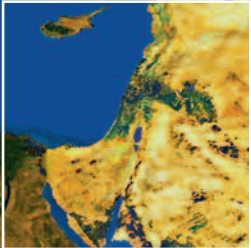


Country Assistance Plan for **Palestinians**



Department for International Development

The Department for International Development (DFID) is the UK Government department responsible for promoting sustainable development and reducing poverty. The central focus of the Government's policy, based on the 1997 and 2000 White Papers on International Development, is a commitment to the internationally agreed Millennium Development Goals, to be achieved by 2015. These seek to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in the Middle East, Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID has headquarters in London and East Kilbride, offices in many developing countries, and staff based in British Embassies and High Commissions around the world.

DFID's Palestinian programme is managed from London and a DFID office in East Jerusalem, connected to the British Consulate-General. DFID only works in developing countries, and has no presence in Israel. DFID staff work closely with UK diplomatic colleagues who have very regular contacts at all levels with the Government of Israel.

WHAT ARE COUNTRY ASSISTANCE PLANS?

Country Assistance Plans (CAPs) set out how DFID aims to contribute to the achievement of the Millennium Development Goals in various countries. Country Assistance Plans usually start from the basis of our partner country's poverty reduction strategy and set out in detail how DFID will work as part of the international development effort to support a country's strategy for reducing poverty. They include a framework for annual assessment of DFID's performance in implementing the plan. These annual updates of CAPs will be available electronically at www.dfid.gov.uk. Major reviews of Country Assistance Plans leading to new printed documents are expected to be undertaken every three to four years.

Country Assistance Plan for Palestinians

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**Part 3 is to be made available electronically on the DFID website, www.dfid.gov.uk. These are subject to change from time to time. Enquiries can be sent by e-mail to enquiry@dfid.gov.uk*

Alternatively, hard copies of Part 3 can be sent on request. Please phone 0845 3004100 or write to Enquiry Point, DFID, Abercrombie House, Eaglesham Road, East Kilbride, Glasgow G75 8EA

A Summary

- A1 Decades of occupation and conflict with Israel have severely constrained Palestinian development. Without lasting peace the prospects for economic growth, poverty reduction and improved quality of life are slight. **Only a political settlement will solve these problems. There is an urgent need to make this happen before it is too late for a viable and just two-state solution.** The alternatives for both Palestinians and Israelis could be disastrous.
- A2 The publication of the Roadmap in 2003 reflected **clear international consensus in support of a two-state solution.** But neither side has met its commitments under it. Without action soon to build confidence and implement the Roadmap, there is a real danger that **facts on the ground** (Israeli settlement expansion and construction of the separation barrier) **may make a viable two-state solution almost impossible.**
- A3 Conventional development assistance under these circumstances is problematic. But **aid still has a major role to play, including in supporting the Palestinian Authority (PA) to meet its peace process commitments** and to build the institutions of a Palestinian state. The case for such assistance is even stronger when the peace process is not going well. **Continuing humanitarian assistance is also needed.**
- A4 The *intifada* and Israeli military action have had a devastating impact on poverty in the Palestinian Territory. **Income per capita has dropped by over half, and the proportion of the population living in poverty has risen from 21% to 60% since 2000.** The *intifada* and access restrictions have resulted in severe pressure on all service providers, and had an impact far beyond income poverty.
- A5 The United Nations Relief and Works Agency (UNRWA) has played a significant role in providing basic services to Palestinians across the region. Since the *intifada* **UNRWA's emergency role in the Palestinian Territory has become vital.** Population growth and funding constraints are big challenges for UNRWA. Internal reforms are improving its performance.
- A6 Aid flows to Palestinians are high. Aid cannot end poverty without progress on the peace process. **What is most needed to reduce poverty is an end to violent conflict, Israeli closures and occupation, so the economy can grow again.** But such high levels of assistance are temporarily needed to prevent even more Palestinians falling into extreme poverty and desperation. **International aid could have greater impact if used and coordinated more effectively.**
- A7 The PA is implementing a comprehensive reform programme. There has been some progress, e.g. with financial management. But there is more to achieve, and **without progress on Palestinian security reform, the peace process is unlikely to advance.** There are powerful forces within the PA who resist reform.
- A8 The **PA does not have an internationally recognised poverty reduction strategy.** But it has started to develop short-term planning frameworks to guide its own prioritisation and help donors target their assistance.
- A9 Numerous **risks** to the achievement of the PA's socio-economic and political objectives give rise to **three possible scenarios:** i) increased violence and instability, with **rapid political deterioration;** ii) continuation of the current **gradual deterioration;** iii) **political progress** with the Middle East Peace Process. DFID will work with other parts of the UK government to help move the situation from scenario ii) towards scenario iii). But there is a substantial risk it will slip into scenario i).
- A10 The UK Government supports the right of the Palestinian people to establish a sovereign, independent and viable Palestinian state. The overall goal for DFID's support to Palestinians is the sustainable reduction of poverty. **Our purpose is to work with partners to help end conflict and create a viable Palestinian state that will reduce poverty.**
- A11 We will contribute to **three related outcomes:** i) **prospects for peace** enhanced; ii) more effective, accountable and inclusive **Palestinian institutions** and governance systems; iii) humanitarian and development **assistance delivered more effectively.** The extent of our support for each outcome will depend on the political situation. We will retain some **flexibility** to

react to our partners' needs, and to events, particularly the opportunity that possible Israeli withdrawal from Gaza may represent.

- A12 We will **collaborate closely with other donors** to promote the channelling of an increasing proportion of aid flows through the PA budget, in support of **PA reform and poverty reduction plans**. This involves significant risks, but not doing so carries bigger ones. We will continue moving away from a stand-alone project-based approach, but maintain some strategic work with Non-Governmental Organisations (NGOs).
- A13 We will liaise with other parts of the UK government to ensure that the **UK's development, humanitarian and political objectives support each other**. We will explore further delegating programming authority and staff to our office in East Jerusalem.
- A14 Subject to events, we will **review our progress annually**, and consider whether the basic analysis underlying this plan is still valid in 2006.

Part 1 – Context

B The challenge

Occupation and conflict

- B1 **Decades of occupation and conflict with Israel have severely constrained Palestinian development.** Without lasting peace the prospects for economic growth, poverty reduction and improved quality of life are slight. Over four million Palestinians remain registered refugees, of whom more than half live outside historic Palestine. Palestinians living in the West Bank (including East Jerusalem) and Gaza have been under military occupation since 1967. The cycle of violence and Israeli closures since the beginning of the al-Aqsa *intifada* in September 2000 has led to economic breakdown and a tripling of poverty. **Only a political settlement will solve these problems. There is an urgent need to make this happen before it is too late for a viable and just two-state solution.** In the absence of any alternative stable solution, the consequences for both Palestinians and Israelis could be disastrous.
- B2 The development challenge for Palestinians is thus intimately linked with the progress of the Middle East Peace Process (MEPP). The Palestinian Authority/PLO, the Government of Israel, a majority of both peoples, most countries in the region and the international community all support **a two-state solution to the conflict: viable Palestinian and Israeli states living peacefully and securely.** But despite various peace initiatives a final settlement has not yet been reached.
- B3 The publication of the Roadmap¹ reflected a clear international consensus in support of a two-state solution, and the actions needed to get there. The Israeli and Palestinian Prime Ministers have committed themselves to implement the Roadmap, but progress has been disappointing. **There is no obvious attractive alternative to the steps towards peace set out in the Roadmap.** Without action soon to get the Roadmap back on track, there is a real danger that facts on the ground (Israeli settlement expansion, construction of

the separation barrier and land confiscation, which together are isolating Palestinian land into separate enclaves) may make a viable two-state solution almost impossible.

- B4 The Roadmap sets out a process of specific steps towards a final settlement. It does not set out the detail of that settlement. Following the stagnation of the Oslo peace process, many Palestinians and Israelis are doubtful that an incremental process will succeed, given the widespread mutual distrust. **Resolution of the conflict requires major concessions for both sides on difficult issues:** borders, the return of refugees, the status of Jerusalem, and future security arrangements. Polling suggests there is majority support on both sides for compromises. This has been reflected in informal peace plans agreed by leading Israeli and Palestinian civil society figures. But the voices of those who support an end to the conflict are often less influential than the actions of rejectionists on both sides, whose ideology or reading of history cannot accept the existence of two states. Violence increases the appeal of these minority views.
- B5 The Arab/Israeli conflict has **repercussions throughout the region and beyond.** Although Egypt and Jordan signed peace treaties with Israel in 1978 and 1994 respectively, other states have not. Syria, Lebanon and Jordan have a strong interest in resolving the Palestinian refugee problem. Arab League states have offered² a comprehensive peace with Israel in return for Israeli withdrawal from all Arab land occupied since 1967, a just solution to the refugee problem, and the creation of a Palestinian state. **Resolution of the Arab/Israeli conflict would be of benefit not just to those directly affected.** It would be an impetus for reform and economic progress across the Arab world, reduce a chronic source of tension between the Muslim world and the West, and undermine one cause of extremism and terrorism. It would also free up a billion dollars of aid a year, and a lot of diplomatic energy.

¹ "A Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict", backed by the Quartet (USA, EU, UN, Russia), published in April 2003

² Beirut Declaration, March 2002

Socio-economic situation

B6 Violent conflict has resulted in trauma on both sides. 3,079 Palestinians and 924 Israelis have died in *intifada*-related violence.³ But the **socio-economic costs have weighed particularly heavily on Palestinians**. Tight restrictions have been imposed on the movement of Palestinian goods and people across borders and within the Palestinian Territory⁴. These closures and checkpoints are described by Israel as essential to protect its citizens from terrorism. But, together with the expansion of Israeli settlements and the construction of the separation barrier in the West Bank (see map 1), closures have led to many Palestinians losing access to their livelihoods and basic services, and the increasing isolation of communities. Israel has also restricted permits for Palestinians to work in Israel (which accounted for 130,000 jobs in the late 1990s). The result has been the stifling of the Palestinian private sector, rising unemployment, and social fragmentation.

Palestinian poverty levels have tripled since the *intifada* (see box 1). Coping mechanisms, such as selling assets, bartering or borrowing, are increasingly stretched. Welfare benefits cannot meet the rising demand for emergency support. If the trends of separation and isolation continue, national economic and service networks may break down.

B7 **The impact of the *intifada* and Israeli military action go far beyond income poverty**. Real per capita food consumption has declined by 30%, resulting in 9.3% of children across the Palestinian Territory (13.3% in Gaza) suffering from acute malnutrition⁵. More than half of Palestinian households⁶ report difficulties in obtaining health services. Education standards have declined from under-funding, school closures and the violence-related trauma affecting most children. Women have fared particularly badly, with greater numbers of female-headed households, a wide disparity in labour force participation⁷, and more domestic violence⁸.

Box 1: Poverty trends during the *intifada*

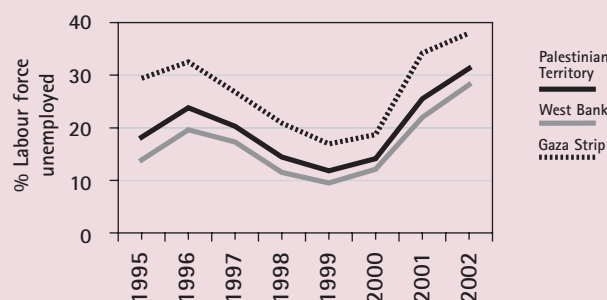
The *intifada* and Israeli military action have had a devastating impact on poverty in the Palestinian Territory, particularly in Gaza. Income per capita (figure 1) has dropped by over half since 1999, and the proportion of the population living below the Palestinian poverty line (US\$2.10 a day) has risen from 21% to 60% (75% in Gaza)⁹. Unemployment (figure 2) has more than doubled from pre-*intifada* levels.

Figure 1. GNI per capita: 1996–2002



Source: World Development Indicators (2003)

Figure 2. Proportion of the Palestinian labour force that is unemployed: 1995–2002



Source: Palestinian Central Bureau of Statistics (2003)

3 Figures from 28/09/00 to 25/04/04, British Consulate-General (Jerusalem)/British Embassy (Tel Aviv)

4 Used in this document to refer to all of the territory of the West Bank and Gaza occupied by Israel in 1967. The UK does not recognise Israeli sovereignty over East Jerusalem.

5 2002 survey conducted by Johns Hopkins and Al Quds Universities

6 PCBS, October 2003 – 55.6% of Palestinians say they have problems with access to health care due to Israeli closures.

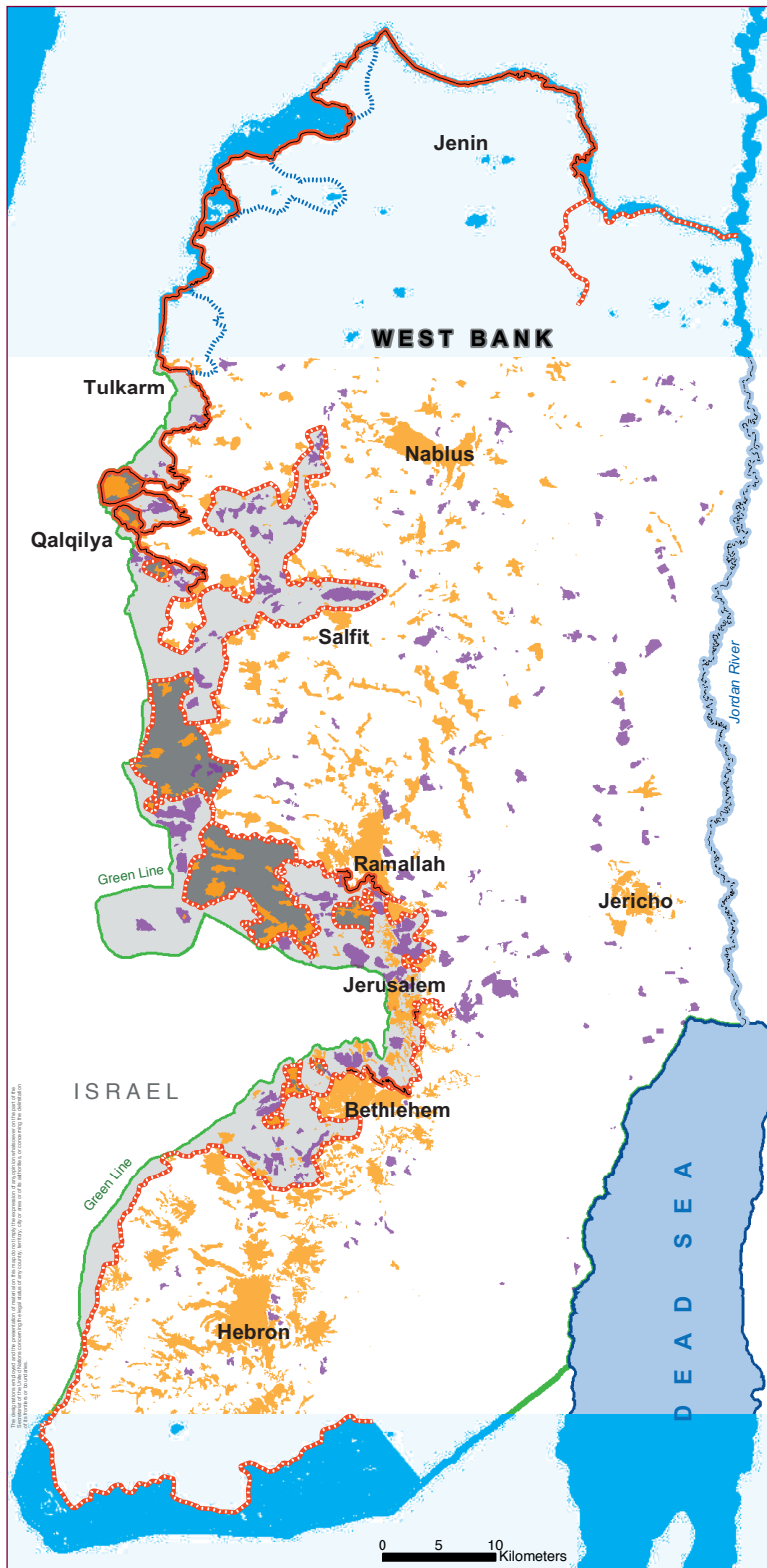
7 PCBS: 13.6% female participation, 68.6% men (2002)

8 World Bank, 2001

9 World Bank staff estimates, 2003. PCBS data for 2003 suggests 61.4%

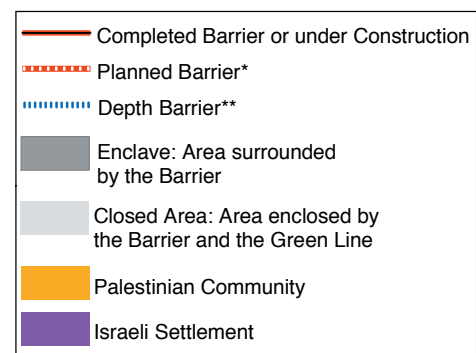
Map 1: Israeli settlements and the actual/planned route of the separation barrier in the West Bank

(Map from UN OCHA, December 2003, data from other sources)



The expansion of Israeli settlements and the construction of the separation barrier in the West Bank threaten the prospects for a viable two-state solution. According to Israeli Government projections approximately **210,000 acres, or 14.5% of West Bank land** (excluding East Jerusalem) will lie between the separation barrier and the internationally recognised Green Line separating Israel from the Palestinian Territory. This land is some of the most fertile in the West Bank and is home to **274,000 people**. Many do not have Israeli residency permits. More than **400,000** other Palestinians living to the east of the barrier will need to cross it to get to their farms, jobs and services. Access is already proving difficult. In total approximately **30 percent of the Palestinian population in the West Bank will be directly affected by the barrier**. Very little of the barrier follows the Green Line – 89% of its length has been built on Palestinian land. Israel says the barrier is temporary and does not prejudice final borders.

Israeli settlers in the West Bank have doubled since Oslo and grown by 16% since February 2001. There are now **220,000 settlers** (not including East Jerusalem), who **control 42% of the West Bank**.¹⁰ In April 2004, Israel announced plans to withdraw four settlements with a population of a few hundred.



*Barrier path based on Israeli Government (Ministry of Defence - Seam Zone Authority) Maps - 23 Oct 2003.

**Depth Barriers based on IDF maps - March 2003.

OCHA Cartography and Barrier Themes: OCHA-oPt Humanitarian Information Centre - January 2004
Base data: MoPIC (2000) updates OCHA (2004)

version 4

10 Settler data from Applied Research Institute, Jerusalem; Israeli Interior Ministry; Israeli Central Bureau of Statistics; and B'Tselem.

B8 Many Palestinian refugees living in Jordan, Lebanon and Syria remain (like their counterparts in the Palestinian Territory) dependent on international assistance for education, health and relief and social services. These have been provided to registered refugees by **UNRWA (the United Nations Relief and Works Agency)** since 1950, under a unique mandate from the UN General Assembly. Palestinian refugee communities face low household income, overburdened infrastructure, and employment restrictions. Refugees in Lebanon are particularly badly integrated. Host countries are unwilling to accept formal responsibility for the refugees for fear of compromising final settlement negotiations. They argue this responsibility rests with Israel and the international community.

Development environment

B9 Basic services are provided by a range of organisations in the Palestinian Territory including Palestinian Authority ministries, local municipalities and other local government units, Palestinian NGOs (including Islamic welfare groups), local support networks, the private sector, UNRWA and international agencies. Registered refugees elsewhere in the region rely significantly on UNRWA.

B10 The **Palestinian Authority (PA)** has responsibility for the provision of many basic services. But given Israeli occupation, it lacks full control over its territory. It has faced numerous **external and internal challenges** in its first ten years, especially during the *intifada*. Despite occupation leading to unreliable revenue sources, Israeli military destruction of infrastructure, and severe difficulties of movement for staff and clients to deliver and receive services (which have exacerbated splits between Gaza and the West Bank), it has achieved much. But major constraints have included a shortage of clear political direction, limited popular support, management deficiencies, inadequate staffing in key areas, corruption, and accusations of misuse of funds and sponsoring terrorism. In some areas the PA does very little. Many Palestinians rely on UNRWA, NGOs and Islamic welfare groups as more effective and less corrupt service providers. Service provision by Islamic groups has increased recently. There is scope for more effective use of the PA's machinery of local government to deliver services.

B11 Civil society is diverse and vibrant. **NGOs have run extensive programmes** since the 1960s, notably in health, water, education and human rights. Since the establishment of the PA, NGOs have had to adapt their programmes to the changing situation and a reorientation in international funding. **They still play a major role in providing some services.** The potential of NGOs is undermined by funding and capacity constraints, and lack of free movement. Other challenges include moving to more developmental models better integrated with the public sector, NGO coordination, and fluctuating donor behaviour. Misuse of funds and links with extremists are concerns with a small number of NGOs.

B12 With two thirds of Palestinians registered as refugees, **UNRWA has played an essential role in providing basic services to Palestinians across the region.** Since the *intifada* its emergency role in the Palestinian Territory has become vital. It is the most reliable large-scale provider of relief and social services, combining a workforce of 24,000 – over 90% of whom are Palestinian refugees – with the management, expertise and credibility of a UN agency.

B13 In recent years **UNRWA has been improving its efficiency and effectiveness.** Donor technical assistance has helped drive reform. Investment now to help improve UNRWA's systems should pay off irrespective of the precise outcome or timing of a final settlement. When UNRWA is called upon to hand over its responsibilities to hosts, it needs to be ready to transfer assets, not liabilities.

B14 **Relations between the PA and NGOs** are complex and have involved tension, including over donor funding and popular support. This has improved over time. UNRWA too, which has traditionally operated with limited dialogue with other development actors, is now better involved in national coordination. As NGOs and UNRWA are largely funded by international donors, donors could ask for a more proactive approach to coordination from these partners.

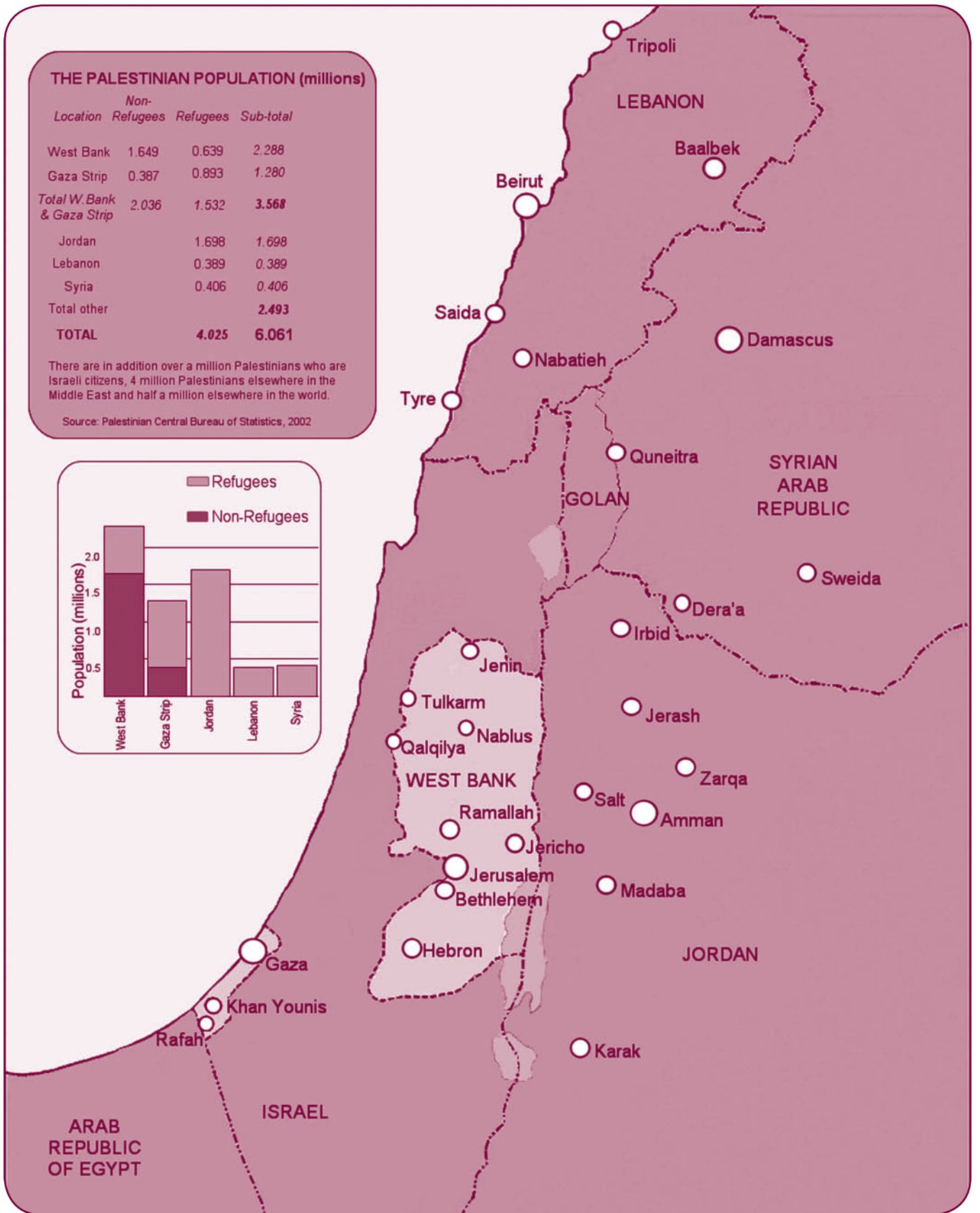
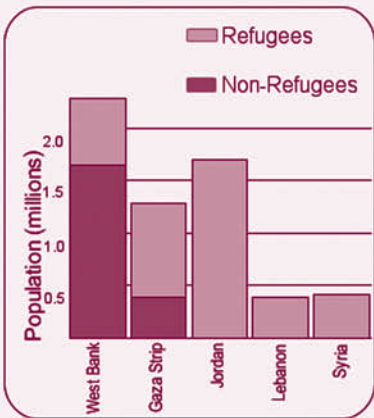
B15 The *intifada* has resulted in severe pressure on all service providers trying to meet increased demand. Israeli access restrictions (which predate the *intifada*) frequently obstruct the delivery of humanitarian assistance – a trend the separation barrier is increasing.

THE PALESTINIAN POPULATION (millions)

Location	Non-Refugees	Refugees	Sub-total
West Bank	1.649	0.639	2.288
Gaza Strip	0.387	0.893	1.280
Total W. Bank & Gaza Strip	2.036	1.532	3.568
Jordan		1.698	1.698
Lebanon		0.389	0.389
Syria		0.406	0.406
Total other			2.493
TOTAL		4.025	6.061

There are in addition over a million Palestinians who are Israeli citizens, 4 million Palestinians elsewhere in the Middle East and half a million elsewhere in the world.

Source: Palestinian Central Bureau of Statistics, 2002



Map 2: Palestinian refugees throughout the region

There is a limit to what development assistance to public services can achieve when what is most needed is relaxation of Israeli closures, and eventual withdrawal, so that the economy can grow again and PA ministries can play their proper role.

Donor assistance

- B16 Conventional development assistance under these circumstances is problematic, and progress has been overshadowed by occupation. Donors have responded to the intensification of conflict by **switching to humanitarian support**: the ratio of development to emergency assistance flipped from 7:1 in 2000 to 1:5 in 2002¹¹. Mitigating the suffering of Palestinians is an Israeli and international responsibility, as well as essential to limiting damage and building confidence. But development assistance still has a major role to play in **supporting the PA to meet its peace process commitments**, and to build the institutions of a Palestinian state. The case for this kind of assistance is even stronger when the peace process is not going well – without it the PA may collapse, and the peace process with it. This kind of aid is relatively well-used, given the constraints.
- B17 **Aid to the Palestinian Territory doubled** soon after the *intifada* and remains high (around \$1bn a year – over \$300 per person – plus another \$150m for Palestinian refugees in neighbouring countries). But contributions to the PA budget have fallen since 2002, despite rising needs and improvements in financial

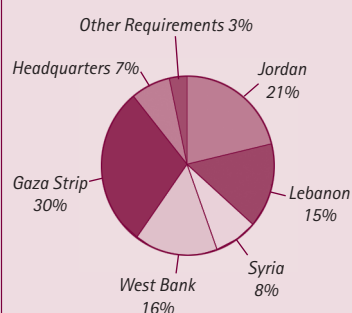
management. It is often asserted that Palestinians are overaided. **Massive increases in aid have not prevented an increase in poverty, and will not reduce it much without progress on the peace process**¹². But high levels of assistance are temporarily needed to prevent even more Palestinians falling into extreme poverty and desperation – and to keep the peace process alive by sustaining the Palestinian Authority when it cannot generate enough revenues to cover minimum expenditure. Average income levels are not yet comparable to the world's poorest countries, but some social indicators are. The dramatic decline in income and increase in poverty since 2000 is more striking given the difference in average income between Palestinians (\$930) and Israelis (\$16,710)¹³.

- B18 **UNRWA's regular budget** (see box 2) has been funded by voluntary international contributions since its creation over 50 years ago. During the last ten years the deficit between contributions and the agreed budget has been UNRWA's major challenge. The funding shortfall has been exacerbated by the **rapidly increasing refugee population** (each year places are needed for 10,000 more school children), and the additional demands during the *intifada*, which have put UNRWA's services under increasing strain and led to a series of **Emergency Appeals**. In Lebanon, where living conditions for refugees are much worse than in Syria and Jordan, NGOs are assuming a greater burden of basic service delivery.

Box 2: UNRWA budget breakdown by location and programme 2004–5

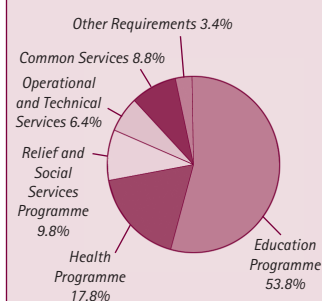
2004–2005 UNRWA two year budget by location
(cash and in-kind, in millions of US\$)

Jordan.....	150.7
Lebanon.....	107.4
Syria.....	56.4
West Bank.....	113.2
Gaza Strip.....	207.7
Headquarters.....	52.5
Other Requirements.....	24.0
Total.....	711.9



2004–2005 UNRWA two year budget by programme
(cash and in-kind, in millions of US\$)

Education Programme.....	383.1
Health Programme.....	126.8
Relief and Social Services Programme.....	69.9
Operational & Technical Services.....	45.3
Common Services.....	62.7
Other Requirements.....	24.0
Total.....	711.9



11 *Twenty-Seven Months – Intifada, Closures and Palestinian Economic Crisis: An Assessment*, World Bank (May 2003)

12 World Bank analysis (op.cit.) suggests a doubling of donor aid would only reduce poverty by 7 percentage points by the end of 2004, whereas lifting internal and external closures could see GDP grow by 21% and poverty fall by 15 percentage points.

13 World Development Indicators (2003)

- B19 The **biggest donors** to Palestinians in 2002 were **Arab states** (notably Saudi Arabia, Kuwait and UAE), **the European Commission and the USA**, together accounting for over 70% of disbursements. There are a large number of small bilateral donors, and a complex structure of UN agencies. Arab donors are not well-integrated into international donor coordination mechanisms. USAID is based in Tel Aviv, and its staff face security restrictions in travelling in the Palestinian Territory. The World Bank has a relatively small programme, but provides analytic and intellectual leadership on many aid and economic issues. Together with the UN and Norway, it formally leads the complex donor coordination structures. Many donors tie their use of development aid closely to bilateral political objectives, which makes donor coordination more difficult. Donors support a wide range of often unconnected development and humanitarian activities. There has been more coordination since 2002 in support of PA reform.
- B20 **International aid could have greater impact if used more effectively.** The transaction costs of disparate donor assistance are too high. The EU (member states and EC) alone have 540 active projects, with an average size of £2.2 million. There is scope for better prioritisation and coordination under the PA's direction. Since 2000 insufficient resources and political uncertainty have made it difficult for the PA to plan beyond the immediate emergency. But there are **promising signs that the PA is gradually enhancing its capacity to take a greater lead** in coordinating aid.
- B21 Some donors have questioned whether international assistance substitutes the need for Israel to fulfil its Geneva Convention humanitarian obligations as an occupying power. But **the charge that donors are financing the Israeli occupation overlooks the many forms of international assistance to Palestinians that Israel has not provided**, and is unlikely to provide. Most government donors also have a policy of providing humanitarian assistance on the basis of need, and not using it as part of a foreign policy strategy. Until a settlement is reached, the imperative should be improving the effectiveness of aid, including through ensuring Israel allows **adequate humanitarian access** in line with the Geneva Conventions.

Palestinian Authority reform

- B22 As a partner in negotiations with Israel, the PA is essential to a two-state solution. Its powers are limited by its lack of sovereign responsibility over its land and borders. But sustainable peace and stability are dependent on the effectiveness of the PA as a legitimate governing and representative body for the Palestinian people. Reform to improve accountability, transparency and inclusiveness of PA institutions, and the PA's capacity to deliver responsive public services to ordinary Palestinians, is therefore critical to both the peace process and governance of a future state. Demands for reform since Oslo from the Palestinian public, and more recently internationally, have resulted in a **comprehensive PA reform programme**. There has been some progress implementing this, but there is more to achieve. (See box 3.) **The peace process is unlikely to advance without progress on Palestinian security reform** (needed both to show Israel that the PA is serious about tackling terrorism, and to improve law and order in the Palestinian Territory).
- B23 The Palestinian leadership faces pressure from four sources: Palestinians in the Palestinian Territory, Palestinian refugees elsewhere, Israel, and the international community. In balancing these pressures, they face internal and external challenges, some of which undermine reform, and potentially the PA's future. **There are powerful forces within the PA who do not see reform to be in their personal interests.** Those in the PA who champion reform therefore face difficult internal struggles. Palestinian politics is highly factional, with tensions between those who have grown up in the Palestinian Territory and those who have spent time in exile or as refugees, between West Bankers and Gazans, between reformers and those who resist reform. The most significant difference is between the majority who have accepted Israel's existence, and the rejectionist groups whose ultimate aim is to reclaim historic Palestine as one Islamic state. The most prominent such group, Hamas, draws its support primarily from the poor, rather than the religiously-inspired¹⁴. Particularly in Gaza, its efficient delivery of social services is as much an attraction as its jihadist ideology. **Any Palestinian leader who signs a peace agreement needs to be**

¹⁴ Hamas supporters are more likely to be less educated, unemployed, and poor (70%) than the population as a whole (58%). Supporters of Islamic Jihad are much better off economically. (IUED-SDC study on *Palestinian Public Perceptions on Politics, Government and Media*, July 2003.)

Box 3: Palestinian reform: achievements and challenges

In June 2002 the Palestinian Authority launched a reform programme to improve its effectiveness, efficiency and accountability in seven areas: Market Economy, Financial Accountability, Judiciary and Rule of Law, Local Government, Ministerial and Civil Service Reform, Civil Society, and Elections. Implementation of this agenda has been co-ordinated at the central level through a **PA Reform Coordination Support Unit** and supported by the international community through the **Task Force on Palestinian Reform**.

Significant achievements have been made by the PA in relation to **financial management**, including the consolidation of all PA revenues in a Single Treasury Account under the Ministry of Finance; the publication of the PA's budget on the internet; the unification of the payroll and payment of salaries (including in the security sector) through the banking system; and the consolidation of all PA commercial activities into a properly audited Palestinian Investment Fund.

A key reform measure of 2003 was the decision to establish a post of **Prime Minister**, who is responsible for selecting ministers and directing the PA's overall work programme. This is now being complemented by steps to develop a system of **Cabinet government** and a longer-term programme to improve the performance and accountability of the civil service.

Serious challenges remain, however, in addressing internal resistance within the PA to reform. This is especially evident with regard to the **security sector**, where important provisions contained in the Roadmap to ensure the rationalisation of security agencies and greater democratic oversight have not yet been implemented. Institutional arrangements within the security sector are unclear. Measures to enhance the **independence of the judiciary** and facilitate the holding of **elections** as soon as possible have also not been fully implemented.

One of the key weaknesses remains the limited involvement of **civil society** in the overall reform effort and a lack of wider legitimacy. A **National Reform Committee**, composed of representatives from the government, the legislature, the business community and civil society, has been established. But this body has not functioned effectively to date. If reform is to be seen as legitimate by the Palestinian people, further steps will be required to broaden public participation in developing and monitoring the reform process.

Progress with reform is more difficult given **Government of Israel movement restrictions**. Israel has legitimate security concerns, but the reluctance to allow freedom of movement for parliamentarians and government personnel is an impediment to consultation and more rapid action. There is widespread international agreement that Israel can do much more to allow such freedom of movement, and also to improve access for aid personnel helping with reform. **There is, however, much the PA could do now to advance reform which is not contingent on Israel's actions.**

able to fulfil the aspirations of a majority, and a wide range, of Palestinians (including refugees), or violence will probably continue.

- B24 **The PA faces a major legitimacy problem**, which is increasing the further time passes from the 1996 elections. The PA has committed itself to holding municipal, legislative and Presidential elections, but the PLC has not yet passed the appropriate enabling legislation. **National elections would be logistically very difficult** and probably flawed without a substantial relaxation of Israeli movement restrictions. The results are difficult to predict, and could have complex

consequences. But **a renewal of the democratic mandate of Palestinian institutions could add some impetus to the reform movement**. Involving refugees in the political process, especially regarding the right of return¹⁵, is critical to PLO legitimacy.

- B25 Israel's top priority is **security, and the prevention of terrorist acts** against its citizens. But poverty and injustice caused by occupation and disproportionate Israeli actions can fuel Palestinian rejectionism and undermine **public support for peace and reform**. These factors, combined with large numbers of young people out of school and unemployed, help perpetuate

15 As set out in UN General Assembly Resolution 194 in December 1948.

the violence. Israeli destruction of Palestinian security infrastructure has reduced PA capacity to take effective action to prevent terrorism and improve law and order. But the PA could do more on security without risking uncontrollable public resistance and civil war.

Prospects for growth

B26 Short-term economic growth follows political events.

After two years of rapid contraction to very depressed levels, 2003 saw modest real GNI growth of 3.9%. This was caused by a slight lifting of closures and increased optimism mid-year when the Roadmap was agreed. The situation deteriorated in late 2003. Growth could rise to as much as 9% in 2004 if the political situation were to improve, or could decline by a further 5% given increased movement restrictions¹⁶. With population growth of over 4%, per capita GNI could fall below the \$745 low income country threshold if the economy continues to contract.

B27 Palestinian tax revenues improved dramatically in 2003, and are projected to rise from 22% to 25% of GDP in 2004. However, they will remain well below their pre-*intifada* levels due to the depressed economy and the lack of new ways of raising revenue. **Revenues are inadequate to cover expenditure**, which is expected to rise from 35% to 40% of GDP. PA revenues almost met current expenditure in 1999, but in 2004 external financing of \$650 million is needed to fully cover the PA budget deficit. Aid as a percentage of GDP has risen from around 10% in 1999 to over 30%. The PA's commercial borrowing options are almost exhausted. As well as the ongoing problem of meeting monthly expenditures with inadequate revenues, the PA faces a further fiscal crisis in 2005, when its civil service pension fund is likely to run out of money.

B28 The **economic potential for a viable Palestinian state is good**, given an educated workforce, a wealthy diaspora willing to invest, rich agricultural land and major religious and tourist attractions. But longer-term growth will depend on the nature of a political settlement. The **conditions for creation of an economically and politically viable Palestinian state** include sufficient contiguous land, adequate access to natural resources (including aquifer water), freedom of

internal and external movement of goods and people, autonomy over economic and trade policy, control of its borders, freedom to conclude treaties, responsibility for internal security, and international recognition. A series of separate enclaves with limited national governmental powers would not sustain a national economy.

B29 A viable Palestinian state would have to move beyond dependence on remittances from migrant workers in Israel, which drove much growth in the 1990s. **Long-term sustainable growth will require economic diversification** to allow more exports of goods and services. There is potential for mutually beneficial economic co-operation with Israel, as the economic roadmap published by Israeli and Palestinian economists in January 2004 explores. Sustained growth will also require a reinvestment in education and training, and an improved regulatory and operating environment for the private sector. There is **potential for a large peace dividend** to kickstart regional economic regeneration. Investment from the region and beyond would probably rise, and there could be a large cash injection in the form of compensation and settlement packages for refugees.

Prospects for poverty reduction

B30 The **PA does not have an internationally recognised poverty reduction strategy**. Ideally such a strategy would plan how future economic growth would be translated into reduced poverty. There are a number of obstacles to developing a medium-term strategy. The PA's formal mandate under the Oslo agreements is limited to five major portfolios, with at most partial authority in economic policy, resource allocation, foreign policy and overall security. Many policy decisions that affect the development process in the Palestinian Territory currently lie with the Government of Israel. Closures have weakened the ability of the PA to measure and analyse poverty dynamics, and respond with appropriate policies.

B31 Despite these obstacles **the PA has started to work more closely with donors to develop short-term planning frameworks** that guide its own prioritisation and help donors target their assistance. The most recent of these is the Palestinian Socio-Economic

Stabilisation Plan (SESP) for 2004-05 (see box 4). The PA is also committed to taking forward the second phase of a Participatory Poverty Assessment (PPA). This should eventually lead to more responsive policies and budget allocations better reflecting poor people's stated needs. **These trends could evolve into development of a comprehensive poverty reduction plan.**

B32 UNRWA's Emergency Appeals are incorporated into the SESP. The plan has better links between donor annual funding cycles and the PA's and UNRWA's own planning processes. The PA is also starting to prioritise capacity building, rehabilitation and development projects that can realistically be implemented in the current environment. **The SESP represents a significant**

Box 4: The Palestinian Socio-Economic Stabilisation Plan (2004-2005)

The Palestinian Socio-Economic Stabilisation Plan (2004-2005) was written in late 2003 following a process of collaboration between the PA's Ministries of Planning, Finance and National Economy, with support from the World Bank, the IMF, the European Commission, UNSCO and UNOCHA. There was some consultation with other ministries, municipalities, the private sector, and NGO and community organisations.

The Socio-Economic Stabilisation Plan (SESP) follows earlier attempts by the PA to produce plans to marshal available resources to stabilise the economic situation and focus on priority needs – the Emergency Public Investment Plan endorsed by donors in February 2003 and the Quick Impact Intervention Programme of July 2003. There was some degree of economic stabilisation during the first nine months of 2003. It had been hoped during the slightly more positive political climate of mid-2003 for the SESP to focus on economic recovery, in parallel with the political process set out in the Roadmap. The deterioration of the situation in the last quarter of the year led to a more realistic continuing focus on stabilisation.

The SESP has six specific objectives:

- *contribute to the basic humanitarian/social needs of a growing Palestinian population*
- *help meet the particular requirements of underserved populations*
- *help alleviate the damage caused to the public and private sectors by Israeli measures*
- *improve the efficiency and strengthen the delivery of services supplied by the PA and local governments, through capacity-building and reform*
- *provide financial support for the operations of local government units*
- *lay the foundation for a private-sector led recovery*

The plan identifies support to the PA budget as by far the most important priority, followed by humanitarian assistance. It includes a request for external finance of \$1.2 billion for 2004, of which \$650m is needed in budget support, \$278m in public infrastructure, \$164m for humanitarian and social assistance, and \$105m for private sector support, reform and capacity building, and rehabilitation. This represents a 25% increase over average donor disbursements from 2001-03.

The SESP sets out useful criteria against which to prioritise interventions, which have some poverty focus. In drawing on the results of the PPA, it attempts to reflect the stated needs of the poor. Although it was written with help from donors and draws on their analysis, it is owned by the Ministry of Planning and reflects some consultation with other ministries, municipalities, the private sector, and NGO and community organisations. But the SESP has limited wider political support, is not based on thorough public consultation, has few clear measures of progress, is not closely linked to the PA budget, and represents a short-term (1-2 years) rather than a long-term perspective on poverty reduction. Much of this is understandable under the circumstances. The SESP represents a good step towards a comprehensive poverty reduction strategy, rather than being such a strategy.

improvement from previous practice and deserves encouragement and support from donors.

- B33 Although not explicitly linked to poverty reduction, **the PA reform process also supports the broader development agenda** in the Palestinian Territory through fostering principles of effective governance. It is and should remain a nationally-led process, and would be strengthened through more active partnership with Palestinian civil society and the private sector. This would enable the Palestinian people to have a greater stake in the reform agenda, and better articulate popular demand for improved service delivery, and more efficient and transparent government institutions.
- B34 **Donors need to develop better ways to support Palestinian strategies** for reform, growth and poverty reduction. One option is the World Bank-led Public Financial Management Reform Trust Fund, established in April 2004. This multi-donor budget support mechanism aims to help the PA address its current fiscal crisis, and promote reform by linking aid disbursement to reform benchmarks. It could stabilise poverty more effectively than other forms of assistance, and provide the basis for a **deeper policy dialogue** between the PA and donors.

C Risks and scenarios

- C1 There are many risks to the achievement of the PA's plans, and progress with the peace process. Several of the risks are linked and may trigger each other. The **main risks** are outlined below (more detail is at annex 1), followed by a consideration of three broad scenarios which may arise in the next 2-3 years.
- a. Collapse of the PA**
- C2 Collapse of the PA could be caused by political or financial crisis. The budget gap threatens the PA's ability to maintain services and to function at all. PA debts are large and its borrowing options constrained. Operating expenditures are at austerity levels. Without increased donor finance to the budget, **the PA may not be able to pay staff salaries**, which maintain the welfare of a high proportion of Palestinians. Staff would quickly stop coming to work. Poverty and unemployment would increase, and the PA could face public demonstrations (maybe violent). PA collapse would leave the peace process without a future Palestinian government, making a two-state solution almost impossible to conclude. Given our strategy prioritises working with the PA, **this risk is particularly significant for DFID**. But by avoiding the risk, donors increase its likelihood (and that of other risks).
- b. Continuation of violent conflict**
- C3 In the medium-term, continuing violent conflict poses the greatest risk to Palestinian development. Without a political breakthrough, **the cycle of violence is likely to intensify as Palestinians become more desperate**. The impact of the conflict will worsen as coping mechanisms are depleted. The worst-case scenario is total economic collapse, leading to a rise in extreme poverty which safety nets could not cope with. International presence might reduce if security deteriorated. People in need would become even more difficult to reach. Palestinians would leave the Palestinian Territory in ever greater numbers.
- c. Prospects for a viable two-state solution disappear**
- C4 Israel is planning unilateral withdrawal from Gaza and small parts of the West Bank in 2005. This is an opportunity which could lead back to the Roadmap and a two-state solution. But **the Palestinian state which would be left if Israel controlled all access, and/or withdrew permanently behind the current and planned route of the separation barrier, would not be viable or stable**. Continuing violence against Israelis and widespread extreme poverty might follow. Humanitarian access would be seriously jeopardised.
- C5 There is a second threat to a two-state solution: a majority of Palestinians may stop wanting it, preferring **a single binational state from the Jordan to the Mediterranean**. Palestinians would outnumber Jewish Israelis in such a state within the next decade. Such a state could thus not both be democratic and preserve the Jewish character of Israel. Israel is unlikely to allow this to happen. But it is a reminder of the logical consequences of indefinite occupation.
- d. Lack of effective international engagement on MEPP**
- C6 Without sustained pressure, from the region and internationally (notably the Quartet), Israeli and Palestinian leaders find it difficult to initiate negotiations. **The role of the USA, the country with most leverage over Israel, is key**. Frustration with aspects of the Palestinian leadership, preoccupations in Iraq, Presidential elections and security concerns for US citizens may risk USA disengagement at the highest levels from the peace process when it is most likely to start collapsing. US credibility as an honest broker between the parties is important.
- e. Lack of PA political leadership, reform slows down**
- C7 There are **Palestinian vested interests against reform**, including on security, at the highest levels. Israeli and international actions risk undermining indigenous reform. Key individuals on whom reform depends could resign or be pushed out. Procedures for the smooth transfer of power between leaders are not well tested.
- f. Fiduciary risk deters donor support**
- C8 Widely publicised concerns about PA misuse of funding affect **donor choices of aid instruments**. Significant progress has been made in improving financial management since mid-2002¹⁷. The PA has publicly

17 See World Bank Country Financial Accountability Assessment, April 2004.

committed itself to taking steps to reduce the remaining risks of donor funds being used in an unaccountable way. Nevertheless, this remains a significant risk, not least a **presentational risk**.

C9 The **three broad scenarios** outlined below take account of these risks, and are roughly coherent with the analysis and planning of the PA (in the SESP), and other donors. We may experience more than one of these scenarios in the next 2-3 years; it may also not always be clear which one we are in at a time of change.

i) Increased violence and instability, rapid political deterioration

C10 If violence increased dramatically, several of the other risks could occur. PA reformers would lose political capital, which would jeopardise the ability of Palestinian institutions to negotiate. Israeli military activities would increase Palestinian suffering and anger. Social tensions and radicalism would rise, leading to a further escalation of violence. It would be **increasingly difficult for the Palestinian Authority to maintain services**, particularly if budget gaps, closures and Israeli attacks on infrastructure continued. The **humanitarian crisis would worsen** causing a further shift from development to emergency assistance. This would be compounded if donor assistance were redirected away from central government, which would also have a negative effect on the prospects of statehood. Further Israeli access restrictions would **constrain international agencies from delivering relief**. If Palestinian communities were isolated from each other and outside help, **poverty would become severe**. There might be a wider regional impact, particularly in refugee camps in Lebanon, Syria and Jordan, and possibly in Iraq. In the worst-case scenario, the PA would collapse, leaving a major humanitarian crisis, including possibly an exodus of new refugees.

C11 Triggers for this scenario could include: increased Israeli military activity or complete closures for sustained periods; messy withdrawal from Gaza; more numerous/severe attacks inside Israel or against US interests; US political disengagement; PA reformers leaving office, or a crisis of political leadership in the PA. **Financial collapse of the PA could accelerate the scenario very quickly**.

ii) Continuation of the current gradual deterioration

C12 Complete economic collapse during the intifada has been avoided through donor budgetary support to the PA and resilient Palestinian coping mechanisms. Neither can continue indefinitely. **A continuation of current trends would not mean a stable status quo** in terms of poverty levels and humanitarian needs. Ongoing sporadic violence would bring further socio-economic tensions. Continued closures would perpetuate obstructions to humanitarian access and effective delivery of services, leading to **gradual deterioration of the humanitarian situation**, including extended reliance on food aid. There is already evidence that donors may not sustain recent levels of funding. The economy would continue to stagnate and private sector development remain unviable. Reform would slow, and PA motivation further deteriorate. Continued failure to make progress towards a political solution would see continued construction of the separation barrier on Palestinian land, and **gradual disappearance of the prospects of creating a viable Palestinian state**. This scenario could dissolve into scenario i), or come to a head rapidly following unilateral Israeli withdrawal not in line with the Roadmap. A variant on this scenario would be Israeli withdrawal from Gaza and parts of the West Bank, but continuing access restrictions preventing sustainable economic growth, temporarily reduced levels of violence but no progress towards statehood.

C13 There are no immediate triggers for this scenario; it is the status quo, but an unstable and deteriorating one. Characteristics include: continuation of Israeli Defence Forces incursions into the Palestinian Territory and terrorist attacks against Israel; punitive Israeli security policies; lack of PA action on security reform and against rejectionists; continuing construction of the barrier; donor fatigue.

iii) Political progress with the Middle East Peace Process

C14 **Palestinian action on security**, a gradual lifting of closures, increased confidence on both sides, and a **negotiated Israeli withdrawal** from Palestinian territory could produce economic recovery and political stabilisation. **Unilateral Israeli withdrawal** in line with

the Roadmap could also accelerate this process, and could be an opportunity to advance the peace process, if Israel withdraws in a way that lets the Palestinians, with international help on the political, economic and security aspects, take advantage of the situation. Either way, with US/Quartet engagement **the Roadmap could be implemented relatively quickly**, leading to successful final status negotiations, the establishment of a **viable Palestinian state** free from occupation, **an end to conflict**, separate Israeli peace deals with Syria and Lebanon, and a **solution to the refugee issue**. Private sector development and the trade of goods as well as labour would allow Palestine to diversify its economy. Continued institutional development of the PA would lead to better managed public spending, and improved service delivery. As appropriate, UNRWA would start to pass on its responsibilities to host governments. After the initial injection of a cash peace dividend, the shift away from humanitarian assistance would **gradually lead to decreased levels of aid**. Funding would be needed to support the development of the institutions needed for statehood, as well as the replacement of capital assets destroyed during the conflict (estimated at over \$5 billion). **Economic development would create jobs, which in time would ease poverty**. Peace-building might be needed to cement the settlement, as some rejectionist groups on both sides would not happily accept the deal.

- C15 Triggers for this scenario could include: Palestinian security action; sustained period of ceasefire; increasing Israeli withdrawal from Palestinian land; renewed US focus on MEPP and effective pressure on Israel; strategic use of aid in support of reform; democratic elections and public support for negotiations not violence.
- C16 At the time of writing the situation approximates to scenario ii). DFID will work with other parts of the UK government to help move the situation towards scenario iii). Israeli withdrawal from Gaza currently represents the best opportunity to do this. But **there remains a substantial risk the situation will slip into scenario i)**.

D What we have learnt

D1 The following lessons result from experience accumulated through DFID's work in the Palestinian Territory and with UNRWA for many years. They also include feedback gained during development of DFID's Regional Assistance Plan for the Middle East and North Africa¹⁸.

D2 At the project level our technical assistance is often welcomed for its quality, targeting and poverty focus. We have built flexible partnerships and usually been **able to respond quickly to new requests**, which is highly valued. But we have **not been good at learning** – or disseminating – lessons. This has been hindered by the lack of a clear focus. We have not developed monitoring and evaluation techniques to turn assessments of how well specific projects have achieved their objectives into useful knowledge for dissemination to others. We could network more with our project partners to promote lesson-sharing across projects.

D3 Several of our projects have been very successful on their own terms. Although we have evaluated individual project success, we have **not adequately assessed the performance** of our assistance against overall programme objectives.

D4 Lessons learnt from activities that have had an impact on our previous objectives include:

- Assistance in establishing a Palestinian Negotiations Support Unit and through the Economic Policy Programme has improved the Palestinians' prospects of negotiating effectively in final settlement talks and preparing for statehood, and getting to that stage. Other donors have added their support. The projects are good examples of **high-risk activities** with little immediate impact on poor people, but **which could address the root causes of poverty**.
- The humanitarian crisis in the Palestinian Territory produces **different needs, and demands different responses, to other emergency situations**. Although food aid and cash assistance have a role, other means of assistance – trauma counselling, innovative ways to access services, employment

generation – are also needed. Support to the PA budget, much of which goes on public sector salaries and is in effect a giant indirect welfare system that injects cash in to different parts of the economy, has been assessed by the World Bank as the most effective short-term way donors can address poverty.

- **Multidonor budget support mechanisms** such as the World Bank's Emergency Services Support Programme have proved an efficient low-risk way of channelling large amounts of donor funds to support essential service delivery without causing an undue administrative burden on the PA.
- Together with other donors and the Palestinian Central Bureau of Statistics (PCBS), we have over several years shown it is possible to achieve completely **harmonised donor support directly to a PA institution**, with all donors contributing to PCBS's core work, thus reducing the transaction costs for them of dealing with several different donor projects.
- As a major donor to **UNRWA**, we have helped it address its chronic funding problems, and also supplied targeted technical assistance to support the agency's efforts to improve its effectiveness and efficiency. This has benefited from **building a relationship of trust** and a detailed understanding of UNRWA's challenges.

D5 More general lessons on how we work include:

- We have supported unconnected project activities in response to pressure to spend and a wide range of requests, rather than a clear strategy. The development agenda in the Palestinian Territory is huge. **We need to focus more and develop a more coherent programme**.
- We have previously managed our support to UNRWA and our West Bank/Gaza programme separately. It is only relatively recently that we have integrated the two. This helps us focus on the **links between UNRWA and the PA**.
- DFID support for institutional development and reform has contributed significantly to

¹⁸ Published in September 2003

the development of PA capacity centrally. In continuing this support we should take opportunities to promote **links between reform and service delivery**.

- Joint funding by more than one single recipient partner is potentially an **efficient form of donor coordination**, but can impose extra administrative burdens on the recipient if procedures are not sufficiently harmonised.
- Our most successful projects have had a **high degree of flexibility, and stakeholder ownership and participation**. Flexible project design is needed to take account of changes in the external environment and our partners needs.
- We work in a volatile political environment. This usually involves taking risks. We **need to be better at managing risk**, as well as assessing it.
- Our programme has been managed from London. The DFID Jerusalem office has been very small. Local partners have not always understood who makes decisions about DFID assistance. Maximising our impact requires **sufficient expertise in Jerusalem to develop strategic dialogue with local partners**, while maintaining close links with other UK government departments in London.

D6 In applying these lessons to how we manage our programme in future, we have reflected on **where DFID and the UK has comparative advantage** in working with Palestinians. This has been done in conjunction with a desk review of what other major donors are doing and planning. Conclusions include:

- We bring a **sustainable poverty reduction** perspective to the development challenge that not all donors share.
- We are respected for our approach to **building institutional capacity**.
- We have access to expertise in **conflict analysis and aid effectiveness** that some other donors lack.
- We are often able to **move more quickly and flexibly** than most other donors to respond to urgent and changing priorities.

- Good collaboration, but also separation, between **DFID and the Foreign and Commonwealth Office** means we can focus on what will reduce poverty in the longer-term, while still working closely with diplomatic colleagues on ensuring our programme reflects political realities and contributes to the peace process.
- As a member state of the EU, but one with close political links to the USA, the UK is **well-placed to influence internationally**, including on the key reform issue of security.

Part 2 – UK assistance plans over strategy period

E UK development partnership

E1 The UK Government supports the right of the Palestinian people to establish a **viable, sovereign and independent Palestinian state** and looks forward to early fulfilment of this right, provided there is a concomitant **recognition of Israel's right to exist as a state**, and the right of its citizens to live in peace with security.

DFID Programme

E2 Within that context, **the overall goal for DFID's support to Palestinians is the sustainable reduction of poverty**. Without a stable long-term solution to the Middle East Peace Process that creates a viable Palestinian state alongside a secure Israel, development and humanitarian assistance can only mitigate poverty, not reduce it sustainably. **Our purpose**, which should contribute to achieving the goal of sustainable poverty reduction, **is to work with partners to help end conflict and create a viable Palestinian state that will reduce poverty**.

E3 To achieve these objectives in a volatile political environment requires a **high degree of flexibility** within projects and the programme. Although the Palestinian Socio-Economic Stabilisation Plan provides a useful starting point for our thinking, the SESP may not be current by 2005 and does not address all the areas flowing from our analysis of poverty. We have thus not structured our approach around it. The objectives set out below reflect our analysis, and stated Palestinian political ambitions. **Our plans correspond closely with three of the six SESP categories of support** (including the two highest priorities): support to the PA budget, humanitarian and social assistance, and reform and institutional capacity.

E4 On the basis of the challenges facing Palestinians, what others are doing, the lessons we have learnt and DFID's comparative advantage and policies, we have identified **three related outcomes** to which we will contribute, either directly ourselves or through support to other donors and regional organisations. Several of our interventions will support more than one of these outcomes.

Outcome 1: Prospects for peace enhanced

Outcome 2: More effective, accountable and inclusive Palestinian institutions and governance systems

Outcome 3: Humanitarian and development assistance delivered more effectively

E5 This plan outlines principles rather than listing all activities. Flexible decisions about programming will take into account the **opportunities and constraints of the political and operating environment**. The more promising the environment (approaching scenario iii) from the risk assessment), the more effort we will put into active support for new initiatives to enhance the prospects for peace and support Palestinian institution-building. Israeli withdrawal from Gaza could be a major opportunity to advance the peace process and reduce poverty. If it is, we will help the PA make a success of it. If a Palestinian state is created during the next two years, we will prioritise institution-building and consolidating any peace settlement. Our focus could then shift to more conventional poverty reduction programmes. If the situation continues to deteriorate (scenario ii), we may need to focus more on humanitarian assistance, although we will maintain some activities under outcomes 1 and 2 as long as there is a peace process. In the worst-case scenarios, our programme is likely to shift almost entirely to humanitarian assistance.

E6 DFID's assistance to Palestinians is consistent with, and a key component of, our approach to **development and poverty reduction across the Middle East and North Africa**. Our Regional Assistance Plan sets out four outcomes that DFID will contribute to: reduction in the impact and likelihood of violent conflict; more effective, accountable and inclusive governance; economic growth benefiting all people in a sustainable way; and more equitable human development. Where possible we will make links between our work with Palestinians and our work elsewhere in the region.

Outcome 1: Prospects for peace enhanced

- E7 Maintaining the prospects for peace based on a viable two-state solution depends on the survival of the PA. This is at risk, mostly due to the worsening budget crisis. Working with other donors to **avoid the collapse of the PA and stabilise its finances** will be a key objective over the period of this plan. The mere survival of the PA does not enhance the prospects for peace, but its collapse would badly damage them.
- E8 A priority will be to continue direct support to the peace process, in close cooperation with other parts of the UK government and international partners. We will continue **assistance to the Palestinian Negotiations Affairs Department**. This is given through the Negotiations Support Unit, which provides professional legal, technical and communications advice to the Palestinian authorities in preparation for, and during, permanent status negotiations with Israel. This support is crucial in helping strengthen the Palestinian approach to complex final status issues, and understanding the implications of Israeli actions in expanding settlements and building the separation barrier. The NSU also encourages the resumption of negotiations by contributing to diplomatic peace initiatives.
- E9 If circumstances permit, **we will support the Palestinian Civil Police in improving law and order**. The extent of our support will partly depend on the PA's progress in rationalising its security agencies and developing clear plans. In line with DFID's mandate, our focus will be on support that benefits Palestinians. But we recognise that improved civil policing is part of the wider security sector reforms that the PA has committed itself to in the Roadmap, and that better Palestinian policing could improve the prospects for peace and security more broadly, particularly in areas from which Israel may withdraw. We will join the rest of the UK government in emphasising to the PA that without progress on Palestinian security, the prospects for the peace process and full Israeli withdrawal are poor.
- E10 The future of Palestinian refugees is a major issue for resolution of the peace process. Given the political and humanitarian case, **we will continue substantial assistance through UNRWA to help alleviate the**

plight of refugees. This should contribute to stability before a final settlement is negotiated. Substantial development funds would be required to support a final settlement; the repatriation, resettlement, rehabilitation and compensation of Palestinian refugees would be the most costly item. We will encourage UNRWA to work, within its mandate, more effectively with the PA, other donors and host governments, and (when the time is right) to further develop its vision for the handover of its activities after the creation of a Palestinian state. We will work with other donors to support research and analysis of key refugee issues affecting the peace process.

- E11 Our programmes, and those of our partners, should respect basic conflict reduction principles. **We will explore developing activities aimed at reducing tensions and preventing a further escalation of the conflict**, both within the PA and across civil society. We will also consider direct support for regional peace-building initiatives if the political opportunity arises, drawing on global experience but sensitive to the uniqueness of this conflict. We will collaborate closely in this area with other relevant UK government departments, and with other donors.

Outcome 2: More effective, accountable and inclusive Palestinian institutions and governance systems

- E12 A successful reform process is central to improving delivery of basic services, progress on the MEPP, and the long-term viability of a Palestinian state. This will require further development of public institutions, and a national culture better rooted in accountability, transparency and inclusiveness. **We will continue to support the national Palestinian Reform Programme** – the stated goal of which is to make the PA "more efficient and effective in the service of the national good". In all our interventions **we will try to understand the incentives for reform and the motives of those who block it**, so we can better tailor our interventions to support the drivers of change. We will encourage realism about limits on the pace of change possible, and the priorities in terms of using up limited political capital.

- E13 The main component of this support will be **our contribution to the PA's Public Administration and Civil Service Reform Programme**, which is helping to develop a modern, democratic and merit-based public service. This support includes assistance to individual ministries, on structural issues, and in the development of the Prime Minister's Office and the Cabinet Secretariat to ensure more efficient handling of ministerial business. Our help will be closely aligned with World Bank advice on options for reforming the Palestinian state pension system. Such reform is a prerequisite for moving towards a civil service (including its security services) that is appropriately staffed and paid for the work it does.
- E14 Substantial progress has been made since 2002 in **improving the PA's financial management, oversight of public spending and accountability**. This has largely been driven by the Palestinian Finance Minister without much direct donor assistance. We have helped the World Bank carry out a thorough Country Financial Accountability Assessment (CFAA), which has set out an agenda for further improvements. The continuing need for donors to support the PA budget directly will ensure that these areas remain under close scrutiny. We stand ready to provide further support if needed, particularly on budget formulation.
- E15 There is huge scope for **improvement in the reach, effectiveness, and accountability of service delivery** in the Palestinian Territory. Donors need to help PA ministries, local government units and other service providers define their functions and organise themselves better to deliver services more effectively. Strengthening PA capacity will not improve service delivery across the board quickly. NGOs, UNRWA and the private sector have a critical role to play in delivering services, and in influencing and reinforcing the PA reform process. Over time, better delivery of basic services by the PA and other providers may reduce the appeal of Hamas (and other rejectionist groups).
- E16 We will work in a **limited number of service delivery sectors** where we are able to make a particular development impact, in line with PA priorities and our overall objectives. The PA will be our primary Palestinian partner, but we will also continue work with NGOs and UNRWA. We have existing activities in health, education and water. In all three sectors we are reducing our portfolio of smaller projects. We will look at further focusing the sectors we work in to promote better donor division of labour. **We will rigorously prioritise our future support by appraising new ideas against clearly defined selection criteria**, including: likelihood of measurable impact on poverty, reform and conflict; proven PA priorities; institutional capacity of partners; synergies with the rest of the DFID programme; DFID's comparative advantage; scope for working with other donors; and proportionality of staff time and money.
- Outcome 3: Humanitarian and development assistance delivered more effectively*
- E17 Humanitarian and development assistance is best delivered by **donors working together to provide harmonised support under the guidance of the recipient**. Progress on this has been made, and there are some good examples of donors pooling resources effectively behind PA priorities. More can still be done.
- E18 We will promote a **coherent donor response to Palestinian development priorities**, as currently set out for 2004-05 in the Socio-Economic Stabilisation Plan. **We will support the PA's budget in 2004 through the World Bank-led multi-donor Public Financial Management Reform Trust Fund**. Budget support is the most effective way to address poverty under current circumstances. The Fund links disbursements to realistic but challenging reform conditions, enables a common donor approach to fiduciary risk, and reduces donor transaction costs to the PA by harmonising procedures. Pooled resources linked to reforms should consolidate the position of PA reformers. **We will work to create the right conditions for donors to channel increasing proportions of all aid through the PA budget, in support of PA reform, and well-defined, poverty-focused plans**. We will monitor this programme very closely, and base any decision to continue support in 2005 on proof of improved accountability and policy change.
- E19 When the time is right, we will support the PA in its desire (as set out in the SESP), to develop "a priority-based, transparent, national development vision

and framework supported by the international donor community". Building on the national Participatory Poverty Assessment, **we will try, with the World Bank and other donors, to help the PA develop a medium-term, comprehensive poverty reduction strategy.** With over 60% of the population below the poverty line, poverty focus is not an immediate priority for some parts of the PA, or all donors. But any economic recovery is unlikely to benefit the poorest and most vulnerable without a well-defined set of public policies to target them and address their specific needs. Recognising the importance of policies being based on both evidence and consultation, we will help develop the PA's ability to monitor and assess poverty both quantitatively and qualitatively, through multi-donor support to the Palestinian Central Bureau of Statistics, and through national and local work on participatory planning. **We will maintain a poverty perspective in all we do,** and will press the partners we fund to specifically target their humanitarian and basic service interventions towards the poorest Palestinians.

- E20 Donor coordination structures are more developed in the Palestinian Territory than in many countries. But the number of information-sharing groups has not led to as much effective harmonisation in the delivery of aid as might be expected. Donor coordination would benefit from a strengthened local coordinating secretariat and a greater PA role in aid management. Through our participation in local donor coordination mechanisms, **we will proactively pursue implementation of the recommendations of the recent external review of donor cooperation**¹⁹, and the Ministry of Planning's desire for "a comprehensive discussion of ways to improve current aid coordination structures and to develop sector-wide programming approaches". The environment of conflict, occupation and political unpredictability hinders such planning. But we will work with other donors to promote a coordinated response, even in times of emergency.
- E21 **We will respond to the humanitarian needs of Palestinians primarily through coordinated multi-donor mechanisms.** Our priorities will be contributions to multi-donor initiatives supporting the PA's budget, and to UNRWA's Emergency Appeals, which are

the most efficient way to support basic education, health and relief services and keep donor funds in the Palestinian economy. DFID's Civil Society Department will continue to support the work of a small number of **UK NGOs working with Palestinian partners** to deliver humanitarian assistance and advocate on human rights and other issues.

- E22 UNRWA is an excellent example of large-scale coordination of international assistance. But there is scope for, and we will encourage, **better cooperation between UNRWA and host governments** (especially the PA), and between UNRWA and other parts of the UN. We will continue to support UNRWA's own reforms. We will play a leading role, working closely with other donors, in commissioning and following up on an **independent review of UNRWA in 2004.** This review will examine the agency's strategy and effectiveness, with a view to demonstrating its need for appropriate levels of funding, and ensuring its priorities are adapting to the changing demands and opportunities of the peace process.
- E23 We will make our analysis, and where appropriate our staff, available to **improve the overall donor effort.** We will continue to draw on the expertise of other donors where our own is not needed, and to promote better division of labour between donors. We will work with other donors on joint reviews and evaluations to reduce the burden of our assistance on its recipients.
- E24 We will **consult regularly with the PA Ministry of Planning** on the balance of our programme, including on the need for reprogramming to meet more urgent needs when circumstances change. We will ask for the PA's advice (but not be bound by it) when we fund NGO programmes not directly linked to a PA ministry.

Ways of working

- E25 We will continue **moving away from a stand-alone project-based approach.** During 2003-4 several smaller bilateral projects have finished, and over 70% of our funds were spent jointly with other donors. As these partnerships and our relationships with PA institutions have developed, we have moved increasingly to funding **fewer, more strategic interventions,** and promoting

19 The Mokoro Report (2003)

more effective support to poverty reduction and the peace process. We will accelerate this trend.

- E26 In doing so we will further develop our existing **good relationships with the European Commission, the World Bank, and UNRWA**, and explore working more closely with those donors with whom we have had less dialogue in the past, particularly the **USA and Arab states**.
- E27 As the European Commission is the single biggest donor to Palestinians (spending over 275 million euro in 2003), and the 18% of this funding which comes from the UK is attributed to DFID, **we will prioritise supporting the Commission** to programme and implement its assistance as effectively as possible. We will do this both through collaboration on the ground, and through encouraging the Commission in our role as a member state to adopt the principles set out in this plan. In light of the severity of Palestinian poverty and the political importance of the conflict to regional stability, we will argue for EC funds earmarked for other countries in the region to be transferred to support for Palestinians when they can be more usefully deployed there.
- E28 We will **work closely with our colleagues in the Foreign and Commonwealth Office** and other parts of the UK government to ensure that the UK's development assistance to Palestinians, while motivated primarily by the desire to reduce poverty sustainably, is consistent with and supports other aspects of UK MEPP policy. We will feed a developmental and poverty perspective into all aspects of UK policy, including the dialogue the UK has with partners, in particular the USA and EU, about international political involvement in the peace process.
- E29 The UK government continues to press the PA at every opportunity to take action against terrorist groups who target Israeli citizens, and to condemn such attacks more vocally. While recognising Israel's right and need to take appropriate security measures to protect its citizens from terrorism, the UK has made clear to the Israeli Government our concerns about excessive use of force, and regularly urges Israel to act within international law. We will continue to work with international partners and use our bilateral contacts to **influence the**

Israeli Government not to take actions that have a negative impact on Palestinian livelihoods and the effective delivery of humanitarian assistance (including construction of the separation barrier on Palestinian land, unnecessary closures, restrictions on humanitarian access and the demolition of houses).

- E30 The UK Government believes Israel could do a great deal to ease the humanitarian and economic situation of the Palestinian people without threatening Israeli security. Improvements in the freedom of movement of people and goods would be the most significant step towards the recovery of the Palestinian economy. We will continue to urge Israel to take this step. **DFID will explore with the FCO the scope to better publicise among Israelis the development and humanitarian situation in the Palestinian Territory**, and progress in reform areas relevant to the peace process (particularly security sector reform).
- E31 To contribute to the plan's outcomes as effectively as possible, we need to be more sensitive to local realities, and build **stronger local relationships**. Over the next two years, we will explore further delegating programme authority and staff to our East Jerusalem office, while maintaining adequate links with UK government thinking in London. We will reassess the skills mix of DFID's Palestinian team to ensure we are well staffed to deliver the plan and respond flexibly to events.
- E32 Subject to events, **we will review our activities and progress in implementing this plan in March 2005**, and set new annual indicators. In March 2006 at the latest, we will consider whether the basic analysis underlying the plan is still valid. Prior to preparing any substantially revised version, we will conduct an external evaluation of our success in implementing the current plan.

F Programme resources

Aid Framework line	UK financial years (Apr-Mar) £ million		
	2003/4	2004/5	2005/6
	<i>spent</i> ¹	<i>planned</i>	<i>planned</i>
Palestinian Territory	16.2 ²	16.15	11.5
UNRWA	24.0	10.35 ³	15.0
Total	40.2	26.5	26.5

1 In 2003/4 and previous years since the *intifada* started, spending plans for the Palestinian Territory and UNRWA have been supplemented by additional resources made available in-year in response to emergency needs and MEPP opportunities. The originally planned budgets in 2003/4 were £10.5m for the Palestinian Territory and £14m for UNRWA (total £24.5m). Plans for 2004/5 and 2005/6 thus represent an 8% increase in planned total spending at the start of the financial year. Figures for future years make no assumptions about additional resources.

2 The 2003/4 figure also includes £0.7m allocated to DFID from the Global Conflict Prevention Pool (GCPP), which is managed by the FCO on behalf of FCO, MoD and DFID. GCPP resources should be available in 2004/5 and 2005/6; figures for future years make no assumptions about this.

3 Allocations for 2004/5 were originally £11.5m for the Palestinian Territory and £15m for UNRWA. A £4.65m transfer was made from the Palestinian Territory line to the UNRWA line in 2003/4, and returned in 2004/5. This facilitated more timely payments that were in both UNRWA's and the PA's interests.

These figures exclude the cost to DFID of administering the Palestinian programme.

Annex 1: Risk analysis

RISK	IMPACT	PROBABILITY	MITIGATION OPEN TO DFID
a. Budgetary crisis and non-payment of salaries leads to collapse of PA .	High: Without the PA there is no Palestinian partner for negotiations with Israel. Likely large increase in poverty and unemployment.	Medium to high: Donor support to budget has fallen since 2002. No obvious other sources of finance to meet large budget gap.	Urgent action with other donors to support PA budget through World Bank Trust Fund.
b. Continuation of violent conflict leads to further socio-economic decline.	Medium to High: Increased poverty, collapse of safety nets, increased support for rejectionists, undermining of PA and MEPP, heavy demand for international assistance but security threats reduce international presence.	High: Roadmap process has lost impetus, both sides have yet to meet commitments.	Working with rest of UK gov't and international community to support MEPP, especially Palestinian security action. Flexible project design. Sustain humanitarian support. Monitor security situation for staff.
c. Prospects for viable two-state solution disappear given construction of settlements and separation barrier.	High: Entire peace process has been built on this formula – no immediately available alternatives. Unviable Palestinian state would be unstable and have limited economic prospects.	Medium: Israel planning unilateral withdrawal. International pressure on separation barrier has had some but limited impact on its route. US/Israel recognise barrier is temporary.	Working with rest of UK gov't and international community to maintain diplomatic pressure for two-state solution, and ensure any Israeli withdrawal is consistent with the Roadmap and an opportunity for Palestinians.
d. Lack of effective international engagement on MEPP.	High: Little chance of parties making progress without international pressure and assistance. Other risks more probable without damage limitation from USA and others.	Medium to high: Less high-level interest than in mid-2003. Other international priorities in 2004. EU remains focused but has limited influence on either side, particularly Israel.	As above. UK remains actively engaged at highest levels. Ensure UK and other countries/institutions take a joined-up approach to development assistance and political engagement.
e. Lack of Palestinian political will, reform slows down .	High: History of power struggles. Security sector reform key to engaging Israeli and US confidence in PA.	Medium: Some but limited progress during 2003. Leading reformers survived change of government. But little progress on security.	Working with others to identify, support and work through leading reformers who are driving change. Realistic agenda and approach, sensitive to politics and culture of PA.
f. Fiduciary risk deters donor support.	High: Weak systems or corruption could lead to misuse of or decline in donor funding to PA. High interest from press, parliaments and public.	Low to medium: Significant progress on financial reform since 2002 has made this less likely. But some donors still nervous, and much depends on current Finance Minister.	Follow DFID's fiduciary risk policy. Take a common approach with other donors to supporting further financial management reform and monitoring PA use of donor funds.

Annex 2: Consultation process

The consultation process began in 2003 with a brief lesson-learning consultancy in London and Jerusalem. Following an internal consultation process within DFID and with other UK Government departments, a draft of the Country Assistance Plan for external consultation was approved by the Secretary of State for International Development in February 2004.

The DFID Palestinian team undertook a comprehensive external consultation exercise during March, in both London and the Palestinian Territory. The draft CAP was sent to a range of interested UK Parliamentarians including the Palestine and Israel All-Party Parliamentary Groups, the International Development Committee and the Foreign Affairs Committee, the Palestinian General Delegate to the UK, British Jewish groups and a selection of expert NGOs, consultants and academics in the UK. Two round-table discussions were held in London with a range of interested partners. In the region, three workshops were held in Jerusalem and Ramallah with the Palestinian Authority, other donors and NGOs, and separate meetings held with the PA Minister of Planning and both the Palestinian and Israeli Ministries of Foreign Affairs (including MASHAV, the Israeli Development Agency). Written comments on the draft CAP were requested from all those approached, and the draft CAP was also posted on the DFID website with an invitation to comment. An extensive set of often detailed comments was received.

A final version of the CAP, taking into account many of the comments made, was agreed with the Foreign and Commonwealth Office and approved by the Secretary of State for International Development in May 2004.

Annex 3: DFID spending profile

Title	Purpose	Allocation ¹ £	Expenditure 2003/4 £	Estimated 2004/5 £
<i>Prospects for peace enhanced</i>				
UNRWA - General Fund	Education, health and social services for refugees.	Annual decision	19,500,000	8,500,000
Negotiations Support Unit	Policy, legal and communications assistance in preparation for final status negotiations.	9,200,000	1,618,914	1,500,000
Police Development*	Adviser and equipment. Planned longer term development programme.	3,000,000	350,000	1,000,000
Sustainable Management of Aquifers	Improve understanding of the sustainable yield of the WB&G aquifers.	3,500,000	1,053,302	750,000
UNSCO Socio-Economic Analysis	Support to UNSCO's socio-economic reporting unit.	200,000	200,000	0
Other conflict reduction/peace-building activities*	Not yet defined.			
<i>More effective, accountable and inclusive Palestinian institutions and governance systems</i>				
Public Administration and Civil Service Reform	Support to help the PA restructure and streamline public bodies.	5,000,000	722,000	2,000,000
Hebron Water and Sanitation	Community development to improve local services and governance.	5,000,000	1,985,666	1,400,000
UNRWA Technical Assistance**	In education, health, refugee records, and Gaza field office.	3,750,000	1,113,000	1,360,000
Hydrometric Project	To help develop and upgrade hydrometric monitoring capabilities.	450,000	0	450,000
Primary Health Care Management	Post-graduate training for PHC managers.	2,204,777	670,872	200,000
Various Smaller Projects**	Supporting legislative harmonisation, midwifery, gender & law, and health sector analysis.	3,510,000	437,000	200,000
Economic Policy Programme 3	Technical assistance to help formulate economic and trade policy.	1,015,000	364,902	50,000
Union of Palestinian Medical Relief Committees – Women's Health	Improved public and private sector women's primary health care services.	1,201,904	296,285	to be decided
Health Management Strengthening	To develop strategic capacity and systems in the Ministry of Health.	3,600,000	380,991	0

Title	Purpose	Allocation ¹ £	Expenditure 2003/4 £	Estimated 2004/5 £
<i>Humanitarian and development assistance delivered more effectively</i>				
Emergency Budget Support	To help meet the PA's 2004 budget deficit.	7,200,000	0	7,200,000
UNRWA Jenin Camp Rehabilitation	To manage the reconstruction and repair of refugee housing.	987,000	533,049	460,000
Small Grants Scheme	Umbrella scheme for small community based projects.	Annual decision	400,000	400,000
Smaller Projects	Mostly NGO service delivery projects.	2,467,000	1,060,000	375,000
Palestinian Central Bureau of Statistics	Improved statistical capacity.	700,000	0	300,000
Pro-Poor Participatory Planning*	Pro-poor national, district and sector level planning.	1,000,000	0	300,000
UNRWA Emergency Appeals	Food aid emergency welfare and other services for refugees in WBG.	Annual decision	2,500,000	Not yet decided
Support for Palestinian Authority UNRWA Debt Write-Off	Contribution to payment of PA's VAT debt to UNRWA.	5,000,000	5,000,000	0
World Bank NGO Capacity Building	Strengthening the capacity of Palestinian NGOs to deliver services.	4,500,000	2,000,000	0
Total			40,185,981	26,445,000

¹ This is the total amount agreed to date for individual projects, and may include expenditure prior to 2003/04 and planned expenditure beyond 2004/05.

* Projects at the planning or inception stage, all components not yet approved

** comprised of more than one project

Most projects contribute to more than one outcome. Allocations by outcome are not binding.

Annex 4: Statistics

Millennium Development Goals

PALESTINE* Country Assistance Plan Statistical Annex					Region
	1990	1995	2001	2002	Middle East & North Africa
1 Eradicate extreme poverty and hunger	<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>				
Population below \$1 a day (%)	N/A	N/A	N/A	N/A	2.2(1999)
2 Achieve universal primary education					
Net primary enrolment ratio (% of relevant age group)	N/A	87 ^a	92 ^a	90 ^a	82(2000)
3 Promote gender equality					
Ratio of girls to boys in primary and secondary education (%)	N/A	N/A	96	98 ^a	95(2001)
4 Reduce child mortality					
Under 5 mortality rate (per 1,000)	53.4	38.2	25.0	24.2	54(2001)
5 Improve maternal health					
Births attended by skilled health staff (% of total)	N/A	N/A	97.4 ^{a,b}	N/A	N/A
6 Combat HIV/AIDS, malaria and other diseases	<i>2015 target = halt, and begin to reverse, AIDS, etc</i>				
Prevalence of HIV, female (% ages 15-24)	N/A	N/A	N/A	N/A	N/A
7 Ensure environmental sustainability					
Access to an improved water source (% of population)	N/A	N/A	86 ^b	N/A	88(2000)
Aid Need and Resources					
UK bilateral aid (£m)			11.8	15.8	
Total aid from all sources (£m)			440.9	1,077.4	
UK bilateral share of total aid (%)			2.7%	1.5%	
Number of DFID staff directly involved			10	10	
General Indicators					
Population (millions)	2.0	2.4	3.1	3.2	306
GNI per capita (\$)	N/A	1,600	1,330	930 ^c	2,220
Life expectancy at birth (years)	69	71	72	73	69

* Does not include Palestinians outside the Palestinian Territory, or DFID support to them via UNRWA.

Source: *World Development Indicators Database, April 2002, Statistics on International Development, UNICEF, Human Development Report*

Note: Data for several MDGs, including population below \$1 a day, is not available.

a. Palestinian Central Bureau of Statistics (PCBS), www.pcbs.org, January 2004

b. Figure refers to year 2000

c. World Bank estimate

Annex 5: Selected events in the history of Palestine/Israel

1917	Balfour Declaration: UK supports "a national home for the Jewish people" in Palestine, without prejudice to "the civil and religious rights of existing non-Jewish communities".
1922–1947	Palestine administered by the UK under mandate from the League of Nations. Large-scale Jewish migration to Palestine from Eastern Europe and elsewhere. Violent Arab protest.
1947	UK says it will hand mandate to UN. UN proposes two states, Arab and Jewish.
1948	Israel created. Palestinian refugee exodus. Arab states declare war, defeated by Israel.
1948–1967	West Bank administered by Jordan, Gaza Strip by Egypt.
1964	Palestine Liberation Organisation formed. Leads violent struggle from abroad.
1967	The Six Days War. Israel occupies the West Bank, Gaza Strip, East Jerusalem, Golan Heights and the Sinai Desert. UNSCR 242 calls for Israeli withdrawal: not implemented.
1973	The Yom Kippur War. Egypt/Syria attack Israel. Early gains are reversed by Israel.
1987–1989	First <i>intifada</i> (Palestinian uprising against Israeli occupation).
1988	PLO renounces terrorism and affirms Israel's right to exist.
1991	US brings Israel/Arabs to negotiations for first time in Madrid after Iraq/Kuwait War.
1993	Oslo Peace Agreement (Declaration of Principles on Interim Self-Government).
1994	Creation of Palestinian Authority (PA). Has limited functions, control over some land.
1994	Nobel Peace prize awarded to Yitzhak Rabin, Yasser Arafat and Shimon Peres.
1995	Oslo II (Interim Agreement). Israeli PM Yitzhak Rabin assassinated by Israeli extremist.
1996	Palestinians elect Arafat as President, and elect the PLC (legislature).
2000–2001	Peace talks at Camp David and Taba make progress but end without agreement.
Sep 2000	Start of the second <i>intifada</i> after controversial visit by Ariel Sharon to Haram al Sharif.
late 2000	Cycle of violence increases; IDF military actions and suicide bombings escalate conflict.
Mar 2002	Operation Defensive Shield. (IDF enters all Palestinian cities and many villages in the West Bank, in pursuit of Palestinian militants. Arafat's Ramallah compound besieged.)
Jun 2002	PA reform programme launched. US President Bush publicly supports 2-state solution.
Jul 2002	Israel begins construction of the separation barrier, mostly on Palestinian land.
Apr 2003	New post of Palestinian Prime Minister created. Roadmap to peace published.
Jun 2003	Israeli and Palestinian Prime Ministers agree to implement Roadmap. Ceasefire.
Aug 2003	Ceasefire breaks down. Violence on both sides continues.
Oct 2003	The Geneva Accord – unofficial outline of possible peace deal – released.
Apr 2004	Sharon announces unilateral Israeli withdrawal from Gaza and small part of West Bank.

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