



Palestinian National Authority

Palestinian Reform and Development Plan

2008 - 2010

Executive Summary

Introduction

This Palestinian Reform and Development Plan (PRDP) 2008-10 is a national plan which sets out the PNA's medium term agenda for Palestinian reform and development. It provides a coherent basis for the allocation of all government resources and reflects the commitment of the PNA to adopt an integrated policy-making, planning and budgeting process. The PRDP sets out a comprehensive framework of goals, objectives, performance targets and the allocation of resources to achieve them.

The PRDP 2008-10 contains eight chapters which:

- Outline the background and approach to the PRDP initiative
- Describe key features of the overall political and socio-economic context
- Outline the national policy agenda framework on which the PRDP is based
- Outline the Medium Term Fiscal Framework (MTFF)
- Provide an overview of sector policy priorities, plans and resource allocations
- Summarize core budget assumptions and resource allocations in the Medium Term Budget Framework (MTBF)
- Describe the basic foundations for successful implementation of the PRDP
- Describe the arrangements for monitoring and evaluating progress in implementing the PRDP

PRDP Approach

The PRDP process is based on generally accepted principles applied in preparing medium term expenditure frameworks (MTEFs). An MTEF is a government strategic policy and expenditure framework, through which resources are allocated according to national policy priorities over the medium-term. If based on a realistic assessment of available resources, an MTEF can also be a tool for good public expenditure management to support aggregate fiscal discipline as well as efficient and effective use of resources in implementation of strategic priorities. It can also provide a basis for effective dialogue with internal and external development partners.

It will take several years to fully develop and implement an MTEF in line with best practice. However, the PRDP process is intended to improve transparency, accountability, coordination and communication, and provide a basis for the introduction of effective performance management systems in the relatively near-term. The process adopted in 2007 is described in the following subsection and, given the severe time constraints, was subject to some significant limitations. However, the approach will be refined in future years, based on lessons learned, to allow for an extended, more consultative analysis and policy formulation phase.

PRDP Process in 2007

The process was led by the Ministry of Planning (MoP) and the Ministry of Finance (MoF) and conducted by a PRDP Implementation Team consisting of a Core Team located in the MoP and MoF, and Counterpart Teams located in ministries and agencies. The process was structured on a sector basis to facilitate the prioritization and harmonization of policies, plans and resource allocation, and to encourage fiscal discipline. This structure mirrors the aid coordination strategy group structure established in December 2005 (i.e., Economy, Governance, Infrastructure and Social).

All PNA ministries and the largest agencies provided detailed Planning and Budgeting (P&B) submissions setting out their strategic objectives, performance targets and proposed recurrent, capital and development expenditures. The submissions were reviewed by the MoP and MoF to ensure that they were comprehensive, linked to the PNPA and that all resource allocations were justified in relation to planned results. The submissions were reviewed and consolidated at the sector level to ensure a consistent approach and eliminate gaps and overlaps in planned activities and expenditure.

PRDP Goals

The PRDP is a plan to deliver high level national policy goals and supporting objectives. These goals and objectives are set out in the PNPA, the guiding policy framework for the PRDP, to provide: a forward-looking agenda for Palestinian development and for reforming Palestinian institutions; a clear rationale for the activities of ministries, agencies and other public bodies; a basis for establishing priorities in the allocation of financial resources; and, performance targets at the national and ministry/agency level.

The PNPA focuses on what the PNA seeks to achieve on behalf of the Palestinian people over the next three years. The framework of goals, objectives and policy priorities was based on four fundamental principles and an overall vision statement.

Box 1: PNPA guiding principles

- It is the intention of the PNA to support and sustain, through all of its policies and programs, the steadfast determination of the Palestinian people to remain on their land and to continue to pursue their livelihoods and build their nation, not succumbing to the pressures placed upon them by the Occupation
- The policies and programs of the PNA will be directed towards the ending of the Occupation and the establishment of an independent, viable sovereign state.
- The eventual Palestinian state must be able to exist securely on the pre-June 1967 borders, including East Jerusalem, the Gaza Strip and the West Bank, and be capable of protecting its citizens and their land and property from incursion, confiscation and destruction, in accordance with international law.
- The eventual Palestinian state will be founded on democratic and pluralistic principles and humanistic values. Its institutions will protect human rights, religious tolerance and the rule of law, promote gender equality, create an enabling environment for a free and open market economy, and serve the needs of disadvantaged and vulnerable groups, enabling all citizens to fulfil their potential.

Box 2: Vision statement

Vision of the Future Palestinian State

Palestine is an independent Arab state with sovereignty over the West Bank and the Gaza Strip on the pre-June 1967 occupation borders and with East Jerusalem as its capital. Palestine is a stable democratic state that respects human rights and guarantees equal rights and duties for all citizens. Its people live in a safe and secure environment under the rule of law and it promotes equality between men and women. It is a state which values highly its social capital, social coherence and solidarity, and identifies itself with Arab Palestinian culture, humanistic values and religious tolerance. It is a progressive state that values cordial relationships with other states and people in the global community. The Palestinian government is open, inclusive, transparent and accountable. It is responsive to citizens' needs, delivers basic services effectively, and creates an enabling environment for a thriving private sector. Palestine's human resources are the driving force for national development. The Palestinian economy is open to other markets around the world and strives to produce high value-added, competitive goods and services, and, over the long term, to be a knowledge-based economy.

The PNPA framework, which is described in detail in Chapter 3, includes four high-level national policy goals which represent the longer-term aspirations and intentions of the Palestinian people and the PNA. These national policy goals are summarized in Box 3 below.

Box 3: Palestinian national policy goals

- **Safety and security:** a society subject to law and order, which provides a safe and secure environment in which the people of Palestine can raise their families and pursue their livelihoods and businesses, free from crime, disorder and the fear of violence.
- **Good governance:** a system of democratic governance characterised by participation by citizens, respect for the rule of law and separation of powers, capable of administering natural resources and delivering public services efficiently, effectively and responsively, and supported by a stable legal framework, a robust legislative process and accountable, honest and transparent institutions which protect the rights of all citizens.
- **Increased national prosperity:** economic security, stability, viability and self-reliance, achieved through an increase in sustainable employment and an equitable distribution of resources, leading to the reduction and eventual eradication of poverty and the growth of individual and national wealth.
- **Enhanced quality of life:** increases in material wealth and environmental quality are matched by the strengthening of social coherence and solidarity, so that the most vulnerable areas and groups in society continue to be supported and the culture, national identity and heritage of the Palestinian people are reinforced.

The PNPA framework was used as the starting point for bottom-up planning and budgeting by all ministries and agencies. Ministries and agencies provided detailed information about their specific objectives in each policy area, and their proposed activities, projects and expenditures to achieve these objectives. They also provided performance indicators and targets as a basis for assessing progress towards objectives.

The completed PNPA presented in this PRDP provides an agreed-upon framework of objectives on the path towards achieving national goals. It defines policy areas in which the need for high-priority action is required to meet these objectives, and it defines performance indicators and targets in order to assess progress. The comprehensive and participatory process through which the PNPA was developed has built ownership and accountability amongst ministries and agencies for

delivering against specific objectives and targets.

Summary of policies, resource predictions and allocations

This PRDP 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 PNA 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 reestablish 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 2008.

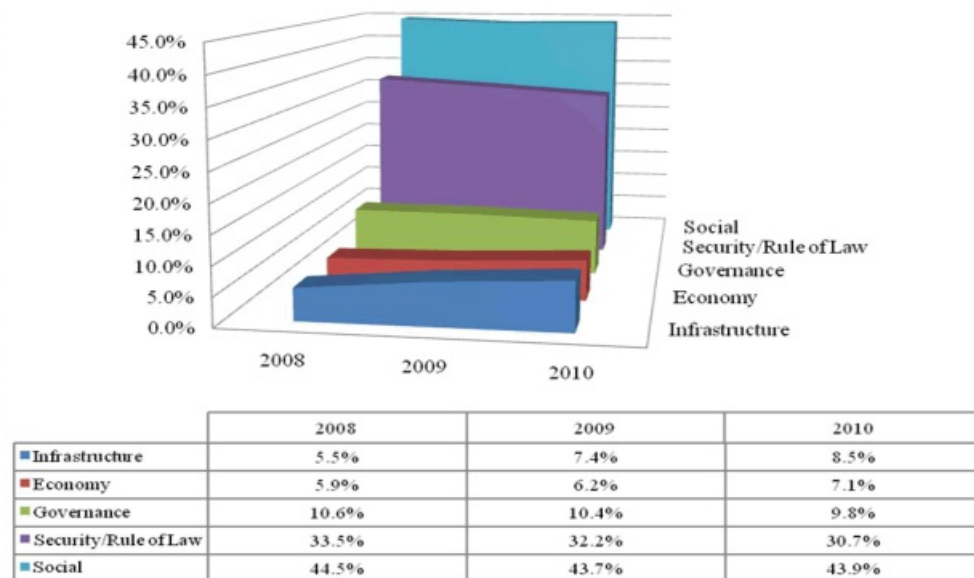
The Palestinian private sector must be the engine of sustainable economic growth. It needs to generate productive employment, produce high value-added goods and services, and to enhance national prosperity. We are committed to creating an enabling environment for private sector growth. However, whilst 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 we are acting fast to avert a fiscal crisis. We are implementing 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 11.2% of GDP over the next three years, returning it to the 2005 level. Our macro-economic 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 or inability on the donor side to predictably finance the budget deficit over the medium term will lead to a deepening fiscal crisis that would re-run 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.

The budget framework for 2008-10 envisages a gradual shift of resources towards social sector spending to ensure high levels of access to education and health services, and to allow for the necessary investment to modernize and improve the quality of these services. This resource reallocation also allows for modest increases in spending on better targeted social assistance to alleviate the impact of the fiscal reform agenda on the most needy. The budget framework for 2008-10 also provides for a gradual shift of resources in favour of development expenditure, which are planned to rise from 6.1% of GDP in 2007 to 10.8% in 2010.

Figure 1 illustrates forecast trends in the allocation of total resources to each sector over the medium-term. It shows that spending on the security and rule of law sector will remain substantial at more than 30% of total expenditure by 2010. However, retrenchment of staff during 2007, coupled with a moratorium on salary increases, will release substantial resources from the recurrent budget to fund spending in other areas. These additional resources will be used primarily to fund recruitment of teachers and healthcare workers, and for operating expenditures in the social sector. The social sector also receives high priority in the allocation of development budget resources – especially in 2008, during which the sector will benefit from approximately third of total development expenditure. As a result, spending in the social sector will predominate, averaging approximately 44% of total expenditure throughout the medium-term.

Figure 1: Sector distribution of total recurrent and development budget resources



Our fiscal 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 \$1,634 million to finance our recurrent costs and \$492 million to finance development investment. As table 1 illustrates, required external financing is expected to remain in the region of \$2 billion for 2009 and 2010.

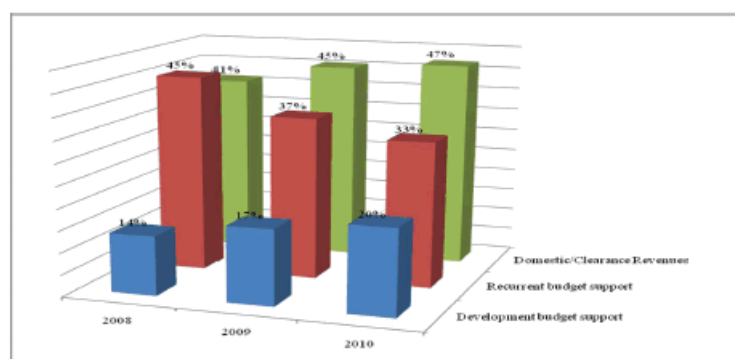
Table 1: External financing

	2006	2007	2008	2009	2010
<i>(millions of U.S. Dollars)</i>	<i>Act.</i>	<i>Proj.</i>	<i>Proj.</i>	<i>Proj.</i>	<i>Proj.</i>
Budget support	741	1,012	1,634	1,361	1,301
Public investment	281	310	492	634	769
Total external financing	1,022	1,322	2,126	1,995	2,070

Note: Budget support in 2006 excludes informal assistance not channelled through the banking system

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. Also, assuming positive parallel actions by all three parties, the contribution of clearance and domestic revenues to the overall resource envelope is expected to climb significantly over the medium term. As figure 2 illustrates, this would create space for significant reductions in recurrent budget support and considerable upscaling of development budget support.

Figure 2: Contribution of revenue sources to the overall resource envelope



At the Paris conference we appealed to donors to provide financial assistance as direct, un-earmarked budget support through the single treasury account. The response so far has been extremely encouraging and it is giving us more control over the targeting and timing of disbursements and enabling us to execute our reform and development plan more effectively. We encourage all donors to provide financial assistance in the same fashion. If this 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.

Implementation issues and risks

Under every foreseeable scenario, the short-term viability of the Palestinian economy will be driven by aid. Even under the most optimistic scenarios significant aid will continue to be required for the medium-term. Clearly, the ability of the private sector to resume its place as a driver for growth will have a major bearing on the sustained health of the Palestinian economy and thus its aid requirements, which will therefore be even larger in the absence of improvements in movements and access restrictions.

If the public investment program detailed in Sections 5 and 6 is fully funded by donors, and if Israel acts to lift the restrictions of the occupation regime, we believe that the revival of the private sector and trade could allow growth rates to accelerate to double digit levels. Embedded in this scenario is a recovery in Gaza driven by the resolution of the current stalemate, and the removal of internal movement and trade restrictions, including a system of crossing points with Israel that can fully accommodate imports and exports into the West Bank and Gaza.

Political and economic instability have a severely negative impact on the predictability of financial and other resources available to implement the PRDP. Reliable resource projections, from both internal and external sources, are an essential precondition for the execution of plans and budgets. Experience has shown that the amount of domestic revenues, and also the amount and nature of external assistance, are highly sensitive to political and security relations with Israel. As such, the implementation of the PRDP will be heavily influenced by the trajectory of these relations.

The application of standard principles and practices in developing and implementing a medium term expenditure framework (MTEF) in the context of military occupation is unprecedented. Lack of sovereignty over resources and borders, and severely circumscribed ability to implement economic and fiscal policy, creates an extremely uncertain political and economic environment, and places significant constraints on the successful implementation of the PRDP.

The preparation of the PRDP 2008-10 marks the beginning of a major re-engineering of the processes through which Palestinian public sector resources are managed. Therefore, successful implementation of the PRDP will require significant changes in the behaviours and processes of the PNA and international donor organizations. It will also require sustained efforts to build the institutional capacity of the PNA to develop and implement successive PRDPs in future years. Finally, it will require an unprecedented degree of stability in the political, economic and social environment in which the PNA operates.

Taking these “conditions for success” into account, the key issues risks that might affect the implementation of the PRDP are detailed below in the following categories: stability and predictability, behavioural change, and institutional capacity building.

Stability and predictability

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The current Council of Ministers is the thirteenth since July 1994 and, on average, Councils of Ministers last only one year. This tends to undermine the credibility of medium-term plans amongst public employees, who have experienced many leadership changes and many changes in policy direction. Any major change in the composition of the Council of Ministers might have a negative effect on the prospects for successful implementation of this PRDP. In other environments, such a risk could be mitigated by ensuring that the medium-term plan is endorsed by the legislative branch of government. However, due to the incarceration by Israel of a significant proportion of the members of the Palestinian Legislative Council (PLC), this has not been possible.

The current isolation of the Gaza Strip has undermined engagement of PNA staff in Gaza in the preparation of this PRDP. If the isolation continues, it will almost certainly render almost all of the key aspects of this PRDP related to Gaza impossible to implement.

The political and fiscal turmoil of the preceding two years has had a negative impact on the morale of PNA staff and the Palestinian public in general. This, combined with the ongoing lack of any progress towards a final settlement with Israel, continued closures and military action against Palestinian citizens in the occupied territory, creates a serious risk that PNA staff, whose efforts are critical to the successful implementation of the PRDP, will lose focus on meeting their commitments.

Behavioural change

In most countries organizational rivalries within government and between the governmental and non-governmental sectors inhibit coordination and collaboration towards achieving national-level outcomes. In most developing and transitional countries organizations with overlapping mandates and different development strategies compete for both local legitimacy and international support; any initiative that attempts to bring organizations together at the national or sector level to develop and implement coherent, results-oriented plans and budgets, represents a threat to individual organizations' legitimacy and resources. This culture of competition between public sector organizations, and between governmental and non-governmental organizations is deeply entrenched and reinforced by donor behaviours. In particular, bilateral engagement between individual donors and PNA organizations can lead ministries and agencies to dedicate substantial staff resources to negotiating bilateral projects to donor specifications rather than in line with the PRDP.

It is very important to recognize that, as has been the experience in sovereign countries throughout the world, it will take several years to fully implement the MTEF methodology and realize its full benefits. Over time Palestinian public financial management legislation, procedures, and systems will need to be reformed to support full implementation. However, there are early signs that external development partners have unrealistic expectations regarding the PRDP, with some suggesting that future budget support may be conditioned on a “credible MTEF”. In fact, as international experience has repeatedly demonstrated, budget support is critical to successful implementation of multi-year development plans and budgets. If donors are unwilling or unable to commit significant funding to multilateral budget support instruments, the implementation of the PRDP will be critically undermined.

Institutional capacity development

International experience has identified a number of institutional preconditions for successful implementation of MTEFs. Many developing and transitional countries who have prepared MTEFs have needed to conduct major reforms of their public financial management legislation, procedures and systems to support effective budget preparation, budget execution and financial reporting. The PNA is in a similar position and it is important to recognize that many of the public financial

management reforms described in this PRDP (see Chapter 4.3) are designed to facilitate progressive improvements in the integration of policy-making, planning and budgeting processes. Therefore, as these reforms are delivered over time, the quality of PRDPs and their implementation in practice will improve.

The PRDP process conducted in 2007 revealed a need to build policy-making, planning and financial management capacity in the PNA. In some ministries and agencies, all that is lacking is technical training in modern public financial management techniques. In others, however, there is an almost complete lack of policy-making and planning capacity. These deficits in capacity will undoubtedly undermine the extent to which ministries and agencies are able to implement their policies and plans, and also to report on their progress in 2008. In order to address this issue in future years, we will develop and execute a broad-based plan for building capacity in policy-making, planning, budgeting and performance management.

With the exception of a few of the larger ministries, there is a general lack of public sector performance management processes and systems. There is also no central function to gather, analyze and report information regarding public sector performance. As such, there is a longstanding lack of detailed review of organizational and individual performance which tends to undermine efforts, like the PRDP initiative, to create a culture of accountability for delivery of tangible development and service delivery outcomes. Chapter 8 provides an outline of our plans for implementing performance management functions and processes. These processes will take time to establish and develop and, consequently, the extent to which implementation of this PRDP in 2008 will be somewhat limited.

The Way Forward

Finally, notwithstanding our commitment to fulfil our commitments detailed in this plan, all parties must acknowledge that we cannot realize our vision of an independent state alone. A new approach to Palestinian state building is required; an approach based on a realistic assessment of the roles and responsibilities of the Palestinians, Israel and the international community; and an approach which recognizes the role each party plays in shaping the events and imposes upon them binding commitments which, taken together, will create an environment conducive to Palestinian reform and development. This will require a specific measurable tripartite action plan, tied to a credible peace process, with appropriate arrangements for monitoring of each party's performance.

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