
Palestinian National Authority
Building a Palestinian State
Towards peace and prosperity

Executive Summary

This document lays out our vision of an independent Palestinian state. It highlights steps we have already taken to restore good governance and the rule of law to the West Bank - steps we believe demonstrate our commitment to realizing this vision and steps we aspire to replicate in Gaza. Whilst the stalled peace process and the tightening grip of the occupation have played a powerful role in shaping events, we acknowledge we have given insufficient attention to shortcomings in governance, law and order, and basic service delivery. We are now absolutely determined to rebuild the trust of our citizens and our international partners in the Palestinian National Authority by embarking on a challenging reform and development agenda for stabilization and recovery.

We are not complacent about the scale of the task ahead. Progress must be made to upgrade all Palestinian institutions of government. We intend to create a secure and stable internal environment in which social and economic development can take place, and in which the institutional infrastructure of a Palestinian state can develop and thrive. This must go hand in hand with sustained and serious political dialogue, and concrete steps and commitments by all parties towards a lasting peace. We are committed to bringing safety and security to the West Bank and Gaza. Our immediate goal is to return to the *status quo ante* before the escalation of conflict in September 2000 by resuming full security control in Area A. Our ultimate goal is to assume full authority and responsibility for security within and at the borders of the future Palestinian state.

Reform and development in Gaza is an integral part of our plan for bringing stability and prosperity for all Palestinians in the occupied territory. We are committed to restoring the rule of law, good governance and respect for human rights in Gaza. The illegal seizure of Gaza by Hamas has precipitated its almost complete closure. Israeli restrictions on the entry of all-but-humanitarian goods and on the export of goods have led to collapse of the private sector, which represents more than half the job market in Gaza. We are committed to doing everything in our power to end the closure and isolation of Gaza and reversing its suffocating effect on society and the private sector. If the isolation of Gaza continues, we will work to maintain the supply of humanitarian assistance, the continued payment of public sector salaries and social transfers, and the provision of critical basic services - including electricity, water and sanitation, and health and education. We will continue to work closely with UNRWA, other UN agencies and non-governmental organizations providing relief to both refugee and non-refugee Palestinians in Gaza, to ensure that these needs are met.

Throughout the post-Oslo period, the unstable political environment has undermined our capacity to develop and sustain effective government institutions and policies. The embargo on international assistance in 2006 and early 2007 contributed to the reversal of progress that had been made in reforming the PNA. The ensuing fiscal crisis shattered our citizens' and public servants' confidence in the PNA. This document sets out our broad priorities for improving governance in this challenging context. It sets out how we will reform the security sector and re-establish the rule of law, improve access to justice, move toward a more fiscally sustainable position, improve our management of public finances, strengthen the capacity of the public sector, and improve local governance. We acknowledge that we have more work to do in defining and calculating the cost of some of these reforms but this will be tackled in early 2008.

The Palestinian private sector must be the engine of sustainable economic growth. It needs to generate productive employment, produce high value-added goods and services, and to enhance national prosperity. We are committed to creating an enabling environment for private sector growth. However, whilst the private sector has shown resilience in the face of harsh political and economic conditions, its full potential can only be realized by the lifting of restrictions on the movement of Palestinian goods and people, and, more generally, meaningful progress towards peace. Such progress, coupled with substantial donor investment in institutional reforms and rehabilitation of infrastructure, can put the private sector, and the Palestinian economy as a whole, on a path to sustainable growth. We hope that the 'Quick Impact Projects' jointly announced with the Quartet Representative and Israel represent an opportunity to demonstrate the preparedness of Israel and the international community to act in parallel with us to improve the situation on the ground and to take immediate, tangible steps towards ending the occupation. Each of these projects provides for joint action and cooperation amongst the parties and, as such, represents an opportunity to manage the risks of faltering commitment to the success of our reform and development plan.

We will safeguard the welfare of vulnerable groups while pursuing a private sector-led approach to economic growth. We intend to invest in social development and to continue to build effective mechanisms for social assistance and protection. For example, one third of the resources pledged in the form of budget support will finance teachers' salaries and associated running costs. One fifth of donors' pledges for public investment will be dedicated to education. With the support of the international community we believe we can modernize the education system - including the curriculum - and better prepare our young people for a better future.

We are aware that the PNA's fiscal policy has been problematic in the past and that we must act fast to avert a fiscal crisis. We have embarked on a series of fiscal reforms to put ourselves on a path to financial stability - a path that will create space for increasing capital investment and development expenditure. We anticipate that these reforms will help us reduce the current budget deficit by 11.3% of GDP over the next three years, returning it to the 2005 level. Our macroeconomic and fiscal forecasts assume modest improvements in the political and security environment, yielding a gradual reduction in movement and access restrictions, and a gradual increase in trade and private sector confidence. This is our baseline scenario. If a combination of political progress and an improved security environment accelerates the lifting of the occupation regime beyond current expectations, the level of public investment and private sector activity could increase more significantly. However, if the occupation regime remains unchanged, the economic outlook is extremely poor. It would make it very difficult to increase public investment and to finance a substantive reconstruction effort. Any reluctance on the donor side to finance the budget deficit would lead to a deepening fiscal crisis that would almost certainly take the PNA to the point of financial and institutional collapse. It would also lead to rising unemployment, increasing poverty, declining health and education indicators, and further, perhaps irreversible, degradation of the private sector.

Our forecasts are based on the assumption that donors will provide substantial levels of predictable aid over the next three years to support the recurrent budget and public investment program. In 2008 we need \$1,361 million to finance our recurrent costs and \$427 million to finance development investment. These amounts are large but they are, we believe, the minimum we need to implement our reform and development plan and begin serious preparations for statehood. We appeal to donors to provide this assistance as direct, un-earmarked budget support through the single treasury account. This will give us control over the targeting and timing of disbursements and enable us to execute our reform and development plan more effectively. If this is not possible, we favor the use of an unearmarked, multi-donor trust fund mechanism. If this too is not possible, in recognition of the constraints under which our international partners operate, we would accept alternative funding mechanisms that meet reasonable standards of efficiency, effectiveness and transparency. Where technical assistance is required we favor the use of sector or sub-

sector multi-donor pooled funds.

We are committed to a clear vision: creating a viable, peaceful, and prosperous Palestinian state. The reform and development agenda is ambitious but it is necessarily so. We need the international community to help us make this vision a reality by providing the necessary financial assistance. Also, we can only attain this vision if there is tangible progress towards peace and statehood. Most immediately and most importantly, we need Israel to demonstrate commitment to ending the occupation and to the implementation of the two-state solution. This must include tangible and immediate action on the ground in the spirit of the joint understanding reached at Annapolis – including halting the expansion of settlements, cessation of construction of the Separation Wall, lifting physical and administrative restrictions on movement and access, releasing prisoners and ending military incursions. Without this our plan cannot be implemented in full and the support of the international community will not be as fruitful as we hope. If, however, these steps are taken we can start to turn our vision into a reality.

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