



EUROPEAN COMMISSION

HIGH REPRESENTATIVE OF THE
EUROPEAN UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

Brussels, 25.5.2011
SEC(2011) 644 final

JOINT STAFF WORKING PAPER

Implementation of the European Neighbourhood Policy in 2010 Country Report: occupied Palestinian territory

{COM(2011) 303 final}
{SEC(2011) 637 final}
{SEC(2011) 638 final}
{SEC(2011) 639 final}
{SEC(2011) 640 final}
{SEC(2011) 641 final}
{SEC(2011) 642 final}
{SEC(2011) 643 final}
{SEC(2011) 645 final}
{SEC(2011) 646 final}
{SEC(2011) 647 final}
{SEC(2011) 648 final}
{SEC(2011) 649 final}
{SEC(2011) 650 final}
{SEC(2011) 651 final}
{SEC(2011) 652 final}

JOINT STAFF WORKING PAPER

Implementation of the European Neighbourhood Policy in 2010 Country Report: occupied Palestinian territory

1. 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 European Neighbourhood Policy Action Plan (ENP AP) was approved in May 2005 for a period of three to five years.

This document reports on the overall progress made on the implementation of the EU-PA ENP AP between 1 January and 31 December 2010, although developments outside this period may be considered where appropriate. For further information on regional and multilateral sector processes, please refer to the sectoral report.

In addition to a number of high-level visits to both Brussels and the occupied Palestinian territory (oPt), four subcommittees and one joint committee were held successfully in the course of 2010. These meetings demonstrated the PA's increased institutional and coordination capacity. Work has also started on a new Action Plan, which is expected to be concluded in 2011. Throughout the reporting period, the EU continued to support the PA with a view to contributing to the implementation of the two-state solution.

The PA also submitted a formal request to increase the current number of four subcommittees. This increase is in line with existing practice in the other ENP partner countries and would demonstrate its increased institutional capacity. The main priorities of the new Action Plan are consistent with the PA's statebuilding plan and the new Palestinian National Plan (PNP 2011–2013).

The reformist agenda of the government is producing good results. The PA has made steadfast progress in building its capacity to run the future State of Palestine. This was acknowledged in the World Bank's report for the Ad Hoc Liaison Committee (AHLC) meeting in September 2010, which also highlights the main issues ahead of summer 2011, when the state building plan implementation should be completed. Reforms were limited to institutions in the West Bank.

Progress in many areas (governance, public finance management) was achieved in a context of occupation, where Israeli incursions into areas formally under the control of the PA continued. There has also been some progress on the rule of law. However, concerns about human rights violations, in particular by the security forces, have not declined and further efforts are needed to strengthen the judiciary. The late cancellation of the local elections in the West Bank in July 2010 casts some doubt on the capacity of the Palestinian political forces to compete democratically. The economic and social situation in Gaza remains grim due to the blockade. The EU has proposed a comprehensive package to upgrade the Kerem Shalom

crossing, and intends to further contribute to the eventual opening of all Gaza crossings for aid, trade and persons.

The economy of the oPt continued to grow in 2010 by 9,3 %. In this period, the Palestinian Authority, through fiscal performance broadly in line with the 2010 budget, reduced its fiscal deficit. There was also progress in the implementation of the structural reforms set out in the Palestinian Reform and Development Plan, and reflected in the AP, in particular on improving financial accountability and on sound management of public finances. Also, the PA made some progress in reducing dependency on international aid and supporting private sector activity. Further actions are planned for the near future.

Despite several reconciliation efforts, no progress can be reported towards bridging the internal split between the governance structure in the West Bank under President Mahmoud Abbas and the Hamas-led de facto authority in the Gaza Strip. The latter imposes a strict military regime and reports confirm a steady deterioration of humanitarian indicators in the Gaza Strip.

The achievements of the state-building agenda of Prime Minister Salam Fayyad's government need to move ahead in parallel with progress in the political process. The latter looks increasingly difficult especially in view of renewed settlement construction in the West Bank and recent developments in East Jerusalem.

2. POLITICAL DIALOGUE AND REFORM

Development of enhanced political dialogue and cooperation

In September **Middle East Peace Process (MEPP) negotiations** between Israelis and Palestinians were launched, with support of the US, the EU and the Quartet, following a four-month period of proximity talks. Talks reached an impasse shortly after the decision by the Israeli government to end the settlement moratorium on 27 September 2010.

The implementation of the Palestinian Reform and Development Plan (PRDP) progressed in 2010. Efforts made in setting up a national monitoring and evaluation mechanism have borne initial results. In July 2010, the ministry of planning provided the first monitoring report on the PRDP, which used qualitative data in the analysis of progress achieved under the Plan. The newly-established Anti-Corruption Commission has not yet become visibly operational.

The PA aims to continue with structural reforms to increase efficiency in the public sector, reduce dependency on international aid, and support private sector activity. In this respect, a number of important reforms are planned, including streamlining social assistance, privatising electricity distribution, enhancing the legal and regulatory framework for businesses, improving the sustainability of the public pension system, and implementing civil service reform.

Democracy and the rule of law

Despite the long-standing insistence of the international community on the elaboration of a system of civilian oversight over all security services, there is still little evidence of greater integration of security services under the umbrella of the ministry of interior. The EU Police Mission in the occupied Palestinian territory (EUPOL COPPS), continued to provide training, including training on human rights, to help build a professional civil police. The EU is

investing substantial resources in reinforcing the rule of law through support to the main actors in the justice sector as well as to the civil police.

In June 2010, the government adopted the Justice and Rule of Law National Sector Strategy 2011–2013, which provides a basis for the continuous strengthening of the three **justice sector** institutions: the ministry of justice (MoJ), the High Judicial Council (HJC) and the Attorney General's Office .

Under the auspices of the Office of the President, these institutions worked with the Palestinian Bar Association and a representative of the military court system to produce a draft joint memorandum of understanding which clarifies their respective mandates. The MoJ has been especially active in drafting and reforming legislation. The ongoing and significant reform of the Criminal Code involves all relevant institutions. The MoJ also set up a Human Rights Unit in the ministry.

The PA continues to be ruled under the emergency powers conferred on the government by President Abbas. Legislation is adopted by Presidential decree without passing through the Palestinian Legislative Council (PLC). Limited democratic oversight over the PA is carried out by civil society organisations and by informal sessions of remaining PLC members in Ramallah. The Hamas PLC members in the Gaza Strip claim legitimate representation and hold regular sessions in which laws are being adopted, further widening the political and institutional divide between West Bank and the Gaza Strip.

The decision to postpone local elections in July 2010 met only limited political resistance from the small PLO faction and from civil society organisations. Nevertheless four electoral lists, with the assistance of three human rights NGOs, challenged the Cabinet's decision in court. In December, the HJC ruled that the Cabinet's decision was illegal but did not provide clear guidance on how and when to organise new elections. The EU continued with financial support for the development of the Central Elections Commission and launched a new capacity-building programme for the PLC Secretariat, to prepare this fragile institution for an effective resumption of parliamentary business.

Human rights and fundamental freedoms

The situation of **human rights** and **fundamental freedoms** continued to suffer setbacks.

The Independent Commission for Human Rights (ICHR) received numerous complaints related to violations to the right to proper legal process and just procedures in the West Bank and in Gaza. Most of the complaints received refer to actions by the security services. Palestinian human rights organisations report little progress regarding arbitrary detention. The ongoing tensions between the two major political factions have resulted in a continued trend of arrests on political grounds. In total, 655 complaints were documented by the ICHR over political detention in the West Bank and 60 in the Gaza Strip.

Human rights organisations continue to record steadily complaints of human rights abuses by the security services in the whole of the oPt, including the West Bank. After the marked decline in November 2009, complaints about torture and ill-treatment in detention (mainly police interrogations and intelligence services) have risen again. Although the PA claims as an achievement the fact of 'stopping torture in detention centres and taking punitive measures against violators', there is no documented evidence of the punishment of violators in the absence of sufficient transparency in the military court system and of disciplinary

mechanisms in the security services. The oPt continues to benefit from the European Initiative for Democracy and Human Rights support.

The United Nations Office of the Coordinator for Humanitarian Affairs (OCHA) report on protection of civilians indicates that since the beginning of 2010, Israeli forces have injured 1145 Palestinians in the West Bank during demonstrations or clashes, a 45 % increase compared to the equivalent period in 2009. Israeli forces conducted a weekly average of 90 search and arrest operations in the West Bank (including East Jerusalem) in 2010. Such operations also often resulted in damage to property.

In 2010, 71 Palestinians (including 24 civilians) were killed and 283 (including 246 civilians) were injured in the context of Palestinian-Israeli conflict in the Gaza Strip. The majority of casualties occurred near the fence dividing Israel and the Gaza Strip. Israeli restrictions on access to areas up to 1500 metres from the fence continue. 17% of the Gaza Strip's territory is within 1500 metres of the fence. In 2010, 91 Palestinian workers have been injured in incidents related to restrictions on access to land near the fence.

Children have remained significant victims of the conflict. In the first half of 2010, four Palestinian children lost their lives and 141 were injured in incidents directly related to the conflict; two were killed as a result of internal violence. In addition, one child was killed and two were injured as a result of handling of explosives.

At the end of December 2010, 6252 Palestinians were being detained in Israel. This number had slightly decreased throughout 2010 from 6831 in January 2009. With regard to the practice of administrative detention, the number of Palestinians detainees (those held without charge or trial) also decreased compared to the previous reporting period. At the end of December 2010, 205 Palestinians were being held in administrative detention in Israel, compared with 278 in December 2009.

Limitations on the freedom to demonstrate are still enforced. In 2010 Israel renewed Order 101, which severely restricts the right of assembly of persons protesting in the West Bank. At the end of June 2010, there were 31 Palestinian human rights defenders from the West Bank villages of Ni'lin, Bil'in, Budrus, Nabi Saleh, Beit Ummar and Al-Ma'sara held in Israeli custody. The Office of the European Union Representative, together with EU member states, followed up and monitored the military court cases against prominent Palestinian human rights defenders who had peacefully protested against the separation barrier, e.g. Abdallah Abu Rahma - the head of the Bil'in Popular Committee against the Wall and Settlements. The EU issued a statement in August 2010 expressing concerns over his conviction, as by the EU he is considered as a Human Rights Defender committed to non-violent protests against the route of the Israeli separation barrier through his West Bank village of Bil'in.' The EU reiterated that it considered the route of the Israeli separation barrier, where it is built on Palestinian land, to be illegal.

No **death sentences** were issued in the West Bank during the reporting period. Death penalty sentences have continued to be issued in the Gaza Strip. In total, 17 death sentences were issued by the de-facto Gaza authorities for murder and treason and three executions were carried out.

Demolitions continued in the West Bank, including East Jerusalem, reaching a total of 431 Palestinian structures demolished in 2010. Most of the demolitions took place in the Jordan Valley while 78 structures were demolished in East Jerusalem. The EU has expressed its deep

concern about this and has urged the Israeli authorities to prevent the demolition of Palestinian homes and the issuing of eviction orders in East Jerusalem and the rest of the West Bank. The EU called on the Israeli authorities to suspend these practices, considering them an obstacle to peace, contrary to the Israeli Roadmap obligations and to international law.

Settler violence against Palestinians and their property continued between July and October 2010, including vandalism against a mosque in Beit Faijjar village, Bethlehem, on 4 October and against a girls' secondary school in As Sawiya village, Nablus, on 27 October. The ongoing impunity continues to favour settlers. In 2010, one child was killed and 133 Palestinians were injured in attacks by Israeli settlers. In addition, over 3700 olive trees were vandalised during the olive harvest. On the other hand, four Israeli settlers were killed.

The EU has reminded Israel of its obligations according to international law and international humanitarian law vis-à-vis the Palestinian population in the occupied Palestinian territory.

Respect for **freedom of religion** has not improved and is hampered by access restrictions imposed by the Israeli authorities. The Israeli army imposed a general closure of the West Bank during Easter. As a result, many Palestinians of Christian faith wishing to participate in the Easter ceremony at the Church of the Holy Sepulchre were not able to do so. Access to Haram-al-Sharif (El Aqsa Mosque)/Temple Mount was on many occasions closed or limited to men above the age of 50.

Access and movement in the West Bank has generally improved, with the smallest number of obstacles since 2005. The closure of the Gaza Strip continued.

Financial accountability and sound management of public finances

In 2010, the ministry of finance continued to modernise its Financial Management Information System and to adapt its financial regulations to ongoing treasury reforms, including the introduction of a commitment control system.

In the first half of 2010, the ministry produced a draft Public Financial Management Strategy for 2011–13 as part of the Palestinian National Development Plan. It also continued to improve the transparency of public finances by providing monthly website information on PA public debt from June 2010. In August, the government approved an action plan for the reform of the public pension systems as a measure to ensure the PA's long-term financial sustainability.

In the area of **internal audit**, with EU assistance the ministry of finance initiated the first phase of decentralisation while continuing to conduct checks and risk assessments under the supervision of its High Level Audit Committee.

With regard to **external audit**, the State Audit and Administrative Control Bureau (SAACB) finalised its 2008 financial statement in September 2010, while its 2009 statement is due to be sent to the President, Cabinet and Legislative Council Secretariat in early 2011. Work also continued on preparing for the modernisation of the Audit law.

On **corruption**, the 2005 law on illegal gains was amended in June 2010 leading to the establishment of a new anti-corruption commission. Ongoing progress on internal audit reforms, the work of the Audit Committee and the enhanced capacity of the SAACB bode well for fraud prevention.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning of the market economy

In 2010, the GDP of the oPt rose by 9.3% compared to 7.4% in 2009. Growth was due to significant amounts of international donor assistance, to further relaxation of restrictions on movement of goods and access to people in the West Bank and to the lifting of certain import controls in the Gaza Strip. Public services, construction, agriculture and external trade all expanded, while manufacturing remained subdued (*see section on trade*).

The economy of Gaza grew rapidly at the start of the year driven by inflows of humanitarian aid, as well as goods entering through tunnels at the Egyptian border. A large amount of donor aid continued to be channelled into small scale infrastructure projects, including the construction and rehabilitation of roads, water networks, sewage systems, schools and clinics, and residential housing. Disbursements from the EU-financed Gaza Private Sector Recovery Programme, implemented in co-operation with the PA (EUR 22 million committed in 2009) began in 2010. The aim of this programme is to provide support to re-launching legitimate private sector businesses which had been destroyed or damaged by "Operation Cast Lead". These actions are of short impact on the population in Gaza. Long term interventions that are currently hampered by access restriction to Gaza are urgently needed particularly in the water sector to avoid a disaster to happen in the near future.

While these factors helped boost private sector activity, the economies of both the West Bank and Gaza remain severely constrained. Real GDP is more than 10% below the level of 1999 in the West Bank and at least 40% below that level in Gaza. The revival in economic activity has therefore come from a low base and is still held back by current restrictions. For example, in the West Bank, agriculture is hindered by sanctions on products, such as fertilisers, considered to pose a threat to security, and access to land. Consequently, while agricultural output has risen, it still only accounts for around 5.5% of GDP, compared to 13% in 1994.

Inflation rose slightly in 2010 to 3.7% compared to 2.8% in 2009 due to sharp rises in food prices toward the end of 2010 and despite tighter monetary policy in Israel and the relaxation of some import restrictions in the Gaza Strip. FAO has estimated that 96% of staple food items are imported, in addition to other food commodities used for production; hence the economy is highly exposed to shifts in international food prices, which have returned to the levels of 2008. In the West Bank, unemployment fell to 15% of the total labour force while in the Gaza Strip it remains at around 40%. Fiscal performance was broadly in line with the 2010 budget. The recurrent fiscal deficit narrowed to 16% of GDP in 2010 from 26% in 2009. This was the result of continued progress by the Palestinian Authority on the PRDP for 2008–10, which aims at increasing revenue, reducing expenditure and restoring fiscal sustainability. The improved tax collection has partly supported the increase of the gross revenue. Current expenditure, including the public sector wage bill and net lending, fell over the same period. However, due to lower than expected international aid, the PA was obliged to borrow from domestic banks and accumulate arrears on existing loans. The PA plans to progressively consolidate public finances in order to reduce reliance on international aid and encourage private sector growth. At the same time, the PA aims to make public expenditure more effective by shifting resources away from wages and subsidies and toward investment. A comprehensive public pension reform action plan for 2010–12 was adopted in July 2010.

Employment and social policy

The **unemployment** rate decreased from 25 % in 2009 to 24 % in 2010 (20 % in the West Bank and 40.5 % in the Gaza Strip) — note that International Labour Organisation (ILO) standard unemployment figures do not take into account workers discouraged from seeking jobs. The labour force participation rate remained very low and fell from 41.6 % in the third quarter of 2009 to 40.5 % in the fourth quarter of 2010. The PA continued to work with the ILO on an **employment** programme and on promoting the inclusion of women in the labour market. The ILO also supported specific job creation and skills development programmes in Gaza.

As regards **social dialogue**, in February 2010 the Tripartite Labour Policies Committee launched a declaration outlining its vision, plan of action and institutional framework. The declaration focuses on improving industrial relations and promoting effective and transparent governance of the labour market through social dialogue. The planned measures include revision of labour agreements in line with Arab and international standards, enhancement of the labour administration and inspection and reform of labour legislation.

The standard of living in the oPt is exceptionally low in comparison to other partner countries, with an overall poverty rate of 55 %; an estimated 80 % of people living below the poverty line in the Gaza Strip. To increase **social protection** and advance the fight against **poverty**, the ministry of social affairs finalised its first ‘Social Protection Sector Strategy’. The ministry is now developing a business strategy, on the basis of which an Action Plan 2011–2013 will be drawn up.

In June 2010, the PA launched the Cash Transfer Programme (CTP), as part of the Palestinian National Programme for Social Protection. The CTP targets families below the extreme poverty line. The CTP is now well established in the West Bank and in November 2010 the Gaza Strip announced its wish to be covered by it. The Gaza Strip beneficiaries are expected to be fully included in the new system in the first half of 2011. The EU, apart from providing the majority of the funds for social security payments, has also actively supported the reform of the social security system in co-operation with the ministry.

From July to December 2010, the EU contributed EUR 16 million to two rounds of the Vulnerable Palestinian Families programme payments as part of the CTP. An average of over 50 000 extremely poor households from the West Bank and the Gaza Strip benefited from the CTP.

In August 2010, the Council of Ministers approved an action plan for the reform of the public **pension system**. The plan includes the consolidation of the pensions’ administration of all four schemes within the Pensions Authority, the elimination of early retirement, and a gradual increase in the retirement age.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

After two years of contraction, bilateral trade between the EU and the oPt increased during the reporting period: exports from the oPt to the EU increased by 43.7 % while EU exports to the oPt increased by 56.8 %. The oPt trade with the EU and other partners in the region remains very limited.

The ninth Union for the Mediterranean Trade Ministerial Meeting, which took place in Brussels in November 2010, endorsed a package of measures to facilitate trade in Palestinian

products with other Euro-Mediterranean partners in line with the EUROMED Trade Roadmap for 2010 and beyond. In December 2010, the EU and the PA initialled a draft agreement on further liberalisation of trade in agricultural products, processed agricultural and fish and fishery products. Further market opening on the EU side is expected to support the development of the economy of the West Bank and the Gaza Strip.

During the reporting period, the ministry of **agriculture** worked on the implementation of the Agricultural Sector Strategy and on the formulation of the relevant Action Plan aiming, among other things, at setting up sustainable agriculture, capable of achieving both food security and competitiveness in the local and foreign markets.

Access and movement in the West Bank generally improved. The restrictions on trade in goods and in access between urban areas were eased in the West Bank (but not with East Jerusalem). This helped support internal trade. Over 10 % of obstacles to movement of goods and persons, such as check points, were removed, leaving an estimated 500 obstacles in place in the West Bank. Despite the easing of the Gaza Strip blockade in June 2010, imports of raw materials and capital goods continue to be heavily restricted and the ban on exports continues to depress the economy.

The PA customs, with EU assistance, completed the implementation of the third phase of the automated system for **customs** data ‘ASYCUDA World’. As a result, the latest version of the system was rolled out, new customs procedures (including a direct trader input mechanism) were launched, and customs staff, employees of line ministries and users from the private sector, were trained. The ‘Al Siyadeh’ programme, which aims at modernising the administrations responsible for revenue collection and border management, is under implementation. The PA set up a customs prosecution department and worked on the establishment of customs courts, with a view to better enforcing customs revenue collection. As far as legislation is concerned, in spite of several attempts with the help of donor states, there is still no approved Palestinian customs code. All activities in the area of customs, including actions to obtain WCO membership, are undertaken by the PA as part of its state-building process. Regarding the strengthening of cooperation to combat irregularities and fraud in customs, the PA participated in the ‘SIROCCO’ joint operation carried out in June 2010. SIROCCO is a joint customs operation, coordinated by the European Commission Anti-Fraud Office (OLAF) and carried out by the customs administration of the EU and 11 partner countries from the southern rim of the Mediterranean¹.

No progress can be reported on the unification of **tax** administrations of the West Bank and the Gaza strip due to the political situation. In December 2010, the IMF recommended the elaboration of a medium-term strategy with a view to laying the foundations of a modern revenue administration. Increased enforcement efforts, combined with economic growth, led to improved performance in terms of domestic tax revenue collection.

Concerning **free movement of goods and technical regulations**, there is no progress to report.

The PA and the EU stepped up dialogue on **sanitary and phyto-sanitary** (SPS) issues. A TAIEX SPS assessment mission visited the oPt to prepare a gap analysis on legislation and

¹ SIROCCO focused on deep sea containers loaded in China or the United Arab Emirates and arriving in countries of the Union for the Mediterranean. Around 40 million cigarettes, 1243 kg of hand-rolled tobacco, 7038 litres of alcohol and 8 million other counterfeits were seized during the operation.

institutional capacity. The PA is upgrading its SPS legislation and expressed interest in gradual approximation with EU standards with a view to developing a 'farm to fork' approach. In 2010, the PA adopted a law on animal health.

Improvements in the areas of starting a business and enforcing contracts contributed to a better **business climate**. The Company Law and the Consumer Protection Law are still awaiting adoption, and there is still no legal regime for **competition**.

No progress is to be reported in the areas of **accounting and auditing**.

In the field of **financial services**, the banking sector has been largely unaffected by the global economic crisis due to limited exposure to global financial markets and conservative lending practices. However, the sector has built up substantial credit exposure to the PA and its employees. This makes it particularly sensitive to public finances. The banking sector also continued to face an ongoing problem of excess liquidity as Israeli banks do not accept cash deposits from banks in the West Bank. In 2010, the Palestinian Monetary Authority (PMA) continued to implement Basel II standards, including guidelines on the disclosure of financial information and regulations governing mergers.

Progress was recorded in the enforcement of the 'fair lending regulations' and in the implementation of the new payment system. In August 2010, the PMA adopted regulations on mergers and acquisitions procedures. The PMA credit scoring system became fully operational in July 2010, as part of the online credit registry, and the system contributed to the growth recorded in private sector deposits. The president signed the new banking law in November 2010.

Other key areas

The PA drafted a revised law on **public procurement** that will unify procurement procedures in PA ministries and agencies. It will replace all the previous laws and acts governing PA procurement on its entry into force, planned for 2011.

The Palestinian Central Bureau of **Statistics** (PCBS) completed phase one of its 'Metadata System' and a special website was launched to serve that purpose. A special team was formed to revise, further develop, document, and disseminate metadata. So far, the PCBS has documented more than 20 surveys on the new system, which uses the Accelerated Data Programme. The first ever agriculture census was implemented in the oPt, partly funded by the EU. The PCBS continued to benefit from EU assistance including through the recently launched MEDSTAT III programme.

With a view to ensuring an appropriate legal framework for a modern statistics system based on impartiality, reliability, transparency and confidentiality of data, the PCBS carried out a Special Data Dissemination Standard (SDDS) exercise in order to check its ability to meet SDDS requirements in terms of periodicity and timeliness. In September 2010 the PCBS also received the 'ISO 9001' certificate for 2008.

The PA continued to strengthen **public finance management** through several actions, in particular enhancements to the financial management information system, including the introduction of a commitment control system and a budget preparation module accessible to all government departments.

On **enterprise policy**, the PA continued the implementation of the Euro-Mediterranean Charter for Enterprise and its participation in industrial cooperation activities. The European Palestinian Credit Guarantee Fund implemented the largest private sector recovery programme in the Gaza Strip. The ministry of national economy presented a new SME strategy during the first meeting of the Private Sector Development & Trade Sector Working Group in July 2010.

5. ENERGY, ENVIRONMENT, TRANSPORT, RESEARCH AND DEVELOPMENT

Due to the political situation, **transport** operators' activities remained mostly limited to the national territory. Nevertheless, the transport sector contributes directly to 8% of GDP. In 2010, the ministry of transport introduced a new regulation on the Higher Traffic Safety Council. The Palestinian Traffic Law and related regulations were completed. The ministry is involved in the 'national spatial plan project', preparing road and transport master plans, and it is completing studies to merge the current 90 public transport companies into four companies and redistribute the bus routes. Active Palestinian participation in the technical dialogue on transport through EUROMED structures and its involvement in setting up the future Trans-Mediterranean transport network are important.

The oPt remained heavily dependent on **energy** imports from Israel. Energy reforms continued on the basis of the energy action plan 2009–2011. The Palestinian Energy Authority launched an Energy Sector Strategy for 2011–2013. In February 2010, on the basis of the 2009 Electricity Law, the PA set up the Electricity Regulatory Council under the Palestinian Energy and Natural Resources Authority. It drafted implementing legislation for the electricity law on, for example, tariffs and the promotion of the use of renewable energy sources.

The PA continued to transfer electricity supply services from municipalities to newly established regional distribution companies. It began a feasibility study on the construction of a power plant in the Northern West Bank. It pursued the upgrade and reconstruction of electricity networks on the West Bank and in Gaza. More than 99% of Palestinians now have access to electricity although it remains a challenge to electrify villages between settlements. The PA pursued the installation of pre-paid electricity meters in the West Bank and started a pilot project in the Gaza Strip.

The PA continued the implementation of an energy efficiency programme and remained committed to developing the use of renewable energy, also in trilateral cooperation with the EU and Israel. In 2010, with EU support, the PA began preparations for the electrification of 50 isolated West Bank villages through the development of photovoltaic solar projects. The PA also continued to work on a pilot wind energy project for the Hebron hospital and finalised a feasibility study on a 10 MW solar plant in Jericho.

The EU remains committed to re-activating trilateral energy cooperation with the Palestinian Authority and Israel, which is stalled due to the regional conflict. The aim remains establishing a joint energy office and facilitating the development of projects of common interest, such as the joint 'Solar for Peace' initiative.

In the field of **climate change**, the Council of Ministers approved the setting-up of a National Committee on Climate Change.

The state of the **environment** in the Gaza Strip remains a serious concern. Works on the first phase of the Northern Gaza wastewater treatment plant were concluded and preparations for the second phase are under way. In the West Bank, preparations for the construction of wastewater treatment plants and landfills continued.

The EQA plans to review and update the environmental law and other related bylaws. Draft bylaws were prepared on waste management, hunting, nature reserves and stone quarries. Environmental standards are being developed or updated on the use and disposal of treated sludge, the treatment of industrial wastewater, ambient air quality and gas emissions from heavy duty vehicles. The EQA developed an Environment Sector Strategy for 2011–2013 and updated the emergency plan on nature protection. The Council of Ministers adopted a National Solid Waste Management Strategy and a Wastewater Strategy for 2011–2013.

A major challenge is to revive administrative implementation capacity. There is a need for coordination between relevant authorities with regard to the management and the use of fresh water resources.

Representatives of the PA participated in activities under the Horizon 2020 Initiative and the EU Water Initiative. Cooperation and information exchange took place between the European Commission and the PA, including on water, waste management, de-pollution and management of environmental information.

In the field of **civil protection**, representatives of the PA were actively involved in the Euro-Mediterranean Programme for Prevention, Preparedness and Response to natural and man-made Disasters, which has reached mid-term implementation.

Concerning **information society** issues, the Ministry of Telecommunications and Information Technology issued ‘The Palestinian National Authority Statement of National Telecommunications Policy’ in April 2010. The difficult situation with Israel does not allow the oPt authorities to manage spectrum — the rights to use frequencies to operate in the oPT are granted by the Israeli authorities — and available frequencies are apparently insufficient to cope with market developments (two active operators, with total penetration reaching 80 %). 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 yet to be regulated.

Concerning **audiovisual** issues, the ministry of information submitted a new draft of the broadcasting law to the Cabinet in March 2010. This draft addressed concerns expressed about an earlier version of the law which imposed certain restrictions on media freedom.

In the area of **research and technology**, participation by Palestinian researchers in Seventh Framework Programme (FP7) up to March 2011 has substantially improved (82 Palestinian applicants, of which 11 are main listed) — mainly in agriculture, the environment and socio-economic humanities — accessing about EUR 1 million.

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

In March 2010, the ministries of education and higher education adopted the Education Development Strategic Plan as the new Education Strategy for 2011–13 with renewed focus on equitable access, quality, planning and management, special needs and education in Jerusalem. Draft strategies on early childhood and adult **education** were also prepared.

Education accounts for over 30% of PA expenditure with plans for rapid expansion, though investment remains heavily dependent on donor support. In October 2010, staff and board members of the Commission for the Development of the Teaching Profession were designated. Adoption of the national teaching professional standards and teacher licensing can only proceed when the Commission has been set up. The ministry defined and tested core standards in pilot classrooms as of September 2010 alongside a draft teacher code of conduct. In the area of **higher education**, the EU/World Bank Tertiary Education project concluded in December 2010 with good results in terms of programme development and institutional management as well as on improving competitiveness and developing partnerships with industry.

Improving the quality and labour-market relevance of **vocational training** and education remains a priority under the Education Strategy. The ministries of education and higher education and of labour adopted a revised Technical Education and **Vocational Training** strategy in November 2010 to establish a coherent national system based on technical skills development for employment. The EU undertook to support its implementation through a three-year sector support programme. It will foster local development through reinforced partnerships between public training institutions and the private sector while anticipating labour market training demand. Both ministries demonstrated strong commitment to the **Torino Process** spearheaded by the European Training Foundation in particular on the study on linking education and business. In this context, the development of entrepreneurial learning and the development of quality assurance systems were identified for future work.

The **Tempus** programme continued to support reform of higher education and greater cooperation with EU universities with three projects selected under the third Tempus IV call for proposals. No Palestinian students or scholars benefited from scholarships under **Erasmus Mundus** Action 1 in 2010 but student and academic mobility was enhanced through the expected award of 37 grants for the academic year 2010–11 under Action 2. Greater effort is required to ensure Palestinian participation in all actions. For the first time, in 2010 a **Jean Monnet** module on European integration and a project for a conference on the EU and the Middle East were awarded to An-Najah National University.

The ministry of **youth** and sport published its Cross-Sector National **Strategy for Youth** 2011–13 in November incorporating joint policy plans in areas such as education, health, the environment, culture, sports and recreation. Its implementation demands continuing multi-stakeholder involvement. 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. In November 2010, the ministry confirmed Palestinian participation in Euro-Med Youth IV, officially launching the programme and capacity building activities in December.

In the area of **culture**, Palestinian organisations continued active participation in the regional Euromed Heritage IV. In addition, three Palestinian cultural organisations were selected under the call for proposals of the 2010 ENP Special Action under the Culture Programme.

In terms of cooperation with **civil society**, the European Union's Partnership for Peace Programme continued support for projects contributing to conflict resolution and mutual understanding in areas such as science education, protection of shared cultural heritage and peace education. However, the political situation continues to seriously impede project implementation, principally due to obstacles to free movement and access.

In March 2010, the PA adopted a new **health** strategy covering 2011–2013. Its priorities include: governance, human resources, healthy lifestyle, access to quality health services, financing, aid effectiveness, public-private partnerships and cross-sectoral cooperation. The EU continued to substantially support the Palestinian health sector. The PA built or expanded primary health clinics and, in August 2010, opened the Ramallah medical complex. The political situation in the region (e.g. the split between the Gaza Strip and the West Bank, the situation in East Jerusalem, Israeli restrictions on the movement of persons and goods) continues to have a negative impact on the physical and mental health of Palestinians. The health situation in Gaza, particularly, is deteriorating. In March 2010, in the context of last year's influenza A (H1N1) epidemic, the EU and the PA established communication channels for the exchange of epidemiological information in the event of a public health emergency of international concern. The PA pursued participation in the 'Episouth' network on communicable diseases for the EU, Mediterranean and Balkan countries.

The EU has increased the annual allocations it provides to support Palestinian health, education and economic-development institutions in East Jerusalem.

7. FINANCIAL COOPERATION — 2010 KEY FACTS AND FIGURES

Cooperation framework

Due to the continuing emergency situation in the West Bank and Gaza there is no National Indicative Programme (NIP) under the European Neighbourhood and Partnership Instrument (ENPI) covering the period 2011–2013. Funding committed under the bilateral allocation of the ENPI to the occupied Palestinian territory for 2010 came to EUR 377.9 million.

Implementation

Most of the assistance is channelled through the '*Mécanisme Palestino-Européen de Gestion de l'Aide Socio-Economique*' (PEGASE) which is geared to supporting the achievement of key policy objectives as outlined in the Palestinian Reform and Development Plan (PRDP) covering the years 2007–2010 and the Palestinian National Plan (2011–2013) soon to be adopted. PEGASE provides significant direct financial support to the PA to pay the salaries and pensions of essential service providers, both in Gaza and the West Bank, in particular doctors, nurses and schoolteachers. PEGASE is also intended to help the PA become the cornerstone of the future Palestinian State by moving away from the emergency assistance provided under the previous Temporary Implementation Mechanism and focusing more on institutional capacity-building and social and economic development. To this end, the EU is investing substantial resources in reinforcing the rule of law through support to the main actors in the justice sector and to the civil police. It has also actively supported the reform of the social security system.

The EU also provides significant funding to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) responsible for the provision of health, education and social services to the Palestine refugee population in West Bank and Gaza, and in the neighbouring countries. UNRWA benefited in 2010 from a total of EUR 102.7 million from ENPI and other EU instruments.

The implementation of the measures covered by the 2009 and 2010 financial years is under way. Progress is being made in the provision of infrastructure facilities for various Palestinian institutions and of technical assistance to PA ministries which have a vital role to play in state-building, notably the ministry of social affairs, ministry of finance and ministry of planning and administrative development. Projects aimed at reinforcing Palestinian schools and hospitals in East Jerusalem are also being implemented.

In addition to this bilateral allocation, the occupied Palestinian territory continues to benefit from cooperation activities financed under the ENPI multi-country and regional programmes, in particular the 'Partnership for Peace' initiative for civil society organisations.

Other EU instruments supplement the ENPI assistance package. The oPt benefited from cooperation activities financed under horizontal instruments such as the European Instrument for Democracy and Human Rights (EIDHR- oPt continues to benefit from its country-based support strategy, with an allocation of EUR 1.2 million) and the Development Cooperation Instrument (DCI) thematic programmes: Non-State Actors and Local Authorities in Development (NSA-LA), Investing in People and Food Security. These thematic lines have the additional advantage of permitting the EU to intervene directly in support of civil society organizations in the Gaza Strip. The Food Facility provided EUR 39.7 million for the period January 2009 to June 2011, taking account in particular of the difficult situation in the Gaza Strip. The occupied Palestinian territory also benefited from humanitarian assistance provided by the European Commission (EUR 51 million in 2010, of which EUR 14 million is allocated to UNRWA). Overall the total allocation for the Palestinian refugees in the oPt and Lebanon in 2010 amounts to EUR 58 million and the total allocation to UNRWA equals EUR 16.5 million.

Donor coordination

The EU is the largest donor to the PA and UNRWA and plays a major role as a reliable, predictable and punctual provider of support. Under a specific EU lead donor group and with the support of the European Commission as secretariat and facilitator, 12 EU sector strategies have been developed in cooperation with the PA in the following sectors: Security (UK), Justice (COM), Public Finance Management (COM), Education (France), Health (Italy), Private Sector Development (COM), Agriculture (Spain), Water and Waste Water (Germany), Electricity (COM), Jerusalem (COM), Municipal Development and Local Government (Denmark) and Refugees (COM). This represents significant progress towards the Paris Declaration aid effectiveness principles, and will soon allow coordinated programming between the EU, its member states and the PA.