



EUROPEAN COMMISSION

Brussels, 12 May 2010
SEC(2010) 515

COMMISSION STAFF WORKING DOCUMENT

Accompanying the

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL
Taking stock of the European Neighbourhood Policy (ENP)**

***Implementation of the European Neighbourhood Policy in 2009
Progress Report on 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 Palestine Liberation Organisation (PLO), on behalf of the PA, concluded an Interim Association Agreement on trade and cooperation. The trade part of the agreement cannot be fully implemented due to obstacles raised by Israel, which considers it incompatible with the economic provisions of the Oslo Agreements (the Paris Protocol). On the basis of the agreement, the EU-PA ENP Action Plan was approved in May 2005 for a period of three to five years.

Meetings with the PA took place at the level of Ministers, senior officials, the Joint Committee, and subcommittees, three of which were held during 2009 and the fourth just before the reporting period.

This document reports on progress made in the implementation of the EU-PA ENP Action Plan between 1 January and 31 December 2009, although developments outside this period are also taken into consideration when deemed relevant. It is not a general review of the political and economic situation in the occupied Palestinian territory. In addition, for information on regional and multilateral sector processes, please refer to the sectoral report.

The PA has made increasing use of the ENP as a means of underpinning its state-building activities and consolidating the PA's political position on its future international status. The EU expressed full support for the Government programme "Palestine, Ending the Occupation, Establishing the State", adopted in August 2009, which aims at building strong state institutions within two years, while still giving priority to the institutional reform activities set out in the Palestinian Reform and Development Plan (PRDP) (2008-2010). The PA has started work on a new plan which will replace the PRDP, called the Palestinian National Plan 2011-2013 (PNP). The latter is expected to be fully aligned and to translate the political vision of PM Fayyad's state-building plan into concrete priorities for the next three years. This will serve as a basis for a new ENP Action Plan. In summary, throughout the reporting period the EU and the PA took further steps towards enhancing political dialogue and reform within the framework of the ENP, most notably in the fields of rule of law and public financial management. The first round of subcommittee meetings enabled an implementation review of the Action Plan and set out the progress achieved and the way forward. The ability of the PA to implement reforms remained limited as a result of the ongoing Israeli occupation. The 1995 Oslo Interim Agreement split the West Bank into three Areas (A, B and C) with different security and administrative arrangements. Area A (mostly the urban areas and their surroundings) is under full PA administrative and police control. Area B (rural areas) is under administrative PA control, but under full Israeli security control. Area C, comprising more than 60% of the West Bank, is under the full control of the Israeli military for both security and civilian affairs. Moreover, due to the continuing political divide between the West Bank and the Gaza Strip, reforms were limited to institutions in the West Bank, and could not be implemented in the Gaza Strip, where the PA *de facto* has no authority.

The overarching objective of EU policy towards the Palestinians is the creation of an independent, democratic, contiguous and viable Palestinian state, living side by side with Israel and its other neighbours in peace and security. The Gaza conflict between 27 December 2008 and 18 January 2009 had devastating effects on the civilian population in the Gaza Strip and destroyed its economic and institutional structures. It also contributed to deeper divisions between the Palestinian factions, and in particular between Fatah and Hamas. Over 1,400

Palestinians, including more than 1,000 civilians were killed and more than 5,000 were wounded.¹ In the aftermath of the Israeli military operation, which caused major destruction in the Gaza strip, the hopes that the international community would be able to reactivate a meaningful peace process faded. The efforts by Egypt to bring about national reconciliation between Fatah and Hamas yielded no results, partly due to external influences on the parties. This situation prevented the organisation of presidential and legislative elections.

In 2009, the report of a fact-finding mission led by Judge Goldstone, created by the United Nations Human Rights Council (UNHCR) to investigate international human rights and humanitarian law violations related to the Gaza conflict, contained strong criticism of the actions taken both by Israeli Defense Forces and by Palestinian militant groups during the war.

Although Israel relaxed some restrictions on movement and access in the West Bank, other Israeli actions in the West Bank continued to be seen as undermining the PA, hampering its capacity to implement reforms as well as economic development. Gaza continues to be under Israeli siege despite consistent calls from the international community for full opening of crossings for both humanitarian and commercial traffic.

2. POLITICAL DIALOGUE AND REFORM

Development of enhanced political dialogue and reform

The PA continued to make progress in the implementation of the PRDP 2008-10, most notably in the areas of security and public financial management. Implementation of the PRDP in the areas of economic and private sector development, local governance - and, crucially, the judicial system - proceeded at a slower pace. In the area of private sector development this was partly due to the particular attention given instead to the more urgent aspects of institution-building which were seen as having more immediate potential results for the peace process. In the judicial sphere, progress was hampered by unclear mandates and competition between the relevant PA bodies, although there were some positive developments towards the end of the year.

Currently, the PA lacks a distinct civil service and public administration reform programme. However, the formation of the 13th government resulted in the Ministry of Planning being renamed as the Ministry of Planning and Administrative Development (MoPAD), a move which was supposed to signal a renewed commitment to administrative reform. In parallel, the PA intensified its efforts to improve its medium-term planning and budgeting capacities and has embarked on preparations for the PNP. In this context, a detailed sector strategy for public administration reform will be elaborated. The development of such a strategy will serve as a first test for the MoPAD to exercise leadership in this sector.

Despite significant progress in the transparent operations of the government, the absence of a functioning legislature continues to fundamentally impede the accountability of the executive.

Democracy and Rule of Law

¹ Controversy exists over the precise number of casualties as well as the number of civilians within those figures, but Amnesty International and the UN give credit to these figures.

Progress in the area of the **rule of law** in the occupied Palestinian territory continued to be constrained by the parallel legal systems operating in the West Bank and in the Gaza Strip.

Promotion of democratic governance was hampered by the indefinite postponement of presidential and parliamentary **elections** that had been scheduled to take place no later than January 2010.

There were increasing signs of improvement of the **justice** sector in the West Bank. In 2009, the number of judges was further increased to 190 judges (146 in the West Bank and 44 in the Gaza Strip), and 158 prosecutors (98 in the West Bank and 60 in the Gaza Strip). The courts started to tackle the case backlog, which reflects the improved security situation; however, it will take time to completely clear the backlog of nearly 90 000 cases. All newly appointed judges and assistant prosecutors were trained at the Palestinian Judicial Institute. Electronic case management has been established at all courts and the system is being linked up to the prosecution offices and the Office of the Attorney General. A judicial records system has been launched at the Ministry of Justice. Various operational policies, procedures and manuals have been established at the High Judicial Council and the public prosecution in order to increase the effectiveness of both institutions. In the High Judicial Council a Court Administration Department, a Notary Department, a Planning Department and a library were established, as well as an Inspection Office which evaluates the performance of both judges and prosecutors.

However, further development of the justice sector suffered as a result of the unclear mandates of key stakeholders in the judicial sector and the politicisation of its leading institutions, mainly the judiciary (led by the High Judicial Council), public prosecution and the Ministry of Justice. The work of the Palestinian Legislative Council (PLC) remained suspended as a result of the political split between the West Bank and the Gaza Strip and also because some members of the PLC are detained in Israeli prisons. This affected progress in the adoption of legislation, resulting in a continuing lack of clarity on relations and division of competences. The practice of referral to the military court system in the West Bank and the Gaza Strip, which runs contrary to the provisions of the Basic Law, also threatens to undermine the PA's achievements in the civilian justice sector.

There are now four model courts in the West Bank in the districts of Nablus, Jenin, Jericho, and Bethlehem. The expansion and rehabilitation of courts in other districts is also taking place. Automation of courts has continued successfully with European Commission support. New computers and computer programmes were distributed to courts to help facilitate better adjudication of court cases and enable better review of their status, thereby increasing the efficiency of the courts in case adjudication.

As a result of these developments, recent public opinion surveys show increased public trust in the Palestinian judiciary. According to statistics from the Palestinian Central Bureau of Statistics and a survey conducted by the HJC, the public has developed a higher level of trust in the judiciary.

In the security sector, the delivery of support in the form of training, equipment and infrastructure of the Palestinian civil police continued, as did the efforts in the Ministry of the Interior to restructure the sector. Some improvement was noted in the reform of the security sector and of the security services, although the development of institutional frameworks and organisational capacities still lagged behind operational improvements. The new PA

Government placed more emphasis on the need for civilian oversight and accountability, although at this stage it confined itself to stating its intentions in this direction.

Projects have started on the centralisation of the budgeting process for security services in the Ministry of the Interior (MoI), for the establishment of a central administration in the MoI and for the elaboration of a central training administration. Work also progressed on the establishment of an internal inspectorate for the security services in the MoI in order to improve the oversight of the sector. The MoI agreed, in principle, with the establishment of a separate Corrections Department outside the Palestinian Civil Police, in order to manage the penitentiary system. One obstacle to the establishment of such a department is the lack of human resources provision by the PA for the management of this key sector.

The PA continued its efforts to build a professional civil police with the help of the EU ESDP mission, EUPOL COPPS. The PCP Palestinian Civil Police developed 14 projects in the framework of the PRDP. The projects replaced the Palestinian Civil Police Development Plan 2005-2008 which expired at the end of 2008. EUPOL COPPS contributed to almost all projects, and also helped to seek donor financing for particular actions. Progress was made in equipping and training public order forces, preparing for the establishment of forensic laboratories, building new prisons, developing IT systems for the police, initiating a project to rebuild destroyed police stations, developing anti-explosive units, developing maintenance workshops, and conducting specific training courses on forensic evidence, stolen vehicles, traffic management, anti-corruption, special police forces and close protection, and the judicial police. The European Commission provided direct support for a number of specific activities, which made good progress in 2009, including provision of vehicles and communication equipment for the police, construction of the Jericho Police Training Centre, construction of penitentiary facilities in Nablus, and other construction for security force headquarters in both Nablus and Jenin.

The performance of the PA security services, though not systematically evaluated, seemed to improve in terms of maintaining order. However, their human rights record is still in need of improvement (see next section). The EUPOL COPPS mission contributions also address human rights issues in its training programmes for Palestinian police officers. The EU has likewise supported human rights training for security forces in 2009 through its "Breaking the Silence – say no to torture" project.

Human Rights and Fundamental Freedoms

The situation of **human rights** and fundamental freedoms continued to suffer setbacks as a result of intra-Palestinian conflict and Israeli actions, including incursions in the West Bank and the continuing blockade of Gaza. Periods of calm (including five consecutive weeks without fatalities in Gaza in October/November 2009) alternated with the resumption of Israeli Air Force attacks and Israeli Defence Force incursions into Gaza, notably in August and December 2009. Since the end of Gaza conflict, rockets and mortar shells were fired from Gaza, and arms smuggling continued. Intra-Palestinian violence in the Gaza Strip remained high. Furthermore, deaths linked to violent family disputes and rivalries, to the manipulation of unexploded devices, or resulting from tunnel accidents were regularly recorded every month in Gaza.

Claims of human rights abuses by PA security services continued to be made throughout the reporting period. Though some of these abuses are linked to the limitations imposed by the occupation, a message of Palestinian political will to end these practices has already been

delivered and instructions prohibiting ill-treatment in detention and investigation centres are in place.

Since October 2009, the Palestinian Independent Commission for Human Rights (ICHR) has consistently stressed the importance of security agencies abiding by political instructions and in this regard noted the marked decrease in allegations of **torture** in the West Bank following PM Fayyad's instructions in September 2009. Furthermore, in November 2009, for the first time in almost 11 months, ICHR was authorised to visit detention centres of the security agencies. In contrast, ICHR noted that the number of complaints against the Gaza Strip security agencies had increased since November 2009.

At the end of December 2009, about 6,831 Palestinians were detained in Israel. This number had steadily decreased throughout 2009 from 7,951 in January 2009. The decreasing trend was also confirmed by the drop in the number of administrative detainees from 564 in January 2009 to 278 in December 2009. In January 2010 there were no children in administrative detention. However, at the end of February 2010, there were 41 Palestinian children detained under the age of 16. The number of Palestinians arrested by Israeli forces as a result of protest activities against the separation barrier seemed to be on the rise.

As for the number of violations of the right to proper legal procedures (including arbitrary detentions and arrests on political grounds), the number of complaints recorded by the ICHR remained high, with 198 complaints in the West Bank and 54 complaints in the Gaza Strip despite a reduction since mid 2009. While the number of reports of torture or ill-treatment decreased, there appeared to have been an increase in the cases of unlawful arrest/detention.

During 2009, fourteen **death sentences** were issued in the West Bank and in the Gaza Strip, of which three were in the West Bank. Charges were usually brought on the grounds of espionage, treason and cooperation with hostile parties. No improvement in the right of defence was noted. No executions took place in 2009. In Gaza the *de facto* government continued to "adopt" new legal norms, and in December 2009 it announced its intention to introduce the death penalty for drug trafficking, which is reported to be a growing problem in the Gaza Strip. The EU consistently expressed concern at this situation. The first formal execution was carried out by Hamas *de facto* government in Gaza in April 2010, beyond the reporting period. Developments will be reported upon next year. **Violations of media freedom, the right of association and peaceful assembly** were regularly reported throughout the year. Freedom of association remained weak in the West Bank and the number of assaults in the Gaza Strip increased. Several incidents of breaking and entering, explosions and burglaries of civil society organisations were reported in the last quarter of 2009. These incidents further weakened the situation of civil society organisations, which were also confronted with direct interference from the Gaza authorities.

The continued Israeli blockade of Gaza and the closure of the Gaza Strip crossings, despite repeated calls from the international community, continued to have severe consequences for the humanitarian situation. The ban on imports of building materials prevented the reconstruction of thousands of damaged homes inside the Gaza Strip. The main trends observed during the reporting period included acceleration in the expansion of settlements on the western side of the Barrier. In addition, expansion work was reportedly taking place in 34 settlements, 16 of which are located east of the Barrier.

During 2009, the UN Office for the Coordination of Humanitarian Affairs recorded a weekly average of eight settler-related incidents affecting Palestinians, with an increase towards the

end of the year, following the Israeli cabinet announcement of a 10-month freeze on new residential constructions in West Bank settlements (except in East Jerusalem).

The overall socio-economic situation of **women** continued to be difficult during the reporting period. A National Committee to combat violence against women was established under the leadership of the Ministry for Women's Affairs (MoWA) which includes twelve different ministries and civil society organisations, with a view to drafting a national strategy to promote women's rights and gender equality in all areas of society. Honour crimes were regularly recorded. In the context of the current socio-economic crisis, Palestinian women, although they constitute the majority of university students, remained seriously under-represented on the labour market, with the female labour force participation rate in the fourth quarter of 2009 reaching only 15.1% (see also "Employment and Social Policy"). Female unemployment stands at 23.8%.

However, the Palestinian Authority has upheld its commitment and pursued its efforts to improve the participation of women in political life: five women are represented in the June 2009 Government (including one as Minister for Women's affairs) out of 23 ministers, and 17 of the 132 members of the Legislative Council are women. Representation of women in political bodies is estimated at around 15% for senior positions, and around 9% in the judiciary. In June 2009, the Palestinian Cabinet decided to introduce gender-sensitive budgeting and to establish gender units in ministries and public institutions. In addition, the President of the Palestinian Authority signed on 8 March 2009 a degree approving the ratification of the Convention on the Elimination of all Forms of Discrimination against Women (CEDAW) without reservations. However, there is no substantial progress to report regarding the adoption of the Women's Bill of Rights.

Financial Accountability and Sound Management of Public Finances

In 2009, the PA continued to implement substantial **public financial management** reforms, despite the difficult political context, in line with priorities in PM Fayyad's state-building plan. The PA underlined its commitment to increase domestic revenues, control and rationalise expenditure (e.g. through the launch of the 'Al Sieyadeh' programme), establish a research department, continue to modernise and reinforce the Ministry of Finance, computerise the tax procedures, decentralise internal audit, and complete the implementation of a new accounting system. The PA is also currently preparing a comprehensive public financial management strategy.

Progress continued with regard to **internal audit**, with the support of the EU. The Ministry of Planning and the Ministry of Finance further integrated their planning and budgeting processes and a new budget information system was launched. The Ministry of Finance completed the full roll-out of its new accounting system to line ministries in August 2009 - earlier than initially expected - and is now developing a new procurement module for the system. In addition, the Ministry of Finance developed a yearly cash plan and the Central Treasury Account system was made fully operational.

The PA's supreme audit institution, the State Audit and Administrative Control Bureau (SAACB), produced a report of activities for the year 2008 and is currently working on the preparation of the 2009 report of activity (due to be published in the first quarter of 2010). In the absence of a functioning Palestinian Legislative Council (PLC), annual reports are delivered to the President, cabinet and legislative council secretariat. The audit of the PA's 2008 financial statements is due to take place in 2010. The European Commission prepared a

multi-annual assistance programme to build the capacity of the SAACB in order to begin implementation in 2010.

The PA continued to make progress in enhancing the transparency of its finances. Comprehensive monthly fiscal reports continue to be published in a timely manner on the Ministry of Finance website. These reports include data on expenditures (on a cash or commitment basis, broken down by nature and by function), revenues and financing sources. However, as regards **corruption**, the PA still has little to show by way of a comprehensive anti-corruption strategy, but it has set up a committee to prepare a comprehensive anti-corruption plan.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy

Following GDP growth of 2.3% in 2008, preliminary data show the Palestinian economy expanding by around 6.8% in 2009, with the most significant increases being seen in construction, social services and services industries. However, this represents only a 3.7% increase in GDP per capita. The economy benefitted from the partial relaxation of border restrictions with Israel and easing of restrictions on internal trade in the West Bank, as well as from improvements in the security situation which have brought an increase in commercial activity (see section on trade). However, the overall growth pattern does not yet indicate significantly higher output based on private investment in productive sectors. The substantial increase in Palestinian imports from Israel and little change in the value of Palestinian exports to Israel are also indicative of rising donor-funded consumption rather than sustainable economic growth. The Palestinian economy was largely unaffected by the global economic crisis, due to restricted external trade links, heavy dependence on international aid (over one third of GDP) and the low economic development base following years of political strife.

The more positive outlook is due mainly to the economic performance of the West Bank, where security improved, the number of obstacles to movement was reduced, Israel issued several hundred new business permits to Palestinians, and the first significant investments following the Palestinian Investment Conference of 2009 were launched. Real GDP growth in the West Bank is projected to have risen to 7% in 2009 from 5% in 2008, while in Gaza real growth is set to have risen to 1% of GDP in 2009 from -5% in 2008, although this reflects a continuing decline in *per capita* terms. Due to the continuing blockade of Gaza, the black market has expanded, partly operating through a series of tunnels at the Egyptian border.

The inflationary pressure, which peaked in mid-2008, has gradually subsided, mainly owing to the decline in international food and fuel prices, which fell to 2% by mid-2009, while inflation still remains higher in Gaza due to the supply effect of the blockade. Real incomes also rose due to the depreciation of the *shekel* against the dollar, which accounts for a large part of remittances and donor aid, which fell sharply in the first half of the year. The overall fiscal deficit will expand in 2009 to -29% of GDP from -23% of GDP in 2008, while the recurrent fiscal balance, excluding emergency spending in Gaza, will narrow to 18.5% of GDP in 2009 from 20% of GDP in 2008. The authorities' strategy is to consolidate public finances in order to reduce reliance on international aid and to encourage private sector growth. At the same time, they aim to make public expenditure more effective by shifting resources away from wages and subsidies and towards investment. To this end the Palestinian Authority has maintained controls on government employment and wages, and substantially

reduced utility subsidies. Its response to the war in Gaza at the beginning of the year, coupled with the ongoing blockade imposed by Israel on normal commercial traffic with the Gaza Strip, continues to have serious fiscal consequences for the PA.

The Palestinian Authority took legislative measures in 2009 to address credit shortages to businesses due to the high risks of investing in the local economy. The Palestinian Monetary Authority introduced a new regulation requiring banks to reduce their ratio of foreign investment/total deposits to 55% (from the current 65%). Partly as a result of the regulation and the improved security environment, private sector credit in the West Bank rose by a third in the first half of 2009, while in Gaza there was a fall in private sector credit due to weak investment demand. Although private sector activity picked up in 2009 in the West Bank, a sustained economic recovery still hinges on the further removal of restrictions on movement and access and an enabling political and regulatory environment for investment.

In real terms, GDP in the occupied Palestinian territory (oPt) is still well below the level of ten years ago and the region remains mired in poverty. The overall poverty rate in the oPt is 57%, with an estimated 80% of people in Gaza living below the poverty line. The overall social situation also remains difficult and the war in Gaza in January 2009 led to a serious worsening of the humanitarian situation in the Strip.

Employment and social policy

The **unemployment** rate decreased slightly from 27.9% in the 4th quarter of 2008 to 24.8% in the 4th quarter of 2009. It stood at 18.1% in the West Bank and 39.3% in the Gaza Strip in the 4th quarter of 2009. Still, according to ILO standards, the labour force participation rate remained low and stagnated at 41.5% in the 4th quarter of 2009, compared with 41.4% in the same period in 2008. The unemployment rate of women is estimated in 2008 at 23.8%. The Palestinian Authority continued to work with the International Labour Organisation (ILO) on developing an employment strategy and upgrading the labour market information system.

As regards **social dialogue**, the tripartite committee was established in July 2009. The ILO organised a roundtable discussion in October 2009 to revitalize the Palestinian national tripartite committee.

On **social protection** and the fight against **poverty**, the European Commission finalised a tender for technical assistance to the Ministry of Social Affairs in October 2009 on the implementation of an enhanced social protection system. Since February 2009, the Ministry of Social Affairs has been responsible for the development of a poverty-based cash assistance scheme. To this end, it adopted in July 2009 a poverty-based targeting methodology with a view to setting up a centralised database of poor households. Finally, in December 2009 the Ministry of Social Affairs presented its national programme for social protection.

No progress can be reported on the adoption of an action plan for the reform of the **pension system** and on establishing the legal framework for a new pension system. However, a number of technical consultations took place throughout 2009 on ensuring the sustainability of the reform, and the Palestinian Authority is working on a pension reform action plan. The development of a sustainable law on retirement as well as the reinforcement of the capacities of the Palestinian Pension Agency are key priorities of the two-year governmental programme “Palestine, Ending the occupation, establishing the State” adopted in August 2009.

Promotion of **sustainable development** remains difficult and is further complicated by the constraints imposed by the Israeli military occupation. In Area C of the West Bank, the PA has very limited control over its natural resources and agricultural lands. Due to Israeli restrictions, the development of the population is confined to the existing cities and villages with too little suitable space for demographic growth, which leads to irrational land use and unsound environmental management. In the Gaza strip, more than two years of effective blockade coupled with the widespread destruction from the Gaza conflict have left tens of thousands of homes damaged or destroyed and caused further deterioration of already over-loaded water, sanitation and electricity networks.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Bilateral trade between the EU and the oPt contracted slightly during the reporting period: exports from the oPt to the EU slowed down, but less significantly than in the previous year (by 9.4% compared to 48.2%), while EU exports decreased by 14.5%.

Some progress was registered in respect of obstacles to **trade** and economic development related to movement of goods and access to the occupied Palestinian territory. The easing of internal movement that began in May 2009 continued until the end of the year. The towns of Nablus, Ramallah, Qalqilya, Jericho and Jenin are more accessible than in previous years, with most checkpoints physically still in place, but with traffic flowing relatively easily. In Nablus, the gradual removal (or significant easing) of existing checkpoints, road blocks and permit requirements that used to surround the city means that in terms of movement and access the Nablus economy is now more or less in a similar situation to that of other cities in the West Bank. One recent improvement in the northern West Bank was the opening of the Jalameh crossing in October on a trial basis for vehicles from northern Israel; this became official in November 2009. As regards external movement, the situation at the commercial crossing points with Israel remained unchanged in the West Bank, with continuing significant delays and high costs for most traders, in particular around Tarqumiya. The Israeli authorities are currently working on a pilot project to extend opening hours and to clarify procedures for the crossings. Progress was made with respect to the issue of PA-Jordanian trade relations, in the form of support from the European Commission for a Trade Corridors Facilitation project, which was completed in October 2009. Apart from items regarded as 'humanitarian' by Israel, legitimate commercial trade between Gaza and the outside world is essentially non-existent owing to the current Israeli blockade. Israeli obstacles to the implementation of the trade part of the Interim Association Agreement create higher costs and delays for EU exporters and PA importers. The blockade also contributes to the diversion of direct EU-PA trade to indirect trade (via Israeli importers), which is more costly for Palestinian economic operators.

During the reporting period work towards establishing a "dispute settlement mechanism" for an effective resolution of trade disputes in the framework of the IAA continued. As regards the possibility of proceeding with the gradual liberalisation of trade in agricultural and fishery products with the EU, the European Commission stands ready to examine ways of making better use of the current trade concession and of entering negotiations based on the Rabat roadmap in due course. In September 2009, the PA submitted its application to become an observer in WTO and engaged in a process of consultations with other WTO members both in Geneva and locally.

In June 2009, the PA adopted the protocol on Pan-Euro-Mediterranean cumulation of origin. The PA customs, with EU assistance, has been implementing an automated system for

customs data "ASYCUDA World" to enhance its operational capacity. In addition, the PA Government in November 2009 adopted the "Al Siyadeh" programme, aimed at introducing a single window approach to border management and a single file approach to revenue collection, with the all tax and non-tax revenues being unified under a single revenue administration. To this end a steering committee was set up in December 2009.

Concerning **free movement of goods and technical regulations**, the PA started the process of upgrading the quality infrastructure by finalizing the needs assessment and formulating a support programme in January 2009. The needs assessment framework was approved by the Palestinian standardisation body. The metrology committee composed of the representatives of private and public sectors will review the law on standards and metrology and discuss plans to establish a separate accreditation body. The Palestinian Authority has selected pharmaceuticals and construction products as its priority sectors. An EU technical assistance project will begin in 2010. It will focus on standards institutions, testing laboratories, and training in conformity assessment and certification.

In the **sanitary and phyto-sanitary** area, during 2009, TAIEX supported the participation of the PA in several events and seminars on veterinary education, animal welfare, animal health and food safety issues.

The Government programme "Palestine: Ending the Occupation, Establishing the State" contained a number of measures to improve the overall **business climate**. As a result, the Palestinian Authority worked during the reporting period on a new company law designed to simplify and reduce the necessary steps for registering a company. A consultative task force on company law was set up in December 2009.

In the field of **financial services**, the Palestinian territories were less affected by the global economic and financial crisis (even though this led to diminished remittances from Palestinians working abroad) than by the Gaza crisis, the ramifications of which contributed to undermining the public's confidence in the banking system in the Gaza Strip during a large part of the year. The lack of foreign currency, which is not allowed in by Israel, leads to an increase in the hoarding of foreign currency - thereby creating a vicious circle; such practice also indirectly supports black market activities that benefit the *de facto* authorities. However, the Palestinian Monetary Authority has continued to regulate the Palestinian banking sector and is aiming to gradually implement the Basel II principles for effective banking supervision. It began implementing a corporate governance code in February 2009. The Palestinian banking system saw an expansion in the number of bank branches from 190 in late 2008 to 207 by the end of 2009, which has increased public access to banking services.

Other Key Areas

In the August 2009 programme of the 13th government, "Palestine, Ending the Occupation, Establishing the State", the PA reaffirms its objective of amending the **Tax** Law with a view to broadening the tax base, increasing income tax collection and improving the business environment. In this context, the PA also intends to conduct field visits and surveys in order to detect non-registration; closely monitor any request for exemption to be granted under the "investment promotion law"; coordinate with the general attorney and courts on tax related issues; increase tax compliance of low income tax payers and modernize the tax management system. No progress was made on the unification of tax administrations in the West Bank and Gaza Strip due to the political situation.

The draft unified law on **public procurement** was further reviewed during the reporting period, but is currently awaiting approval by the Cabinet.

In the area of **statistics**, the PA cooperated fully over the reporting period in the regional working group bringing together representatives of the statistical offices of Egypt, Israel, Jordan and the PA which aims in particular at defining a work programme to reduce asymmetries in the future. In the framework of the National Strategy for the Development of Statistics 2009-2013, the Palestinian Central Bureau for Statistics (PCBS) is closely involved in the current Palestinian planning efforts, especially the ongoing development of monitoring and evaluation systems. The PCBS participated actively in the MEDSTAT II programme, which focused on institutional capacity building and ended in September 2009.

On **enterprise policy**, the PA continued to implement the Euro-Mediterranean Charter for Enterprise. A bilateral seminar on the Charter was held in December 2009. The National Economic Policy Group, with representatives from both the private and public sectors, was created in 2009 in order to institute a national policy framework via consultation. The Private Sector Coordination Council continued to promote public-private dialogue. However, monitoring of the results of the dialogue is limited. The PA consulted the private sector in its process of drafting new economic laws. A consultative task force was established in December 2009 with a view to revising company law. The PA also started developing tools to create an enabling environment for Small and Medium Sized Enterprises (SMEs) and a review of the SME framework and the development of a policy framework was launched in 2009.

The Palestinian Investment Promotion Authority established contacts with stakeholders to build a future comprehensive strategy for entrepreneurship. The Annual Best Micro-Entrepreneur Award for Palestine was instituted in 2009. Plans for 2010 include the launching of the SME strategy, with the specific aim of supporting new companies through business incubators, industrial zones and business parks, and the holding of an investment conference for SMEs. On skills development, the PA will participate in the higher learning pilot project in 2010 which aims to spread entrepreneurship learning across all the faculties.

5. ENERGY, ENVIRONMENT, TRANSPORT, RESEARCH AND DEVELOPMENT

Due to the political situation, the provision of **transport** operations is mostly confined to the national territory. Nevertheless, the regulatory reforms of the past years in the road sector have led to the adoption of legislation on driving licences, operating licences and roadworthiness testing, in line with international standards. In 2009, the Ministry of Transport updated its transport agenda, known as the Strategy for Transport Sector 2010-2012, and recommended measures to improve road management mainly through the establishment of an independent roads regulator, the reduction of the impact of road traffic on the environment and the introduction of a number of road safety measures, including the re-education of drivers. In order to pursue this agenda, the Ministry drew up a new regulation for the Higher Traffic Safety Council in November 2009 and is currently reviewing its licensing activities for private and public transport.

The Israeli Government's decision to re-activate the Joint Transport Office, as a way to promote transport cooperation, is still pending. Damage in the transport sector following Israeli attacks in the Gaza Strip is estimated at approximately EUR 160 million.

The occupied Palestinian territory remained heavily dependent on Israeli **energy** imports. In 2009, the PA adopted the energy action plan 2009-2011. In implementing its energy policy, the PA developed plans for sector reform. In 2009, the President approved an electricity law which will reform the Palestinian electricity landscape, *inter alia* by establishing a regulator. The law requires the adoption of complementary legislation, which is being drafted. On the basis of the Palestinian electricity master plan, plans for new electricity generation capacity and interconnection projects were developed both for Gaza and the West Bank. Following the completion of feasibility studies, the PA prepared agreements for the construction of a Gaza-Egypt link and additional West Bank-Jordan electricity links. With a view to implementing the latter interconnection, the PA continued work on four electricity substations in the West Bank. Rehabilitation of electricity networks in the West Bank continued.

The PA enhanced its policy to promote the use of renewable energy sources and wants to increase its share of electricity generation to 20%. It initiated a pilot wind energy project for the Hebron hospital with support from the EU.

The trilateral energy cooperation between the Palestinian Authority, Israel and the European Commission, which was re-launched in 2008, was stalled by the Gaza conflict. The aim is still to establish a joint energy office and to facilitate projects of common interest, such as the joint Israeli-Palestinian “Solar for Peace” initiative. In 2009, an EU-funded study to support the “Solar for Peace” project was completed. The European Commission encouraged partners to fully re-activate the trilateral cooperation.

In the field of **climate change**, a climate adaptation strategy was designed with the support of the UNDP. Some steps were taken to promote adaptation measures in the water sector, such as re-use of treated effluent for agriculture purposes and construction of rain harvesting cisterns.

The state of the **environment** in the Gaza Strip remains a source of serious concern. There is a continued need for better sewage connection, wastewater treatment, waste collection and landfills, in both the Gaza Strip and the West Bank.

In the West Bank, the construction of environment-related infrastructure did not always progress due to the non-issuing of related permits by the Israeli Civil Administration. However some permits were released for wastewater treatment plants in Nablus, Hebron, and Jenin. Some activities also took place to connect previously unconnected rural areas to drinking water supply.

In the Gaza Strip, it is impossible to proceed with the reconstruction of damaged infrastructure or the building of new infrastructure due to the continuing restrictions on the import of construction materials.

The offices of the Environmental Quality Authority (EQA) and the Palestinian Water Authority (PWA) in Gaza remained closed, although the EQA offices in the West Bank continued to operate.

Bylaws on the management of waste water and on nature protection are in preparation. The EQA reviewed the PA's national environmental strategy and finalized a first draft. Work continued on preparing a national strategy for solid waste. The PWA's Reform Action Plan was approved by the PA's Council of Ministers. Environment strategies and legislation still need to be updated.

Following an internal audit, the PWA issued a draft concept paper for capacity building. Reviving administrative implementation capacity remains a major challenge.

Representatives of the PA participated in activities as part of the EU Water Initiative and in preparing a strategy for water in the Mediterranean (which failed to get approval at the recent ministerial meeting of the Union for the Mediterranean).

Cooperation and information exchange took place between the European Commission and oPt, including on water, pollution reduction in the Mediterranean region and environmental reporting.

The EU-PA environment subcommittee met for the first time in April 2009.

In the field of **civil protection**, the PA took part in a new phase of activities of the Euro-Mediterranean Programme on Prevention, Preparedness and Response to Natural and Man-made Disasters, which was launched in 2009, continuing the process of strengthening civil protection activities in the region, enhancing capacities at regional, national and local levels, and promoting institutional cooperation. Hereby, further steps were taken to bring the PA closer to the European Civil Protection Mechanism, contributing at the same time to the development of a civil protection culture in the region based on an integrated approach covering disaster prevention, preparedness and response.

In the information society sector, the Ministry of Telecommunications and Information Technology is responsible for enforcing the Telecommunications Law. The proposal to set up an independent Palestinian Telecommunications Regulatory Authority to that end was expected to be adopted in late 2009. Due to the political uncertainty it is foreseen that this would only be approved in 2010.

For the fixed line market, the Palestine Telecommunications Company (Paltel) still holds a monopoly. Paltel's internet and data services are offered via a number of subsidiary companies. Local loop unbundling has still to be regulated.

As regards the wireless markets, a second Palestinian mobile phone operator started operations in November 2009. The deal to allow a second Palestinian mobile phone operator was spelt out in a bilateral agreement between the PA and Israel in 2008. This is one of the largest foreign investments in the Palestinian economy, which will inject EUR 500 million in investment and EUR 250 million in fiscal revenue for the PA, and create thousands of jobs. In order for this project to become fully operational, a further 1 MHz of frequencies needs still to be released by the Israeli authorities, so as to increase the spectrum currently available to the mobile operator from the present 3.8 MHz to 4.8 MHz. Israel has provided assurances that it will assign the full 4.8 Mhz frequencies required for the company to operate successfully. Palestinian consumers also use Israeli operators.

As regards the **audiovisual** sector, the Ministry of Information drafted a new broadcasting law which imposes certain restrictions on media freedom. The status of this draft is unconfirmed.

In the area of **research and technology**, the major challenges identified by the PA are the lack of both a national science and technology policy and a system of financing research. The existing research centres are not centres of excellence and there is a lack of cooperation between industries and universities. Scientific research and development is focused mostly on energy issues (renewable resources, energy saving techniques, etc.). The main Palestinian

body that is active in this area of research and development is PERC (the Palestinian Energy Research Centre). In 2009, the PA established a contact point for the 7th Framework Programme (FP7). Participation by Palestinian researchers in the calls for interest in FP7 has increased, but is still relatively low (43 Palestinian applicants, of which seven are mainlisted) - mainly in agriculture, environment and ICT themes - for a contribution of about EUR 0.5 million.

An appropriate information strategy to facilitate and promote adequate participation of Palestinian research organisations in the R&D Framework Programmes and joint projects has yet to be implemented. It is necessary to ensure a policy-driven dialogue in order to determine the particular priorities and the specific needs of PA. Palestinian RTD centres are also expected to participate in ERA-WIDE call, for which the deadline is for January 2010.

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

The Ministry of Education and Higher Education has begun implementing the Education Development Strategic Plan (EDSP) for the period 2008-2012, focusing on delivering equitable access to **education** for all, enhancing the quality of education, developing capacity in the field of public financial management, improving the cost-effectiveness of investment programmes and improving the access to and quality of TVET. A consultation process with civil society and schools on curricula and textbook reviews began in 2009, while the Ministry prepared an evaluation of subject performance in schools in order to better target quality performance improvements. With EU financial support considerable advances have been made in the implementation of the national teacher education strategy, including the identification of the role, responsibilities and composition of the Commission for the Development of the Teaching Profession (CDTP). The CDTP will provide national leadership on setting the standards of teaching and learning, enhancing the status of teachers and encouraging a national sense of valuing and engaging in education. In addition, a new monitoring and evaluation department was established in the Ministry in 2009 to oversee monitoring activities at central, district and school/community levels and to develop performance assessment tools.

The EDSP remains focused on improving access to education and enabling investment in infrastructure and equipment to meet the demands of a growing school-age population, as well as on the recruitment of additional teaching staff. While a significant number of reforms have been introduced to address quality issues, implementation must remain focused on resource prioritization and capacity development at all levels.

Improving access to **vocational education and training**, as well as the quality of such training at secondary level and tertiary levels, remains a key policy priority under the EDSP, alongside that of adapting training provision to the needs of the labour market. The review of the TVET strategy has made good progress since July. An awareness campaign to increase student participation in vocational training was launched by the Ministry in summer 2009. Formal training remains largely limited to the traditional fields of metalwork and construction, with a consequent need to expand provision to new professions in tourism, business administration, health and pre-school education, as well as investment in the training of trainers and teachers through the development of in-service training. In order to improve work on enhancing employability, upgrading of skills and development of the local economy, and to optimize donor investment, there is a need to promote interministerial coordination between the Ministries of labour and education and higher education.

The Tempus programme continued to support the development and reform of higher education with two projects selected under the second call for proposals for Tempus IV. Palestinian students and scholars benefited from scholarships under Erasmus Mundus, including 56 grants for student and academic mobility. The Ministry of Education and Higher Education organised a Tempus information day in December, which included a video conference link with interested universities from Gaza. In addition, the Ministry identified the introduction of the three-cycle system in line with the principles of the Bologna Process as a priority for higher education as a way to improve university research capacity. In spite of the limitations on mobility imposed by the occupation, Palestinian universities and higher education institutions used Tempus IV to advance inter-university and regional cooperation. Palestinian universities are encouraged to participate in the Jean Monnet programme.

In the area of **youth**, Palestinian young people and youth organisations continued to benefit from the opportunities offered by the Youth in Action Programme, through youth exchanges, voluntary service and cooperation activities in non-formal education. Palestinian participation in Euro-Med Youth III during the period 2006-8 was given a positive evaluation in July 2009, while the Ministry of Youth and Sports made a policy commitment to participate fully in Euro-Med Youth IV. However, the national youth policy remains weak and the capacity to mobilize structured investment for youth development is hampered by the absence of a youth law.

In terms of cooperation with **civil society**, the European Union's Partnership for Peace Programme (PfP) continued its support for projects that contribute to conflict resolution and mutual understanding in several areas. In February 2009, a seminar was held for European, Israeli and Palestinian NGOs in Ireland to enable them to learn from peace-building experiences before and during the Irish peace process. As in the previous year, the European Commission organised eight training seminars for NGOs to upgrade their capacities in the field of project cycle management and formulation, monitoring and evaluation, as well as communication. However, the political situation continues to seriously impede project implementation, principally because of the obstacles to free movement and access.

In the area of **culture**, Palestinian organisations participated actively at regional level in the new Euro-Med Heritage IV programme. However, the Israeli decision not to allow cultural events to be held in East Jerusalem as the designated Arab Capital of Culture for 2009 has prevented the Palestinians from expressing their identity in the areas in which they live.

The PA continued to implement its **health** reform agenda, in particular on the basis of the 2009 work plan under the National Health Strategic Plan 2008-2010 and the Palestinian Reform and Development Plan. Stakeholder consultations started in order to establish a systematic process for monitoring progress with the health reform agenda. There is no progress to be reported yet on the reform of national health insurance law. Managing public health remained problematic in 2009, because of the split between the Gaza strip and the West Bank, the Gaza crisis and the Israeli restrictions on the import of goods and the movement of persons in and out of Gaza. Lack of access to medicines, medical spare parts, specialised medical training and certain types of specialised health care impacted heavily on the availability of quality services for Palestinians in Gaza. The political and socio-economic situation in the territory continues to impact on the mental health of the Palestinians. The Palestinian Authority took measures to combat influenza A (H1N1), including through awareness campaigns and vaccination. In October 2009, the PA participated in the newly established EU enlarged health information committee. It continued participation in the

'Episouth' network on communicable diseases for the EU, Mediterranean and Balkan countries.

7. FINANCIAL COOPERATION – 2009 KEY FACTS AND FIGURES

The ENPI allocations for the Occupied Palestinian Territory for 2009 amounted to EUR 352.8 million. Due to the continuing emergency situation in West Bank and Gaza there is no National Indicative Programme covering the period 2007-2010. Most assistance is channelled through the PEGASE Mechanism, which is geared towards supporting the achievement of key policy objectives as outlined in the Palestinian Reform and Development Plan (PRDP), namely governance, social development, economic and private sector development and public infrastructure. The aim of PEGASE is to enable the Palestinian Authority to become the fully-fledged government of a future Palestinian state by moving away from the emergency assistance provided under the Temporary Implementation Mechanism towards a more strategic development agenda through institutional capacity-building and social and economic development, in support of the Government programme "Palestine: Ending the Occupation, Building the State".

The EU also provided significant funds to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which is responsible for health, education and social service provision to the Palestine refugee population in West Bank and Gaza, as well as in neighbouring countries. In addition to providing EUR 66 million for UNRWA's General Budget, this agency allocated EUR 1 million for support to the organisation's internal reform plan and EUR 10 million for specific projects aimed at improving the quality of education in UNRWA schools. Additional support to UNRWA was also provided, in particular to help address problems caused by the Gaza crisis, including support from the Instrument for Stability as noted below. In total, UNRWA in 2009 benefited from record EU budgetary commitments of EUR 169.7 million.

Implementation of the measures covered by the 2007 and 2008 financial years is underway. Progress is being made in the provision of infrastructure facilities for the Palestinian Civil Police and for significant qualitative reforms in the education sector and technical assistance to PA ministries which have a vital role to play in state-building, such as the Ministry of Social Affairs, the Ministry of Finance (including customs), the Ministry of Planning and Administrative Development and in the judicial sector. Projects aimed at reinforcing Palestinian schools and hospitals in East Jerusalem are also being implemented, along with support for the Central Elections Commission and Palestinian Central Bureau of Statistics. Significant support is provided to the private sector, in particular through the European Palestinian Credit Guarantee Fund.

Direct financial support, provided through the PEGASE mechanism, amounted to EUR 218.6 million in 2009. Of this overall budget, EUR 150.5 million was allocated to the payment of salaries for civil servants and pensioners, EUR 28.5 million for social allowances to vulnerable Palestinian families and just under EUR 40 million for fuel for the Gaza Power Plant. In addition, EUR 10.5 million was allocated for projects in the governance and social development sector, EUR 18 million for infrastructure and EUR 22 million for assistance to re-launch legitimate private sector activity in the Gaza Strip, and EUR 4.5 million to support Palestinian institutions in East Jerusalem. A sum of EUR 1.5 million was also provided to

support the EXACT Initiative on regional water use and the Office of the Quartet Representative.

In addition to this bilateral allocation, the occupied Palestinian territory continues to benefit from co-operation activities financed under the ENPI multi-country and regional programmes, in particular the "Partnership for Peace" initiative for civil society organisations, as well as horizontal thematic programmes, such as the European Instrument for Democracy and Human Rights (EIDHR) and the DCI programmes: Non-State Actors and Local Authorities in Development (NSA/LA), Investing in People and the Food Security programme. The latter provided the oPt with EUR 14.48 million under its 'Linking Relief with Rehabilitation and Development' component, divided between an allocation of EUR 5 million for UNRWA's Social Safety Net Programme and EUR 9.48 million currently being tendered for water and sanitation projects.

Other EU Instruments supplemented the ENPI assistance package, in particular the Instrument for Stability and the Food Facility, both of which provided significant sums (EUR 20 million and EUR 39.7 million respectively), taking account of the situation in the Gaza Strip in particular. The Food Facility allocation was made to UNRWA, covering 2009 and 2010. The Palestinian people also benefit from humanitarian assistance (of EUR 19.3 million) provided by DG ECHO; (the aid does not go to the PA and also covers refugees in Jordan, Syria and Lebanon). A pilot project for a total of EUR 1 million was approved in order to provide micro-finance for beneficiaries working in the agricultural sector. The oPt is also eligible to participate in the Cross-Border Cooperation (CBC) Mediterranean Sea basin programme (EUR 173.6 million for the whole programme in the period 2007-13). The priorities of the programme are: socio-economic development, renewable energy, cultural dialogue and local development.

The EU is the largest single donor to both the PA and UNRWA and it plays a major role as a reliable and punctual provider of support. In 2009, the European Commission Technical Assistance Office for the West Bank and Gaza Strip ensured the coordination of assistance activities with the PA in particular at the level of EU Member States and has been instrumental in establishing a *Vademecum* on EU Local Aid Co-operation in the oPt, in active partnership with Member States' representatives *in situ*. As a result a detailed division of labour has been drawn up between the European Commission, the Member States and the Palestinian Authority which takes account of best practices adopted in the field of development co-operation in recent years with different Member States and with the Commission being responsible for co-ordination in specific priority sectors.

The EU Heads of Cooperation are developing EU sector fiches for the focal sectors which are to receive EU financial assistance in the coming years. The proposed focal sectors for the EU as a whole are: security, justice, public financial management, local government, health, education, social protection, private sector development, agriculture, water, energy, refugees, Jerusalem and budget support. Work is ongoing in close cooperation with the Ministry of Planning and Administrative Development, which is leading the process of the development by the PA of 23 sector fiches which will inform the Palestinian National Plan 2011-2013 (PNP).