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Palestine Economic Policy Research Institute

Background Paper

Roundtable (2):

**Abundance of Development Plans and Initiatives for Palestine:
“Points of Convergence and Divergence”**

April 2014

Final Report
Round Table Discussion No.(2)

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1. Background and Rationale

Nations worldwide, irrespective of their political/economic systems, seek to develop their economies and realize a number of socioeconomic objectives that ensure public welfare, utilizing varying methods and employing available natural and human resources. In this respect, Development Planning is an important method for articulating governments’ policies and strategies over the short, medium and long terms. Typically, a plan seeks to improve the economic and social indicators and address the problems afflicting the economy during a specific period of time.

Development planning in Palestine is no exception. However, unlike those in many countries around the world, the trajectory of the implementation process in Palestine collides with external determinants- particularly the Israeli occupation- that hinder the implementation of the plans and the achievement of their objectives.

Lately, there has been a plethora of development plans and initiatives that examined ways to improve the socioeconomic conditions and stimulate a recovery of the Palestinian economy. Unlike other countries, there are multiple sources of these plans/initiatives in Palestine. On the one hand, the Palestinian government has prepared a draft three-year development plan (2014-2016) as part of the planning effort pursued by successive Palestinian governments since the establishment of the Palestinian National Authority. On the other hand, representatives of the Palestinian private sector have developed an initiative for investment, growth and employment until 2030. Furthermore, there is the so-called ‘Initiative for the Palestinian Economy’ for the next three years (better known as ‘Kerry’s Economic Plan’) presented by U.S. Secretary of State, John Kerry, before the World Economic Forum meeting in May 2013 in Jordan.

This background paper examines the points of convergence and divergence in these plans/initiatives in terms of their vision, objectives and the scope of spatial, temporal and sectoral implementation. The paper is intended to inform a round-table discussion between various stakeholders on three themes: **first**, the feasibility and implications of such plans/initiatives at this time in specific, and the level of consistency and coordination between their initiators; **second**, the content of these plans/initiatives and points of convergence/divergence in terms of their vision, objectives and the scope of spatial, temporal and sectoral implementation; and **third**, the practical proposals that contribute to optimizing these plans and achieving coordination between them so as to further their objectives.

2. Context of the plans

Though development planning efforts are typically driven by the desire to create a framework that controls the use of available economic and human resources and harness them to achieve a number of economic and social objectives or to tackle certain problems within a specific period, these efforts oftentimes occur in a context that determines the groundwork of these plans, how they are developed and what objectives are more likely to be achieved. This section of the paper explores the overall context within which the latest Palestinian development plans have been drafted, hoping to provide justifications and starting points for such plans/initiatives.

First: The National Development Plan (NDP) 2014-2016

Upon reviewing the general framework of the draft National Development Plan under study, it appears that this plan represents the third phase of the comprehensive national planning effort that the government started in 2007. The effort aims at aligning planning with budgeting. The first phase was the approval of the National Reform and Development Plan (2008-2010), while the second phase involved the development of the General National Plan (2011-2013).

The authors of the National Development Plan acknowledge that the development effort in Palestine comes amid an unstable, confused political climate. In November 2012, and with an overwhelming majority, Palestine was admitted in the United Nations as an observer state. The negotiations with the Israeli side were resumed in August 2013, and they are assumed to continue until the end of April 2014. It is important to add a reminder of the internal disorders in many an Arab state and the associated political implications on the Palestinian Cause, now no more the priority it used to be for some.

Under this unstable political climate, the Palestinian development efforts have to deal with numerous challenges. In its section dedicated to the overall context, the draft National Development Plan explains that the preparation of the plan comes amid a series of internal and external challenges, most notably the Israeli occupation, its control over the Palestinian resources and its restrictive measures that foil the Palestinian development efforts. In addition, the internal political and administrative divide, together with the coercive separation of the Gaza strip from the West Bank, has worked to thwart planning and create imbalances in the financial responsibilities/obligations/allocations between the West Bank and the Gaza Strip. The third challenge is the PA's financial crisis and the worsening of the economic conditions, particularly poverty and unemployment.

These challenges compel public policy makers to set priorities and define targets so as to help find solutions to recurring crises. The proper identification of these challenges has constituted an essential starting point of the NDP and led it to focus on a number of priorities (that will comprise the framework for the implementation of the plan over the next three years), particularly:

- ✧ Expanding national sovereignty and utilizing the potentials of the economy, especially in Jerusalem, the Jordan Valley and so-called Area C.
- ✧ Consolidating the people's sources of fortitude and resistance across the country, especially in Jerusalem, Area C and the Gaza Strip.
- ✧ Ending the internal divide, addressing its implications and restoring social cohesion.
- ✧ Revitalizing the national economy and enabling its productive base, as well as realizing financial stability, so as to create a decent life and ensure the right to work for all citizens.

It is important to remind readers that the NDP is based on two scenarios: first, the baseline scenario assumes the continuation of the status quo (economic and financial conditions remain unchanged); and the second scenario envisions an ease of Israeli restrictions, business-friendly climate, full utilization of resources in Area C, ending the internal split and restoring trade and financial relations between the West Bank and Gaza Strip.

Second: The Private Sector Initiative (PSI)

A group of representatives of the Palestinian private sector launched in January 2013 an initiative for investment, growth and employment until 2030. The work on the final stages of drafting the PSI coincided with renewed peace talks between the Palestinian and Israeli sides in August 2013. Though the initiative has been designed under the assumptions of the of the continuation of the status quo, the resumption of negotiations constituted an additional mainstay for the initiative, so that, in its preamble, the initiative says that it is only political settlement (which leads to end of occupation) that can create the necessary conditions for the

Palestinian economy to realize its full potential. Given the limited opportunities for additional growth in the public sector, the private sector remains the key player that can bring back balance to the Palestinian economy and reduce its dependence on external aid. A strong private sector has the potential to lead the way to increased economic resilience by directing investment in a way that prioritizes economic growth and job creation, while achieving sound economic returns. This in turn can help to define and enhance policy to improve public welfare.

The assumptions of the PSI are consistent with the findings of the previous planning efforts by the Palestinian Authority (especially the Reform and Development Plan and the document of 'Ending the Occupation and Establishing the State') with relation to the challenges facing the Palestinian economy and the role that the private sector can play in driving growth and creating sustainable employment opportunities. The authors of the PSI say that unsustainable growth has produced an economic/financial crisis. Between 2006 and 2011, the economy saw rapid economic expansion, when GDP grew by an annual average rate of 8.2%. This growth, in part a result of foreign aid inflows (especially to support the budget), helped in creating new jobs and expanded the public sector. Since 2012, however, growth and employment opportunities have slowed down, thus raising concerns among decision-makers and exposing the structural distortions as well as the limited range for planning and policy-making in light of the volatility in the economic indicators.

The PSI essentially involves the launch of a number of strategic investment opportunities in specific sectors (agriculture, information technology & digital entrepreneurship, tourism, building and construction, and energy), such that investment in these sectors is expected to achieve sustainable growth that contributes to employing more workers and creating sustainable jobs, eventually resulting in increased resilience and greater economic independence.

Interestingly, the PSI is based on one scenario (the status quo scenario) which constitutes the general framework for the initiative. It does not involve other scenarios on the two extreme sides of the continuum: one assuming a final political settlement of the permanent status issues and the other envisioning a deterioration in the political and security situation. The PSI pays no heed to the occupier's measures and the restrictions it places on the Palestinian economy, with the exception of a single reference in the introduction where the initiative gives a background of the current challenges facing the Palestinian economy.

Third: The Initiative for the Palestinian Economy (IEP) (Kerry's Plan)

During the World Economic Forum, held in May 2013 in Jordan, John Kerry, U.S. Secretary of State, brought forward an economic development plan for the Palestinian Territory. The plan seeks to kick-start a developed, stable Palestinian economy necessary for the success of sustainable peace. The Quartet tasked an international team of experts to develop and lay out the plan so that it becomes more realistic, implementable and capable of engendering a quantum leap in the Palestinian economy. The funds to be allocated for the implementation of this plan were estimated at nearly USD 4 billion to be invested over a three-year period through a collective effort led by the local and foreign private sectors.

The proposal triggered a heated nationwide debate, first because it coincided with the resumption of negotiations between the Palestinians and Israelis, and second because it appeared more consistent with the Israeli perspective which believes in a political settlement only through a focus on Palestinian economic concerns and Israeli security concerns.

According to Kerry, the general framework of the economic plan is to build confidence between the two sides in order to create an atmosphere conducive to negotiations and their continuance. The talk is about giving the Palestinian economy an impetus in the coming years within a framework of facilities and cooperation from the Israeli side. This implies that the

economic rebound will occur under occupation, or at least under an occupation of a different guise with less ascendancy and minimal direct interventions in the Palestinian affairs. As such, the plan does not assume or require a political framework based on the Palestinian prospect of establishing an independent state, ending the occupation and using the natural and economic resources to achieve the Palestinian goals.

In sum, the plans/initiatives have many things in common, particularly when diagnosing the Palestinian situation, identifying weaknesses/imbances and designating socioeconomic indicators. They also agree on the challenges (especially the occupation) that restrain the economy, the reasons behind the decline in the indicators, and the impacts on different groups of the society.

On the other hand, the plans go in different directions when it comes to proposing solutions to these challenges. Much divergence is particularly noticed when these plans discuss the framework within which these plans are supposed to be implemented. The National Development Plan articulates the status of the PA and its ability to deal with the political climate as an external determinant that must, by itself, be taken as a scenario. That is why the NDP assumed two scenarios: the baseline scenario and the optimistic scenario which envisions an improvement in some indicators. The main characteristic of the government's plan is its technicality, being the last phase of a three-phase project. The authors of the Private Sector Initiative, on the other hand, assume that the private sector can play a leading role in advancing development, even without a clear political framework that results in ending the occupation and establishing a Palestinian state. Finally, Kerry's Economic Plan can coexist with the de facto occupation, and thus its authors expect the occupying power to facilitate the implementation of the plan to further the political process, suggesting that the economic path can enhance and promote the political path, not the other way round.

3 . Insights into the Plans

Given its impact on the preparation and the content of these plans/initiatives, the overall context must be meticulously considered. Understanding such context will also help in informing the actual implementation of these plans/initiatives and the extent to which they can converge/diverge from the real facts on the ground. (It is thus particularly relevant that we review the most prominent features of these plans/initiatives, especially the vision, objectives, scope of implementation and the size and sources of funding).

First: Vision

The proposed plans/initiatives have different visions. This is particularly obvious when we consider the NDP, on the one hand, and the PSI and the IPE, on the other. In its vision, the NDP focuses on the political dimension, while the PSI and the IPE focus on the leading role of the private sector, regardless of the prevailing political conditions.

Second: Objectives

The proposed plans/initiatives also have different objectives, and it seems that there is no coordination or linkage between the proposed planning efforts. This can be attributed in part to the difference in the temporal domains of the plans. While the NDP and the IPE have a timeframe of three years, the PSI covers a 16-year period. This difference in time frame produced variations in all targets. Whereas the NDP talks about humble GDP growth rates of up to 12 percent in 2016, the IPE seems overoptimistic, with growth rates as high as 50 percent during the same period .

Rates of unemployment are also divergent. While the NDP did not specify the overall rate of unemployment and only targeted specific segments (university graduates and young-age group) that can potentially enjoy lower rates of unemployment, the other two plans expect important achievements in reducing the overall rate of unemployment and generating

hundreds of thousands of job opportunities. The PSI assumes a drop of unemployment rate to 10 percent thanks to creating 150 thousand direct jobs and 220 thousand indirect jobs by 2030. The IPE, on the other hand, envisages the creation of 330 thousand new jobs, thus reducing unemployment rate from 23 percent in 2013 to only 8 percent in 2016.

Third: Scope of Implementation

There are no significant differences with respect to the spatial scope of implementing the three plans, which all cover the entire Palestinian territory (the West Bank and Gaza Strip). However, the NDP focuses on specific areas, such as Jerusalem, the Jordan Valley and the Gaza Strip. At the sectoral level, the three plans are relatively different. The NDP focuses on the four priority sectors agreed upon by the PA and the Local Development Forum, the international aid coordination committee. These sectors, often targeted by government plans, are economic development, governance, social development and infrastructure. The PSI, on the other hand, focuses on five key sectors (agriculture, information technology & digital entrepreneurship, tourism, building & construction and energy), thus to a large extent converging with the IPE that involves 8 sectors: the five sectors of the PSI (merging contracting with the construction sector), and adding the water and light industry sectors.

Fourth: Size and Sources of Funding

The implementation of the proposed plans/initiatives requires substantial financial resources, and this, in turn, requires great efforts from various parties to garner the necessary support. The plans envisage different sources of funding. The NDP would solicit external support in the first place. The support needed would total USD 1.151 billion under the optimistic scenario and rises to USD 1.788 billion under the baseline scenario. In contrast, the IPE depends on raising funds from local and international private sectors. Between 5-6 billion dollars (or even more) will be needed to implement the plan. There is also a likelihood of providing the public sector bodies with USD 1.5 billion as loans. In addition, the private sector will enjoy loan guarantees of up to USD 3 billion to contribute to the implementation of the proposed projects. The PSI, on the other hand, does not seem to have a financial ceiling but includes a reference to a potential contribution from a specific body which, if established, will raise external funds and boost the private sector's ability to attract finance that can contribute to the initial capital of the total investment efforts.

The table below compares the key elements in the proposed plans/initiatives, particularly the vision, objectives, scope and funding.

Table 1: Vision, Objectives, Scope and Funding: National Development Plan, Private Sector Initiative and Kerry's Economic Plan Compared

		National Development Plan (2014-2016)		Private Sector Initiative	Kerry's Economic Plan
First: Vision		Future efforts will be concerted to materialize the State of Palestine's sovereignty over the whole of the Palestinian territory on the 1967 border. Palestine will enjoy an empowered economy, sustainable and fair development process, effective and proficient institutions, and international visibility.		Consolidating private sector-led efforts to contribute to the economy's growth in a sustainable manner that creates long-term employment and increases resilience of the economy.	Promoting private sector resources to finance economic development projects.
Second: objectives and target economic indicators	GDP	The baseline scenario	The optimistic scenario	Adding some USD 8 billion to GDP by 2030 (at current prices).	During the three-year period, GDP will grow by 50% compared to 2013, thus reaching USD 15 billion (at current prices).
		GDP growth is projected to drop in 2014-16 (at constant prices), reaching 1% in 2016 compared to 1.5% in 2013.	GDP will rise (at constant prices) in 2014-2016, reaching 12% in 2016.		
	Investment	Total investment-to-GDP ratio totaled 11.4% in 2013, and it is expected to drop to 10.9%, 10.6% and 10.3% in 2104, 2015 and 2016, respectively.	Total investment-to- GDP ratio is expected to grow to 16%, 19.2% and 21.6% in 2104, 2015 and 2016, respectively.	In the short term, total investment will increase by about USD 600 million.	During the three-year period, total investment by the local and international private sectors is expected to reach USD 5-6 billion.
	Unemployment	The plan does not account for reducing the rate of unemployment at the national level; however, it envisions reducing unemployment rates among specific segments: - Reducing unemployment rate among graduates of vocational and technical education from 32% to 26%. - Reducing unemployment rate among graduates of higher education institutes from 25% to 22%. - Reducing unemployment rate among the youth from 37% to 34%.		Unemployment rate will drop to 10% and more than 150 thousand direct jobs and 220 thousand indirect jobs will be created.	Through creating additional 330,000 jobs, unemployment rate will drop to 8%. A 30% increase in the median income of households, bringing the figure to USD 10,880 a year.
Third: Scope of implementation	Spatial domain	West Bank and Gaza Strip, with a special focus on Area (C), Jerusalem and the Jordan Valley		West Bank & Gaza Strip	West Bank & Gaza Strip
	Temporal domain	Three years 2014 -2016		Until 2030	Three years 2014 - 2016
	Sectoral scope	<ul style="list-style-type: none"> Economic development & employment sector (economy, employment, agriculture, tourism, communications and technology) Good governance and institution-building sector (security, local government, media, justice and international relations) Social protection and development sector (social protection, education, health, youth and sports, women's empowerment) Infrastructure sector (energy, environment, transportation, housing and water) 		<ul style="list-style-type: none"> Agriculture Information Technology & Digital Entrepreneurship Tourism Building and Construction Energy 	<ul style="list-style-type: none"> Energy and electricity Water Tourism Light industry ICT Agriculture Contracting and construction materials Construction
Fourth: Size and sources of funding		Increasing external support to finance the total deficit (current and developmental) over the 3-year period to about USD 1.788 billion, or 12.2% of GDP, which is the same ratio reported in 2013.	Reducing the value/share of external support (over the 3-year period) to approximately USD 1.151 billion in 2016 (or 7.2% of GDP).	In addition to self-financing, a Private Sector Grant Facility (PSGF), if established, could encourage the development of private sector projects. Such grants can contribute a percentage to the total investment at the outset.	Raising 5-6 billion dollars from local and foreign private sectors to implement the proposed projects. There is also a likelihood of providing the public sector bodies with USD 1.5 billion as loans. In addition, the private sector will enjoy loan guarantees of up to USD 3 billion.

4 . Questions and themes for discussion

A question directed to all keynote speakers

- ✧ How does each party conceive its plan in terms of vision, objectives and opportunities & likelihood of implementation?

A question directed to the government

- ✧ How does the government conceive other parties' plans/initiatives proposed in terms of integration, consistency with the national plan and the impact on financing the national plan?

A question directed to the authors of the Private Sector Initiative

- ✧ What are the motives/reasons behind developing the PSI? Is it because the NDP did not invoke the private sector investment? Is it because the PSI considers itself only complementary to the National Plan?

A question directed to the authors of Kerry's Economic Plan

- ✧ How can the targeted businesses be convinced of investing hundreds of millions of dollars in the Palestinian economy in light of the continued occupation and the hazy political climate?

A question directed to the audience

- ✧ Is the abundance of proposed development plans constructive or counterproductive? How can the Palestinians avail themselves of such multiplicity? What are the roles of the various parties in this connection?