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**Implementation of the European Neighbourhood Policy in 2008**

***Progress Report the occupied Palestinian territory***

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## 1. BACKGROUND AND OVERALL ASSESSMENT

The Palestinian Authority (PA) and the European Community first established contractual relations in 1997 when the EC and the PLO, on behalf of the PA, signed the Interim Association Agreement on Trade and Cooperation. On this basis, the EU-PA ENP Action Plan was adopted in May 2005, for a period of three to five years. It was inspired by the Palestinian Reform Programme at that time, which aimed at building the institutions of an independent, democratic and viable Palestinian state. A first report on the implementation of the Action Plan was adopted in December 2006, a second in April 2008.

The Euro-Mediterranean Partnership inaugurated at the 1995 Barcelona conference established a policy with ambitious and long-term objectives. This partnership was reinforced in 2008 with the creation of the Union for the Mediterranean. Although the Palestinian state has not yet been created, the PA has been a full participant in this partnership from the beginning. However, the PA does not exercise exclusive governmental prerogatives because of the on-going Israeli occupation.

This document reports on progress made on the implementation of the EU-PA ENP Action Plan between 1 January and 31 December 2008, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in the oPt.

The overall political context stalled progress in the implementation of the Action Plan during 2006 and the first half of 2007. This changed after the EU resumed normal relations with the PA in June 2007 and re-established political dialogue. The first ENP Joint Committee session since three years took place in May 2008 and agreed to set up four subcommittees.

The year 2008 saw some progress in several of the areas covered by the ENP Action Plan. The PA undertook steps to implement its Palestinian Reform and Development Plan (PRDP) for 2008. The PRDP process itself, as well as the policy objectives embedded in it, provided much improvement in the PA's planning and budgeting efforts and addressed most of the areas covered by the Action Plan. Most notable progress was achieved in the fields of budget consolidation and security sector reform.

However, political reform and institution building suffered a setback as a result of the split between the West Bank and Gaza. Several attempts at factional reconciliation failed and led to a deterioration of the human rights situation in both parts of the occupied Palestinian territory, i.e. the West Bank and the Gaza Strip. The Palestinian Legislative Council stopped its legislative activity after the detention of more than half of Hamas lawmakers in Israeli jails. The Palestinian Authority Government in Ramallah was challenged by Hamas, who established a parallel “deposed” government in Gaza, weakening the institutional capacity of the PA. This development further delayed progress in the implementation of the Action Plan.

Limited progress was observed in the economic sphere, with a dramatic regression for the development of the private sector in Gaza, with only minimum humanitarian aid allowed to pass the otherwise complete blockade. The economic development in the West Bank was also severely hampered by the on-going Israeli occupation, settlements expansion, Israeli government activities in East Jerusalem and the uneased restrictions on movement and access. Therefore, overall economic growth in the occupied Palestinian territory remained anaemic

(below 2%), despite massive injection of donors' funding of more than USD 1.7 billion, and well below demographic growth, leading to a continued decrease of per-capita income.

The year 2008 ended with one of the gravest chapters in the Israeli-Palestinian conflict, exacerbating the situation of the Palestinian population in Gaza, which was already impoverished prior to the Israeli offensive. Following the collapse of a six-month long truce between Hamas and Israel, on 27 December the latter launched operation "Cast Lead" which lasted until 17 January 2009. Reportedly over 1 315 Palestinians were killed, of which 415 were children and 110 women, and over 5 500 wounded. 14 Israeli were killed. Despite the disastrous humanitarian situation on the ground, it is premature to analyse the political impact of the crisis in this report. Therefore, this report does not address the Gaza crisis which will be covered in detail in the next report covering 2009, to be issued in 2010.

## **2. POLITICAL DIALOGUE AND REFORM**

### ***Development of enhanced political dialogue and cooperation***

*Objectives in this area include strengthening cooperation on: foreign and security policy issues, combating terrorism, non-proliferation of weapons of mass destruction and illegal arms trade.*

The Palestinian Reform and Development Plan, submitted in December 2007 (see last year's report), has been central to monitor the progress of the Palestinian Authority towards the implementation of the ENP Action Plan.

Despite the emergence of two competing governments in Ramallah and in Gaza, and the consequent weakening of PA institutions, 2008 saw some noteworthy progress in terms of bilateral relations between the PA and the EU. The joint committee, which met in May 2008 for the first time in three years, established four subcommittees. These include: (1) human rights, governance and rule of law; (2) economic and financial matters, trade, customs issues; (3) social affairs; (4) energy, environment, transport, science and technology. The first subcommittee on human rights, governance and rule of law convened in December 2008. The other three will follow in 2009.

On the basis of the "Joint Statement by the European Union and the PLO on Political Dialogue" adopted in February 1997, which established a regular political dialogue, the EU held its first political dialogue at senior officials level in Ramallah in December 2008. This complements the one at ministerial level that took place in September and November 2008 in New York and Marseille, respectively.

### ***Democracy and rule of law***

*Objectives in this area include: establishment of an independent, impartial and fully functioning judiciary, organisation of transparent general and local elections, constitutional and legislative reform, and public administration and civil service reform.*

Democracy and the rule of law continue to be subject to developments in the Israeli-Palestinian conflict and progress is hardly perceptible. In the absence of a quorum, with over 40 Parliamentarians held in Israeli jails, the Palestinian Legislative Council (PLC) has been non-functional throughout the year, with rival sessions of Palestinian Legislative Council members being held in the Gaza Strip and the West Bank contending for democratic

legitimacy. President Abbas issued some legislative decrees using emergency powers, but these were limited to urgent cases. The non-Hamas PLC members in the West Bank started meeting regularly as of June 2008 and asked to be consulted informally by the President's office on a regular basis on planned legislative decrees issued under emergency powers. PM Fayyad met with the same group of PLC members in July 2008 and presented the Government's reform plans amid criticism of by-passing the PLC in the reform process.

The municipal **elections** scheduled for the end of 2008 were not held given the political instability and the difficulty to hold elections in Gaza. Subsequently, the PA government decided to appoint local authorities. This triggered criticism as it is seen as undermining local democracy. The political divisions also complicated the organisation of national elections. Although Hamas has insisted that the Basic Law states that the Presidential term is four years, and therefore questioned the authority of President Abbas as of January 2009, the PA government and the Palestinian Legislative Council Secretariat consider that the applicable legal basis is the Election Law as amended in 2007, which provides for legislative and presidential elections to be held simultaneously. In this context, and aiming at overcoming the political deadlock in Gaza, the President announced at the end of 2008 that he will call for Presidential and Parliamentary elections as soon as possible and in any case before January 2010 when the term of the PLC ends. Since the President cannot dissolve the Palestinian Legislative Council, agreement is needed between Fatah and Hamas for elections to be called.

The preparations of the Berlin Conference on civil security and the rule of law in June 2008 provided momentum to improve sectoral planning and coordination both within the judiciary and the security sector. PM Fayyad has made considerable progress in the area of **rule of law** and succeeded in deploying security forces in Nablus, Jenin, Hebron and Bethlehem, in an attempt to wrestle back control in the security sector under the sole authority of the PA. The EUPOL COPPS mission and the European Commission reinforced their engagement towards the Palestinian Civil Police. On the other hand, Hamas has established parallel structures throughout the Gaza Strip, including duplicates of institutions already existing in the West Bank, which exacerbated the split between the two parts of the occupied Palestinian territory.

In the West Bank the **judicial system** made limited progress in solving the current case backlog (approximately 60 000 cases), in part due to a lack of judges. On the positive side, new judges and prosecutors were appointed, bringing the total number to 183 judges and 96 prosecutors; and the Chief Justice and the Attorney General received additional administrative staff. However, the capacity of the Ministry of Justice and the Attorney General's Office still suffer acutely from having most of their official staff located in the Gaza Strip. In May 2008, the Chief Justice, Attorney General and Minister of Justice presented a joint strategic framework for the reform of the justice sector. The implementation of the "Law on the Judicial Authority" is hampered by the ambiguity of its provisions in relation to the Basic Law and other Palestinian laws. This ambiguity regarding the respective roles and responsibilities of the judicial institutions has led to competition between the judicial actors. The conditions for training of judges and prosecutors were improved by the EC supported establishment of the Palestinian Judicial Training Institute. In Gaza, the functioning of the judiciary system regressed, through establishment by Hamas of a parallel prosecution system, a separate judicial training institute and the eventual destruction of the Ministry of Justice building in December 2008.

While the PRDP provides a general public administration and **civil service reform** agenda, the PA has not yet made available capacities with a sufficient political mandate to develop a government-wide strategic medium- to long-term reform programme in this field. The success

of the overall implementation of the PRDP depends heavily on the public administration's capacities. In absence of an overall public administration reform mandate, the focus of the PA and the donor community has since been on building up strategic planning capacity and providing technical assistance for specifically targeted PA institutions. Major progress in planning, coordinating and unifying the legislative process was achieved by the PA through the overall successful implementation of the first year of the legislative plan for 2008-2012. In the current environment it is however not possible to allow for parliamentary review and to make institutions accountable to the PLC although in the long-term this is crucial for the development of democratic institutions.

### ***Human rights and fundamental freedoms***

*Objectives in this area include: strengthening legal guarantees for freedom of speech, freedom of the press, freedom of assembly and association ensuring the respect of human rights and basic civil rights, and fostering a culture of non-violence, tolerance and mutual understanding.*

Respect of **human rights** and basic liberties, in particular the right to life and personal safety, suffered further setbacks as a result of the violations committed by Israeli forces and the Palestinian factions. In the West Bank, PA forces have cracked down on criminals and members of armed groups, as well as opposition members, with reports of violations of fundamental rights in the process, especially in PA detention facilities. The Palestinian Centre for Human Rights (PCHR) has received affidavits from Palestinians who were subjected to beating, **torture** and inhuman and degrading treatment by the Palestinian police while in detention, mostly in the Gaza Strip, but also in the West Bank. In the Gaza Strip, Hamas security forces suppressed inter-militia fighting and family feuds to an unprecedented level, often at the expense of human rights.

**Death penalty** sentences were issued in the West Bank and Gaza, which is a regression of high concern, even though in December 2008, the President issued an announcement that death sentences would be commuted into imprisonment. After almost four years of tacit moratorium on the death penalty, a total of 11 death penalty sentences were issued in 2008, of which 5 in the West Bank and 6 in the Gaza Strip. Most of these civilians were sentenced by military courts, which represent a misuse of these courts to expedite procedures.

**Freedom of press** was increasingly curtailed. According to the Independent Commission for Human Rights (ICHR), 32 journalists were arrested by the PA without due process; none of them were brought to court. ICHR criticized the PA government for using the military court system (illegal since infringing the basic law as well as criminal procedure law).

**Freedom of religion** has not improved and is hampered by the restricted access for Christians and Muslims to their holy sites in East Jerusalem. The Israeli-imposed restriction was particularly acute during the month of Ramadan when thousands of Palestinians were trying to attend prayers at the Al-Aqsa mosque. In Gaza, violence that occurred after the Hamas takeover illustrated the religious pressure on Christian minorities. The access of Christian leaders to Gaza has been curtailed.

The situation of **women** in the occupied Palestinian territory remained difficult during the reporting period. Palestinian women face particular challenges due both to the on-going conflict and internal constraints. Gender-based violence and honour killings are regularly

reported. Women are still discriminated against in laws governing marriage, divorce, custody of children and inheritance.

The participation of women in economic, social and political life remains low in spite of the high literacy rate and enrolment in higher education. This is aggravated by the acute socio-economic crisis, which leaves the majority of women out of the labour market or forces them to enrol in unprotected labour: 35 to 50% of university enrolments in the West Bank and Gaza are women but this does not translate on the labour market, as 88% of women are outside the labour force compared to 29% for men.

In July 2008, the Ministry of Women's Affairs launched its own Strategic Plan for 2008-2010 in line with the PRDP. The priorities of the strategy are: enhancing the effective role of Palestinian women in policy and decision-making, increasing the economic security and rights of Palestinian women and decreasing violence against women. The strategy also endorses the contents of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), the Istanbul process and UN Resolution 1325. The Ministry finalised a Women's bill of Rights along these lines, which is expected to be adopted by Presidential Decree. Other activities of the Ministry in 2008 were focused on building a strong partnership and coordination with civil society organisations around the strategy.

### ***Financial Accountability and Sound Management of Public Finances***

*Objectives in this area include: establishment of a well-functioning system of financial control, improving the transparency of PA finances, concerted action to tackle corruption within public institutions and to fight against fraud, ensuring transparency of public procurement operations and putting in place a sustainable pension system.*

In terms of **public finance management**, improvements were registered after the re-establishment of a Single Treasury Account in terms of tracking and monitoring expenditure. In 2008, a budget process directly linked to the PRDP and unifying recurrent and development budget was launched. Budget transparency has been considerably enhanced since March 2008 with the publication of monthly fiscal reports on the Ministry of Finance website.

The Government is working on a unified **procurement** law to replace the 1998 General Procurement law. The new law includes provisions for the establishment of an independent public procurement unit and the unification of procurement procedures in all Palestinian ministries and agencies. An independent review body for complaints is also foreseen under the new law.

In terms of **public internal financial control** the internal audit department within the Ministry of Finance, supported by European Commission technical assistance, has drafted an audit plan and completed audits in four line ministries. A progressive extension to other ministries is foreseen. An Audit Committee was established to improve the efficiency of internal audits and their independence. European Commission assistance provided refresher and on the job training to staff at the Ministry of Finance, with special focus on risk assessments and internal audit. There has not yet been a focus on the implementation of the principle of managerial accountability and the development of financial management and control systems.

The **external audit** of the PA's financial statements remains a challenge. In 2008, the State Audit and Administrative Control Bureau (SAACB) submitted their annual report for 2007.

This young institution has high needs in terms of capacity building, equipment and institutional framework. Providing assistance is one of the European Commission's priorities.

Safeguards against **corruption** continue to be weak due to the lack both of an adequate legal framework and of enforcement measures. Bodies established to monitor corruption remain weak without adequate resources to fulfil their mandates. The SAACB requires a declaration of financial interests by Ministers and members of the PLC and its extension in due course to public servants is planned. A draft action plan against corruption was developed by civil society. The SAACB is currently establishing an 'Integrity Reinforcement and Anti-corruption' department.

### 3. ECONOMIC AND SOCIAL REFORM

#### *Macroeconomic framework and functioning market economy*

Real GDP growth of 2% remains below the 3.8% population growth, implying that per capita living standards continue to deteriorate. Per capita GDP has fallen by nearly 30% from its height of USD 1610 in 1999 to around USD 1130 in 2006, a steady decline that has accelerated in the last couple of years. The rate of growth is lower than envisaged at the December 2007 donors' conference in Paris (3.5%) and is the result of uneven developments in the occupied Palestinian territory. Although there is no breakdown of GDP between the West Bank and Gaza, it is estimated that there has been some growth in the West Bank fuelled by improved security and full repayment of wage and private sector arrears by the PA. On the other hand, the Gaza Strip is progressively becoming fully dependent on external aid. The percentage of the black-market economy has increased because of the full blockade in Gaza. Tunnels have been used for the delivery of fuel and other crucially needed goods. Israel's restrictions on entry of food, fuel and cash needed by commercial banks devastated Gaza's economy in 2008; this situation was aggravated in December as a result of Israel's military operation.

Average inflation was close to 9% in 2008 in spite of world's lower food and oil prices during the half of the year. Israeli's restrictions on movement and access have contributed to create an artificial shortage of productive assets. The situation on movement and access has not improved due to a deepening of the geographical division of the West Bank into six separate areas, with physical and administrative means being used to enforce the restriction of movement between these areas (permanent and flying checkpoints, physical obstacles, the "Separation Barrier" with close to 60% of its overall route completed, and the permit regime). According to the latest published UN data, the number of obstacles to movement in the West Bank has increased to 625, from 376 in August 2005. The 2005 Agreement on Movement and Access stipulated that a plan would be developed to reduce, to the maximum extent possible, the number of such obstacles in the West Bank in order to facilitate the movement of people and goods and minimise disruption to Palestinian lives. The restriction of movement had important consequences on access to health, the economy, family networks, and education.

Fiscal consolidation has proceeded reasonably well on account of implementation of fiscal reforms. According to the Ministry of Finance, the recurrent fiscal deficit on a commitment basis is projected to decline to 23.6% of GDP (down from 28.7% in 2007), reflecting restraint on the wage bill and reduced subsidies for utilities. This is in line with projections for recurrent deficit presented in the 2008 Budget Law. A further reduction of the recurrent deficit to 17% of GDP was envisaged by the 2009 Budget Law through continued expenditure

restraint and improved cash management; however, a likely increase in emergency spending resulting from the Gaza war might alter this positive forecast.

The global financial crisis has not directly affected the Palestinian economy. A limited exposure of domestic banks to global financial markets together with conservative lending practices has kept the occupied Palestinian territory isolated from the global financial storm. The main impact of the financial turmoil will hit Palestinian exports through Israel's expected lower growth. The decline in oil and food prices stemming from the global recession would have a effect on production costs and real incomes.

Local banks have not suffered from the global financial turmoil because deposits are made into the local financial market which has limited exposure to the world. The Palestinian Stock Exchange (PSE) has suffered a limited impact of the global financial crisis due to its size (just 35 companies are listed) and relative isolation. There are no major foreign investors or investments at the PSE. Listed companies have few or no external investments, do not rely on exports and have limited foreign contacts. The Al Quds index has experienced some volatility since October 2008 but there is no evidence of this contraction responding to the crisis in the global financial markets.

There is no progress reported regarding the adoption and implementation of new legislation governing the Palestinian **economic framework**. However, ministries are preparing new legislation in line with the national legislative plan, adopted in February 2008 by the Prime Minister, which is being coordinated from the Cabinet Office. The Ministry of National Economy created a new Directorate General to follow up the drafting and consultation of new or amended economic legislation. Progress in this area will continue to be largely dependent on individual ministries and agencies. However, in the short term efforts would also be needed to ensure that new economic legislation can be properly enforced by the present judiciary.

### *Employment and social policy*

The number of **poor people**, as reported by the World Bank, who are living on less than USD 2 per day, reached more than 2.8 million in 2007. 80% of families in Gaza currently rely on humanitarian aid compared to 63% in 2006. Approximately half of all Palestinian households, and around three-quarters of Gaza's population, are dependent on international food assistance, a situation which has become even more critical with the rise in food prices. The consumer price index for food increased by 28% in Gaza and 21% in the West Bank from June 2007 to June 2008.

The **employment** and labour situation deteriorated over the reporting period due to the closure of the Gaza strip and the separation barrier. Unemployment stood at 45% in Gaza and 16% in the West Bank in the second quarter of 2008. Youth unemployment is an issue of concern (27% in the West Bank and 62% in the Gaza Strip). According to the World Bank, 95% of Gaza's industrial operations are suspended due to the blockade. The labour force participation rate remained low at 41.6%. The International Labour Organisation (ILO) provides technical assistance to the authorities in their employment programme. This programme, on which social partners were consulted, aims at strengthening labour market governance and rights; improving employability and strengthening entrepreneurship and productivity for private sector growth. In April and November 2008, the ILO expressed concern about the situation of Palestinian workers whose fundamental rights to equal

opportunities and treatment in employment and occupation as well as their right to organise and to bargain collectively are severely limited by restrictions on movement.

As regards **social dialogue**, the Ministry of Labour and social partners are working, together with the ILO, on the establishment of a tripartite committee.

The Ministry of Social Affairs is in charge of developing a social protection strategy to guide the '**social protection** reform and integration' programme, which is aimed at improving the equity, efficiency and effectiveness of social protection. A short term mission in 2008, financed by the European Commission, supports the Ministry in reforming the social assistance sector. In 2008, the European mechanism for Member States and the European Commission, PEGASE, granted direct support to poor and vulnerable families. Cash allowances were made on a quarterly basis to more than 47 000 beneficiaries, half of whom are in Gaza. A substantial increase of vulnerable families as a result of the war is also to be expected (estimates up to 12 000).

The PA's Unified **Pension** Law of 2005 has still not been fully enacted. It aims at creating a two-pillar system, under the supervision of a new and independent pension agency, to cover all civilian and security employees. This system is considered generous by international standards but might not be fiscally sustainable. Since January 2008, pension coverage in Israel has been extended to all workers, including Palestinian workers based in the occupied Palestinian territory. The Israeli National Insurance Law provides for compensation in the event of work accidents, but Palestinian workers face difficulties in practice when claiming such compensation because medical reports from the occupied Palestinian territory are not recognised in Israel.

No progress can be reported regarding **sustainable development** in the occupied Palestinian territory. Most local and international resources are channelled to maintain basic services, leaving very limited funds to be invested in sustainable development. The Palestinian Authority administers the most populated areas of the West Bank but has limited control over their natural resources and agricultural lands. As the population in these regions quickly grows and its needs are increasing, too little suitable space for demographic growth causes irrational land use and unsound environmental management.

Moreover, the conflict situation with Israel has an additional negative impact on the sustainable development of the occupied Palestinian territory. As the West Bank is split into areas with different security and administrative arrangements and authorities, some parts of it are under full control of the Israeli military, including the land administration and planning. In effect, these remain sparsely populated and underutilised. 38% of West Bank land area is also reserved by Israel for the settlements and serves the security objectives (military presence, checkpoints, road closures, the separation barrier), where the free movement of people and goods is heavily constrained. Palestinian population's development is confined to the existing cities and villages with too little suitable space for demographic growth.

#### **4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM**

The core obstacles to **trade** and economic development related to movement of goods and access to the occupied Palestinian territory, as reported last year, were still in place during the reporting period. In December 2008, for the first time in many years, there was some progress through an initial loosening of constraints in the Northern West Bank (including Nablus) in

opening hours and vehicle movements. However, it is too early to assess the economic impact and the permanent nature of such measures. During the reporting period, Palestinian exports to the EU decreased dramatically by 49.1%, while imports from the EU increased by 37.1%. Work towards the establishment of a “dispute settlement mechanism” for an effective resolution of trade disputes in the framework of the IAA is on-going. The PA actively participated in the Trade Senior Official’s Working Group set up to draw a Euromed Roadmap of next steps in the field of trade till 2010 and beyond. This roadmap is due to be adopted at the Ministerial meeting in autumn 2009.

Some progress was made during the reporting period in discussing specific technical assistance for capacity building within the Ministry of National Economy for the implementation of their future WTO obligations and for the Palestinian **Customs** Department to help prepare for a management reform programme in 2009.

Concerning **free movement of goods and technical regulations**, the first bilateral EC-PA Euro-Mediterranean Charter for Enterprise meeting in March 2008 highlighted the need to support industrial modernisation by upgrading the Palestinian Quality Framework. Terms of reference were agreed between the Ministry of National Economy, the Palestinian Standards Institute and the European Commission for a needs assessment and programme formulation mission on the Palestinian quality framework. The mission took place in December 2008.

In the area of **sanitary and phyto-sanitary** issues the EC funded a needs assessment for the entire Palestinian Quality Framework as a first step towards a multi-annual support programme.

The Palestinian legal framework for business remains weak, contributing to the uncertainty of the **business climate**. The process for starting up a company is cumbersome and takes on average two to three weeks, as delays occur due to the assembly of documentation for registration and to obtaining permits and licences.

The authorities continued their efforts to attract new investments and support private sector initiatives. A major Palestinian Investment Conference took place in May 2008 in Bethlehem to discuss investment opportunities and to forge partnerships between the Palestinian and international business communities. Furthermore, the Israel-Palestinian Business Forum (IPBF) that was established in late 2007, geared up its operations. It is the first organization run jointly by Israelis and Palestinians to facilitate contacts, to promote the founding of new businesses and to support existing ones. In addition, an Israel-Palestinian Chamber of Commerce is currently being established by leading Israeli businesspeople.

In the field of **financial services**, the Palestine Monetary Authority (PMA) continued to perform well, regulating the Palestinian banking sector. The PMA strengthened prudential and regulatory standards in coordination with the Bank of Israel to ensure continued smooth financial relations in a difficult political environment. New laws on banking and on the PMA are under preparation. Payment system legislation is also under preparation. Through the implementation of its strategic transformation plan, the PMA continued to make considerable progress on internal reform and capacity building. In May 2008, the PMA launched the Credit Bureau, a credit registry which should make for better risk assessment and improve the quality of loans.

*Other key areas*

In 2008 some progress was made on the preparation and adoption (mostly by Presidential decision) of new legislation in the area of **taxation**. The major cuts in income and corporate taxes that the Palestinian cabinet had approved on 31 December 2007, came into effect in the first half of 2008 following Presidential signature. These included increasing the basic threshold of tax-free income from USD 3000 (EUR 2333) p.a. to USD 7200 (EUR 5599) p.a., and reducing the basic rate from 8% to 5% (on annual income up to \$10,000). The corporation tax on businesses was reduced from 16% to 15%, with increased deductibles for training, research and development and investment in meeting quality standards.

For public procurement, please see the section on financial accountability and sound management of public finances.

In the area of **statistics**, the Palestinian Central Bureau of Statistics (PCBS) presented in September 2008 the preliminary results of the 2007 Population and Housing Census. The European Commission signed a EUR 1 million grant contract in September 2008 with the PCBS to support, the further analysis and subsequent dissemination of the census findings. PCBS is an active partner in the Euro-Mediterranean Statistical Cooperation Programme (MEDSTAT), and OECD within its Human Rights, Democracy and Good Governance programme.

On **enterprise policy**, the PA assessed its progress in implementing the Euro-Mediterranean Charter for Enterprise. The assessment shows that the enterprise policy is heavily constrained by curtailed administrative powers, security restrictions, lack of budgetary resources and persistent political instability. The PA has no formalised government policy for promoting enterprise development; actions are rather taken on an *ad hoc* basis. Despite difficulties, public-private dialogue is relatively open and is conducted in the framework of National Economic Dialogue Committee which meets several times per year.

## **5. ENERGY, THE ENVIRONMENT, TRANSPORT, RESEARCH AND DEVELOPMENT**

The prevailing political situation did not allow for progress in the **transport** sector. The obstacles in movement and encountered difficulties in trilateral cooperation are at the origin of the lack of progress in this area. However, despite the difficult situation, the PA has actively participated in the regional programmes (e.g. Euromed aviation and MEDAMOS), in the Euromed thematic working groups and in the Euromed Transport Forum in December 2008.

The PA established an updated **energy** policy in the context of the Palestinian energy sector assistance programme 2008-2010, the PRDP 2008-2010 and the “Letter of sector” policy. The policy includes objectives such as the improvement and extension of electricity infrastructure and services; capacity-building and institutional reform including the separation of policy and regulatory functions from commercial functions; and increased efficiency. The Cabinet approved an electricity law, which awaits finalisation of the legal procedures. The law creates a basis for the establishment of the Palestinian electricity regulatory commission and separates commercial from regulatory functions.

The occupied Palestinian territory remained largely dependent on energy imports from Israel. In 2008 the Gaza power station was completely dependent on external aid and had to reduce or halt electricity production due to supply limitations imposed by Israel. This situation continued to impact on the daily life of Gaza inhabitants. Approximately 187 MW/hour are currently available in Gaza against the around 225 MW/hour needed. This results in frequent

power outages and the need to use fuel generators for the most essential facilities. Of the available capacity, around 120MW is sold by the Israeli Electrical Company (64%), 17MW (9%) is bought from Egypt and around 50MW (27%) are generated by the Gaza Power Generating Company (GPGC). Since February 2008, electricity flows to Jericho through a new electricity interconnection with Jordan. Reflections started for further links between the West Bank and Jordan. The PA completed a feasibility study regarding a substantial upgrade of the Egypt-Gaza electricity link. Egypt, Jordan and the PA started to explore possibilities for further network interconnections. In October 2008, the Palestinian Authority became a participant in the Arab electricity interconnection project alongside Egypt, Iraq, Jordan, Lebanon, Libya, Syria and Turkey. The PA, Jordan and Israel exchanged views on possible future electricity interconnections. Due to the situation in the Gaza strip, the construction of an electricity line Gaza-Israel remained frozen.

The PA worked further on the development of four electricity substations in the West Bank and, with support from the European Commission, started on the upgrading of West Bank electricity networks. It installed pre-paid electricity meters, with a view to improve bill collection. The PA and Egypt studied interconnection possibilities. The economy could benefit from the development of the Gaza offshore gas resources, which in the current circumstances cannot be developed.

In 2008, the PA became a partner in the Regional Centre for Renewable Energy and Energy Efficiency for Middle East and North Africa countries. The Cairo-based Centre was inaugurated in June 2008 and is supported by the European Commission, Denmark and Germany. The PA developed plans for a solar power plant in Jericho. The European Commission launched a pilot project on wind energy.

At regional level, the Palestinian Authority pursued Euro-Mediterranean energy cooperation, in particular through the multiple projects (see the sectoral report). The July 2008 Summit of the Union for the Mediterranean endorsed the development of a Mediterranean Solar Plan. In 2008, the PA, Israel and the European Commission re-launched trilateral energy cooperation with the aim of facilitating the joint Palestinian-Israeli “Solar for Peace” initiative and the establishment of a joint energy office. A European Commission financed study was undertaken to support the Solar for Peace project.

The overall **environment** situation deteriorated significantly. The number of Palestinian households not connected to drinking water supply, or receiving good-quality drinking water, increased. Salination of the aquifer in the Gaza Strip is a concern.

There is a need for better sewage connection, wastewater treatment, waste collection and landfills, both in the Gaza Strip and in the West Bank. In the West Bank, the construction of waste and wastewater related infrastructure is blocked due to the non-issuing of the related permits by the Israeli Civil Administration. In the Gaza Strip, import restrictions on construction materials prevent proceeding with the construction of the infrastructure. However, some improvements of solid waste management took place in the West Bank, in particular as regards landfills.

Administrative capacity has significantly weakened with the offices of the Environmental Quality Authority (EQA) and the Palestinian Water Authority (PWA) in Gaza being closed in 2008. Some positive developments can however be reported as the EQA started the process of formulating a national solid waste policy. The PWA issued a draft national agenda and released priority needs on water by Governorate for the period 2009-2011. Steps were taken

to set up a database for environmental data and a national team for environment statistics was set up. Environment strategies and legislation still need updating. A major challenge is to revive administrative implementation capacity.

Representatives of the PA participated in activities under the EU Water Initiative and in the December 2008 Euro-Mediterranean Ministerial Conference on Water, launching the preparation of a regional water strategy for the Mediterranean.

In the **information society** sector, the Ministry of Telecommunications and Information Technology received in May 2008 from the Israeli authorities the frequencies required for the license of the second mobile operator, planned to be issued in 2009. The Ministry granted five licenses for broadband access to electronic communications services, in particular Internet and 21 licenses for voice over IP services.

In the area of **research and innovation**, participation of Palestinian researchers in the calls of the Framework Programme 7 (FP7) is so far relatively low (4 applicants out of 25 were main-listed). Nevertheless, Palestinian research institutions could increase their participation in the research activities of FP7, particularly in the Specific International Cooperation Actions targeted to the Mediterranean region in thematic aspects and challenges of mutual interest. Thanks to its reinforcement through the programme Capacities, the PA will also be able to consolidate its S&T cooperation with Europe in the near future in a number of geographically and thematically targeted international activities opened in the FP7 – Cooperation programme.

## **6. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH**

**Education** is a priority for the PA: education accounts for more than 30% of the PRDP's proposed budget support for recurrent expenditure and approximately 20% of donor support requested for the investment programmes. In July 2008, the Ministry of Education and Higher Education presented its five-year Education Development Strategic Plan (EDSP) for 2008-2012. The plan defined four priority areas: 'equitable access to education for all, enhancing quality of education, developing management reform programmes, and improving access and quality of vocational and technical training and adapting it to the current Palestinian labour market needs'. In order to reach the goal of quality education the Ministry has developed a Teacher Education Strategy with the support of UNESCO, which aims at upgrading the teaching profession and developing teacher training and qualification programmes. In December 2008 the European Commission and UNESCO signed an agreement for the programme "Quality System for Quality Teacher" which plans to put into place a system for the implementation of the Teacher Education Strategy. The European Commission contribution to this programme is EUR 3.7 million.

The Ministry plans to reactivate the Palestinian Education Initiative (PEI) developed with the World Economic Forum in order to significantly increase the use of information technology in education.

The Tempus programme continued to support the development and reform of higher education with two projects selected under the first call for proposals under Tempus IV. The National Tempus Office for the occupied Palestinian territory was re-opened in July 2008, adding impetus to promotion and reform activities under the programme. Three Palestinian students and one scholar benefited from scholarships under Erasmus Mundus for the

academic year 2008-9, while student and academic mobility was further enhanced through participation in Erasmus Mundus External Cooperation Window. In addition, two Palestinian students received scholarships in European integration studies at masters level for students from the ENPI region under a special pilot project for the academic year 2008-9.

Ten Palestinian **youth** projects were selected under the Euromed Youth Programme III in the period 2007-8 in the areas of youth exchange, informal education and intercultural dialogue. In parallel, Palestinian youth organisations continued benefiting also from the opportunities offered by the Youth in Actions Programme supporting cooperation and partnership with European counterparts to develop similar youth projects taking place in Europe. While there was an increase in voluntary service actions under Youth in Action as compared to 2007, there was a decrease in youth exchanges and youth workers' mobility, attributable to restrictions on free movement and access. The Ministry of Youth and Sports developed the outlines of a future youth policy with the cooperation of UNFPA and a civil society organization as well as a concept paper for the establishment of a youth leadership academy.

In the area of **culture**, the PA participated in a regional project under Euromed Heritage III on capacity-building and promotion of the preservation of shared Byzantine-Islamic cultural heritage alongside partners from Israel, Cyprus, Greece and Turkey. The local call for proposals for cultural activities was finalised and will support the Jerusalem Arab Capital of Culture 2009 event in the framework of the Arab League.

In terms of cooperation with **civil society**, the European Union's Partnership for Peace Programme (PfP) continued to promote projects contributing to conflict resolution and mutual understanding in the areas such as science education, protection of shared cultural heritage and peace education.

The PA pursued **health** reform on the basis of the National Health Strategic Plan 2008-2012 and the PRDP 2008-2010. Reform focuses, among other things, on improving the quality of health of citizens, health organisations and facilities. Preparations started towards a social health insurance law. Access to health services and medicines, in particular for the inhabitants of the Gaza strip, remains difficult due to movement restrictions and the limitation on energy imports into the Gaza strip. The strikes in the health sector in the Gaza Strip, since August 2008, further impacted negatively on the provision of services although these strikes were called off following the Israeli military attacks in December. In November 2008, the PA participated in the second Euro-Mediterranean ministerial health conference, which opened new perspectives for regional health cooperation. It continued involvement in the "EpiSouth" network for EU, Mediterranean and Balkan countries on communicable diseases. As last year, the European Commission invited the PA to the EU Network of competent authorities in health information and knowledge.

## **7. FINANCIAL COOPERATION – 2008 KEY FACTS AND FIGURES**

In 2008, the European Commission provided a total of EUR 486 million to the Palestinians. The bulk of Community assistance has been provided for emergency assistance through the PEGASE mechanism which replaced the Temporary International Mechanism (TIM) in March 2008. PEGASE offers direct financial support to the Palestinian administration to meet salary costs of vital workers (particularly in the health and education sectors), supply of fuel to the Gaza power plant and payments to vulnerable Palestinian families. The mechanism also funded a scheme to repay Palestinian administration arrears to the private sector and offered

support to the legal system, the Central Elections Commission and the Palestine Monetary Authority.

The European Commission co-chaired the Paris Donor Conference in December 2007 where it pledged EUR 440 million, the largest amount of financial support pledged by any donor to the Palestinians for 2008. Taking all contributions together (ENPI, Humanitarian Assistance and IfS), actual Community funding for the Palestinian people amounted to EUR 486 million.

Among this, humanitarian aid in the areas of food aid, emergency job creation, health, psycho-social support, water and sanitation and protection has continued through the DG for Humanitarian Aid in parallel. Of the EUR 71.6 million provided to the Palestinians, EUR 56.5 million was for food aid and cash for work activities for the most vulnerable segments of the Palestinian population. Of the EUR 56.5 million, EUR 34.8 million was for Gaza inhabitants. The EC has also maintained its support to UNRWA through a contribution to the General Fund of EUR 66 million and several other projects exceeding an overall contribution of EUR 113 million in 2008.

The on-going institution building programme has been reinforced by targeted support for the public financial management reform, and for taxation and customs departments of the Ministry of Finance. To underpin the EU policy regarding East Jerusalem, the EC programme focusing on community services for the East Jerusalem inhabitants has been reinforced. Through the Instrument of Stability, the European Commission supports the work of Quartet Representative Tony Blair, and projects with Palestinian civil police in close cooperation with EUPOL COPPS.

The oPt can also benefit from cooperation activities financed under the ENPI regional programmes and is eligible under the ENPI CBC Mediterranean Sea basin programme (EUR 173.607 million for the whole programme in the period 2007-13).

An additional EUR 4.4 million was programmed in 2007-2008 for the oPt under the thematic programme “Non-State Actors and Local Authorities in Development”.

In 2008, the European Commission participated in two meetings of the Ad Hoc Liaison Committee at ministerial level in London and New York, where it confirmed its support for the PA Budget through the PEGASE mechanism. It was also involved in donor’ coordination in-country through the Local Development Forum and the relevant sectoral groups, including the Governance Strategy Group that it chairs.