; in a CGE model, they are obtained from previous econometric models or are assumed. Econometric models can be used to construct confidence intervals; this is not the case with CGE models. On the other hand, CGE models are best known for sectoral linkages and their ability to incorporate constraints on optimization behavior. However, for forecasting purposes econometric models are far more used in the literature than CGE models, which in general give the response of some variables to policy or exogenously determined events. Accordingly, the PNA has elected to use an econometric model.

The econometric model consists of two types of equations; 35 stochastic or behavioral equations and 119 identities. The stochastic equations show the relationships between dependent variables (such as consumption) and other independent variables (such as income). Equations differ from identities in that they have response parameters (i.e., by how much would consumption change for a unit change in income). Identities are simple accounting relations (such as 'saving = income – consumption – taxes'); there are no parameters in identities.

The model is made up of a number of sections that describe certain elements of the economy. For example, the way that the workforce and the population behaves (labor and demography component), or the way that the government interacts with the economy (the public sector component). The detailed design of the selection of economic variables and statistics to be used in the model has been adapted specifically for the Palestinian context. Table A1 provides an overview of the contents of the model.

Table A1: Summary of contents of the model

Component	Content	Data (examples)
Labor and demographics	Factors that affect the size of the workforce Demographic trends and variables Impact of demography and workforce on the economy	- Population projections - Employment levels in Israel - Number of closure days - Wages - Employment levels - Ratio of males to females in labor force
Public sector	Public sector activities and their impact on the economy – covering both expenditures and revenues	- Government employment - Fiscal deficit - Public investment - Public revenues - Public expenditure - Transfers (e.g., pensions, social security)
Trade and national accounts	Determinants of the level of trade (imports and exports), and how this impacts on the economy Key macro economic variables that make up the national accounts, and what determines them	- Value of exports/imports by source and destination country (Israel and the rest of the world) - Expenditure on domestic output - Private investment - Share of construction related investment
Prices	Outlines the different types of price changes that could affect the economy and the variables that drive those changes, taking into account the effects of inflation	- Consumer price index - Israel price indices - Labor productivity - Exchange rates
Supply side	Identifies the variables that impact on the supply side of the economy in the agriculture, industry, construction and services sectors	- Value added equations for each sector - Private, public and foreign expenditure

Scenarios and assumptions

The macroeconomic forecast has been built to reflect current political and economic realities. The forecast assumes the progressive implementation of a series of fiscal reforms to tighten recurrent expenditures over the period to 2010. (These reforms will mainly involve retrenchment of the public sector wage bill and measures to reduce the growth of net lending.) It is assumed that other operating expenditures will remain constant in real terms. Externally financed development and capital expenditures, however, are expected to increase significantly.

Annex 4: Macroeconomic Model

The forecast is therefore based on a prudent fiscal stance leading to a reduction in the budget deficit over the medium term. It is recognized, however, that there are a large number of external factors that could have a significant impact on the fiscal parameters of the PNA. Therefore, three scenarios for the MTFF have been developed. The difference between these three scenarios is based only on changes in external factors. Government policies are assumed to remain the same, and so the policy variables that relate to these are held constant throughout. The three scenarios developed are as follows:

Baseline scenario - The baseline scenario assumes modest improvements in the political and security environment, which should allow for a gradual reduction in movement and access restrictions. This lifting of restrictions and increased stability is expected to result in a gradual increase in trade and private sector confidence. This scenario shows what would happen to the key macroeconomic variables if the political and economic situation (e.g., employment in Israel, closures, GDP growth in Israel and Jordan) remained on their natural trend path. This scenario will therefore be calculated by extrapolating the growth rates of these variables over the last five years forwards, across the period of the MTFF.

Optimistic scenario - The optimistic scenario assumes that political progress and an improved security environment could accelerate the lifting of movement and access restrictions, and the slight recovery in economic indicators seen in 2007, would continue through 2008 -2010. It assumes a substantial increase in the level of public investment and private sector activity; the release of the clearance revenues from Israel on time and in full; an increase in the number of Palestinians employed in Israel; and, an increase in the level of donor assistance.

Pessimistic scenario - The pessimistic scenario assumes that there is no change in movement and access restrictions. This would make material increases in public investment and a substantive reconstruction effort virtually impossible. Any related reluctance on the donor side to finance the budget deficit would lead to further accumulation of arrears. If sustained, such a scenario would almost certainly take the PNA to the point of financial and institutional collapse (as so nearly the case in the second half of 2006) and further dissipate support for the PNA amongst its constituents. It would also lead to rising unemployment, increasing poverty, declining health and education services and further, perhaps irreversible, degradation of the private sector. This scenario will lower the values of the main variables below the baseline and will also depend on the magnitude of unemployment and GDP growth.

Overall, there are 27 external variables adjusted in the three different scenarios. These variables in the baseline, optimistic, and pessimistic scenarios, are outlined in Table A3 in Annex 5.

Data sources and risk

Table A2 summarizes the sources of data. For most variables UNCTAD data cover 1972 – 1993 and PCBS, MOF, and PMA cover the 1994 – present. Where information is missing, it has been estimated by calculating the average of the preceding and subsequent figures.

Table A2: Data sources

Variables	Brief description of variables	Sources of data (primary)
National accounts	Private consumption, private investment, private consumption deflator, net factor income, value added by sector	PCBS, UNCTAD
External sector	Imports from Israel and the rest of the world, exports to Israel and the rest of the world, export/import inflation	PMA, PCBS, UNCTAD
Labor Market	Employment in Israel, domestic employment in each sector, male/female participation rate, daily wages for each sector	PCBS, UNCTAD
Government	Public consumption and investment, value added tax, transfers from government, other government revenues	MOF, UNCTAD
Price indices	Price/imports/exports/ GDP index, consumer price index	PCBS, UNCTAD

There are a number of risks associated with the model and the data used within it. Table 4 outlines these risks and their implications.

Annex 4: Macroeconomic Model

Table A3: Risks associated with the model and data used

Risk	Implications
Diversity, multiplicity of data sources	Data may be internally inconsistent – affecting the reliability of the model and the outputs that it provides
Model does not differentiate between the West Bank & Gaza	Outputs of the model unable to differentiate between the West Bank and Gaza, so it is not possible to split total government expenditure over the three years of the MTFF between the West Bank and Gaza
Public expenditure data not disaggregated by budget line	Forward estimates of government expenditure cannot be made by budget line item, which affects the use of the model in terms of setting ceilings at the ministry/agency level. The model can only be used for high-level ceiling setting - determining the overall resource envelope based on what the model predicts in terms of revenues collected
Model is dominated by labor market and demand side	There are a limited amount of equations included in the public sector part of the model. Therefore, the ability of the model to accurately predict changes in government revenues and expenditures may not be as strong as its ability to predict changes in other macroeconomic variables (e.g., the size of the labor force)
Model excludes the monetary sector due to a severe shortage in data	The implications that changes in the monetary sector would have on other areas on the economy cannot be captured by the model. This will affect the overall accuracy of the predictions of the variables that are included in the model, including those that are of most importance for the MTFF – the public finance variables
Model forecasts are sensitive to the assumptions about exogenous variables	The predictions made by the model may vary significantly if the external variables change suddenly, so if the assumptions about the external variables are incorrect, the predictions made by the model could be significantly inaccurate. This problem is overcome to some degree by the use of three scenarios for the MTFF

Annex 5: Macroeconomic Forecast Data

Table A1: Gross domestic product (US\$ million) at constant prices

	2002	2003	2004	2005	2006	2007			2008			2009			2010		
	Actual	Actual	Actual	Actual	Actual	Projection			Projection			Projection			Projection		
						Pess.	Base	Opt.	Pess.	Base	Opt.	Pess.	Base	Opt.	Pess.	Base	Opt.
Agriculture																	
Nominal	385	356	392														
Deflator	1.23	1.28	1.32														
Real	314	278	296	285	344	297	297	297	302	338	357	245	294	318	275	358	387
Real growth	-0.17	-0.11	0.06	-0.03	0.21	-0.14	-0.14	-0.14	0.02	0.14	0.20	-0.19	-0.13	-0.11	0.12	0.22	0.22
Industry																	
Nominal	610	656	743														
Deflator	1.23	1.28	1.32														
Real	497	513	561	605	531	215	215	215	190	208	218	182	215	231	177	228	249
Real growth	0.04	0.03	0.09	0.08	-0.12	-0.60	-0.60	-0.60	-0.12	-0.03	0.01	-0.04	0.03	0.06	-0.03	0.06	0.08
Construction																	
Nominal	243	313	382														
Deflator	1.23	1.28	1.32														
Real	198	244	289	309	104	451	451	451	448	497	489	452	557	600	177	228	249
Real growth	-0.06	0.23	0.18	0.07	-0.66	3.34	3.34	3.34	-0.01	0.10	0.08	0.01	0.12	0.23	-0.61	-0.59	-0.59
Services																	
Nominal	3,173	3,551	3,812														
Deflator	1.23	1.28	1.32														
Real	2,589	2,775	2,878	3,009	3,867	2,593	2,593	2,593	2,421	2,574	2,659	2,412	2,697	2,828	2,415	2,853	3,012
Real growth	-0.01	0.07	0.04	0.05	0.28	-0.33	-0.33	-0.33	-0.07	-0.01	0.03	0.00	0.05	0.06	0.00	0.06	0.07
Total GDP																	
Nominal	4,411	4,875	5,328														
Deflator	1.23	1.28	1.32														
Real	3,599	3,810	4,023	4,209	4,846	3,555	3,555	3,555	3,361	3,617	3,722	3,290	3,763	3,976	3,043	3,668	3,896
Real growth	-0.02	0.06	0.06	0.05	0.15	-0.27	-0.27	-0.27	-0.05	0.02	0.05	-0.02	0.04	0.07	-0.08	-0.03	-0.02

Annex 5: Macroeconomic Forecast Data

Table A2: Summary of balance of payments (US\$ million)

	2002	2003	2004	2005	2006	2007			2008			2009			2010		
	Actual	Actual	Actual	Actual	Actual	Projection			Projection			Projection			Projection		
						Pess.	Base	Opt.	Pess.	Base	Opt.	Pess.	Base	Opt.	Pess.	Base	Opt.
Current account balance				-773	-136	347	346	347	478	893	1101	614	1016	1334	767	1129	1356
Balance of trade	-1,800	-2,338	-2,159	-2,509	-2,567	-2,575	-2,576	-2,575	-2,641	-2,654	-2,578	-2,665	-2,761	-2,787	-2,673	-2,884	-3,199
Goods balance	-1,264	-1,673	-1,939	-2,207	-2,259	-2,222	-2,223	-2,222	-2,241	-2,250	-2,183	-2,235	-2,312	-2,331	-2,223	-2,393	-2,658
Exports	444	430	402	441	455	461	461	461	456	488	503	462	509	530	474	538	548
Imports	1,708	2,103	2,341	2,648	2,713	2,683	2,684	2,683	2,698	2,739	2,686	2,698	2,822	2,862	2,697	2,931	3,207
Services balance	-536	-666	-220	-302	-308	-353	-353	-353	-400	-404	-395	-430	-449	-455	-450	-491	-541
Exports	14	13	57	70	72	63	63	63	51	53	54	44	47	48	41	44	44
Imports	550	679	277	372	381	416	416	416	450	457	448	474	496	503	492	535	585
Income balance	247	334	303	266	491	453	453	453	424	517	564	417	557	626	422	616	658
Credit																	
Debit																	
Transfer balance				1,469	1,940	2,469	2,469	2,469	2,694	3,030	3,115	2,861	3,221	3,496	3,018	3,397	3,898
Credit				1,569	2,040	2,569	2,569	2,569	2,794	3,130	3,215	2,961	3,321	3,596	3,118	3,497	3,998
Debit				-100	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100
Capital and Financial Account				773	136	-347	-346	-347	-478	-893	-1,101	-614	-1,016	-1,334	-767	-1,129	-1,356

Annex 5: Macroeconomic Forecast Data Tables

Table A3: Assumptions underpinning the differences between scenarios

External variable	Baseline				Optimistic				Pessimistic			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Number of closure days/year for labor	180	180	180	180	180	120	120	120	180	190	190	190
Number of closure days imposed by the Israeli Authority	116	95	85	70	116	80	65	60	116	130	135	135
Credit extension (growth)	0.00	0.05	0.08	0.10	0.00	0.05	0.08	0.10	0.00	0.05	0.08	0.10
Government employment ('000s)	150	153	156	159	150	153	156	159	150	153	156	159
Ratio of females of working age in female population	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56
Ratio of males in working age in male population	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56
Ratio of females in population	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Ratio of males in population	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Population growth rate (growth)	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Female returnees (number)	500	500	500	500	500	1,000	1,000	1,000	500	250	250	250
Male returnees (number)	500	500	500	500	500	1,000	1,000	1,000	500	250	250	250
Exchange rate to US\$	4.28	4.28	4.28	4.26	4.28	4.28	4.28	4.26	4.28	4.28	4.28	4.26
Net current transfers (growth)	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Israel GDP growth	0.05	0.04	0.04	0.04	0.05	0.04	0.04	0.04	0.05	0.04	0.04	0.04
Jordan GDP growth	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Government investment	+110	+110	+110	+110	+110	+132	+165	+192.5	+110	+88	+55	+28
Government transfers (growth)	0	0	0	0	0	0	0	0	0	0	0	0
Value added tax rate (actual as percentage of GDP) (growth)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Israel price index (base 1997) (growth)	0.01	0.02	0.03	0.03	0.01	0.02	0.03	0.03	0.01	0.02	0.03	0.03
Jordan price index (base 1997) (growth)	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Lending rate on NIS	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
All Subsidies	0	0	0	0	0	0	0	0	0	0	0	0
Weighted share of agriculture in total wage subsidy	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Weighted share of industry in total wage subsidy	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Weighted share of construction in total wage subsidy	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Weighted share of services in total wage subsidy	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
All taxes	0	0	0	0	0	0	0	0	0	0	0	0
Average wage in Israel (growth)	0.01	0.02	0.03	0.03	0.01	0.02	0.03	0.03	0.01	0.02	0.03	0.03
Employment in Israel ('000s)	64	64	64	64	64	65	66	67	64	62	60	58

Annex 5: Macroeconomic Forecast Data

Table A4: Employment by industry

			Agriculture, hunting & fishing	Mining, quarrying & manufacturing	Construction	Commerce, hotel & restaurants	Transportation, storage & communication	Services & other	Total
2002	Actual		63,752.5	55,195.1	46,637.7	82,150.8	23,960.7	140,341.0	412,037.8
2003	Actual		79,958.8	63,661.5	66,717.3	98,802.6	29,538.9	167,047.8	505,727.0
2004	Actual		83,906.7	67,019.8	61,742.7	102,376.7	28,496.6	184,172.5	527,715.0
2005	Actual		83,268.6	74,143.3	73,573.0	114,636.9	32,509.0	196,194.6	574,325.3
2006	Actual		96,932.3	74,655.9	66,829.1	120,412.8	34,317.6	213,732.7	606,880.5
2007	Projection	Pess.	92,609.1	76,174.6	71,616.1	117,680.7	33,828.7	204,411.7	596,320.9
		Base	92,612.7	76,177.6	71,618.9	117,685.4	33,830.0	204,419.8	596,344.5
		Opt.	92,612.5	76,177.4	71,618.7	117,685.1	33,830.0	204,419.3	596,342.9
2008	Projection	Pess.	94,060.4	77,368.4	72,738.4	119,525.0	34,358.9	207,615.3	605,666.3
		Base	97,683.8	80,348.7	75,540.4	124,129.2	35,682.4	215,612.8	628,997.3
		Opt.	98,855.4	81,312.4	76,446.5	125,618.1	36,110.4	218,199.0	636,541.8
2009	Projection	Pess.	95,656.6	78,681.2	73,972.8	121,553.2	34,941.9	211,138.3	615,944.1
		Base	103,185.2	84,873.8	79,794.8	131,120.1	37,692.0	227,756.0	664,421.9
		Opt.	106,194.8	87,349.3	82,122.1	134,944.4	38,791.4	234,398.8	683,800.7
2010	Projection	Pess.	98,670.4	81,160.3	76,303.4	125,383.0	36,042.8	217,790.7	635,350.7
		Base	111,158.9	91,432.5	85,960.9	141,252.4	40,604.7	245,355.8	715,765.1
		Opt.	117,239.7	96,434.2	90,663.3	148,979.4	42,825.9	258,777.7	754,920.2