

State of Palestine

REFORM AGENDA OF THE GOVERNMENT OF PALESTINE

Update for the Ad-Hoc Liaison Committee

New York City

September 2022

CONTENTS

I. INTRODUCTION 1

II. HONORING THE COMMITMENT MADE THROUGH THE REFORM AGENDA 1

III. KEY REFORM ACTIONS SINCE MAY 2022 2

1. Administrative Reforms 2

2. Fiscal Reforms 2

3. Economic Reforms 5

4. Social Reforms 5

5. Security and Public Order Reforms 6

IV. SUPPORT NEEDED FOR ACHIEVING THE REFORM AGENDA 6

I. INTRODUCTION

The Government of Palestine approved the *Reform Agenda: Economic and Financial Recovery, Strengthening Resilience, and Restoring Trust* in May 2022. Building on the achievements of the National Development Plan (2021-2023), the comprehensive program of administrative, fiscal, economic, social, and security reforms will be implemented over the next few years and guide the next, upcoming round of national planning in 2023.

This Reform Agenda aims to:

- Deliver Economic and Financial Recovery via supporting entrepreneurship and vocational education, investing in development, introducing clusters to help build on the existing skills and talents of Palestinian entrepreneurs in each governorate.
- Strengthen Resilience by putting our fiscal affairs in order, strengthen the rule of law so our people feel safer and introduce more comprehensive medical and social insurance, so our people feel more economically secure.
- Restore Trust via democratic renewal, stronger and more transparent institutions, and improving our capability to deliver high quality responsive public services to citizens.

II. HONORING THE COMMITMENT MADE THROUGH THE REFORM AGENDA

Over the coming six months, the Government will continue to deliver on the commitments it has made to the Palestinian people. But we must recognize that, with these ambitious reforms, the Government of Palestine is working to solve problems that are largely not of our making:

- A fiscal crisis that would not exist without an 80% fall in donor support in a decade or the failure of Israel to hand over all the Palestinian taxes it collects.
- Economic stagnation caused by restrictions on free movement, lack of access to Area C, and an uneven playing field on which Palestinian firms compete.
- Attacks on the security and sovereignty of the Palestinian people, which undermine their confidence in Government.

Furthermore, our proud record of achievement can still be undermined by the actions of others. Therefore, the Government, together with its international partners must hold Israel to account for honouring the signed agreements and the commitments they have made - so that Palestinians can reap the full benefits of the Government's reforms. Our efforts must not be undermined by the neglect or ill-will of others. The Government is committed to improving the lives of the Palestinian people. The legitimacy of the Oslo process requires the Palestinian people should expect no less from the other signatories.

III. KEY REFORM ACTIONS SINCE MAY 2022

This document sets out the Government's detailed achievements over the last six months to tackle the fiscal crisis, put in place the foundations for long term economic growth, and renew the contract between our citizens and their Government by restoring trust and improving governance.

1. ADMINISTRATIVE REFORMS

ADDRESSING THE PUBLIC WAGE BILL: The Government prepared voluntary retirement packages for security personnel and civil servants and submitting the Recruitment of the Security Forces Law for Presidential approval.

REGULARISING PUBLIC ADMINISTRATION AND CIVIL SERVICE: An effective public administration is essential for realizing the Government's vision and goals of public service provision, within the resources available. The review of the Civil Service Law and amendment was started with the formation of a team headed by the Ministry of Finance, with an expected completion by the end of 2022.

The Government took further actions to create a more streamlined and cost-effective public administration by preparing to merge more government institutions, in addition to the 36 already decided to be merged or dismantled. This included the merger under the new Istiqlal Bank of different national funds for more efficient governance of the Government's financial support for economic and social development.

2. FISCAL REFORMS

REFORMING THE GOVERNMENT REVENUE SYSTEM: The Government rolled out the next stages of the Revenue Strategy to increase tax revenues and ensure all Palestinians pay their fair share of tax. This included submitting the new VAT law for signing by the President; expanding the tax base to include professions, retail shops, and others; strengthening the customs police to combat tax evasion; improving tax debt handling; establishing a revenue risk management department; and developing an electronic portal for taxpayers and a computerized customs tax and payment services.

The Government ensured that new loans can be received for development projects by repaying Islamic Development Bank loans (defaulted for over 15 years) and starting the repayment of loans from the Arab Monetary Fund and the Arab Fund for Economic and Social Development in Kuwait.

The restructuring of government service fees was started with the formation of a team to examine the current service fees, some of which have not been charged for many years. The

Government also developed an e-payment system for service fees to prevent the mishandling of public money.

RATIONALIZING EXPENDITURES: The Government established a compliance control system in accordance with the approved budget, which will improve management of operating expenditures and arrears; implemented the payroll expenditure program linked to the General Personnel Council; and developed and implemented the e-Government Procurement system.

Financial laws and regulations were also upgraded and enforced, through the approval of the Money Exchange Profession License and Control System Law to maintain the integrity, effectiveness and stability of the financial system and the National Payments Law to facilitate e-transactions, contribute to minimizing the use of cash, and reduce transaction costs for citizens. The Government also worked to avoid excess cash within the Palestinian economy by agreeing with Israel to pay Palestinian laborers who work in Israel through the Palestinian banking system.

REFORMING THE PATIENT TRANSFER AND HEALTH INSURANCE SYSTEMS: To reduce the burden of patient transfers on the Palestinian government's budget, the Government is localizing health care and regulating medical referrals. The Government invested in the national health sector by increasing the budget allocation for cancer medicines by 80 million NIS; recruited specialists to work at public hospitals; established registration and preventive maintenance systems for medical and laboratory equipment; and approved the national reference for classification and pricing of medical services.

The Government also strengthened oversight and management of the patient transfer system by linking the Ministry of Health medical referral program with the Ministry of Finance financial system and publishing the dashboard and general reports for the medical referral program. The Ministry of Health was instructed to cap the volume of medical referrals and re-negotiate new contracts with Israeli hospitals, requiring the submission of invoices directly to the Ministry of Health for audit and for payment by the Ministry of Finance. No payment will be made to Israeli hospitals for which there is no direct contract with the Government.

There is also now a mandatory three-month enrollment in health insurance prior to any medical referral to boost and sustain citizen subscription and increase insurance revenues.

STRENGTHENING GOVERNMENT SYSTEMS TO REDUCE NET LENDING: Government revenues are significantly reduced by the net lending problem, caused by local government debt to Israeli electricity and water providers. The Government formed an inter-ministerial Net Lending and Collection Unit, headed by the Ministry of Local Government, to follow up on this debt. Recognizing local government need for better resources, the Government initiated the transfer of property tax collection to local authorities to enhance their resources, with a pilot in four municipalities. The installation of prepaid meters for water and electricity was also expanded, including a pilot for pre-paid meters for direct purchase of electricity from Israel.

The Government also reduced the value of net lending by NIS 100 million per year by agreeing with the Electricity Generation Company in the Gaza Strip to end the monthly transfer of $2.5 million, starting with the new contract in 2024.

REFORMING THE WATER SECTOR: Given Israel's control over Palestinian water sources, scarce water supply is a persistent problem in Palestine. The Government is working to reform the water sector, ensure fair distribution of water, and restructure water prices. Therefore, the Government initiated the establishment of the Palestine Water Company to centralize the generation and purchase of bulk water under one legal and administrative umbrella and issued the Water Sector Policy and Strategy (2022-2042).

REFORMING THE ELECTRICITY SECTOR: The Government took steps to reform and regulate the energy sector. The establishment of Palestine Electricity Company as the sole importer of energy from Israel and other countries was started to stop the deductions resulting from unpaid electricity bills. The Government also issued the new Petroleum Law and the Electricity Law. The Hydrocarbon Law was submitted to the Cabinet for review in its first reading. The National Renewable Energy Plan 2021-2030 and National Energy Efficiency Plan 2021-2030 were also published.

Power supply was improved and diversified across the West Bank through the construction, rehabilitation, and expansion of electricity distribution networks and the installation of solar panels in villages. Solar panels were installed on Government buildings, schools, and hospitals to save energy costs and reduce environmental pollution.

The Government agreed with "the refugee camp committees" on payment for commercial-use electricity, supported by the installation of prepaid meters. The Government also started converting the electricity supply for refugee camps to solar power to reduce net lending. Smart meters were provided to large subscribers in the Gaza Strip to improve revenue collection and reduce losses.

DEVELOPING A SYSTEM TO COMBAT MONEY LAUNDERING AND FINANCIAL CRIMES: Consistent with its membership of the Middle East and North Africa Financial Action Task Force (MENAFATF), the Government is strengthening its regulatory and legislative framework for combating money laundering. Actions taken include approving the Combating Money Laundering and Terrorist Financing Law; issuing the Presidential Decree on the implementation of UN Security Council sanctions; issuing the Cabinet Resolution on the Regulation of Legal Arrangements and Endowments; and providing training on money laundering and terrorist financing crimes for lawyers, judiciary, and law enforcement.

OPTIMISING THE IMPACT OF INTERNATIONAL AID: International aid supports the Palestinian state-building effort. Therefore, the Government improved aid coordination by presenting the first ever Aid Policy for consultation with our national and international partners and launching

the Aid Information Management System (AIMS), which is a comprehensive database that allows stakeholders to easily access data on aid flows in Palestine.

3. ECONOMIC REFORMS

ENHANCING THE BUSINESS ENVIRONMENT: The private sector in Palestine has a critical role to play in alleviating unemployment and poverty problems in Palestine – and therefore needs an enhanced business environment.

Accordingly, the Government improved the legal and regulatory framework, including ratifying (by the President) the new Companies Law and the Telecommunications Law and drafting a packet of business-focused legislation, including Competition Law, Industrial Property Law, Investment Promotion Law, Commercial Agencies Law, Accreditation Law, Insolvency Law, and Amendment of the Movable Property Security Law. Elections for chambers of commerce are scheduled for December 2022 to ensure greater representation of and accountability for the business community.

Support for the private sector was expanded and better regulated with the issuance of the Regulating Licensing and Supervision of Specialized Lending Institutions Resolution and – for small to medium enterprises (SME) - the delivery of the first National SME Strategy, reduction in requirements for calculating SME capital allocations, and the activation of the Sustainability Fund.

To provide a better digital business environment, the Government granted the Palestine Investment Fund the license to create fiber optics infrastructure in all of Palestine.

The Government also created more employment and investment opportunities by expanding existing industrial zones in Bethlehem, Jericho and Gaza, operationalizing the Jenin Industrial Free Zone, and continuing to develop new industrial zones.

ENSURING OPTIMAL USE OF AND MAINTAIN STATE AND WAQF LAND: Proper investment in State and *Waqf* land provides a real competitive advantage to increase local investment opportunities, create renewable employment, and protect it from encroachment. Therefore, the Government completed an inventory of all Government land to update the State and Islamic and Christian *Waqf* property database. *Waqf* and State land was made available for investment by university graduates and young entrepreneurs, and a plan was developed to prevent trespassing, with implementation started in the Jericho governorate.

4. SOCIAL REFORMS

PROVIDING BETTER EDUCATION AND TRAINING: The Government is investing in an education system that equips graduates with the skills needed by the labor market, supported by

innovative, well-funded scientific research. To this end, the Government introduced 85 new academic majors at Palestinian universities and cancelled 220 majors; expanded vocational training capacity in both vocational and public schools; including the establishment of the new University in Nablus for Technical and vocational education increased promotional outreach to students and parents, including awareness campaigns and an e-platform; and formed partnerships with private sector and national and international institutions to support scientific research.

ELIMINATING NEGATIVE PERCEPTIONS, INCLUDING OF CORRUPTION: Corruption and perceptions of corruption can undermine government efforts and pose a threat to the stability of society. The Government took significant key transparency and accountability actions, including preparing the Right to Information Law and the National Archives Law for approval; rolling out the Palestinian Anti-Corruption Commission's guide to managing corruption risks in public sector institutions; implementing civil service reforms to prevent corruption and abuse of power, including improving procedures for promotion and appointment for senior position and implementing job rotation; and strengthening the legislative and procedural system that prevents impunity and achieves a fair trial for those involved in corruption cases.

5. SECURITY AND PUBLIC ORDER REFORMS

MAINTAINING SECURITY, LAW, AND PUBLIC ORDER; FIGHT CRIMES; AND PROMOTE COMMUNITY SAFETY; Restoring community safety and fighting crime begin with multiple reforms of all public authorities. The Government is already working to improve security service performance by forming the Commission for Reform of the Security Apparatus Structure. The Palestinian Child Law was amended to strengthen the legal structure for the protection of the Palestinian child and prevention of trafficking and exploitation.

The second phase of local elections in all West Bank communities was completed, and the Government asked the Election Commission to open a dialogue on completing the second phase of the local elections in Gaza Strip.

Additionally, the Government enhanced citizen services by adding e-immigration systems at the crossings and started issuing biometric passports.

IV. SUPPORT NEEDED FOR ACHIEVING THE REFORM AGENDA

We are politically committed to the Reform Agenda and will continue to act on it over the coming months, as we prepare the next National Development Plan (2023-2029).

Significant and tangible change has been achieved since the Reform Agenda was launched. But much work still lies ahead on the most ambitious reforms, such as reforming the civil service, reducing the wage bill, and tackling medical referrals and net lending. We also need to continue working on the reforms that will invest in our economy and build up the trust of the Palestinian people.

The hardest work lies ahead. We will need to continue to make a convincing case to our citizens, whose support is critical for delivering and sustaining the most important reforms. We will need to mobilize all possible resources, including finding the financial resources, the human capability, and the institutional maturity. Therefore, as we move forward with our reforms, we will need the support of our international partners. Without it, the reforms may become economically and political unsustainable.

The international community has made a political commitment to the State of Palestine. But in recent years, that commitment has not been backed up by action: donor support is down by 80% over the last decade. Without your support to offset the crippling burden of the Occupation, we face limits in the funding, know-how, equipment and technology needed to achieve these reforms. As long as the Occupation remains, our people will need to look to you to amplify our efforts, with sustained commitment (not stop-gap measures) to provide them with the needed tools and resources. Therefore, the Government asks our international partners to honor their commitment to the State of Palestine by increasing aid (particularly budget support) and aligning it to the key priorities laid out above and contained in the Reform Agenda.

Ultimately, the Occupation drives – and exacerbates – the challenges that we face in creating a prosperous, sustainable, and secure state for our people. Government reforms would be accelerated and sustained if Israel respects the signed agreements and honors its historical and current commitments. Without Israeli cooperated actions, our reforms may fail, triggering greater fiscal, economic, and social instability. Israel must release Palestinian funds so we can fulfil our obligations to the Palestinian people. Israel must lift penal economic restrictions that strangle our economy, particularly in the Gaza Strip and Area C. Israel must cease incursions, arbitrary travel restrictions, and denial of full democratic rights for Palestinian people in East Jerusalem.

We will continue to reform, because it is what our people deserve. But we look to you to amplify and protect our reform efforts. Our people deserve nothing less from you.