



ЕВРОПЕЙСКИ ПАРЛАМЕНТ PARLAMENTO EUROPEO EVROPSKÝ PARLAMENT EUROPA-PARLAMENTET
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EU Financial Assistance to the occupied Palestinian territory

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Overview on EU Financing to Palestine

The EU Financial Assistance to Palestine areas is complex as it is (1) delivered through a variety of organisations and institutions, (2) to Palestinians both inside and outside the occupied Palestinian territories, and (3) for humanitarian objectives as well as for development goals and for the sake of regional and international security.

To get an overview on the EU financial assistance to Palestinian areas, the following elements are presented in the order of amounts spent in 2009 from the EU budget (M€=Million Euro):

1. assistance via **PEGASE** to Palestinian individuals and institutions (277 M€),
2. assistance via **UNRWA** to Palestinian refugees in the occupied Palestinian territory and in Jordan, Lebanon, Syria (176 M€ including food facility, and including 66 M€ as an annual contribution to the General Fund of UNRWA),
3. **humanitarian assistance** (72 M€) including food aid, mainly through UNRWA,
4. **crisis response** (30 M€ from the Instrument for Stability IfS) for early recovery measures in Gaza and support to Palestinian refugees in Lebanon, mainly via UNRWA,
5. contributions from the **food facility** (40 M€ allocated to UNRWA for 2009 and 2010),
6. **development cooperation** (18 M€) including food security,
7. **CFSP** (9 M€) EUBAM Rafah, EUPOL COPPS and EUSR Middle East,
8. **EIDHR** (1 M€),
9. other (1 M€) contribution to office of Middle East Quartet Representative.

1. The **PEGASE mechanism**, why has it been set up and how does it work:

Following the victory of Hamas in the January 2006 elections to the Palestinian Legislative Council, Israel stopped transferring to the Palestinian Authority tax income it collects on its behalf, depriving the PA from paying salaries (as from 1 July 2007 Israel resumed paying to the PA tax clearance including the 600 Million US\$ backlog (from Jan 2006 to June 2007), following the establishment of the Palestinian Emergency Government under PM Fayyad on 17 June 2007).

In May and June 2006 the Middle East Quartet (EU, UN, United States, Russia) and the European Council endorsed the set up of a "temporary mechanism" for direct aid to the Palestinian people, not channelled through institutions of the Hamas government. The "**Temporary International Mechanism**" (TIM) was set up by the European Commission and disbursed between 26 June 2006 and 31 March 2008:

35 M€ via the Emergency Services Support Program (ESSP) managed by the World Bank for health, education and social services,

131 M€ by direct payments for hospitals, health centres and electrical power suppliers, the bulk of it (106 M€) for electricity production in Gaza,

441 M€ for direct payments to Palestinian individuals in the West Bank and Gaza: support to 77000 Low Income Cases (mainly health care, teachers and pensioners, all non-political civilian PA staff) and 79000 Social Hardship Cases.

Contributions to the TIM: 455,5 M€ from the EU budget; 188 M€ from EU Member States and Norway, Canada, Switzerland, Australia (26 June 2006 - 31 March 2008).

The TIM management Unit of about 20 staff (European Commission staff, experts seconded from Member States and locals) operated (and continues to operate, as PEGASE management team) from East Jerusalem.

As from February 2008 TIM has been transformed and replaced by **PEGASE** (mécanisme "Palestino - Européen de Gestion et d'Aide Socio-Economique") with the following main **purpose**:

- enhance the mechanism for **channelling support for the three-year Palestinian reform and development Plan (PRDP)** presented by PA Prime Minister Fayyad at the Paris Donor Conference of 17 December 2007.

While TIM was an emergency assistance renewed every 3 months, PEGASE is designed for a period of 3 years, supporting the 4 priority sectors of the PRDP:

- Governance: fiscal reform, rule of law, justice, accountability, security;
- Social Development: social protection, health, education (including vocational education and training), employment schemes and the provision of basic supplies like fuel;
- Economic and Private Sector Development: trade facilitation, small and medium enterprises guarantee and financing, and business centres;
- Public Infrastructure Development in areas such as water, environment or energy.

PEGASE is implemented in close cooperation with Prime Minister Salam Fayyad's Office, the Ministry of Finance and other Ministries and agencies of the PA, thus also contributing to the Palestinian institution building.

PEGASE provides, like the TIM, a comprehensive monitoring, verification and control system over the use of funds and the efficient and effective provision of support to the Palestinian administration and beneficiaries.

The payments are executed only after ex-ante controls (PriceWaterhouseCoopers and others). Payments to individual recipients go via commercial banks (Bank of Palestine and Cairo Amman Bank) and after verification of the identity of each beneficiary.

The annex gives a detailed overview of the PEGASE implementation progress.

2. UNRWA:

The United Nations Relief and Works Agency for Palestine Refugees in the Near East began its field operations on 1 May 1950 based on UN General Assembly Resolution 302 (IV) of 8 December 1949 as a subsidiary organ of the United Nations.

"Some 4.7 million Palestine refugees in UNRWA's five fields of operations - Jordan, Lebanon, Syria, the Gaza Strip and the West Bank, including East Jerusalem, are eligible for Agency services, including education, healthcare, social services, shelter, micro-credit loans and emergency aid. UNRWA employs nearly 30,000 staff, the vast majority of whom are Palestine refugees. UNRWA's operations are financed almost entirely by voluntary contributions from donors." The Agency's bi-annual Regular Budget for 2010-2011 is \$1.23 billion, which covers the costs of delivering the Agency's Core Programme in education, health and relief and social services. UNRWA's headquarters are in Gaza City and Amman.

Field of Operations	Official camps	Registered refugees in camps	Registered refugees
Jordan	10	341,494	1,983,733
Lebanon	12	226,533	425,640
Syria	9	127,831	472,109
West Bank	19	197,763	778,993
Gaza Strip	8	502,747	1,106,195
Agency total	58	1,396,368	4,766,670

More than half of UNRWA's budget (336 M\$ of 602 M\$ in 2009) and $\frac{3}{4}$ of its staff are dedicated to education. UNRWA runs 684 schools in Jordan, Lebanon, Syria, West Bank and Gaza.

Further, UNRWA provides health care, relief and social services and "Infrastructure and Camp Development". Its microfinance programme supports micro-entrepreneurs, households and women create business development opportunities.

UNRWA's emergency programme for the West Bank and Gaza, seeks to mitigate the impact of the crisis there since the second Intifada. By providing food aid, temporary jobs, shelter, mobile health clinics and other services, the programme supports those who are most affected by the fightings and severe movement restrictions.

3. The Humanitarian assistance includes the Food Aid, the Cash for Work project and the Emergence Appeal Food Distribution.

According to the Evaluation of the DG ECHO *Food Aid Budget Line Evaluation report* November 2008 - June 2009¹, UNRWA was the third-largest recipient of funds from the FABL in 2007 and the second-largest in 2008 - €32,500,000 for food distribution in the OPT. A large proportion of this was used to support the emergency food aid programme.

This programme was transferred back to DG AIDCO in January 2009.²

UNRWA's *Cash for Work* project targets employment of most vulnerable Palestine refugees in the West Bank. Between April 2010 and March 2011, Cash for Work will create 80,000 short-term job opportunities (directly helping 40,000 households or 230,000 people), of which 28,000 jobs will be for women (35 percent of total), 2,400 for herders (3 percent of total) and 400 for people with disabilities (0.5 percent of total).

About half of this project is financed from the EU budget via DG ECHO (9.4 M€ in 2009). Other donors are Australia, Belgium, Spain, Sweden and the United States.³

Emergence Appeal: UNRWA launched its 2009 Emergency Appeal in December 2008 for emergency operations in Gaza and West Bank. The 8.3 M€ by DG ECHO for the "Emergency Food Aid Programme" was part of the EU response.⁴

4. The crisis response (30 M€ from the Instrument for Stability IfS) complements the humanitarian assistance and was necessary mainly after the Gaza destructions in Dec 2008/Jan 2009.

5. Also the food facility, EU's rapid response in Dec 2008 to soaring food prices, complements the humanitarian assistance. It was allocated via DG AidCo to UNRWA for 2009 and 2010.

6. Development cooperation: Most of it is spent on Food Security (15,5 M€ in 2009) of which 5 M€ was distributed via UNRWA. The findings of the Joint UNRWA-UNICEF "Food Security and Nutrition Survey of Herding Communities in Area C"⁵:

- Food insecurity in Area C is the result of the physical and economic restrictions that prevent access to sufficient, safe and nutritious food. Israel's military control of Area C also exacerbates water scarcity and causes the cost of food to be more expensive than it would otherwise be.
- 79% of surveyed Bedouin and Palestinian herders in Area C are food insecure compared to the West Bank Palestinian population where 25 percent of households are food insecure. The level of food insecurity for these herding communities is higher than in Gaza where 61% of households are food insecure.
- Food expenditure as a proportion of total household expenditure is as high as 62 percent.

¹ <http://ec.europa.eu/echo/files/policies/evaluation/2009/Foodaid.pdf> p.29

² "With the transfer of the food aid budget line from DG AIDCO to DG ECHO, DG ECHO had to allocate funds to the Special Hardship Cases (SHC) programme. (...) The Special Hardship Cases programme (recently renamed "Social Safety _et") is a useful and relevant programme, covering the needs of highly vulnerable Palestinian refugees through the distribution of food and cash. This is a social welfare programme which establishes a form of safety net. However, as it requires a certain level of predictability and a long term commitment in terms of funding, it cannot be part of the DG ECHO portfolio." This programme was transferred back to DG AIDCO in January 2009.

³ <http://unispal.un.org/UNISPAL.NSF/0/7E1BDE23C6FB8D5E852576BF0055A996>

⁴ UNRWA Emergency Appeal Progress Report Jan-June 2009 <http://www.unrwa.org/userfiles/2010041825349.pdf>

⁵ <http://www.unrwa.org/userfiles/2010042252922.pdf>, p.5

7. CFSP: The mandate of Marc Otte as *EU Special Representative* for the Middle East Peace Process⁶ has been extended until 31.8.2010. The annual cost of 1.2 M€ includes staff and allowances (Council document [6402/10](#) includes detailed financial statement).

EUBAM Rafah Gaza, EU Border Assistance Mission (see also <http://www.eubam-rafah.eu/>) to provide a third party presence at the Rafah Crossing Point in order to contribute to the opening of the crossing point and to build confidence between the Government of Israel and the Palestinian Authority, in co-operation with the European Community's institution building efforts.⁷ The mandate started 11/2005 and was lately extended until 24/05/2011. The yearly budget of the mission amounts to 1.95 M€ and 7 EU Member States are contributing; the Mission comprises 13 EU and 11 local staff.

EUPOL COPPS Palestinian territories Police Mission (www.consilium.europa.eu/eupol-copps) to contribute to the establishment of sustainable and effective policing arrangements and to advise Palestinian counterparts on criminal justice and rule of law related aspects under Palestinian ownership, in accordance with the best international standards and in co-operation with the EU institution-building programmes conducted by the European Commission and with other international efforts in the wider context of the security sector, including criminal justice reform.^{8 9}

The mandate started 01/2006 and runs currently until 31/12/2010.

The mission's budget amounts to 6.65 M€ for 2010 and it comprises 53 EU and 27 local staff.

Norway and Canada are contributing besides 19 EU Member States. In this context it may be worth mentioning that through a PEGASE contribution of 15 M€ since 1/2/2008 by the Netherlands, 17000 Palestinian civil police and defence employees get support to their salaries.

8. EIDHR, the European Instrument for Democracy and Human Rights:

Although the table shows 0.9 M€ allocated through EIDHR, the Israel based "NGO Monitor" states "In 2009, the EC allocated €2,007,051 through EIDHR for Israeli and Palestinian NGOs" and comments critically on the implementation of this instrument.¹⁰

9. Office of Middle East Quartet Representative:¹¹

Tony Blair was appointed Middle East Quartet Representative in mid-2007. Financial contributions for setting up/running his office were committed from the Instrument for Stability until 2009. The table below shows two items of "Contribution to Office of Representative to Middle East Quartet" in 2009: 1.5 M€ from the ENPI Global Allocation and 0.9 M€ from the IfS Instrument for Stability, the latter covers the past until December 2009, the first is for the period of Dec 2009 until mid-2011. As the Quartet Representative has no legal personality, the payments are via UNDP who retains 7% administration fees. Other contributors are UK, US and Norway. (Precise data like those mentioned above for the EU SR and CFSP actions could not be found yet.)

⁶ <http://www.consilium.europa.eu/showPage.aspx?id=452&lang=EN>

⁷ http://www.consilium.europa.eu/uedocs/cms_data/docs/missionPress/files/100426%20FACTSHEET%20EUBAM%20Rafah%20-%20version%2012_EN.pdf

⁸ http://www.consilium.europa.eu/uedocs/cms_data/docs/missionPress/files/100506%20FACTSHEET%20EUPOL%20COPPS%20-%20version%2017_EN.pdf

⁹ Legislative financial statement: <http://register.consilium.europa.eu/pdf/en/09/st16/st16326.en09.pdf>

¹⁰ http://www.ngo-monitor.org/article/eidhr_additional_european_funding_for_mideast_conflict_groups0

¹¹ <http://www.tonyblairoffice.org/quartet/>

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* *italics are elements of sub-totals*



PEGASE DIRECT FINANCIAL SUPPORT OF RECURRENT COSTS OF THE PALESTINIAN AUTHORITY BUDGET

Implementation Progress
16 June 2010



PEGASE is the European mechanism launched on 1 February 2008 by the European Commission to help building the Palestinian State. PEGASE is fully aligned with the three-year Palestinian Reform and Development Plan (PRDP). The mechanism aims to shift from emergency assistance to a sustainable Palestinian development process through support in four key sectors: governance, social development, economic and private sector development, and public infrastructure development. Below is the overview of the PEGASE programmes of direct financial support to recurrent costs of the Palestinian Authority, such as salaries, social expenditure, net lending, reconstruction of Gaza private sector and arrears towards the private sector.

DONOR CONTRIBUTIONS

Funds from the EC, EU Member States and other donors channelled through PEGASE in support of recurrent expenditures

	PRDP Axis II									PRDP Axis III				Total		
	Civil servants and pensioners			Vulnerable families			Fuel to Gaza			Arrears			Private Sector Reconstruction in Gaza			
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2010	2008	2009	2010
Austria ^a				1	0.5	0.5								1	0.5	0.5
Belgium							9							9		
Finland	3	2												3	2	
Germany							20	25	20					20	25	20
Greece											0.5 ^b			0	0.5	
Hungary	0.2													0.2		
Ireland	1.5	1.5			1.5		1.5							3	3	
Italy				20		7								20		7
Luxembourg	0.5	0.5												0.5	0.5	
Malta	0.15													0.15		
Netherlands	19.85 ^c	8.92 ^d												19.85	8.92	
Slovenia	0.15													0.15		
Spain	20	25									3 ^e			23	25	
Sweden	10.62	4.6												10.62	4.6	
Switzerland								1.33							1.33	
UK	20.8													20.8		
EC	159	150.5	120	16	28.47	38	67	39.63		10			22 ^f	252	218.6	180
Sub-total	235.77	193.02	120	37	30.47	45.5	97.5	65.96	20	13	0.5	0	22	383.27	289.95	207.5
Grand total	548.79			112.97			183.46			13.5			22	880.72		

(a) Contributions to the EU budget as assigned revenue earmarked for the payment of VPF

(b) Earmarked for the payment of Palestinian Authority arrears in the field of Security and rule of Law (Civil Police and Ministry of Justice)

(c) The amounts include €6 million for the payment of salaries to the Civil Police/Defence of the Palestinian Authority, executed on 17/02/2009

(d) Earmarked for the payment of salaries to the Civil Police/Defence of the Palestinian Authority

(e) Earmarked for the payment of Palestinian Authority arrears for the purchase of medicines

(f) Financing Agreement signed on 23 December 2009.

The above table does **not** include funds carried over from 2007

PRDP AXIS II – SOCIAL DEVELOPMENT

Social ministries account for the majority of Palestinian Authority expenditure: through donor assistance, one of the first priorities of PEGASE is to ensure continued service delivery in the areas of health, education and social services

PUBLIC ADMINISTRATION AND SERVICES

The Palestinian Authority (PA)'s expenditure on wages accounts for almost half of yearly public expenditure. The PRDP calls for a significant share of donors' funds to help the PA alleviate its budget deficit and avert a fiscal crisis. PEGASE contributes on a monthly basis to the payment of salaries and pensions by the Ministry of Finance. This support directly benefits more than **80,000 Civil Servants and Pensioners (CSP)**, such as teachers and doctors, who provide key public services to the overall population throughout occupied Palestinian territory.

	Payments made since February 2008	Amount of last payment made on 07/06/2010 (million €)*	Total of payments made since 01/02/08 (million €)*
Approximately 71,000 public service providers	29	7.89	482.23
Approximately 9,500 pensioners		1.07	52.97
Approximately 80,000 CSP beneficiaries in total		8.96	535.2

*Figures do not include bank rejections

The Government of the Netherlands contributed, through PEGASE, to support the payment of the January 2008, December 2009 and January 2010 salaries to more than 17,000 Palestinian civil police and defence employees.

	Payments made since February 2008	Amount of last payment made on 04/02/2010 (million €)*	Total of payments made since 01/02/08 (million €)*
Approximately 17,000 civil police and defence employees	3	1.96	15.09

*Figures do not include bank rejections

AID TO VULNERABLE PALESTINIAN FAMILIES

Given the difficult socio-economic situation, the burden on social assistance systems has increased significantly. In order to reinforce social protection and improve the Palestinian Authority's public finances, PEGASE grants direct support to poor and vulnerable families who depend on financial aid from the administration. Payments of allowances are made on a quarterly basis to beneficiaries of the Ministry of Social Affairs' cash support programme. This support directly reaches over **52,000 vulnerable Palestinian families** to whom allowances are paid over the counter in 46 bank branches throughout occupied Palestinian territory.

	Payments made since February 2008	Amount of last payment made on 22/03/10 (million€)*	Total of payments made since 01/02/08 (million €)
Support to over 52,000 Vulnerable Families	9	10.14	84.52

* 52.5% of beneficiaries of PEGASE aid to vulnerable Palestinian families are in the Gaza Strip, and 47.5% are in the West Bank

PROVISION OF ESSENTIAL PUBLIC SERVICES

In order to help the Palestinian Authority ensure the continued provision of essential services to **1.5 million Palestinians in Gaza**, PEGASE supports the delivery of fuel to the Gaza Power Plant through:

- the provision of technical assistance located at the PA to: i) manage donors' funds channelled through PEGASE-SEPS; ii) ensure timely placement of orders; iii) monitor and audit fuel deliveries; iv) assist in planning for continuous production of electricity; v) ensure a proper reading of fuel invoices as well as their timely processing by the PA; vi) create appropriate coordination with defined focal points of all parties concerned; vii) and provide the basis for a proper legal framework with the fuel provider.
- financial contribution to the provision of fuel deliveries.

This support enables the production of electricity for households, schools, hospitals and public services throughout the Gaza Strip.

	Litres delivered
Fuel deliveries to the Gaza Power Plant in the month of May 2010	4,466,200
Total fuel delivered to the Gaza Power Plant: 01/02/08 – 16/06/2010	231,333,540
Fuel paid under PEGASE (million €)	182

AXIS III – ECONOMIC AND PRIVATE SECTOR DEVELOPMENT

The Palestinian Authority seeks to develop a market economy led by the private sector: PEGASE supported the creation of a proper environment for Palestinian businesses to flourish

PRIVATE SECTOR ARREARS

The Palestinian Authority (PA) has built up debts towards private sector businesses for the purchase of goods and services. PEGASE helped reduce the stock of unpaid bills accumulated by the PA towards private sector businesses. Since the beginning of 2008, PEGASE provided direct support to almost 650 businesses in occupied Palestinian territory, out of which around 40% are in the Gaza Strip and 60% in the West Bank. This contribution resulted in a rapid injection of funds into the economy, which provided **relief to Palestinian businesses and raised their purchasing power**. It further **secured the employment of thousands of Palestinian workers** and, consequently ensured that the provision of services to the administration could continue.

	Payments made since February 2008	Total of payments made since 01/02/08 (million €)
Support for the payment of arrears to the private sector	8	27.63

7. FINANCIAL COOPERATION – 2009 KEY FACTS AND FIGURES

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

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

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

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

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

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

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

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

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

(Extracted from SEC(2010)515 ENPI Progress Report on the occupied Palestinian territory)
http://ec.europa.eu/world/enp/pdf/progress2010/sec10_515_en.pdf (pages 17, 18)

PALESTINIAN ECONOMIC BULLETIN

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Main reports

In January 2010 medium term business confidence in the West Bank was higher than at any point in the previous year. 74% of businesses in the West Bank expected production to increase opposed to 4% who expected a decline.

A delegation of 32 Palestinian finance and business professionals took part in the first Palestine Securities' Exchange (PSE) road show to London in March. Over 30 B2B meetings were held with major international investment funds.

The governments of Brazil and Argentina have agreed to negotiate a Free Trade Agreement (FTA) between Mercosur, the largest South American trading bloc, and the Palestinian Authority.

The cornerstone of the Bethlehem Multi Purpose Industrial Park (BMIP) was laid on 8 April. BMIP is a French-Palestinian initiative with €10m of funding from the French government for infrastructure.

2010 Budget

The 2010 Budget is now in effect following final approval by the Palestinian President Mahmoud Abbas. According to Ministry of Finance and IMF figures, total expenditure for this year is estimated at \$3,831m, of which recurrent spending (including wages, other ongoing expenses and net lending) is \$3,164m and expenditure on development projects is \$667m (including \$332m on public infrastructure).¹ This reflects a 0.8% decrease from the latest estimate of recurrent spending in 2009 (\$3,190m).

The PA public sector wage bill is forecast at \$1,550m, 6% higher than the 2009 estimate (\$1,467m). \$1,364m is forecast for other ongoing expenses, including running costs, transfer payments and some capital expenses, a marginal increase compared to 2009 (\$1,349m). Net lending (to municipalities and utility companies) is predicted to fall by 33%, from \$374m in 2009 to \$250m in 2010. This is due to expected improvements in billing and revenue collection, especially for electricity and water services.

Total net revenue for 2010 is estimated at \$1,927m, thereby covering 50% of total recurrent expenditure. 69%, or \$1,320m, of revenue will come from clearance revenues (the taxes and duties collected by Israel for the PA). Clearance revenues are estimated to increase by 20% compared to the total received in 2009 (\$1,103m)

International aid for budget support is expected to reach \$1,242m in 2010, with \$667m allocated to development projects. This is an overall increase of almost 8% in total aid compared to the latest estimates for 2009 (\$1,771m), but reflects an 8% decrease in budget support (compared to \$1,355m in 2009) and a 67% increase in development spending (compared to \$400m in 2009). The IMF reported that so far only \$174m of aid has been disbursed in 2010, resulting in a \$45m shortfall each month. The PA borrowed \$44m from commercial banks in the first two months of this year, increasing their interest payment obligations. \$180m was borrowed during 2009.

GDP Growth

Preliminary national accounts' estimates, released by the Palestinian Central Bureau of Statistics on 16 March 2010, show that real GDP rose to \$5,147m in 2009.² Real growth in 2009 was estimated at 6.8%, with 8.5% in the West Bank and 1% in Gaza, while nominal GDP grew to \$6,117m.³ Real growth since 1999 (GDP \$4,512m) was found to be 14%.

Quarterly data showed that real GDP increased by 1.5% in Q4 2009 to \$1,327m compared with Q3 2009 (\$1,307m) and was 10.3% more than in Q4 2008 (\$1,204m).

1 See: <http://www.imf.org/external/country/WBG/RR/2010/041310.pdf>

2 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PresQ4-09_E.pdf. All figures in real terms are in 2004 prices.

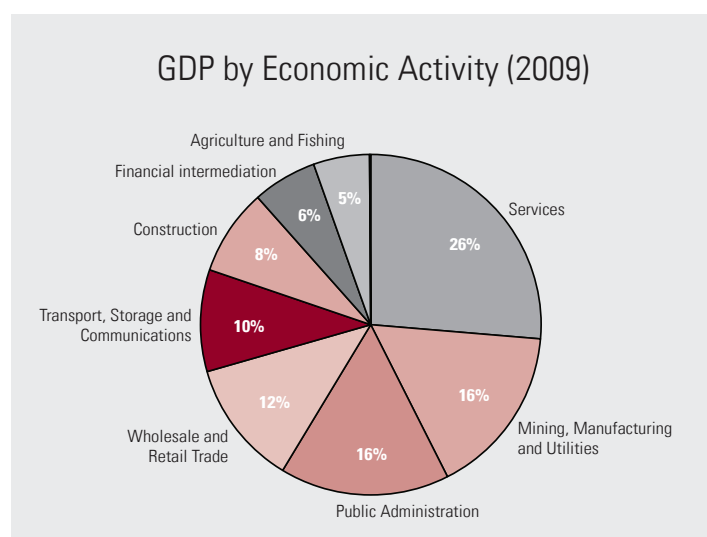
3 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2737

Real GDP per capita was \$1,390 in 2009, an increase of 3.7% compared to 2008 (\$1,340), albeit still significantly lower than a decade ago.

There are three sectors which appear to have contributed to growth in 2009. Construction activity increased 22%, from \$314m in 2008 to \$383m in 2009. The services sector grew 12%, from \$1,090m in 2008 to \$1,219m in 2009. Public administration and defence was up 9% in 2009, at \$744m compared to \$685m in 2008. Manufacturing activity increased from \$539m in 2008 to \$567m in 2009, yet fell as a percentage of GDP and contributed 11% in 2009 (compared to 11.2% in 2008 and 12.5% in 1999).

Conversely, agricultural activity fell 13% from \$286m in 2008 to \$249m in 2009 and now contributes only 5% of GDP (down from 6% in 2008 and 10% in 1999). Accordingly, the World Bank expresses only cautious optimism as growth in the private sector has not been as robust as the public sector, which has been bolstered by significant volumes of aid.⁴

GDP by Sector (% share of 2009 GDP)



Under their baseline scenario, the IMF project that nominal GDP will grow 7% to \$6,940m in 2010. Growth is forecast at 8% for 2011 and 10% for 2012 and 2013. Under a pessimistic scenario - where there is no progress in the peace process, only adhoc limited easing of restrictions and low levels of aid for investment - growth is projected to slow to 5% in 2010 and 4% in 2011.

Based on these latest projections and the 2010 Budget, the current account deficit is estimated at \$1,237m in 2010, or 18% of GDP, compared to \$1,592m in 2009, or 26% of GDP.⁵

Increased Business Optimism in the West Bank

In January 2010 business confidence increased significantly in the West Bank. The regular PCBS survey of industrial establishments found that the percentage of West Bank businesses expecting production to rise over the medium term (six months) was almost 70% higher than those expecting a decline. This is much higher than any month last year, the most optimistic of which was March, when the number of businesses expecting production to rise over the medium term was 48% higher than those expecting a decline. In Gaza the percentage of businesses expecting production to rise over the medium term (six months) was only 11% higher than those expecting a decline.⁶

⁴ See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/WorldBankReportAHLCApril2010Final.pdf>

⁵ See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=135362&date=3/9/2010> and <http://www.maannnews.net/eng/ViewDetails.aspx?ID=272605>

⁶ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Ind-E101.pdf

IMF Microeconomic and Fiscal Framework for the West Bank and Gaza, April 2010

EXECUTIVE SUMMARY

Economic growth in 2009 picked up significantly in the West Bank, but conditions in Gaza remain difficult. The Palestinian Authority (PA) has continued to build a solid track record in institution-building and economic and security reforms, supported by generous aid. The Government of Israel (GoI) has relaxed some restrictions on movement and access in the West Bank during 2009. However, there has been no additional significant easing of the West Bank's restrictions so far in 2010, and economic activity in Gaza remains severely constrained by the persisting blockade. Real GDP growth in the West Bank and Gaza (WBG) is estimated at 6.8 percent for 2009, consisting of 8.5 percent growth in the West Bank and 1 percent in Gaza.

The PA's 2010 Budget builds on the progress made last year in institution-building and public finance reforms. In 2009, the war in Gaza has imposed a burden on the budget as it required substantial non-wage emergency spending. The 2009 recurrent deficit on a cash basis was in line with the budget target. However, non-wage expenditure commitments were above budgeted amounts, and there was a shortfall in donor aid relative to the budget's external financing requirements including Gaza's emergency spending, which led to the accumulation of non-wage arrears. The 2010 Budget envisages a tightening of the fiscal stance to reduce the recurrent deficit to \$1.24 billion from \$1.59 billion on a commitment basis in 2009. Toward that end, it is important to step up structural reforms, including implementation of a social safety net and electricity sector reform, and to enhance commitment controls and cash management to minimize further arrears accumulation and recourse to bank borrowing.

There is an urgent need to secure adequate donor assistance to finance the 2010 recurrent financing requirements. A front-loading of that assistance is especially important given the aid shortfalls during the first quarter of the year. External recurrent financing requirements for April to December 2010 are projected at about \$1.1 billion, given the \$174 million already disbursed in the first quarter of 2010. The \$1.1 billion is in addition to about \$0.7 billion needed for public investment in the Palestinian territories in 2010.

Concerted actions by the three parties (the PA, the GoI, and the donor community) are critical to sustain the economic recovery and reduce significant risks to the economic outlook. Perseverance by the PA in institution-building, reforms and good governance, supported by adequate and timely donor aid, is needed to achieve increased self-reliance and sustain private sector confidence. A breakthrough in the peace process and removal of restrictions on a wider scale are essential for a durable and regionally balanced growth in the Palestinian territories. This requires action on three fronts. First, lifting Gaza's blockade is essential to stem the continuing decline in Gazans' living standards. Second, removing impediments to private and public investment in the West Bank's Area C, which represents about 60 percent of its territory, is needed to tap the West Bank's full growth potential. Finally, lifting restrictions on the Palestinian territories' external trade, especially on exports to Israel, is key to a sustained rise in real GDP per capita and a balanced growth pattern.