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**Implementation of the European Neighbourhood Policy in Palestine
Progress in 2012 and recommendations for action**

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

European Neighbourhood Policy: Working towards a Stronger Partnership

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS

This document reports on overall progress made on the implementation of the EU-Palestinian Authority (PA) European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2012, although developments outside this period are also considered when deemed relevant. It is not a general overview of the political and economic situation in Palestine. For information on regional and multilateral sector processes readers should also refer to the Partnership for Democracy and Shared Prosperity progress report.

The EU-PA ENP Action Plan was signed in May 2005 for a period of five years. Its validity has since been extended. On 24 October 2012, the EU's High Representative for Foreign Affairs and Security Policy/ Commission Vice President (HR/VP) Catherine Ashton and Palestinian Prime Minister Salam Fayyad announced the conclusion of negotiations on a new ENP Action Plan, which will be adopted following the completion of the two sides' respective internal procedures. In 2012, the number of EU-PA ENP subcommittees also increased, marking a landmark year in the PA's participation in the ENP. All six subcommittees and the Joint Committee were convened in 2012.

Overall the PA made reasonable progress in implementing the Action Plan in the areas in which it is able to exercise control. The challenges imposed primarily by the occupation and the deepening fiscal crisis continued to have an impact on the PA, threatening its viability and undermining its ability to deliver essential services to the population. These realities, coupled with the ongoing division between the West Bank and the Gaza Strip, the inability to hold national elections and the continued suspension of the work of the legislature all risk seriously undermining achievements in the state-building process under the leadership of President Mahmoud Abbas and Prime Minister Salam Fayyad.

On 29 November the United Nations General Assembly (UNGA) voted in favour of non-member Observer State status in the United Nations for Palestine. In response, Israel did not transfer the clearance revenues it collects on behalf of PA using the money instead largely to pay off PA debts to Israeli utilities. The transfer of tax revenues is a contractual obligation under the Paris Protocol. Israel also accelerated settlement activities beyond the Green Line by depositing of 3,426 settlement housing units in the E1 area for approval and approving major construction plans in the settlements of Ramat Shlomo, Givat Hamatos and Gilo.

The UNGA vote was preceded by a major escalation of violence in the Gaza Strip and Israel, which concluded with an Egyptian-brokered ceasefire agreement on 21 November. As a result of eight days of fighting an estimated 158 Palestinians were killed, including 103 civilians (33 children and 13 women). Approximately 1,269 Palestinians were reported injured. Six Israelis (four civilians and two soldiers) were reported killed by Palestinian rocket fire and 224 Israelis were injured, the vast majority being civilians. A terrorist attack in Tel Aviv on 21 November injured 23 people, three severely.

There was no tangible progress in the implementation of the reconciliation agreement between Fatah and Hamas signed in 2011, which should have led to the holding of general elections. On a positive note, Palestinians took part in a participatory democratic process for the first time in six years as municipal elections were held in the West Bank in October 2012. In a local statement, the EU welcomed the holding of these well-organised elections and stated that it looked forward to future elections across the occupied Palestinian territory. Since the Gaza escalation of November 2012 and the successful UN General Assembly bid led by President Abbas, there have been signs that Fatah and Hamas are adopting a more considered approach towards reconciliation with both sides allowing their respective political opponents to demonstrate freely towards the end of the year.

In 2012, there was some progress on human rights issues such as the development of a PA national action plan for human rights and the removal of security clearance for public sector recruitment, yet various human rights violations, e.g. of freedom of expression and assembly, denote an overall diminishing of democratic space. In the West Bank, no major progress was made security sector reform, one of the key recommendations of last year's progress report. There was also a worrying increase in alleged human rights abuses by the security forces. There was some progress in the justice sector but more needs to be done to streamline the sector in line with international standards. The human rights situation in the Gaza Strip, where 10 death sentences were carried out in 2012, continued to deteriorate.

GDP growth in Palestine is expected to have decelerated to around 6.0% in 2012 from 9.9% in 2011. Unemployment is high and rising in both the Gaza Strip and the West Bank. By the end of 2012, the PA's financing gap was approximately USD600 million resulting from a shortfall of donor aid (direct financial support), higher-than-expected expenditure and lower-than-expected revenue with a negative effect on growth. The decision by Israel at the end of 2012 to use clearance revenues, which account for about two thirds of Palestinian budget revenues, to repay debts further exacerbated the PA's pre-existing financial crisis. Beyond the immediate reasons for the current fiscal crisis, there are a number of structural problems severely hindering the development of the Palestinian economy. These include restrictions on access and movement including the separation of the East Jerusalem market from the rest of the West Bank, the restrictions on Area C and the Gaza closure.

With regard to social protection, progress was achieved in addressing inclusion and exclusion errors in the Cash Transfer Programme, the most important component of existing social assistance schemes across Palestine, and in facilitating coherence and convergence in the targeting and delivery of services. The PA continued to make good progress in the energy sector with the adoption of a national strategy for renewable energy and an energy efficiency action plan. Promising reforms begun in the water and sanitation sector.

Most of the key recommendations contained in the last year's ENP progress report have yet to be addressed, and remain valid. Some have been acted on however, including holding local elections, further improving public finance management and developing

costing models in the social protection sector. On the basis of this year's report and with a view to sustained implementation of the ENP Action Plan in 2013, the Palestinian Authority is invited to¹:

- Advance intra-Palestinian reconciliation in line with the principles set out in President Abbas' speech of 4 May 2011 based on a commitment to the two-state solution.
- Work towards holding presidential and legislative elections in the oPt in line with international standards.
- Reform and develop the Palestinian security sector, institutionalising democratic control, promoting an environment conducive to civilian oversight and accountability for individuals suspected of abuses, and ensuring full respect of human rights by all security sector agencies, in particular for all detainees.
- Adopt a unified penal code which adheres to international human rights standards, and strengthens legal guarantees for all fundamental freedoms. Fully abide by the de facto moratorium on the death penalty and work towards a de jure moratorium.
- Clarify the responsibilities of the three main judicial institutions namely the Ministry of Justice, the Office of the Attorney General and the High Judicial Council.
- Rationalise recurrent expenditure by taking steps to reduce in particular non-wage costs, to ensure the sustainability over time of social protection spending as well as by taking steps towards pension reform.
- Continue developing the necessary legal and institutional framework for an integrated water and wastewater management system to ensure equitable service delivery and resource sustainability all over the oPt.
- Start work on a post -2014 Palestinian National Development Plan
- Sign and ratify the regional Convention on pan-Euro-Mediterranean preferential rules of origin.

Governance (including reform of the security and justice systems), water and private sector development are focal sectors of EU co-operation with the Palestinian Authority, with a number of ongoing projects intended to assist the PA in making progress towards accomplishing the recommendations.

¹ Most of the recommendations from last year's progress report remain valid.

2. POLITICAL DIALOGUE AND REFORM

Towards deep and sustainable democracy

The democratic legitimacy of the PA continued to decrease in the absence of national elections. Due to the ongoing internal Palestinian political split between West Bank and the Gaza Strip, the Palestinian Legislative Council remains paralysed and laws continue to be issued by Presidential Decree. Holding presidential and legislative elections across Palestine remains a priority precondition for the reinvigoration of democratic legitimacy, institutional sustainability and the reinforcement of good governance. A positive development was the holding of local elections on 20 October for 93 out of 353 local councils. This was the first democratic exercise in Palestine since 2006, despite the fact that not all political factions participated in the polls and the fact that they took place only in the West Bank. A second round of elections, scheduled for 24 November was postponed as a result of the Gaza escalation in November and took place on 22 December.

The implementation of the reconciliation agreement of May 2011 aimed at bridging the internal Palestinian split, including through the organisation of presidential and legislative elections, did not yield concrete results in 2012. Brokered by Qatar, President Abbas and Hamas political leader Khaled Meshaal signed a follow-up agreement on reconciliation (the 'Doha Declaration') in Qatar on 6 February 2012. In May, Fatah and Hamas negotiators signed another reconciliation deal in Cairo, including a timeline for its implementation. However, on 2 July, Hamas suspended voter registration operations, citing obstacles that needed to be removed by the parties involved. The reconciliation process has since been stalled. Following the Gaza escalation of November 2012, both sides once again pledged their commitment to reconciliation.

The lack of respect by the PA for **freedom of expression and freedom of assembly** was a cause of increasing concern particularly in light of the arrests of journalists and bloggers and the violent suppression of peaceful demonstrations in July. 2012 also witnessed an increase in abuses of **media freedom** following a previous deterioration with regards to online media and the use of social networks. This included serious violations by the security forces, illegal detention, threats, pressure and the prevention of printing and distribution of banned papers despite a relevant decision to allow their redistribution. During one of the PA's largest campaigns against political activists in September - mainly from the Hamas movement - a number of journalists were among more than 100 people arrested. However, during the protests against the austerity measures announced by the authorities in September, there were no further attacks by PA security forces on journalists or demonstrators in contrast to the public attacks on journalists in June. Following the Gaza escalation in November 2012, Fatah allowed Hamas to organise anniversary rallies across the West Bank for the first time since 2007. In return, Hamas allowed Fatah to celebrate its 48th anniversary in Gaza. There was no progress on the legal framework for the press.

On a positive note, the PA Cabinet decided in May that security clearance was no longer required for public sector jobs. At the EU-PLO Joint Committee in December 2012, the

Palestinian side stated that this apply retroactively to dismissed teachers, whose jobs will be reinstated. Various violations of **freedom of association** continued to be reported in both the West Bank and the Gaza Strip. The requirement for security clearance is still being applied to the registration of NGOs in violation of the 2000 NGO law. Rejected registrations, the forced election of board members and even the closure of NGOs continued to be reported. Moreover, court rulings ordering the re-opening of forcibly-closed NGOs were not implemented. The Presidential Decree issued on 28 April 2011 requiring the transfer of all assets of dissolved NGOs to the PA, which contravenes the NGO Law, remains in force.

In **Gaza**, violations of fundamental freedoms by the de-facto authorities continued. Media freedom continues to deteriorate, with journalists being attacked by security forces, severe restrictions on journalists' movements and the Palestinian Journalists' union prevented from holding activities. The space for civil society has also been restricted. NGOs are requested by the de facto authorities to register and to submit their books for auditing.

Other human rights and governance-related issues

The PA started the process of developing a National Action Plan for human rights with a view to incorporating it into the new Palestinian National Development Plan.

In the West Bank the de facto moratorium on the **death penalty** continued. The new draft penal code abolishing the death penalty has still not been adopted. In a number of local statements, the EU condemned the death sentences issued and carried out in the Gaza Strip. In April, three people were executed. During the Gaza escalation of late 2012, six suspected collaborators were summarily executed without any recourse to judicial process.

Concerning the **prison system**, detention conditions in the West Bank and the Gaza Strip continued to be a matter of concern, with the Independent Commission for Human Rights (ICHR) noting ongoing serious violations of detainees' rights by security agencies and patterns of **ill-treatment and torture** across Palestine.

Freedom of religion, minority rights: Christians are well-represented at the political level. However, many Christians complain of increasing pressure in Palestinian society to accommodate conservative Islamic values, especially in Gaza.

Youth and women's socio-economic vulnerability remains a major challenge for Palestinian society. The latest survey by the Palestinian Central Bureau of Statistics (PCBS) on violence in Palestinian society, published in December 2011, showed an increase in all types of violence, with worrying rates of domestic violence against women (37% of married women were exposed to one form of violence by their husbands; 29.9% in the West Bank compared to 51.1% in Gaza Strip). The gap between male and female labour participation continues to be very high (68.9% against 17.3%) and their participation in Palestinian political life is still very weak. In order to increase the number of women candidates, the Palestinian Liberation Organization (PLO) reform committee

agreed in June 2012 that party lists for upcoming Palestinian National Council elections must have at least one woman among the top three candidates. The preparation of a national information plan on women rights was announced. The use of **children** in the labour market is a concern, with 3.5% of all children aged 10-17 years being employed in Palestine (4.9% in the West Bank and 1.4% in Gaza Strip).

Concerning **LGBT rights**, Palestinian law, based on the 1960 Jordanian penal code, prohibits homosexual activity, although in practice there are no reports of the PA having prosecuted individuals suspected of such activity. Societal discrimination based on cultural and religious traditions is commonplace.

On **public administration**, common areas of concern for the EU and PA continue to be: continuing to improve the legal framework for civil service management, modernising the civil service human resources management system, gender mainstreaming in the public administration and improving the capacity of administrative bodies to streamline structures and internal work procedures.

The Israeli occupation continued to have an adverse impact on freedom of religion, economic and social rights, children's rights and property rights.

Cooperation on foreign and security policy, regional and international issues, conflict prevention and crisis management

In 2012, the EU continued to encourage both the Israelis and the Palestinians to return to the negotiating table. However, the Palestinians did not stray from their position that they could only re-enter negotiations if Israeli settlement construction, including in East Jerusalem, was frozen, a demand with which Israel did not comply. For most of 2012, no major initiative was taken by the parties, or by any other key actor of the peace process, to try to re-start negotiations. In the Foreign Affairs Council conclusions of May and December 2012 on the Middle East Peace Process (MEPP), the EU reaffirmed its commitment to a two-state solution and expressed grave concern about developments on the ground, which threaten to make a two-state solution impossible.

In November 2012, a major escalation of violence between armed groups in Gaza and Israel took place, leading to the death of more than 160 Palestinians and five Israelis. A ceasefire was eventually agreed in indirect negotiations between Israel and the de-facto authorities in Gaza, largely thanks to mediation efforts by Egyptian President Mohamed Morsi and the United States. The terms of the ceasefire agreement call for further negotiations aiming at opening the crossings into Gaza. In the Foreign Affairs Council conclusions of December 2012, the EU expressed its readiness to make use of its instruments in support of the parties' efforts, including the possible reactivation, in the appropriate way, of the EU Border Assistance Mission in Rafah.

On 29 November, Palestine was granted non-member observer State status in the United Nations, through a vote in the UNGA. After this vote, Israel announced that it would increase the construction of settlements in the West Bank, in particular in the so-called E1 area and in East Jerusalem and that it would withhold the transfer of Palestinian tax

and customs revenues and offset these revenues against Palestinian debts to Israel. This Israeli reaction was widely criticised by the international community, including by the EU. On 10 December, the EU Council adopted Conclusions expressing deep dismay and strong opposition to Israeli plans for new settlement construction stating that the EU would closely monitor the situation and its broader implications, and act accordingly. Efforts are ongoing among key players of the international community, notably in contacts between Middle East Quartet members, to try to move beyond the current confrontation between the parties, to create the conditions for a resumption of direct negotiations without pre-conditions.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy²

GDP growth in Palestine is expected to have slowed down to 6.2% year-on-year in the first three quarters of 2012 from 9.9% in 2011. GDP growth in the West Bank slowed down to 5.5% in the same period, reflecting slower easing of restrictions and a decline in donor aid, which in turn forced the Government to pursue fiscal retrenchment. In Gaza, after an average growth rate of 21% in the last two years, growth slowed to 7.7% year-on-year in the first three quarters. **Inflation** reached 2.8% in 2012, which shows no significant difference from the inflation rate in 2011.

Unemployment is high and rising, up from 20.9% in 2011 to an estimated 22% in 2012. Unemployment is largely a consequence of Israeli restrictions in Area C, the closure of Gaza, and restrictions on the number of Palestinians allowed working in Israel. East Jerusalem, always the hub of Palestinian economic activity is increasingly cut off from its natural hinterland, thereby adding to the economic problems quite apart from political considerations.

The fiscal situation remains the PA's main problem. Donor shortfalls combined with higher-than-expected expenditure and lower-than-expected revenue resulted in a large financing gap in 2012. This led to growing debts to banks and significant payment arrears, including delays in wage payments to public sector employees, triggering mass demonstrations in September 2012. The crisis was exacerbated by Israel's actions following Palestine's successful bid for non-member Observer State status at the UN. Israel did not transfer the clearance revenues it collects on behalf of the PA using the money to pay off PA debts to Israeli utilities. At the same time, the Arab states were slow to act on their promise for a USD 100 million a month 'safety net' in response to the sanctions. Clearance revenue, collected by Israel, accounts for 75% of the PA's total revenue. The Fayyad-Steinitz agreement, concluded in July 2012, aims at enhancing collection and minimizing fiscal leakages. Its implementation should be a top priority for both the PA and Israel. The EU is the largest contributor to the PA's recurrent expenditure channelled through the PEGASE mechanism.

² Figures on GDP, inflation, trade and employment are generally from Eurostat based on data supplied by the national statistical offices; or IMF or Commission Staff estimates, as indicated in the Statistical Annex. When other data sources are used these are then indicated.

The **trade deficit** amounted to 45% of GDP in 2011 and is expected to remain high at 40% of GDP in 2012. It is only partly mitigated by positive net transfers and translates into a **current account deficit** equal to 36.7% of GDP in 2011 and an expected 30.7% of GDP for 2012 (excluding official transfers; 19.7% when included). Official reserves, though improving in the first eight months of 2012, cover less than two months of imports.

The overall unemployment rate is expected to be at 22%, with a higher rate in the Gaza Strip than in the West Bank. To help boost **employment**, a technical-vocational education and training strategy and a one-stop-shop system of employment services at local level were developed. A labour market information system was put in place to match labour market demand and supply. The development of a Palestinian jobs classification and qualifications system was launched. An Employment and Social Protection Fund was established but remained underfunded.

The national cash transfer programme (CTP), administered by the Ministry of Social Affairs (MoSA), remained the most substantive component of existing **social assistance** schemes in the West Bank and Gaza. In 2012, over 97,000 households received assistance under the programme, of which half were in Gaza. The annual CTP budget was around EUR 85.5 million, and was funded by the EU (EUR 40.85 million just under 47.8% of the total budget, earmarked for support to families living in extreme poverty), the PA (48.4%) and the World Bank (3.8%). A national exercise to map pockets of **poverty** in the West Bank and Gaza has started in close cooperation with the PCBS with the support of the World Bank.

Progress was achieved in facilitating coherence and convergence in the targeting and delivery of social services. In addition to cash, other types of assistance were also provided on the basis of CTP targeting, i.e. food, health and education services. Findings of a targeting assessment of the CTP undertaken by the World Bank in July also fed into discussions that should lead to the formulation of a medium term social assistance strategy. This strategy should pave the way for a modern and diversified social assistance system, nested within a comprehensive social protection strategy that would also include social insurance. A National Committee led by the MoSA was established at the level of the Council of Ministers to look into the latter. A number of action plans relating to disability, juvenile justice and child protection were developed and implemented. A cross-sectoral Social Protection Sector Strategy Action Plan (2011-2013) was also adopted.

Support for the institutional capacity building in the MoSA continued to be provided through EU-funded technical assistance (EUR 2.2 million). This capacity-building work should continue with follow-up assistance focusing on (i) strengthening the capacity of the PA to design, manage, monitor and evaluate social protection strategies and policies; (ii) developing the capacity of the MoSA to plan, manage, deliver and monitor services with increased community and private sector involvement; and (iii) improving the functioning of the MoSA at central and local levels.

4. TRADE RELATED ISSUES, MARKET AND REGULATORY REFORM

The oPt remained the smallest trading partner for the EU in the Euro-Mediterranean region. **Bilateral trade** flows slightly increased and during the first eleven months of 2012 amounted to EUR 106 million. EU exports to oPt consisted mainly of machinery and transport equipment. EU imports from oPt remained extremely small and consisted mainly of agricultural and processed agricultural products. One of the main reasons for this underperformance continues to be the Israeli-imposed 'closure system'. The US-brokered Israel-PA Agreement on Movement and Access signed in 2005 has not been fully implemented. The border crossing regime has become a major factor contributing to the Palestinian economic crisis.

The Agreement between the EU and the PA on further liberalisation of trade in agriculture, processed agricultural products, and fish and fisheries products entered into force in January 2012.

Palestinian **customs** continued to use the automated system for customs data ASYCUDA, which now allows data to be retrieved from the Israeli declarations. With EU backing, the PA continued its efforts to become an observer at the World Customs Organisation. The PA was in the process of adopting pan-Euro-Med protocols on rules of origin with the EFTA States and Turkey. Once completed, this will allow diagonal cumulation of origin between all these parties and the EU. The PA has yet to sign and ratify the regional Convention on pan-Euro-Mediterranean preferential rules of origin. PA participation in the work of the Pan-Euro-Med Working Group should be strengthened.

Regarding **sanitary and phyto-sanitary** (SPS) issues, a food safety strategy and a food safety law remained in preparation. Some laboratories were strengthened. Various gaps in legislation and institutional capacity (administration, training for farmers and business operators, infrastructure) remain to be addressed. The PA participated in a Commission/European Food Safety Agency/TAIEX supported Mediterranean seminar on animal identification and disease control measures that was held in Cyprus in September.

In the area of **free movement of goods** and **technical regulations**, the PA started work on the Agreement on Conformity Assessment and Acceptance (ACAA) of Industrial Products, with two priority sectors: construction (stone and marble) and pharmaceutical products. The PA needs to revamp its regulatory framework to be ready to conclude this Agreement. The European Commission invited the PA to submit legislative texts in priority sectors for comments, and to set up an independent accreditation body. However, progress in this area was hampered by the absence of a medium term strategy for quality infrastructure. The Palestinian Standards Institute (PSI) needs to be strengthened with a view to ensuring consumer protection and improving the competitiveness of Palestinian products.

The **business climate** continues to be hampered by the restrictions on movement and access imposed by Israel on both the West Bank and Gaza. These measures restrict the movement of goods and people both within and across borders, thereby increasing transaction costs, affecting business competitiveness and strongly discouraging domestic

and foreign investment. This is more acute with regard to the substantial potential for private sector development in Area C, as it holds the majority of the West Bank's water reserves, agricultural land and natural resources. Compared to the previous year, the West Bank and Gaza remained in 135th place³ (out of 185) in the ease of doing business ranking in the World Bank's 'Doing Business 2013' annual report.

In the area of **financial services**, the banking sector remained stable and credit conditions improved. The share of non-performing loans decreased from 8% in late 2008 to about 3% in June 2012. The Palestinian Monetary Authority continued to progress towards the implementation of Basel II/III standards and worked with commercial banks' stress tests in line with these principles.

Other key areas

In the area of **taxation**, the PA implemented measures aiming at reinforcing its tax administration, expanding the tax base, and improving compliance. Regarding income tax, the PA increased the top corporate tax rate from 15% to 20%, and implemented measures to improve compliance, starting with the large taxpayers. Income tax exemptions for 13 large companies were suspended for two years. The VAT rate was increased from 14.5% to 15% and measures improving compliance were under consideration. In July, the PA and the Government of Israel reached an understanding on a set of measures aiming at enhancing the mechanisms through which Israel collects certain customs and taxation revenues on behalf of the Palestinian Authority. The implementation of these measures could potentially significantly increase PA revenues over time.

The PA prepared a draft law on **intellectual property rights (IPR)**. It is expected that its adoption will improve investment climate due to higher level of IPR protection.

In the area of **public procurement**, the PA prepared measures to implement the 2011 law.

A light peer review of the Palestinian Central Bureau of **Statistics (PCBS)** was carried out in February and recommendations for improvement were being addressed. The PCBS successfully joined the IMF-based Special Data Dissemination Standard (SDDS). The final results of the 2007 Population and Housing Census for the Gaza Strip were published, and data on disability were collected in the Gaza Strip. Final results of the first Agricultural Census in 2010 were made available and the first census of businesses was conducted.

The **enterprise policy** of the PA concentrated on financial assistance to businesses that need to restore production machinery, office equipment and rebuild facilities and other business premises damaged or destroyed by the conflict, with substantial support from international donors, including the EU. The PA continued to contribute to the Euro-

³ Comparison was made with the 'Doing Business 2012' ranking, which was adjusted for changes in methodology and any revision of data due to corrections. For more information, see <http://www.doingbusiness.org>.

Mediterranean industrial cooperation and shared knowledge, tools and good practice in areas covered by the Euro-Mediterranean Charter for Enterprise and in specific sectors: textiles and clothing, tourism, raw materials and space.

The financial statement for 2009 was audited in late 2011 and the audit of the 2010 financial statement was expected to be finalised in late 2012. The State Audit and Administrative Control Bureau (SAACB) is finalising a new draft **external audit** law. Since 2010, the SAACB has received technical assistance from the EU under a three-year project aiming at supporting its efforts to become an independent supreme audit institution in line with INTOSAI (International Organisation of Supreme Audit Institutions) standards.

As part of the process of stepping up **internal auditing** and progressively decentralising it to line ministries, an Internal Audit Centralisation Harmonisation Unit was set up in July in the Ministry of Finance to ensure further development of internal audit. The EU supports this reform by providing technical assistance.

In the area of **company law**, a law on debt resolution and bankruptcy was drafted to protect both lenders and borrowers, thus improving the problematic access to finance for SMEs.

No significant developments can be reported in the area of **movements of capital**.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

During the reporting period, no major progress was made on reform of the **security sector**, except to some extent for the Palestinian Civil Police (PCP). The quality of dialogue with the Ministry of Interior (MoI) has not improved, especially in the light of increased concerns about human rights abuses, the lack of a proper delineation of responsibilities between the different security forces and practices of the security forces that are far from internationally accepted practices (see Chapter 2). Donors demand more relevant feedback on the updated priorities of the security sector strategy and reiterated the need to evaluate the skills and competences of the security forces, the efficiency of the training provided and the availability of equipment and logistical requirements, framed within the financial crisis and the need for sustainable development. There is a need for a better monitoring and evaluation system and better reporting from donors and implementers with the MoI, and a need for the Palestinian counterparts to provide donors with clear information on their capacity for direct implementation of development programs through PA systems. One of the priorities identified in the Palestinian National Development Plan 2011-2013 involves strengthening the transparency and public accountability of the security services in order to build strong community relations with citizens and to ensure protection of human rights. As regards accountability and civilian oversight, the UN Development Programme, with the EU Coordination Office for Palestinian Police Support (EUPOL COPPS), launched a Joint Programme Ensuring police internal accountability, enhancing national anti-corruption efforts, promoting civil society oversight. Within this framework, an accountability strategy including a PCP

complaints and oversight mechanism is being developed with the full support of the PCP. EUREP is finalising a two-year programme with the Geneva Centre for the Democratic Control of Armed Forces.

Concerning the operational success of the security sector, some progress has been done. The MoI has presented some figures using indicators derived from the records of the security institutions, showing a decrease in crime rates in Palestine in 2011. However, the occupation continues to have a serious impact and weakens the security forces' capacity to deal with incidents and crimes professionally and effectively. One positive development was the opening in July of the Palestinian College for Police and Sciences (PCPS) which should ensure a more ethical, standardised and consistent training basis for the entire PCP. The PCP's readiness to engage with EUPOL COPPS and donors to roll out capacity building to the districts is another step forward as is the development of a family protection unit focusing on domestic and gender-based violence.

With regards to the **justice sector**, the three main justice institutions, the Ministry of Justice (MoJ), the High Judicial Council (HJC) and the Attorney General's Office (AGO) continued to develop. The following important achievements took place: modernisation of parts of the court infrastructure and the MoJ's judicial record premises, modernisation of the technical equipment (in particular information technology) and further improvement of professional capacity through numerous trainings events for judges and prosecutors. Awareness of gender-related issues in the justice sector has improved: Gender indicators were introduced to evaluate the performance of judicial institutions in co-operation with the PCBS and the MoJ is working on a gender strategy. A new organisational structure for the AGO was adopted in early 2012 with the support of the MoJ. Finally, several institutions signed MoUs for use of the electronic case-management software MIZAN II linking between the institutions to provide more effective case management; MIZAN II will also be made available also to religious courts.

Despite these improvements, further challenges remain and actions need to be taken especially in the following areas: coordination among the different institutions: clarification of roles and responsibilities, harmonising, updating and developing legislation (and drafting legislative plan clearly setting out roles, responsibilities and timelines), developing a comprehensive system for mapping and inspecting of prisons and detention facilities enabling security forces to comply with judicial decisions, consolidating the decision of January 2011 ending the practice of prosecuting civilians in military courts; ensuring that human rights, as enshrined in the Basic Law, are to the fore in PA institutions and judicial institutions; reforming the Palestinian Judicial Training Institute, setting up a comprehensive legal aid system; and developing a credible monitoring and evaluation (M&E) system. Other challenges include: the case backlog before the courts, the quality of judgments, the independence of judges, transparent recruitment and promotions for judges and prosecutors, restructuring of the prosecution, co-operation mechanisms between the police and prosecutors in investigations, non-implementation of court decisions especially by the executive including Palestinian security forces, improvement of the juvenile justice system and the division of the justice systems in the West Bank and the Gaza Strip.

With the appointment as Minister of Justice of Mr Ali Muhanna, former chair of the Board of the Palestinian Bar Association, new dynamics developed in the justice sector. The new minister concurred with the deficits in the justice sector listed above promised action. He set the following priorities: establishment of a Higher Council for Justice mandated to lay out and design justice policies and a more coherent and comprehensive strategy for regulating and bringing together all justice institutions; updating and developing legislation; taking the executive steps necessary to create a constitutional court; reform of administrative procedure law; reform of the Palestinian Judicial Institute; and engendering the sector. In September, the Ministry set out reform proposals, some of which stirred controversy, such as adding Attorney General functions to the minister's mandate and curtailing the mandate of the High Judicial Council. Donors and civil society have requested a thorough discussion of the reform agenda, expected to be a major topic of dialogue with the MoJ in 2013.

A UNDP-commissioned a survey has provided an overall picture of how the Palestinian people perceive their justice and security institutions. The findings suggest that investments in justice and security institutions are paying dividends. Palestinians throughout Palestine consider that rule-of-law institutions and the lawyers and civil society organisations (CSOs) that support their work, play a pivotal role in promoting and protecting the rule of law, and are legitimate. However they are more satisfied with justice and security institutions' technical performance (e.g. the number of judges; court signposting; lawyers' qualifications) than their integrity ('independence'; 'honesty'; fairness of verdicts').

6. TRANSPORT, ENERGY, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND INNOVATION

The **transport** sector remains a vital recovery tool for the Palestinian economy. The PA continued with restructuring the public passenger transport sector. The European Investment Bank agreed, under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), to co-finance Palestine's Roads and Transport Master Plan (EUR 2 million). Once approved by the PA, the master plan will provide a framework for government policy and actions in the transport sector. It will ultimately provide a basis for a comprehensive National Spatial Plan, which will include other areas such as agriculture, energy, environmental protection and housing. At regional level, the PA actively participated in Euro-Mediterranean transport dialogue and technical assistance programmes.

Regarding **energy**, the PA pursued electricity sector reform, with EU assistance aimed at reducing net lending. In August, the Electricity Regulatory Council (PERC), after the first ever public hearing, published new electricity tariffs enabling cost recovery. They take account of vulnerable consumers and differ according to consumer sectors. PERC was preparing, inter alia, distribution and grid codes. The PA further developed and upgraded its electricity transmission and distribution infrastructure and continued preparations toward a new power plant in the West Bank. The programme to install pre-paid electricity meters in the West Bank and Gaza was further implemented. In March,

the PA adopted its Energy Efficiency Plan and Renewable Energy Strategy, which includes the Palestinian Solar Initiative. It continued to implement projects in these areas including the completion of a first solar generation facility in Jericho. The EU remains committed to re-launching trilateral energy cooperation with the PA and Israel.

Regarding **climate change**, the PA assessed the option of becoming a full member of the United Nations Framework Convention on Climate Change in the light of the experience and consequences of full UNESCO membership. The PA set up an inter-ministerial national committee for climate change. The newly created Ministry of Environmental Affairs prepared a climate change adaptation strategy. Regional cooperation on climate change related water availability is continuing with the water authorities of Israel, the PA and Jordan.

As regards the **environment**, the Environment Quality Authority became the Ministry of Environment, represented in the Cabinet of Ministers. The ministry is still hampered in its operations by the continued closure of its offices in the Gaza Strip. The ministry finalised an action plan to implement the 2011 environmental strategy. To implement environmental law, 30 judicial officers were appointed in cooperation with the Attorney General.

The Palestinian Water Authority prepared policies, strategies and master plans for conducting reform and meeting needs in the water and sanitation sector. Construction of large-scale wastewater treatment plants continued in Nablus West, Sheikh Aijleen (Central Gaza) and Northern Gaza (NGEST). Significant Israeli restrictions apply to the Gaza projects where the most basic equipment is allowed only after extensive donors' interventions at a high level.

The PA actively participated in ENPI-financed regional projects namely, the Sustainable Water Integrated Management (SWIM) project and those falling under the Horizon 2020 depollution initiative (the Mediterranean Environment Programme and the Shared Environmental Information System support project led by the European Environment Agency).

The PA actively participated in the **Integrated Maritime Policy** (IMP-MED) technical assistance project under the ENPI South programme.

In the area of **civil protection**, the flagship programme for Prevention of, Preparedness for, and Response to natural and man-made disasters (PPRD South) contributed to the establishment of a regional framework of disaster management authorities that could intervene collectively in the event of disasters overwhelming the affected country. Indeed, sustainable development requires adequate disaster risk reduction efforts. The PA is among the 168 governments that adopted in 2005 the "Hyogo Framework for Action: Building the Resilience of Nations and Communities to Disasters", which emphasizes the central role of disaster risk reduction for all development policies. However, work on Disaster Risk Reduction (DRR) and climate adaptation is only at the beginning and it will require considerable further support to develop capacities and processes. DRR policy is fostering dialogue with Civil Society and NGOs, thus contributing to a more sustainable

democracy. Analysis of the regulatory and institutional frameworks started with the aim of strengthening capabilities and inter-ministerial coordination in the second phase of the programme.

On the regulatory framework for **electronic communications**, and in particular the telecoms act, there was very little progress. Dialogue started with the Ministry of Telecommunications and Information Technology (MTIT) on the appointment of the regulatory board, but no significant progress was achieved. The licensing framework was under revision with a view to introducing class licensing, but due to the restriction of civil works, building infrastructure in area C and limitations on spectrum released by Israel, there is no real value in issuing more licences. Progress in the ICT sector included new competition guidelines, a Long Run Incremental Cost (LRIC) model, four new broadband licences, more transparency in consultation procedures with stakeholders, and capacity building. On **audiovisual policy**, the draft of the broadcasting law addressing certain restrictions on media freedom has yet to be adopted.

Palestinian entities showed increasing interest in participating in the EU **research and innovation** programmes. In 2012, 18 projects under the Seventh Framework Programme for Research and Technological Development (FP7) had 17 partners from Palestine. The majority of the organisations funded were research institutes and higher education institutions. The total EU contribution was EUR 38 million, of which more than EUR 2 million went to the Palestinian participating entities. Palestine participated actively in FP7 cooperation and capacities-specific programmes on the environment, health, social and economic sciences and humanities, information and communication technology, and international cooperation activities. Palestine collaborated mainly with Italy, Germany, Spain, the UK and France.

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

In May, the Ministry of Education and Higher Education (MoEHE) was split into two separate ministries. Under the Joint Financing Agreement (the basket funding mechanism established in 2011, to which a number of EU Member States contribute), a second Education Sector Annual Review (ASR) was carried out in June, focusing on teacher education and curriculum development. Good progress was made on teacher education, while further work is needed on curriculum development. The ASR also provided a forum for initial discussions on the design of the third Education Development Strategic Plan which will cover six years from 2014 to 2019.

The **education** sector faced very distinct challenges in different geographical areas of Palestine. In the Gaza Strip, one of the main challenges was to provide sufficient physical space for the rapidly growing number of school children, in both the public and UNRWA system. In East Jerusalem, the main problems were the high dropout rate, lack of infrastructure, lack of policy influence and quality of education. There have been claims of Israeli interference regarding textbooks affecting schools in East Jerusalem.

Regarding **technical and vocational education and training** (TVET), the enrolment rate remained low in comparison with higher education, due partly to the negative perception of VET among Palestinian people. The implementation of the National TVET Strategy continued at a good pace, consistent with the employment strategy. The splitting of the former MoEHE is expected to affect the implementation of the TVET strategy; in line with the strategy, donors therefore advocated the creation of a TVET High Council. TVET coordination is also missing in the donor coordination structure. An informal working group was created by the donors led by GIZ as an information-sharing mechanism.

At **higher education** level, insufficient funding continued to be a major concern, having a serious negative impact on the quality and relevance of higher education. Palestinian institutions were very active in the **Tempus IV** programme's fifth call for proposals, which attracted the highest number of project applications since 2008. Four new projects involving Palestinian institutions, two of which are led by Palestinian Universities, were selected. The Tempus programme contributed to overcoming the fragmentation between the Palestinian institutions themselves, creating a good inter-university network. Tempus was also seen as a very good opportunity to overcome the difficult regional context, as it provides higher institutions with an opening to international networks and the opportunity to modernise curricula and the quality of teaching. However, due to diminished cooperation from the Ministry of Higher Education during the second semester of 2012, there was no Palestinian participation in regional meetings of policy-makers and Higher Education Reform Experts (HEREs). Under **Erasmus Mundus**, 154 new learning mobility grants, organized within a university consortium, were offered to Palestinian students, together with one scholarship for a joint masters course. Palestinian involvement in other EU global programmes such as Jean Monnet, and Marie Curie should be enhanced, with only one **Jean Monnet project** was selected in 2012, and only two Palestinian researchers and three research institutions have benefited from **Marie Curie** actions since 2007.

With regards to **youth**, unemployment and employability are two of the main challenges faced by the PA. The Palestinian Higher Council of Youth and Sports, which replaced the Ministry of Youth and Sports, was placed under the Office of the PLO President. Palestinian youth and youth organisations continued benefitting from the opportunities offered by the **Youth in Action** Programme. 309 young people and youth workers participated in the 70 projects selected in 2012.

The PA continued to implement its **health** strategy 2011-13. The new health minister announced a reorientation of the reforms, focusing on emergency services, strengthening the primary health care system, reorganising the hospitals, increasing efficiency and transparency of health sector governance, upgrading human resources capacities, tackling mental health and addressing shortages of pharmaceuticals. Improving the quality of health services and satisfaction with the services will be a main focus in the medium term. The recent conflict in Gaza severely affected the health system and exacerbated the need to provide stocks of essential drugs to health services in Gaza.

A lack of resources to cover the cost of drugs and referrals of patients to external health care providers, such as the East Jerusalem hospitals, remained a challenge. Health cooperation between West Bank and Gaza remained limited. The PA continued to participate in the EU supported 'Episouth Plus' project aimed at increasing health security in the Mediterranean region and South East Europe. The PA participated in a Commission/ European Centre for Disease Prevention and Control conference and training course aiming to strengthen capacity building for communicable disease prevention and control in the Mediterranean. The aim is to jointly explore the scope for developing a regional training programme on intervention epidemiology.