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Implementation of the European Neighbourhood Policy in Palestine Progress in 2013 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

Neighbourhood at the Crossroads: Implementation of the European Neighbourhood Policy in 2013

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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 2013, 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.¹ For information on regional and multilateral sector processes readers should also refer to the Partnership for Democracy and Shared Prosperity progress report.

EU-Palestinian bilateral relations in 2013 saw the entry into force of the new ENP Action Plan, a major step forward. The Action Plan articulates the PA's commitment to build Palestinian institutions based on rule of law, democracy and the respect of human rights as a basis for the establishment of a Palestinian state and its determination to develop closer relations with the EU. The Action Plan also reflects the EU's commitment to supporting these objectives. It lays the foundation for deeper EU-Palestinian relations in preparation for a fully-fledged Association Agreement to be concluded between the EU and the future state of Palestine. In the context of the current peace talks, the EU in the December Council conclusions indicated it would offer a Special Privileged Partnership to both Israel and the future state of Palestine in the event of a final peace agreement.

The PA has made progress towards implementing the new Action Plan. However, there is scope for the PA to accelerate reforms in areas within its control; this is particularly the case for civil service reform and pension reform, and in the justice and security sectors. The Israeli occupation and the restrictions it imposes are heavily hindering Palestinian economic development and remain the biggest obstacle to sustained reform, especially with regard to the PA's financial sustainability. A report issued in 2013 by the World Bank concluded that the potential value added from the alleviation of current restrictions in Area C² amounts to around USD 3.4 billion, or 35% of the Palestinian GDP.

The new Prime Minister Rami Hamdallah resigned a few weeks after his appointment in June 2013. He was subsequently sworn in again as Prime Minister in September 2013. The lack of progress in intra-Palestinian reconciliation remains a major challenge. The PA's authority is not effective in the Gaza Strip, and the Legislative Council is paralysed. Full democratic legitimacy can only be restored through legislative and presidential elections throughout Palestine. In the meantime, this increases the importance of ensuring transparency of decision-making and proper consultative processes with civil society to further democratic governance. Equally, it is important that the PA is empowered to act within its areas of competence.

In the area of foreign and security policy, the EU underlined its full backing for the resumption of Israeli-Palestinian peace talks in August 2013, commended the personal commitment of both President Mahmoud Abbas and Prime Minister Benjamin Netanyahu and reiterated its support for a two-state solution based on an agreement on all final status issues, offering a Special Privileged Partnership to both

¹This designation does not entail any recognition of Palestine as a state and is without prejudice to positions on the recognition of Palestine as a state.

² Area C refers to 62% of the occupied Palestinian territory in the West Bank which remains under full Israeli military and administrative control.

parties if such agreement is reached. In parallel, the EU warned against actions that undermine the negotiations. It deplored continued expansion of settlements and expressed grave concern regarding incitement, incidents of violence, house demolitions and the deteriorating humanitarian situation in Gaza.

In 2013 the EU continued to be the major donor to the Palestinian people, including Palestinian refugees. The September 2013 Ad Hoc Liaison Committee (AHLC) meeting was held at ministerial level, for the first time in four years. The High Representative for Foreign Affairs and Security Policy/Vice President of the Commission Catherine Ashton hosted the spring AHLC in Brussels. On 11 December 2013, the European Court of Auditors published a report which concluded that the Commission services and EEAS had successfully implemented direct financial support to the PA in difficult circumstances, but also stated that the sustainability of the PEGASE³ mechanism was in doubt if major revisions to the current approach do not take place.

Human rights issues continued to be a matter of concern, despite some limited progress with regard to respect for basic freedoms. In the West Bank, journalists continued to face restrictions on various occasions. No significant steps were taken to enhance the protection of journalists, for example by strengthening the legal framework governing their work. In Gaza, the situation further deteriorated, with the media and civil society actors under severe scrutiny and subject to arbitrary arrests. Detention conditions in Palestinian prisons in both the West Bank and the Gaza Strip continued to be a cause of serious concern, with the Independent Commission for Human Rights (ICHR) reporting on ongoing serious violations of detainees' rights and patterns of ill-treatment and torture in detention centres. Limited progress on the reform of the justice and security sectors was made and efforts to increase transparency and public accountability remained necessary. The EU condemned the issuing and execution of several death sentences in the Gaza Strip in 2013. Violence against women and women's socio-economic vulnerability remained significant challenges.

Figures on economic data indicate a decline in West Bank growth. By the end of 2013, the PA's financing gap was estimated at USD 330 million⁴ and the investment climate continued to be hampered by restrictions on movement and access, particularly in Area C. The ousting of President Mohamed Morsi in Egypt, and the subsequent clampdown on the Gaza tunnels, was a major blow to the *de facto* authorities in Gaza. Israel's continuing closure of access to the Gaza Strip and increased access problems from Egypt have had an increasingly negative impact on living conditions in the Gaza Strip itself.

In 2013, the PA continued to successfully implement measures to enhance the national cash transfer programme and finalised the national export strategy. Both projects are supported by the EU. A public expenditure and financial accountability assessment was also finalised in June 2013. The Anti-Corruption Commission continued to function effectively, with an increasing number of cases being investigated and referred to the judiciary. The latter should ensure timelier handling of

³ PEGASE is the French acronym for Mécanisme Palestino–Européen de Gestion et d'Aide Socio-Économique. PEGASE is the main instrument used by the EU to channel financial assistance directly from the European Union budget and from EU Member States to support recurrent costs under the Palestinian Authority's own budget.

⁴ Source: Specific figures retrieved from International Monetary Fund unless mentioned otherwise.

referred cases. In 2013, the PA also signed the regional Convention on pan-Euro-Mediterranean preferential rules of origin, thus fulfilling one of the recommendations in last year's progress report. Most of the key recommendations contained in last year's ENP progress report have yet to be addressed, and remain valid. On the basis of this year's report and with a view to sustained implementation of the ENP Action Plan in 2014, the Palestinian Authority is invited to:

- continue its commendable efforts to take bold and concrete steps towards a just and lasting solution to the Israeli-Palestinian conflict in the ongoing negotiation process;
- 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;
- hold genuine democratic presidential and legislative elections throughout Palestine;
- increase transparency and accountability of the justice and security sectors;
- adopt a unified penal code which adheres to international human rights standards and strengthens legal guarantees for all fundamental freedoms including the abolition of the death penalty; meanwhile, fully abide by the *de facto* moratorium on the death penalty that is in place in the West Bank.
- develop and implement a policy to address violence against women and women's socio-economic vulnerability;
- clarify the responsibilities of the three main judicial institutions namely the Ministry of Justice, the Attorney General's Office and the High Judicial Council;
- take steps towards civil service and pension reform and rationalise recurring expenditure, in particular reducing non-wage costs, to ensure better targeting and sustainability over time of social protection spending;
- continue developing the necessary legal and institutional framework for an integrated water and waste-water management system, to ensure equitable service delivery and resource sustainability throughout Palestine;
- ratify the Regional Convention on pan-Euro-Mediterranean preferential rules of origin.

2. POLITICAL DIALOGUE AND REFORM

Towards deep and sustainable democracy

Throughout 2013, there was no progress in implementing the Palestinian **reconciliation agreements** of May 2011 and February 2012, which aimed to bridge the internal Palestinian split. The planned elections were therefore not held. As a result, the Palestinian Legislative Council remained paralysed and laws continued to be issued by presidential decree. Despite public statements calling for the formation of a national unity government, following the resignation of former Prime Minister Salam Fayyad, President Abbas appointed Rami Hamdallah. Prime Minister Hamdallah resigned a few weeks after his appointment in June. He was subsequently sworn in again as Prime Minister in September 2013. In this context, the EU has emphasised that full democratic legitimacy, and institutional sustainability can only be restored through genuine democratic legislative and presidential elections throughout Palestine. In the meantime, the ongoing situation increases the importance

of ensuring transparency of decision-making and proper consultative processes with civil society representatives to further democratic governance. The PA made progress in public finance management reforms in 2013.

Although a relatively positive environment continued to exist in the West Bank regarding respect for **freedom of expression, freedom of assembly and freedom of the media**, there remained cause for concern. Social media activists and journalists were summoned for investigation on various occasions. There was no change in the prevention of printing and distribution of banned papers, despite the decision taken the previous year to allow their distribution. There was no development on the legal framework for the press. The Presidential decision to pardon journalist Mamdouh Hamamreh — who was sentenced on a charge of insulting President Abbas — was nevertheless a welcome step.

Regarding **freedom of association**, while civil society organisations can generally operate freely in the West Bank, NGOs expressed serious concern following the publication of a presidential decree establishing an ‘NGO Affairs Committee’ to oversee relations between the authorities and civil society organisations. To date, no further steps have been taken to establish the Committee itself. Meanwhile, the ICHR officially requested that President Abbas cancel the decree.

In Gaza, the right to freedom of expression continued to deteriorate, with journalists being attacked by security forces, severe restrictions being imposed on journalists’ movements and the Palestinian Journalists’ Union still being prevented from carrying out activities. The offices of al-Arabiya Satellite Channel, Ma’an News Agency and Lines Media Company were closed in July, following a decision by the *de facto* Attorney General in Gaza. However, in November, all three offices were allowed to reopen.

In Gaza, the *de facto* authorities imposed increasing restrictions on the operation of civil society organisations. NGOs have been asked to provide more detailed financial information, including staff salaries and the names of those paid in cash and to apply taxation at source. A number of NGOs received a three-month deadline to fulfil these requirements. Some civil society organisations have received a ‘dissolution’ order from the *de facto* Ministry of Interior due to their refusal to present audit reports or to allow auditors from the *de facto* authorities to examine their accounts. In addition, the *de facto* authorities have sought to impose a requirement for exit permits for national staff working for civil society organisations and international organisations. These actions also risk exacerbating the restrictions on freedom of movement currently faced by Palestinians in Gaza and impeding assistance programmes being implemented by international partners there.

Other human rights and governance-related issues

In December 2012 the PA announced that a national action plan for human rights would be drafted, with a view to incorporating it into the new Palestinian National Development Plan. A first draft of the action plan is still being prepared by the Ministry of Justice and the UN Office of the High Commissioner for Human Rights.

In the West Bank the *de facto* moratorium on the **death penalty** has been in place since 2005. The new draft penal code, which would abolish the death penalty, has still not been adopted partly due to concerns about the legality of adopting substantial

legislation by decree in the absence of a functioning legislative body. However, the draft penal code still contains a number of provisions which, if adopted, would be a cause for concern. In a number of local statements, the EU condemned death sentences issued and carried out in the Gaza Strip. In the course of 2013, ten death sentences were handed down: nine in Gaza and one in the West Bank (where a moratorium on executions is in place). Two people were executed in Gaza, in June and October.

As regards the **prison system**, detention conditions in the West Bank and Gaza continued to be a matter of concern. In its May 2013 report, the ICHR described ongoing serious violations of detainees' rights by security agencies and patterns of **ill-treatment and torture** in places of detention across Palestine. The report also noted an increase in the number of allegations of torture. In response, in the first measure of its kind, President Abbas issued an order in May confirming the Palestinian authorities' commitment to the prohibition of all forms of torture. It also instructed the authorities to take all necessary measures to ensure respect for domestic legislation and international standards on this issue, and to improve the monitoring tools available to ensure the effective application of the order. Since President Abbas' decree, the number of complaints of torture and ill-treatment received by the ICHR has dropped significantly.

Respect for **public freedoms** continued to be a cause for concern. The right of peaceful assembly was compromised on several occasions by the Palestinian security forces' use of excessive force, and the arrest and detention of peaceful protesters. Though there has been a decrease in the number of arbitrary arrests, there were still some incidents, mostly at times of heightened tensions between the West Bank and Gaza, when Hamas supporters in the West Bank and Fatah supporters in Gaza were arrested. Since January 2011, no civilians have been tried in West Bank military courts. However, 22 civilians sentenced by a military court prior to that date are still in prison, without being offered the possibility of a re-trial before a civilian court.

As regards **freedom of religion or belief** and **rights of people belonging to minority**, 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.

Violence against **women** and their overall socio-economic vulnerability remained major challenges for Palestinian society. According to a 2012 domestic violence survey by the Palestinian Central Bureau of Statistics (PCBS), 37% of married women were subject to violence by their husbands (29.9% in the West Bank compared to 51.1% in the Gaza Strip). 25 women have been killed so far this year in Palestine in so-called 'honour crimes', according to data collected by the Women's Centre for Legal Aid and Counselling. The rate of Palestinian women's participation in the labour market remains amongst the lowest in the world (16.6% against 68.7% for men for the second quarter of 2013, according to the PCBS) even though women now comprise the majority of Palestinian university graduates. A general increase in unemployment and poverty has in turn contributed to an increase in early marriages for girls and in the number of girls dropping out of school. Both human security and access to justice remain highly problematic for women, who often only have recourse to traditional informal justice systems.

The use of **children** in the labour market continued to be 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).

People with disabilities also continued to suffer from exclusion and access to appropriate care, especially people with mental disabilities. Following a national conference in May focusing on the rights of people with disabilities, the Higher Council for People with Disabilities, led by the Ministry of Social Affairs, committed itself to taking steps to improve the social integration of people with disabilities.

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

2013 has been marked by effective efforts, led by US Secretary of State John Kerry, to re-launch direct peace negotiations between the Palestinians and the Israelis. Meetings between the parties took place from July onwards, with the aim of reaching an agreement on all final status issues within nine months. In its Council Conclusions of July 2013, the EU welcomed the resumption of negotiations as a crucial step towards achieving a lasting resolution to the conflict. To support this process, it outlined, in its Council Conclusions of December 2013, the political, economic and security support it would provide in the context of a final status agreement.

In 2013, the EU continued to engage with Israel in order to address the critical importance of Area C of the West Bank for the viability of a future Palestinian state. Concrete results, however, have been limited and negative trends continued in demolitions of Palestinian structures, and increased access restrictions (including access to humanitarian assistance) for Palestinians in Area C. These restrictions for Palestinians were particularly intense in the Jerusalem area.

In 2013, the EU issued various statements deploring settlement activity in East Jerusalem and the rest of the West Bank in line with the EU's long-standing view that settlements are illegal under international law. In June, the European Commission adopted guidelines to ensure that Israeli settlement-based entities and activities do not benefit from EU funding, in line with existing EU policy and practice and with the undertaking in the new ENP Action Plan.

On **Gaza**, the EU reaffirmed its support for consolidating the ceasefire of 21 November 2012 and reiterated its call for an immediate, sustained and unconditional opening of crossing points for goods and persons to and from the Gaza Strip, while fully recognising Israel's legitimate security needs. Sporadic rocket-fire from Gaza into southern Israel continued in 2013 and was met by Israeli airstrikes and a temporary reduction of Gaza's fishing zone, subsequently lifted. In 2013 a number of factors contributed to a sharp decline in the general economic and social situation in the Gaza Strip. Following the ousting of President Morsi in Egypt, there was a clampdown on the Gaza tunnels and restrictions on the opening of the Rafah crossing. The fall in fuel supplies led to the closing of the power plant in November and to prolonged power shortages, which resulted in the closure of sewage pumping operations and exacerbated existing difficulties in accessing clean water for Gazans. There were also shortages in the provision of medical supplies. Entry prohibitions on construction material, coupled with the sharp reduction in allowing the entry of other goods, resulted in increased unemployment and higher prices for basic foodstuffs.

3. ECONOMIC AND SOCIAL REFORM

*Macroeconomic framework*⁵

In 2013, real **GDP growth declined** to an estimated 1.5% year-on-year (from 5.9% in 2012) in the West Bank⁶ and Gaza. This was mainly due to continuing Israeli restrictions and delays in clearance revenue transfers to the PA, which in turn caused corresponding delays in salary payments to civil servants and an accumulation of arrears to the private sector. Without substantial improvements in the political context, growth is expected to further decline in the medium term.

Inflation remained subdued in 2013 at 1.7% (Palestinian Central Bureau of Statistics). However, in Gaza prices are expected to increase in 2014, given Egypt's intensified clampdown on tunnel trade, which could have socio-political implications.

The fiscal deficit, including development spending, is estimated at 13.7% of GDP in 2013, an improvement of nearly 3 percentage points compared to 2012, mainly due to improved revenue performance and commendable efforts to contain spending. The PA's **fiscal position** diverged substantially from the 2013 budget targets. The IMF estimated a USD 300 million financial gap for 2013. Shortfalls in donor aid and the incomplete transfer of clearance revenues from Israel caused difficulties in the government's liquidity position. In this challenging economic and social environment, growth-friendly fiscal consolidation was not sufficiently implemented and more could have been done to improve the business environment in order to ensure medium-term stability and promote growth. **Public debt** grew sharply to 38% at the end of 2013, rapidly approaching the 40% threshold set by law.

The **current account deficit** was projected at 22.4% of GDP for 2013 with the drawdown of cash and foreign deposits as the main source of current account financing (with particularly imports of goods outpacing exports).

While the **banking sector remained** healthy, domestic banks' direct and indirect exposure to the PA and its employees was high,⁷ making them highly vulnerable to any severe political or economic shocks.

Social situation, employment and poverty reduction

The unemployment rate was at 2.5% in 2013, compared to 23.2% during 2012. Unemployment in Gaza Strip was substantially higher than in the West Bank, and for women as compared to men; highest rates were registered for youth aged 20-24.

To help boost **employment**, a technical and vocational education and training strategy and a one-stop-shop system of employment services at local level were being developed. A labour market information system was put in place, to match labour market demand and supply. Work began on developing a Palestinian jobs

⁵ 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.

⁶ The West Bank generates about three quarters of GDP of the Palestinian economy.

⁷ Government debt to banks declined from 112% of banks' equity at the end of 2012 to 105% at the end of June 2013.

classification and qualifications system. An Employment and Social Protection Fund was established but remained underfunded.

The Ministry of Social Affairs continued to implement measures to enhance the national **cash transfer programme**. The programme witnessed an increase in its coverage to approximately 105 000 households, for a total annual cost of about EUR 88 million (corresponding to a 1% increase compared to 2012). The EU annual contribution of EUR 40 million, earmarked for support to families living in extreme poverty, covered less than 50% of the total cost of the programme. The PA covered the other half from its own budget, and the World Bank covered just under 3% of the total cost. Evaluations of the programme continued to be carried out on an ongoing basis.

Efforts were made to facilitate coherence and convergence in the targeting, delivery and monitoring of **social services**, with the support of EU-funded technical assistance. A national exercise to map pockets of poverty in the West Bank and Gaza was completed in close cooperation with the PCBS, with the support of the World Bank ('the Atlas of poverty in Palestine', PCBS 2013). The results show key poverty indicators at the local level, in support of policy development and decision-making.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

Palestine is the EU'S smallest trading partner in the Euro-Mediterranean region and almost worldwide. **Bilateral trade** flows in 2012⁸ increased compared to 2011 and amounted to EUR 118.8 million. EU imports from Palestine remained extremely small and consisted mainly of agricultural products and processed agricultural products. One of the main reasons for this lack of performance continues to be the Israeli-imposed 'closure system'. The US-brokered Israel-Palestinian Authority Agreement on movement and access, signed in 2005, has not been implemented. The border-crossing regime has become a major factor contributing to the Palestinian economic crisis.

A major achievement in the course of 2013 was the finalisation of the comprehensive national export strategy, formulated in partnership between the private and public sectors through an EU-funded project. The strategy is expected to be formally adopted within the Palestinian National Development Plan for 2014-2016. It proposes comprehensive measures for export development and the competitiveness of Palestinian products in twelve key sectors.

Regarding **sanitary and phytosanitary** issues, a food safety strategy and a food safety law remained in draft only. Various gaps in legislation and institutional capacity (administration, training for farmers and business operators, infrastructure) need to be addressed.

In the area of **free movement of goods** and **technical regulations**, very limited progress occurred since the last report in preparation for the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). After some years of delay, an EU-funded project to restructure and reform the Palestinian

⁸ Data for 2013 was not available at the time of writing.

Standards Institute was launched in September. It will contribute to the preparation for WTO accession and for ACAA negotiations.

In 2009, the PA requested membership of the **Agadir agreement** (a Free Trade Agreement between Morocco, Tunisia, Egypt and Jordan). No final decision on membership has been taken by Agadir Ministers yet.

In the area of **customs**, in September the PA signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin. Customs and VAT administrations were merged in 2013, as part of the implementation of a wider revenue action plan. A data interface between customs information systems in Palestine and Israel began to be officially implemented in September 2013.

The **business climate** continues to be hampered by the restrictions on movement and access imposed by Israel on both the West Bank and Gaza and the continued closure of access to the latter territory, severely limiting the effectiveness of EU measures to stimulate the private sector. Restrictions on the movement of goods and people both within and across borders increase transaction costs, affect business competitiveness and strongly discourage domestic and foreign investment. The continued inability of the PA to access Area C cripples economic development and, in particular, agriculture. Compared to the previous year, Palestine advanced to 138th place⁹ (out of 189 economies) for ease of doing business in the World Bank's 'Doing Business 2014' annual report. Significant improvements were observed in the area of starting a business, while obtaining credit and resolving insolvency remained problematic areas.

In the area of **company law**, a draft law on debt resolution and bankruptcy has yet to be adopted. Once in force, it aims to protect both lenders and borrowers, thus improving currently problematic access to finance for small and medium enterprises (SMEs). There were no substantial regulatory changes in the area of **establishment**.

As regards **financial services**, the Palestinian Monetary Authority continued to apply tight regulations to supervise the banking sector. However, the increased exposure of banks to the PA and its employees' debt increased risks for the banking sector including the danger of crowding out credit to the private sector.

Other key areas

In the area of **taxation**, in February the PA began to implement a three-year Revenue action plan, aiming to expand the tax base and improve compliance by establishing a fully integrated revenue service bringing together income tax, VAT, customs, and other direct and indirect taxes.

The PA submitted a draft law on **intellectual property rights** to the Prime Minister's Office.

In early 2013, the PA prepared a set of draft implementing regulations for the **public procurement** law which was adopted in December 2011.

⁹ Comparison is made with the 'Doing Business 2013' ranking, which was adjusted for changes in methodology and any revision of data due to corrections. For more information, see <http://www.doingbusiness.org>.

The PCBS continued to provide relevant **statistical** data for policy-making. The PCBS now works according to the IMF Special Data Dissemination Standard, which it adhered to in early 2012. The PCBS has begun developing its quality assurance framework, based on European good practice. In August, the PA Cabinet adopted a national strategy for the development of statistics for 2014-2018.

In the area of **enterprise policy**, an assessment of the SME policy environment was carried out, with reference to the Euro-Mediterranean Charter for Enterprise and the Small Business Act for Europe. Preliminary findings showed that Palestine made incremental progress in a number of policy areas, particularly access to finance, but that the support of public policy for private enterprise remains weak compared with other economies in the region. Palestine contributed to the implementation of the 2013-2014 work programme on Euro-Mediterranean industrial cooperation and exchanged good practice on SME development and in the textiles and clothing sector. Palestine coordinated the preparation by the Southern Mediterranean partners of a strategic paper on the future of Euro-Mediterranean industrial cooperation. This paper contributed to the conclusions of the ninth ministerial meeting on Euro-Mediterranean industrial cooperation held in February 2014 in Brussels.

There were no significant legislative developments in the area of **public internal financial control**. A public expenditure and financial accountability assessment of the PA's public financial management system was finalised in June. It concluded that impressive steps had been taken in a short time to develop **internal audit** capacity in line ministries and increase capacity for and the role of **external audits**. As regards internal audit, the PA continued working on the establishment of internal audit units in line ministries. This process has been coordinated by an Internal Audit Central Harmonisation Unit in the Ministry of Finance. A draft of the external audit law was still under revision, in order to incorporate elements ensuring better harmonisation with international standards and best practice. The draft law includes provisions to enable the State Audit and Administrative Control Bureau to become fully independent. All these measures were supported by EU-funded technical assistance.

Areas of **competition policy, state aid, consumer protection** and **tourism** did not undergo substantial regulatory changes.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

In the second part of the year, in order to address concerns in both the security and justice sectors, the EU Delegation actively sought to bring together key international stakeholders to promote reform at the highest political level. During the reporting period, no significant progress was made on reform of the **security sector**, despite efforts made to strengthen the transparency and public accountability of the security services, following concerns about human rights violations by the security forces. A joint UNDP-EUPOL COPPS programme, 'Ensuring police internal accountability, enhancing national anti-corruption efforts, promoting civil society oversight' continued. In addition, the Palestinian Civil Police (PCP) met together with civil society organisations to discuss a draft police code of conduct. In parallel, a two-year programme with the Geneva Centre for the Democratic Control of Armed Forces (DCAF) progressed with DCAF's engagement in a consultation process with civil society organisations and with key Palestinian stakeholders within the security and justice sectors.

The operational capacities of the PCP are still developing, and new infrastructures are being constructed, many with EU funding, such as district police stations and prisons. A two-year capacity-building programme to strengthen the institutional and organisational capacity of the PCP started in May. The PCP also engaged with EUPOL COPPS on a district action plan designed to assess current needs at the operational level.

With regards to the **justice sector**, the three main justice institutions, namely the Ministry of Justice, the High Judicial Council and the Attorney General's Office engaged in a review of the 2011-2013 strategic plan for the justice and rule of law sector, as a first step in defining the justice sector component of the Palestinian National Development Plan for 2014-2016. The review was comprehensive and reflected a balanced evaluation of the achievements in the justice sector, whilst acknowledging the challenges and difficulties that impeded progress with respect to certain strategic objectives. A positive step was the consultation with civil society representatives in the elaboration of this review.

Nevertheless, challenges remained in this field, such as the lack of a clear delineation between the roles and responsibilities of the three main justice institutions. Within the criminal justice sector, agreement was reached with the various institutions to cooperate more closely with the EU's mission EUPOL COPPS to help address these concerns. No progress was made in the area of reform of the Palestinian Judicial Institute, responsible for the training of the judiciary and the prosecution, since the High Judicial Council and the Attorney General's Office still conduct training programmes without coordination with the Institute.

On the legislative front, the new penal code remained as a draft despite reaching the last stages of scrutiny in 2011. The new penal code contains important progressive positions with regards to death penalty and 'honour crimes', among others. The draft legal aid law is also stalled, despite an increasing need for citizens to access legal assistance and protection. The Anti-Corruption Commission continued to function effectively in pursuing corruption cases, with an increasing number of cases being investigated and referred to the judiciary. There is, however, a need to ensure that referred cases are treated in a timely and due manner. The Anti-Corruption Commission signed an administrative cooperation arrangement with the European Anti-Fraud Office which gives the possibility for the two offices to cooperate on fraud cases affecting the financial interests of the EU and Palestine.

Concerning judicial cooperation in civil matters, Palestine participated in the 1st training seminar (Component II Resolution of Cross-Border Family Conflicts) "Resolution of cross-border family conflicts: international EU and national nlegislation" under the EuroMed Justice III Project, which took place in Rome in October.

Finally, the limits on the jurisdiction of the PA over all the territories continued to have a serious negative impact on both the justice and security sectors, weakening the capacity and effectiveness of their associated institutions. In addition, the political divide between the West Bank and Gaza resulted in the establishment of parallel justice and security systems, leaving the PA unable to exercise its authority effectively in Gaza.

6. TRANSPORT, ENERGY, CLIMATE CHANGE, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT

The **transport** sector remains a vital recovery tool for the Palestinian economy. Nevertheless the quality of infrastructure continued deteriorating, damaging economic productivity in Gaza and Area C in particular. Under the Facility for Euro-Mediterranean Investment and Partnership, the European Investment Bank decided to co-finance a road and transport master plan. At the regional level, Palestine takes actively part in the Euro-Mediterranean transport dialogue and technical assistance programmes.

In the **energy** sector, the regulatory authority, PERC, began functioning fully and issued two licenses for distributors and guidance for licensing in the context of the Palestinian Solar Initiative. The EU assisted the PA in reducing the burden on the national budget of net lending originating from the electricity sector by implementing the second phase of an 'Institutional Development and Electricity Sector Reform' project which began early in the year. A major outcome of the project was the launch of operations of the electricity distribution companies. The Palestinian Electricity Transmission Company Ltd was also established, following the Cabinet's nomination of the Board of Directors in August.

In May, the Cabinet infrastructure committee approved a concept note on restructuring the energy sector by extending the mandate of the Palestinian Energy and Natural Resources Authority to the hydrocarbon sector. The transmission infrastructure is being upgraded, including work started in 2013 (with Neighbourhood Investment Facility co-financing) on four substations in the West Bank (Hebron, Jenin, Nablus and Ramallah) totalling EUR 45 million, the on-going negotiations with the Israel Electric Corporation for the upgrading of the Gaza power plant for natural gas supply and the upgrading of the North Gaza substation.

Palestine continued to explore the possibility of becoming a full member of the United Nations' Framework Convention on **Climate Change** (UNFCCC) and participated in the EU-funded Clima South regional project, which supports mitigation and adaptation in the southern ENP region. Clima South deployed a fact-finding mission to Palestine, and planned to support Palestine in its efforts to develop a national policy climate change, including towards accession to the UNFCCC. Becoming a full member of the UNFCCC would improve Palestine's access to funding related to climate change. In May Palestine became an official beneficiary of the Global Environment Facility (GEF), but continued to face difficulties in accessing GEF funding because its status hinders it from being party to the relevant multilateral environmental agreements.

The Ministry of **Environment** prepared a draft environmental law and launched the 'Strengthening the Palestinian Environmental Action Plan Programme'. However, its operations in the Gaza Strip were hampered by the continued closure of its local offices there. In July the ministry's title reverted to the Environment Quality Authority, a change made for logistical reasons as its chairman was unable to obtain visas to travel from Gaza to meetings in the West Bank in his ministerial function. However, the Authority continued to report directly to the Prime Minister.

In September, Palestine adopted its water law, as a result of which the Palestinian Water Authority will retain ministerial functions and an independent regulatory body will be established. Construction of large-scale waste-water treatment plants continued in Nablus West and will start shortly in Nablus East, as will the construction of the northern Gaza sewage treatment plant. In December Palestine, Jordan and Israel signed a water-sharing agreement to build a pipeline to carry brine from a desalination plant at the Red Sea to the Dead Sea, while providing drinking water to the region.

A medical waste bylaw, approved in February 2012, is now being implemented and both public and private hospitals are now working in accordance with its requirements.

Palestine was one of the first countries to begin supplying data to the European Environment Agency (EEA) under the EU's shared environmental information system regional project and it is one of five partners that plan to enhance their cooperation with the EEA. It also participated in EU-funded regional projects including the sustainable water integrated management project, projects falling under the Horizon 2020 initiative for the de-pollution of the Mediterranean, and in the EU-funded project on the Integrated Maritime Policy in the Mediterranean (IMP-MED).

In the area of civil protection, Palestine took part in the second phase of the flagship Programme for Prevention of, Preparedness for, and Response to Natural and Man-Made Disasters (PPRD South II), which was launched in September. The Programme aims at strengthening systems for the prevention, mitigation and management of natural and man-made disasters in the region.

No major changes on **information society** were observed in 2013. The Palestinian Telecoms Ministry participated to the Southern Mediterranean Dialogue on E-Communications and the Information Society.

A **High Council for Research** was re-launched within the Ministry of Higher Education, with a budget of about EUR 4.1 million to support research. Representatives from Palestinian universities, from the Applied Research Institute Jerusalem and from the private sector are members of the Council.

In 2013 the Palestinian entities showed a growing interest to participate in the EU 7th Framework Programme for Research and Technological Development (FP7). They increased their participation in FP7 reaching 24 projects with a total EU contribution to the Palestinian partners amounting to EUR 2,8 million. Two new FP7 projects (R2I-Research to Innovation) involving 2 Palestinian stakeholders were launched in 2013 for a total EU funding of around EUR 2 million and aiming at fostering research-industry partnerships, supporting the Palestinian capacities in the innovation domain and facilitating the commercial exploitation of research results.

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

Following the formation of a new government, the Ministries of Education and Higher Education, which had been split in May 2012, were regrouped into a single Ministry of Education. In 2013, work continued to finalise the third education development strategic plan (2014-2019). The reunification of the Ministry of

Education and Higher Education was a positive development towards a more integrated governance system.

A third education sector annual review was carried out in May, focusing on **technical and vocational education and training** (TVET) as well as early childhood, care and development. The implementation of the national TVET strategy in 2013 continued at a good pace, with the establishment of the National Qualification Framework, the approval of the standard process of curriculum development, the adoption of a human resources development plan, and a national training fund. Nonetheless, the TVET system has yet to achieve the strategic objective of operating as a unified, integrated and labour market-oriented training system, and continues to suffer from a low public image (overall the current participation rate in TVET programmes remains at under 6% of total students).

Basic education continued to suffer from infrastructure issues, in particular in the Gaza Strip, Area C and East Jerusalem. In the Gaza Strip, many school buildings damaged during the 2012 November conflict continued to operate at sub-optimal levels as a result, and restrictions imposed by Israel on movement and access, in particular as regards construction materials, continued to limit the rehabilitation and development of such facilities. In Area C, buildings continue to face the threat of demolition, and permits for new constructions continued to be difficult to obtain.

As regards **higher education**, insufficient funding continued to be a major concern, having a serious negative impact on the quality and relevance of higher education. In September, the PA transferred approximately EUR 870 000 to the Palestinian universities to address the situation. Steps towards the modernisation of higher education were taken: existing curricula were developed significantly (e.g. to include classes on water, environment, international relations) and new educational programmes and teaching methods were introduced. There were also improvements in quality assurance and facilities were upgraded. Progress was also made on the internationalisation of faculties and on the creation of a Palestinian inter-university network. Palestinian institutions were more active in the **Tempus** Programme. 39 applications were submitted (the highest number of applications involving Palestine ever received). Of these applications, eight projects involving Palestinian institutions were selected, among which three were chosen as coordinators. 145 students and staff from Palestine received scholarships to study at a European higher education institution through new **Erasmus Mundus** partnerships. In addition, 12 masters students were awarded scholarships to take part in Erasmus Mundus joint programmes of excellence. Palestinian involvement in other EU global programmes should be enhanced, with only three Palestinian researchers and three Palestinian institutions having benefited from **Marie Curie** funding since 2007.

Palestinian youth and youth organisations continued to benefit from the opportunities offered by the **Youth in Action** programme. 59 projects were selected reaching 400 beneficiaries. A consultation workshop was organised in Palestine involving stakeholders from the cultural sector, as part of the consultation process for the Preparatory Action on **Culture** in EU External Relations.

The PA increased its focus on tackling non-communicable diseases and providing primary **healthcare** through the establishment of family medical centres, which should reduce the cost of referrals. The Health Ministry also made changes to improve the fairness and efficiency of the referral system. These included expanding the

membership of the medical referral committees to include health experts from outside the public sector, centralising the billing department, and putting tighter restrictions on referrals to medical institutions in Israel. Two hospitals in East Jerusalem received international quality accreditation in May.

Implementation of the health strategy continued to be hampered by a lack of funding (reflecting the overall budgetary crisis facing the PA). Inadequate funding limited the provision of drugs and medical supplies as well as limiting referrals of patients to external healthcare providers, such as the East Jerusalem hospitals. In September, the Ministry of Health presented an emergency strategy to secure three months' drugs and medical supplies for all PA hospitals (including those in Gaza) and primary healthcare services.

In the Gaza Strip the provision of healthcare was hampered by restrictions on movement and access to Gaza and, more recently, by the closure of many of the tunnels between Gaza and Egypt. The resultant shortages of fuel, electricity, water supplies and medicines had serious repercussions for the functioning of local health centres.

Palestine participated in the EU-funded 'Episouth Plus' project, which aims to enhance health security in the Mediterranean region and South-East Europe. Policy-makers from Palestine attended a multi-country workshop on the EU *acquis* on prevention and control of communicable diseases, as well as participating in the EU-supported Mediterranean programme for intervention epidemiology training project (MediPIET, which supports training infrastructure and a regional network of competent field epidemiologists in order to manage cross-border health threats).