

Squaring the Circle:
**Security-Sector Reform and Transformation and Fiscal Stabilisation
in Palestine**

Report prepared for the
UK Department for International Development

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Acronyms

AHLC	Ad Hoc Liaison Committee
DAC	OECD Development Assistance Committee
DDR	Disarmament, demobilization and reintegration
DFID	Department for International Development (UK)
EU	European Union
EUCOPPS	European Union Co-ordinating Office for Palestinian Police Support
GDP	Gross domestic product
Gol	Government of Israel
IMF	International Monetary Fund
MEPP	Middle East Peace Process
MoF	Ministry of Finance
Mol	Ministry of Interior
MoP	Ministry of Planning
OECD	Organisation for Economic Co-operation and Development
PA	Palestine National Authority
PASF	Palestine National Authority Security Forces
PCPDP	Palestine Civil Police Development Programme
PFM	Public financial management
PLC	Palestine Legislative Council
SSRT	Security-sector reform and transformation
USSC	United States Security Coordinator

Glossary

Demilitarisation: Demilitarisation is the process of eliminating or reducing military or paramilitary weapons, materiel, other hardware as well as military or paramilitary organisations and structures.

Downsizing: Downsizing involves reducing security forces in number or size.

Disarmament, demobilisation and reintegration: DDR is normally a three-pronged, short-term (1-3 years) programme of reducing or abolishing (or at least putting beyond use) weapons belonging to government, militias or opposition forces, dismantling non-statutory forces, and facilitating the integration of ex-combatants into normal civil life. To succeed, DDR programmes need to be anchored in a broader process of transformation from conflict to stability and peace that includes poverty reduction, political reconciliation, and security-sector reform and transformation.

Medium Term Development Plan 2005-2008: The MTDP is the PA's three-year development plan presented in draft form to the December 2005 Ad Hoc Liaison Committee meeting to help coordinate donor support to the PA's development objectives.

Medium Term Fiscal Stabilisation Plan: The MTFSP is a PA obligation under the 1 March 2005 Declaration of Institutional Renewal. The World Bank and the IMF are currently assisting the PA to draft the plan to assist the new 'government' (expected during the first quarter of 2006) in tackling the budget crisis. The plan will address a wage and employment freeze and reductions in net lending.

Retrenchment: Retrenchment is the reduction of expenditures, especially wages, in order to achieve a fiscally stable level. It frequently results in the need to downsize a workforce.

Rightsizing: Rightsizing was originally formulated as an alternative and more positive description of downsizing. In this report, it describes the processes whereby a) the 'right' size and composition of security forces is determined in relation to its tasks (derived from an analysis of the threat environment) and fiscal envelope and b) is reduced or increased to that size.

Road Map: The 2003 Quartet Road Map to Middle East Peace is the extant diplomatic framework for resolving the Israeli-Palestinian conflict leading to a "permanent two state solution". It is 'performance based' and levies obligations on both parties including the International Community, through three distinct phases, all of which were to be completed by end 2005.

Security-sector reform and transformation: Security-sector reform and transformation is a process that involves rebuilding, restructuring and reforming state security services and developing democratic security-sector oversight mechanisms. It can also be called 'security-sector reform,' 'security system reform,' and 'security-sector transformation.'

White Paper: A White Paper is an official document outlining policy in a given area, usually arrived at after broad consultations. In the area of security and defence, a white paper is a statement of a government's security and defence policies based on a comprehensive analysis of political, security, economic, social, and environmental threats. Generally, the paper establishes the security sector's roles, functions and missions as well as resources and funding requirements. Normally unclassified, a white paper can help build consensus among the cabinet, the security services, the legislature, and key sectors of society.

Executive Summary

1. This report was commissioned by the UK Department for International Development in order to explore the linkages between security-sector reform and transformation, including downsizing of the Palestine National Security Forces, at a time of political instability, on the one hand, and fiscal stabilisation and financial management over the medium term under conditions of significant economic uncertainty, on the other hand.

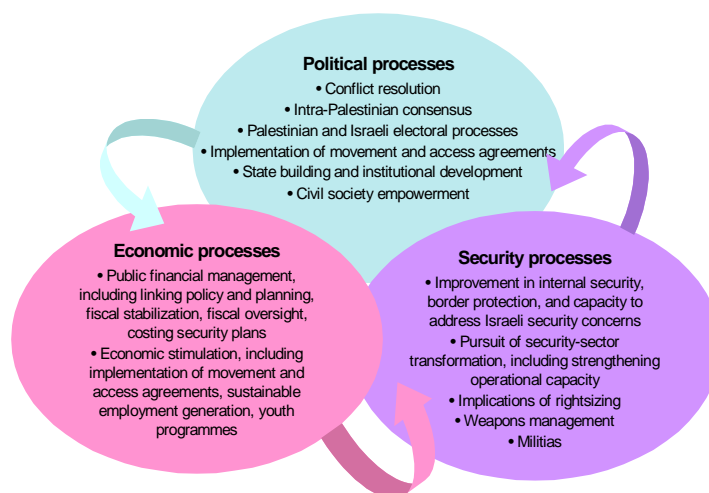
Security-Sector Reform and Transformation

2. In order to provide security for the Palestinian people and meet its obligations under the Road Map, the Palestine National Authority has begun a process of security-sector reform and transformation. Security-sector reform and transformation involves rebuilding, restructuring and reforming the security services and developing democratic security sector oversight mechanisms. It requires attention to 1) democratic governance and accountability, 2) an appropriate institutional framework, 3) professionalism and operational effectiveness of security forces, and 4) the legacies of conflict.

3. Security-sector reform and transformation is a complex and difficult process under the best conditions. The Palestine National Authority is seeking to implement security-sector reform and transformation in the midst of a major domestic political transition, in the context of an as-yet-unresolved conflict with Israel (itself currently undergoing significant political shifts), and under highly unfavourable economic conditions. The unfinished nature of the Palestinian state-building process and the weakness of Palestinian institutions further complicate the environment in which decisions about security-sector reform and transformation are taken and implemented.

4. Security-sector reform and transformation is part of a sustainable national security agenda that has political, economic and security components (Figure 1). These processes are closely linked and, for the most part, long-term in nature. Therefore, while it is not possible to address all of the components of these three processes simultaneously, it is necessary to be aware of the key elements in order to identify priorities and map the way forward.

Figure 1. Towards a Sustainable Palestinian National Security Agenda



Economy, Fiscal Deficit, and Security

5. The Palestine National Authority is seeking to manage the negative economic effects of the second *Intifada* arising from the internal and external restrictions on movement of Palestinian goods and labour, particularly reduction in access to the Israeli economy. Despite some improvement during 2004 and early 2005, the

Palestine National Authority's fiscal position deteriorated significantly in the second half of 2005, in part because of increases in security-sector wages and employment. The International Monetary Fund has estimated that the fiscal deficit will exceed US \$900 million in 2006, raising serious concerns among donors about the Palestine National Authority's fiscal course. In late 2006 there were growing calls for a significant retrenchment of security personnel.

6. In this context, it is essential to understand the role played by the demographic and security challenge of young unemployed youth that has emerged in recent years quite independent of the Palestinian-Israeli violence. Simply put, adequate employment opportunities are essential for security. The precipitous decline of the Palestinian economy since the *Intifada* helps to explain the increases in public sector employment and wages that have occurred since 2000.

7. Today, unemployment is double pre-*Intifada* levels at 23 percent. Unemployment among 20-24 year olds is 35 percent overall, with unemployment in southern and central Gaza reaching 60 percent or more. Forty-six percent of the population is under 15, and every year there are 45,000 new entrants to the labour market. The emergence of groups of young armed men seeking jobs has been a major source of insecurity in West Bank and Gaza during 2005. Thus, the increase in the size of the Palestine National Security Forces could be viewed in part as a rational response to a serious demographic and security challenge that has emerged at a time of Fateh disunity and in the midst of an election cycle.

Meeting Palestinian Security Challenges

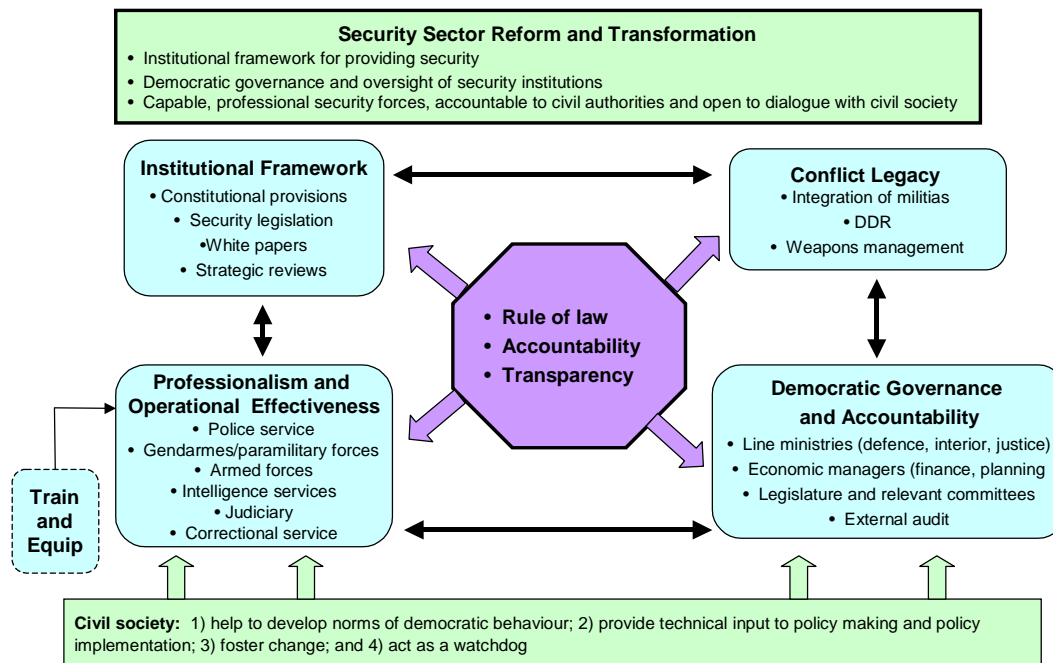
8. Security-sector reform and transformation is generally carried out in independent, sovereign states that are not in conflict. It also normally involves transforming existing state institutions, rather than creating institutions from scratch. None of this holds true in West Bank and Gaza. Thus, while many of the constraints on the Palestine National Authority Security Forces' ability to meet domestic security needs and Road Map obligations are similar to those encountered in poor, conflict affected countries, they are even more extreme in the Palestinian environment.

9. In common with governments in low-income, conflict-affected countries, the Palestine National Authority faces the need to produce short-term improvements in Palestinian safety and security and the suppression of violence at the same time as it undertakes a longer-term transformation of the entire security sector. While a start has to be made on the short-term needs before there is a dialogue on a broad national strategy, every effort should be made not to prejudice the eventual outcome of the dialogue on a national security policy and strategy. Reconciling short- and longer-term needs will be facilitated by the Palestine National Authority preparing a comprehensive security-sector reform and transformation plan. Such a plan is essential in order to prioritise the activities of Palestinian stakeholders and their international partners.

10. Figure 2 provides an overview of the four main challenges facing the Palestine National Authority that need to be incorporated into any comprehensive security-sector reform and transformation plan: 1) developing democratic governance and accountability of the security sector; 2) creating an appropriate institutional framework; 3) strengthening the professionalism and operational effectiveness of the security services; and 4) addressing the legacies of conflict. The

environment in which these challenges are tackled should be characterised by: 1) adherence to the rule of law, 2) accountability to elected representatives of the Palestinian people and to the Palestinian people themselves, and 3) transparency. Civil society has a crucial role to play in supporting a security-sector reform and transformation process.

Figure 2. Security-Sector Reform and Transformation Components



11. In the process of developing and implementing a security-sector reform and transformation plan, particular note will have to be taken of the following issues:

- Key aspects of transforming the Palestine National Authority Security Forces into a professional, accountable and affordable force of a size commensurate with its task;
- Methods of determining an interim size of the Palestine National Authority Security Forces in the face of a severe fiscal crisis;
- Rightsizing and retrenchment options;
- Disbanding militant groups through a process that some Palestinian interlocutors are calling Reintegration, Disarmament and Demobilization (as opposed to Disarmament, Demobilization and Reintegration). This more accurately captures the Palestine National Authority's 'co-opt rather than confront' strategy; and
- Managing weapons so that the Palestine National Authority progressively achieves a monopoly over the means of violence.

Competing Priorities and Unco-ordinated Agendas

12. Until very recently, the security, economic, and political agendas of the International Community have proceeded on parallel tracks with very little attention to potential synergies among these processes. In consequence, fiscal stabilisation policies pursued by the donors have not been informed by an adequate

understanding of the political and security realities confronting the Palestine National Authority. At the same time, the security-sector reform and transformation efforts of the US Security Coordinator and others have not taken sufficient account of the Palestine National Authority's short- to medium-term fiscal situation.

13. For its part, the Palestine National Authority has prioritised political stability and security over fiscal stabilisation and reform. Abu Mazen's political strategy focused on co-option: continuing the *modus vivendi* with Hamas and seeking to bring Fateh factions under control through political concessions, integration and cash payments. While this approach is clearly financially unsustainable, the strategic aim is Palestinian unity in an environment where the centrifugal forces are extreme and street demands for law and order are emphatic. In view of the balance of forces between the Palestine National Authority and the other factions, select tribes and clans, the confrontation option, implicit in the Road Map requirement to 'dismantle the infrastructure of terrorism,' is currently not feasible.

Main Findings

14. There are five main findings from this report:

- There is an urgent need to harmonise the merging Palestinian national security agenda with its development and fiscal strands.
- To achieve this harmonisation, the International Community needs to find a mechanism for sustained dialogue between security and development/fiscal actors.
- Similarly, the Palestine National Authority needs to strengthen its dialogue with the donors and the international financial institutions on security-related issues.
- The Palestine National Authority must demonstrate enhanced transparency and accountability on security issues, first and foremost to the Palestinian people and their elected representatives and within government.
- In order to ensure that security priorities are adequately funded and in view of the serious fiscal imbalance confronting the Palestine National Authority, it is essential that the security sector be integrated into all aspects of public sector planning and management.

Recommendations

15. There are six recommendations that flow from the findings:

Recommendation 1: The International Community should strengthen donor co-ordination and dialogue by creating a mechanism to develop a common understanding and approach to security-sector reform and transformation and a division of labour among security and development donors.

16. In view of the US Security Coordinator's lead on security-related issues, his mission will most likely sponsor this mechanism. It should be complemented, however, by the inclusion of security issues into the new development donor co-ordination mechanism, perhaps as a sub-group of governance. Additionally, the Palestinian authority should create a forum for dialogue with the International

Community. This would facilitate the development of the necessary mutual understanding and trust for the international partners to better appreciate the issues surrounding intra-Palestinian relations that drive the Palestinian Authority's security and fiscal strategies.

17. Recommendation 2: The Palestine National Authority, supported by the US Security Coordinator and other members of the International Community as required, should prioritise developing a costed, comprehensive security-sector reform and transformation plan.

18. To the extent possible, this plan should incorporate: 1) continuation of the White Paper process; 2) consideration of the relative merits of the co-option strategy as a conflict-management mechanism; 3) consideration of how Israel can provide the Palestinian Authority with adequate space to make significant progress on security force restructuring and reform; 4) harmonisation of ongoing Palestinian and international efforts to enhance operational capacity of the Palestinian security forces; 5) further development of linkages to the criminal justice sector; 6) harmonisation of national security legislation; and 7) financial management in the security sector.

19. The US Security Coordinator should support the Palestinian Authority in developing this plan, establishing a realistic timetable for its implementation based on a pragmatic assessment of Palestinian Authority capacity, and agreeing technical assistance needs. The International Community as a whole should support the ongoing White Paper process, recognising that this process will have its own internal dynamic and timetable that must be respected if a viable product is to result. There will need to be sensitive and probably lengthy discussions among Palestinians to agree the principles and objectives underlying Palestinian security policy. Similarly, the implementation plan developed to operationalise the agreed policy will require time to develop. For its part, the Palestine National Authority should provide all necessary political support and guidance to this process.

20. Recommendation 3: The International Community should provide financial and technical support to oversight bodies such as the Palestine Legislative Council Economic and Security Committees, the central audit office (whose creation should be expedited by the Palestine National Authority), and civil society, as requested by these bodies.

21. It would be useful to continue the dialogue between the Palestinian Authority and the security forces, on the one hand, and civil society and legislators, on the other hand, that was started at the Jericho Workshop on the White Paper in November 2005.

22. Recommendation 4: The International Community urgently needs to ensure that the Palestinian security sector is integrated into the full range of public financial management work, in particular the Medium-Term Development Plan, the Medium-Term Fiscal Stabilisation Plan and the ongoing Public Expenditure Review.

23. The section on security in the Medium-Term Development Plan should specify the basic framework for a costed, comprehensive security-sector reform and transformation plan and a realistic timeframe for implementation. It should also note

that the principles of integrating policy, planning and budgeting will be applied to the security sector in due course.

24. The Medium-Term Fiscal Stabilisation Plan should be sensitive to the key elements of a security-sector reform and transformation plan and should be structured in such a way as to avoid undercutting both the reform and transformation process and the Palestinian Authority's capacity to meet its domestic and Road Map security obligations. It also needs to take into account the co-option strategy and associated costs. The international donors must decide if they wish to formally recognise this policy and its fiscal implications. For these reasons, the donors should consider increasing the amount of assistance provided as budget support and increasing the predictability of that support through multi-annual commitments. In return, the Palestinian Authority must accept that short-term management of the size and structure of the security wage bill is related to the development and implementation of a comprehensive security-sector reform and transformation plan.

25. It is also essential that the cost of retrenchment to achieve a more affordable wage bill is transparent, reflected in the budget, and channelled through the Palestinian Treasury. Furthermore, the fiscal impact of any retrenchment should be assessed in the context of the need to identify considerable resources for operations and maintenance and investment in the security sector.

26. The Public Expenditure Review should lay the foundation for further technical work to complement ongoing policy work through the White Paper and operational improvements in the Palestine National Authority Security Forces as well as to help develop plans for retrenchment. This could involve a follow up to the Ministry of Finance's internal audit, a review of the salary and allowance system, a technical review of the socio-economic profile of security personnel, and a thorough public financial management assessment of the security sector.

Recommendation 5: To support rightsizing the Palestine National Authority Security Forces, urgent attention should be given to creating viable means of compensating members of the security services who are retired or retrenched for their loss of income.

27. Options include: a) severance fund; b) reformed pension legislation to enhance sustainability; and c) employment generation. With regard to employment generation, there is an urgent need for targeted quick-impact projects in central and southern Gaza and Qaliqilya. Additionally, the International Community should assess the appropriate way to apply the disarmament, demobilization and reintegration concept in the Palestinian context, drawing on existing thinking among Palestinians.

Recommendation 6: The International Community needs to be appropriately staffed to meet the challenges of security-sector reform and transformation.

28. The US Security Coordinator will require a dedicated deputy for security-sector reform and transformation and an aid co-ordinator. The World Bank and the IMF need to identify means of providing technical support for strengthening public financial management in the security sector consistent with their mandates. Both should be supported by other members of the International Community as required.

I. Introduction

1. In order to strengthen the capacity of the Palestine National Authority (PA) to provide security and stability for the Palestinian people in support of the Middle East Peace Process (MEPP), the PA has begun a process of security-sector reform and transformation (SSRT) that involves rebuilding, restructuring and reforming its security services and developing democratic security-sector oversight mechanisms. The International Community, under the leadership of the US Security Coordinator, is supporting the PA in these efforts.

2. At the same time, the PA is seeking to manage the negative economic effects of the second *Intifada*¹ arising from the internal and external restrictions on movement of Palestinian goods and labour, particularly reduction in access to the Israeli economy. In order to help support its financial position during the *Intifada*, the PA requested budget support from the international development community. In April 2004, a two-year, 'emergency mechanism,' the Reform Trust Fund, was established to channel donor contributions to the PA budget. Disbursement from the Reform Trust Fund is tied to the ongoing Public Financial Management Reform Programme and conditioned on PA adherence to a number of benchmarks. These benchmarks spanned, *inter alia*, wage bill containment, procurement, pension reform, internal and external audit and the public financial management (PFM) legal framework. In the second half of 2005, as it became apparent that the PA's fiscal position was deteriorating, benchmarks for fiscal stabilisation and integrated planning and budgeting were also established. PA performance against its benchmarks have been mixed since 2004, with particular donor concern arising from negligible or reversal of progress on the Wage Bill Containment Plan, pension reform, and the establishment of an external audit body.

3. While the World Bank has estimated that real gross domestic product (GDP) in the West Bank and Gaza increased 6 percent per year in 2003 and 2004, domestic revenue increased substantially between 2002 and 2004, and progress was recorded on a number of the Reform Fund benchmarks, key indicators such as real per capita incomes remained well below 1999 levels by mid-2005. By the third quarter of 2005, it became clear that a major deterioration was occurring in the PA's finances. There were several factors behind this deterioration: 1) increases in the salaries of civil servants that began in July 2005; 2) increases in the salaries of security personnel that began in August 2005; 3) increases in security-sector employment since mid-2005;² 4) substantial increases in transfer payments reflecting the temporary unemployment insurance scheme as well as higher pension and poverty-related spending; and 5) a sharp increase in net lending in 2005 relative to 2004, reaching more than double its budget allocation. Taken together with the relatively inelastic revenue base of the PA, the International Monetary Fund (IMF)

¹ The uprising that began in September 2000 is known as the *Al-Aqsa Intifada* or the second *Intifada*, to distinguish it from the 1987-1991 uprising that preceded the Oslo Accords. Unless otherwise specified, references in this report are to the second *Intifada*.

² At the end of December 2005, the World Bank estimated security-sector employment at 70,000, with an additional 3-7,000 'trainees' (Al-Aqsa militants) receiving stipends. World Bank, 'World Bank Public Expenditure Review Mission Aide Memoire, December 1-16, 2005,' Washington, DC. In contrast, the number officially receiving salaries through the Ministry of Finance is some 57,000.

projected a deficit exceeding US\$ 900 million at the beginning of 2006.³

4. A number of donors, particularly the World Bank and the IMF, raised concerns about the sustainability of a fiscal deficit of this magnitude given the revenue available to the PA from all sources. The PA Ministry of Finance (MoF) initially anticipated that an increase in security service salaries would be offset by the retrenchment of 8-10,000 non-performing security personnel. This, however, did not occur, and in October-November 2005, pressure grew on the PA from parts of the development community to retrench a significant number of security personnel during 2006 in order to help reduce the fiscal deficit.

5. The UK Department for International Development (DFID) has been heavily involved in efforts to promote a more effective, accountable and fiscally sustainable Palestinian Authority through support to the World Bank-managed Reform Trust Fund and Public Administration and Civil Service Reform. DFID have also been engaged in the security-sector reform and transformation agenda through support to EUCOPPS, the US Security Coordinator (USSC)⁴, and work with other UK government partners on a range of activities under the UK Global Conflict Prevention Pool.

6. In view of the PA's inability to control its wage bill, the burgeoning fiscal deficit, and the centrality of security to the MEPP and to the performance of the Palestinian economy, DFID commissioned a report intended to illuminate the linkages between security-sector reform and transformation, including downsizing, at a time of a political instability, on the one hand, and fiscal stabilisation and financial management over the medium term under conditions of significant economic uncertainty, on the other hand.⁵ While a major objective of the report is to 'analyse the risks to political stability of retrenchment in the Palestine National Authority Security Forces (PASF) as part of a process of medium-term fiscal stabilisation and security-sector reform, and make recommendations on parameters and sequencing for such a programme,' the team was also asked to 'assess the key issues affecting the ability of the PA to develop and maintain an affordable security-sector.'

7. This report begins by arguing in section II that three competing priorities and intersecting processes – political, economic and security – must be addressed if the chasm between Palestinian security-sector reform and transformation needs and the PA's current and projected economic deficits is to be reduced. Section III examines three key political processes: 1) the Palestinian electoral process, 2) intra-Palestinian consensus-building, and 3) the unresolved Palestinian-Israeli conflict. It concludes by considering the implications of these political processes for PASF retrenchment. Section IV considers three economic processes that are crucial to the success of both SSRT and fiscal stabilisation: 1) the linkage between employment and security; 2) prospects for economic recovery; and 3) financial management in the security sector.

³ Authors' interviews, 2005. In an interview with the *Wall Street Journal* in January 2006, Deputy Finance Minister Jihad Alwazir said that the fiscal deficit could reach US \$950 million for 2006. Benoit Faucon, 'Palestinians Face Financial Crisis Ahead of Polls,' *Wall Street Journal*, 17 January 2006.

⁴ The first USSC was Lieutenant-General William Ward. He was replaced in late 2005 by Lieutenant-General Keith Dayton.

⁵ The terms of reference for this work are found in Annex 1.

8. Section V focuses on security processes. It briefly describes the reform agenda and examines the reform environment. It then explains the importance of creating a comprehensive SSRT plan and examines five key issues that need to be taken into account in developing such a plan for the Palestinian security sector. These are: 1) transformation of the PASF; 2) methods of determining an interim size for the PASF; 3) rightsizing and retrenchment options; 4) aspects of disbanding militant groups; and 5) weapons management issues.

9. The main findings of the report are found in section VI. The report concludes in section VII with six recommendations that emerge from those findings and the foregoing analysis.

10. Information for this report was collected through a combination of field study, documentation review, and in-depth interviews with Palestinian, Israeli and International Community actors. Fieldwork for this report was carried out between mid-November and mid-December 2005.

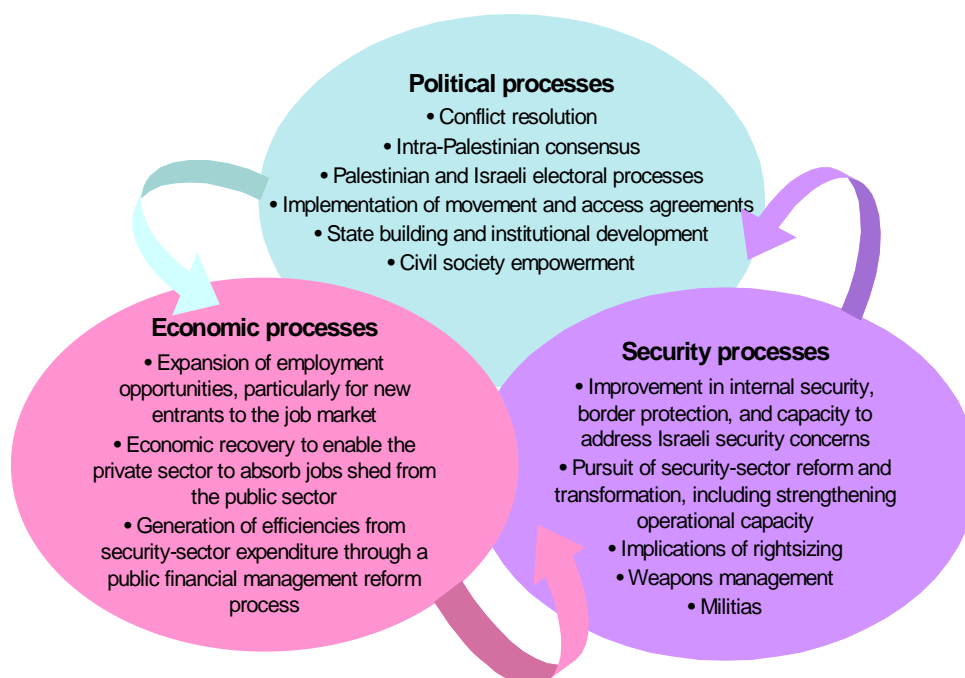
II. Competing Priorities and Intersecting Processes

11. Security-sector reform and transformation is a complex and difficult process under the best of conditions. The PA is seeking to implement SSRT in the midst of a major domestic political transition, in the context of an as-yet-unresolved conflict with Israel (itself currently undergoing significant political shifts), and under highly unfavourable economic conditions. The unfinished nature of the Palestinian state-building process and the weakness of Palestinian institutions further complicate the environment in which decisions about security-sector reform and transformation are taken and implemented.

12. Figure 1 highlights some of the major elements of the political, economic and security processes that currently require the attention of PA officials as they seek to construct a sustainable Palestinian national security agenda. The salient features of each of these processes will be discussed in more detail in the following three sections. In reading these sections, it is important to bear several points in mind.

13. First, security-sector reform and transformation is an important element of a sustainable national security agenda. It is not, however, the only element. Progress on other components of a sustainable national security agenda will affect the PA's ability to deliver on SSRT, while progress on SSRT will in turn affect the other components of that broader agenda. Without an intra-Palestinian political accommodation, for example, the impact of security-sector reform and transformation efforts will be limited because the PA's efforts will lack legitimacy with an important segment of the population. Similarly, without a clear vision of Palestinian security needs and objectives as expressed through a sectoral strategy and implementation plan, a rigorous costing of the Palestinian security sector will be impossible. This in turn will complicate the PA's ability to manage its finances in an accountable, transparent and sustainable manner.

Figure 1. Towards a Sustainable Palestinian National Security Agenda



14. Second, each of these highly challenging processes has the potential to push the PA in somewhat different directions, not all of which will be consistent with promoting the MEPP or domestic security. For the PA to meet its obligations under the Road Map, its security forces must be able to carry out their mandated tasks. If the aim of fiscal stabilisation were to be achieved through reductions in the security sector wage bill, then there is a risk that the ability of the PASF to carry out their mandated tasks would be undermined due to inadequate funding.⁶ Even in the absence of a fully costed security plan, it is evident that savings generated by retrenchment will need to be used at least in part for operations and maintenance as well as for investment purposes. Similarly, the security of both Palestinians and Israelis depends on a reduction in both crime and militia activities. A number of interlocutors, both Palestinian and non-Palestinian, expressed serious concern that the retrenchment of thousands of security force personnel – performing or non-performing – would cause these individuals to turn to crime or association with a militia force to feed their families.⁷

15. Third, while it is not possible to address all of the components of these three processes simultaneously, it is necessary to be aware of the key elements of each in order to identify priorities. To take one example, fiscal stabilisation is just one aspect of sound public financial management (PFM) in the security sector. By focusing primarily on fiscal stabilisation, the longer-term PFM objective of linking policy, planning and budgeting may not receive adequate attention. However, it is only by budgeting against agreed policies and plans that resources can be used effectively and efficiently and that fiscal oversight can be achieved. Similarly, promoting retrenchment without adequate attention either to the creation of a severance fund or job creation means that the ‘economic oxygen’ necessary to support a scaled-down security sector is likely to be absent.

16. Finally, most of the components of the three processes identified in Figure 1 are long-term in nature. While each of these can be broken down into their constituent parts and a time line constructed to track progress, even under optimal conditions, building consensus among competing domestic political factions, generating sustainable employment opportunities or producing and implementing a White Paper requires years rather than months to achieve. This has implications for the type and amount of international support required to assist the PA and the Palestinian people in creating a sustainable national security agenda.

⁶ The security-sector reform wage bill could be reduced by reducing the level of salaries for each member of the PASF, by cutting the number of personnel employed by the PASF, or some combination of both.

⁷ Authors' interviews, November-December 2005.

III. Political Processes

17. The prevailing political environment in the Palestinian Territories is defined by: 1) the unresolved conflict with Israel; 2) the need to develop an intra-Palestinian consensus on the way forward politically; 3) Palestinian and Israeli electoral processes; 4) progress on implementation of the November 15, 2005 Movement and Access Agreements; 5) the need to build state institutions under conditions of non-statehood; and 6) the need to empower civil society to participate in security debates (Figure 1). This environment is strongly affected by the activities of the Government of Israel (GoI) and the numerous members of the International Community supporting both the MEPP and the economic recovery and development of the Palestinian Territories. This section will focus on three processes: 1) the Palestinian electoral process, 2) intra-Palestinian consensus building, and 3) the unresolved Palestinian-Israeli conflict.

III.1 The Palestinian electoral process

18. The PA has been engaged in an extended election cycle since the death of Yaser Arafat in October 2004. Abu Mazen won Presidential elections in January 2005 and the fourth round of municipal elections in West Bank and Gaza was completed in December 2005. Palestine Legislative Council (PLC) elections are currently scheduled for January 25, 2006. Two trends have emerged:

- ❑ The main Fateh faction has been plagued by disunity. The policy of paying off and/or incorporating Fateh militants into the PASF has not translated into electoral gains; nor have wage hikes for the civil and security services; nor have overly generous and unsustainable pension payments to a chosen few. Palestinian domestic security gains expected from this policy have also not materialized in Gaza, but there have been marginal security improvements noted in Nablus, Ramallah and Jenin.
- ❑ Hamas has made steady gains across the board and is expected to receive more than 30 percent of the popular vote in the PLC elections on an anti-corruption, rule of law and job creation platform. It is not clear whether Hamas will enter the PLC, accept executive ministerial, cabinet or other positions, form an opposition bloc, seek to place its members within the PASF, or any combination of the above.⁸ Irrespective of Hamas' decisions, the political landscape of the Palestinian Territories will be significantly altered following the PLC election.

III.2 Intra-Palestinian consensus-building

19. Throughout 2005, the PA has prioritised political stability and security over

⁸ The election results are clearly key. However, the relative complexity of the formula for translating results into PLC seats (a combination of 'first past the post' for district seats and national 'proportional representation' party lists) could lead to delays in final results being announced, further disputes and a delay in the formation of a government. Once the government is formed, there will be a period of time during which the different political factions will adjust to working together. All of this will affect the PA's ability to interact with the International Community on both fiscal stabilisation and SSRT. See also, International Crisis Group, *Enter Hamas: The Challenges of Political Integration*, Middle East Report no. 49, 18 January 2006, <http://www.crisisgroup.org/home/index.cfm?l=1&id=3886>.

fiscal stabilisation and reform.⁹ Abu Mazen's political strategy has focused on co-option: continuing the *modus vivendi* with Hamas and seeking to bring Fateh factions under control through political concessions, integration and cash payments.¹⁰ While it is also clear that this approach is financially unsustainable, the strategic aim is Palestinian unity in an environment where the centrifugal forces appear extreme and street demands for law and order are emphatic. Additionally, the balance of forces between the PA and the other factions, and select tribes and clans, and the 'balance of guns,' suggests that a confrontation option, implicit in the Road Map requirement to 'dismantle the infrastructure of terrorism,' is currently not feasible.

20. An allied concern is the continuing lawlessness in the Gaza Strip, the inability of the PASF to control Qassam rockets launched into Israel, and Israel's responding 'Operation Blue Skies' against the rockets. Insecurity in Palestinian areas is at an unprecedented high, particularly in Gaza. Over half of Palestinian fatalities (51 percent) in 2005 were caused by Palestinian gunfire, compared with only 5 percent in 2004. Thirty-seven percent of those killed in 2005 died after Israel withdrew from Gaza in September.¹¹ Eighteen international citizens were kidnapped in nine separate incidents in Gaza in 2005, and although all were released unhurt, the activities of international agencies have been restricted as a result.

21. The Israeli electoral process will influence the efforts to develop intra-Palestinian consensus after the PLC elections. Strong security responses by Israel to Qassam rockets and other violence will be hard to avoid during the electoral race and this could in turn hamper the ability of Palestinians to reach consensus on a national security agenda. Similarly, the positions adopted by international partners to the outcome of the PLC elections are likely to influence the degree and nature of intra-Palestinian consensus achievable following the elections.

III.3 Unresolved Palestinian-Israeli conflict

22. Israel's successful disengagement from the Gaza Strip and the northern West Bank represents a major strategic change. At the same time, it presents a new Palestinian Authority with the challenge of incorporating Disengagement into a constructive policy that accommodates the different realities in Gaza and in the West Bank. While Israel disengaged completely from Gaza, it continues to manage the nine Palestinian towns of the West Bank including East Jerusalem as distinct and separate entities. Additional ongoing concerns include managing the impact of the construction of the security barrier throughout the West Bank as well as the ever-changing contours of settlements and the exclusive nature of their supporting infrastructure (roads, security checkpoints and so on). Extant challenges include the

⁹ The most important achievement during 2005 was the Cairo Declaration, negotiated with the help of Egypt, which saw the majority of Palestinian factions agree a unilateral ceasefire. As of January 2006, the maintenance of the ceasefire or '*Tahidya*' remains a priority, as does intra-Fateh consensus. However, both Hamas and Palestinian Islamic Jihad have stated that the ceasefire has expired, raising the risk of higher levels of violence and Israeli retaliation.

¹⁰ Authors' interviews, November-December 2005. See also, International Crisis Group, *Enter Hamas*.

¹¹ Palestinian Human Rights Monitoring Group Special News Report, 'Brother against Brother,' 30 December 2005.

division of PA bodies between the Gaza Strip and the West Bank, travel difficulties for PA security personnel, the jurisdictional complexities of Areas A, B, C, and a tangle of different legal systems.¹²

III.4 Implications for PASF retrenchment

23. Given all of the above, the political risks of a significant retrenchment of security personnel during 2006 are likely to be high because the political legitimacy of the PA is at such a low ebb. As one interlocutor explained it, 'If a Hamas member kills a Palestinian he is protected by the organization from retribution. If a PASF member does the same, there is no legal or professional protection from the PA, the man is at risk.' This was cited as the main reason for inaction.

24. Furthermore, Palestinian interlocutors involved in SSRT note that the co-option strategy means that the PASF will continue to grow before it shrinks. Additionally, the co-option strategy seems to contradict PA obligations under phase one of the Road Map where the PASF is required to 'confront terrorist capabilities and infrastructure.' There are also two implications for fiscal stabilisation. There will not be savings on the PASF in the short term if the co-option strategy continues. Indeed, if the strategy of co-option is accepted by the International Community, levels of budget support may need to increase through 2006.

25. The bottom line is that the PA and Abu Mazen are focused on internal unity and Palestinian domestic security needs, while recognising the necessity of SSRT and fiscal stabilisation. In navigating these competing demands, the PA will have to develop a genuine national security agenda, in all its aspects, preferably presented to and approved by the post-election PLC. In such a context, several Palestinian interlocutors noted the prospects for the necessary financial management reforms in the security sector, as well as the Ministry of Interior (Mol), would improve.

¹² Stephen Lister and Anne Le More 'Aid Management and Coordination during the Intifada,' Report to the LACC Co-Chairs, Version 3, 23 July 2003, p.5.

IV. Economic Processes

26. In creating a sustainable national security agenda for Palestine, three issues have to be addressed in parallel: 1) Opportunities have to be created for the increasing number of young Palestinians entering the employment market every year; 2) An economic recovery is required to enable the private sector to absorb jobs shed from the public sector; and 3) Efficiencies need to be generated from current security sector expenditure through a Public Financial Management reform process (Figure 1). The significant challenges surrounding these issues are explored below.

IV.1 Employment and security

27. The precipitous decline of the Palestinian economy since the *Intifada* helps explain the increase in public sector employment and wages that has occurred over the past five years. Despite modest economic improvements in 2005, GDP *per capita* is almost 30 percent lower than 1999 levels.¹³ If growth rates experienced since 2003 continue, *per capita* income still will not recover until 2012.

28. The PA's initial response to the economic impact of the *Intifada* was to increase hiring in the public sector (Figure 2). The vast majority of civil servants have less than six years of experience, that is, have been recruited since 2000 when the *Intifada* started and when the security sector wage bill also began to grow. During the height of the conflict in 2002 (and particularly the Israeli Defense Forces operations Defensive Shield and Determined Path), the International Community recognised that public sector employment and salary payments were the most efficient way of sustaining the bare minimum level of economic activity that would hopefully mitigate against further violence.

29. Subsequently, as part of the reform process that began in late 2002, the development donors anticipated reductions in public-sector employment on the basis that this strategy was unsustainable. This was reflected in the inclusion of the Wage Bill Containment Plan (WBCP) as a benchmark for disbursements from the Reform Trust Fund. However, the conflict had not ended at the time the Reform Trust Fund was set up; in fact, the southern Gaza Strip was particularly hard hit in 2004. Nor has there subsequently been an economic recovery to speak of.

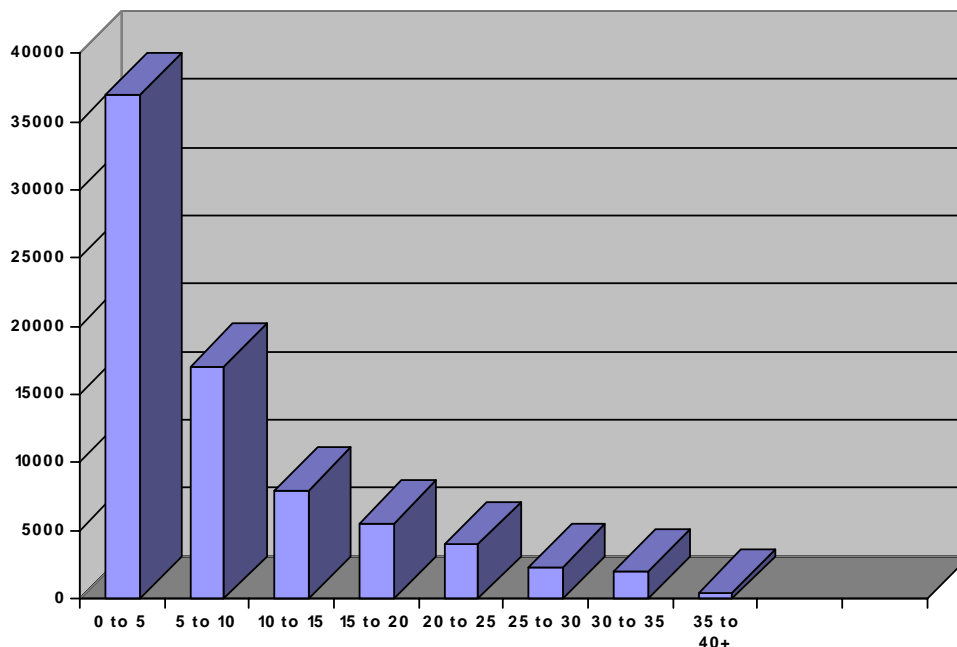
30. Today, unemployment is double pre-*Intifada* levels at 23 percent. Unemployment among 20-24 year olds is 35 percent overall, and unemployment in southern and central Gaza has reached acute levels.¹⁴ Underlying the urgent need for job creation is an estimated overall population growth rate in 2005 of 3.3 percent

¹³ According to the World Bank, these improvements resulted from: 'lax fiscal policy, a rapid expansion of commercial bank credit, robust growth in Israel, improved worker remittances from Israel, continued demand in the construction sector and increased donor assistance.' World Bank, West Bank and Gaza Office, *The Palestinian Economy and the Prospects for its Recovery*, Economic Monitoring Report to the Ad Hoc Liaison Committee, December 2005, <http://siteresources.worldbank.org/INTWESTBANKGAZA/Data/20751555/EMR.pdf>, p. 6.

¹⁴ *Ibid.*, p. 6. Overall unemployment is 20 percent in the West Bank and 29 percent in Gaza; among 20-24 year olds it is 44 percent in Gaza, reaching over 60 percent in most refugee camps and in Khan Yunis and Rafah.

and the fact that 46 percent of the population is under the age of 15.¹⁵ Additionally, 45,000 new employees enter the labour market each year.¹⁶ These trends appear set to increase in the future.

**Figure 2. Number of Non-Security Civil Service Personnel by Years of Experience
March 2005**



Source: World Bank

31. Adequate employment opportunities are, in turn, essential for security. The demographic and security challenge of unemployed youth has been emerging for several years, quite separate from Palestinian-Israeli violence, and cannot be ignored.¹⁷ The emergence of young, armed groups, whose main demand appears to be employment within the PA, or just jobs period, has been a major source of insecurity in the Palestinian areas in 2005. Moreover, Figures 3 and 4 reveal the under-representation of the 20-25 year old bracket in both the security and non-security portions of the public sector.

32. An assessment of current economic and political conditions strongly suggests that increases in the size of the PASF in late 2005 (i.e., the incorporation of up to 7,000 young men mainly from Fateh militias), is not solely the result of Fateh's efforts

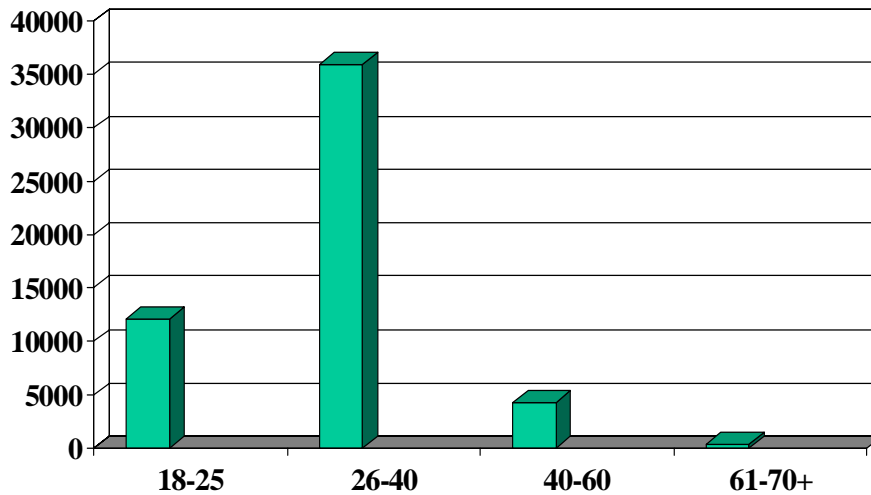
¹⁵ *PMA/PCBS/MAS Quarterly Economic and Social Monitor*, Vol. 3, November 2005, p. 35. Population growth rates are 3 percent in the West Bank and 3.8 percent in the Gaza Strip. In Gaza 49.1 percent of the population is under 15.

¹⁶ 'Salam Fayyad Wants Less PNA Dependence on External Grants: Palestinian Outgoing Finance Minister Urges Greater Support for Private Sector,' Palestine Media Center, 27 December 2005, <http://www.palestine-pmc.com/details.asp?cat=1&id=1066>.

¹⁷ An additional dimension is the increasingly younger age of what the IDF identifies and targets as 'terrorist cell leaders.' The majority now come from the 20-24 age bracket, and many are younger still.

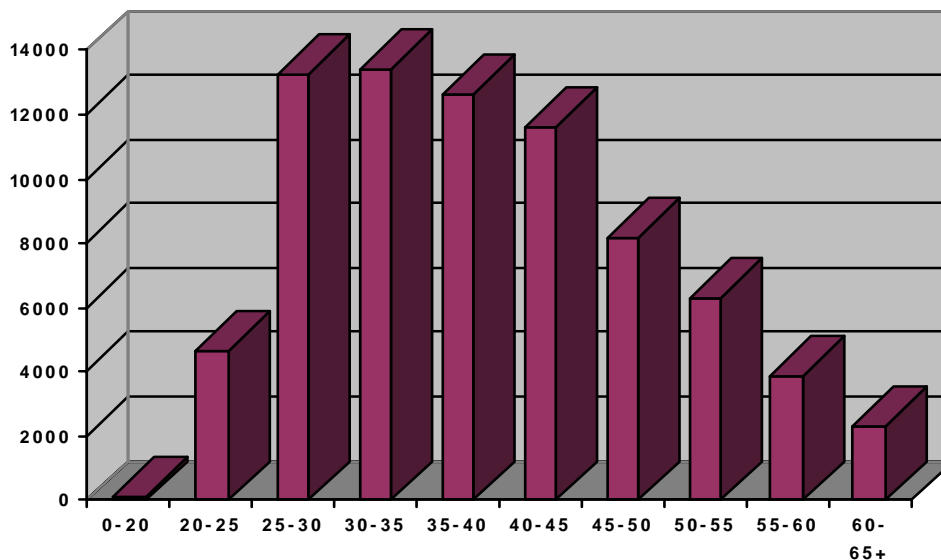
to win votes in the PLC and municipal elections.¹⁸ Rather, it could be viewed, in part, as a rational response to a serious demographic and security challenge that has

Figure 3. PASF Age Distribution



Source: USSC

Figure 4 Number of Non-Security Civil Service Personnel by Age Group March 2005



Source: World Bank

emerged at a time of Fateh disunity and during an election cycle. As in 2002 at the height of the *Intifada*, the most expedient way of making an immediate impact on Palestinian unemployment has been to give jobs and salaries in the public sector, however unsustainable.¹⁹ In the long run, targeted youth employment schemes and

¹⁸ Based on authors' interviews, November-December 2005.

¹⁹ Further security-sector reform data on age and length of service will be sought by the World Bank Public Expenditure Review (PER) mission in early 2006.

a serious economic recovery will be required to manage the emerging demographic challenges.

IV.2 Prospects for Economic Recovery

33. Since December 2004, the World Bank has made the case that promoting sustained economic recovery in the Palestinian Territories requires parallel progress on three fronts: 1) an improved security environment, 2) 'a dismantling of the various post-September 28, 2000 restrictions on the movement of Palestinian people and goods,' and 3) governance reforms on the part of the PA. According to the Bank, progress in these three areas would justify major increases in donor assistance and, in the best case, could have a 'transformational effect' for an economic revival. Without progress on these 'big three,' an increase in international support could not be justified. Nor, according to the Bank, could the response needed from the private sector to sustain the impact of the additional spending be expected to emerge.²⁰

34. This framework levies obligations on both the Government of Israel and the PA that are consistent with their obligations under Phase One of the Road Map. In the best-case scenario, if these obligations are met and there is a 50 percent per annum increase in donor disbursements, an annual increase in real GDP of 10 percent could be realised over the period 2005-2008. This is the level necessary to 'reduce unemployment to pre-*Intifada* levels or around 12%.'²¹

Movement and access issues

35. A dismantling of the various post-September 28, 2000 restrictions on the movement of Palestinian people and goods does not currently appear achievable due to the changed facts on the ground, particularly in the physical, and economic landscapes created during the *Intifada*:

- ❑ The economic model that appears to emerge from current Israeli policies is further separation between Israel and Palestine for trade and migrant labour;
- ❑ Settlement expansion in the West Bank and East Jerusalem denies land and contiguity for Palestinians. The security arrangements for these settlements are becoming institutionalised, as are the communication routes around them, with Palestinians at a significant comparative disadvantage. This has been further exacerbated by the construction of the separation wall; and
- ❑ Links between the Palestinian and Israeli private sector are much weaker now than prior to the *Intifada*.

36. However one looks at the economic picture, it has undergone and is undergoing a major transformation. For now, the immediate critical aim of establishing a predictable business environment and the unfettered flow of goods and services between and within Palestinian areas is in part addressed by the November 15, 2005 Agreement on Movement and Access between the GoI and the

²⁰ World Bank, *The Palestinian Economy and the Prospects for its Recovery*, p. i.

²¹ *Ibid*, p. 1.

PA.²²

37. As far as this agreement is concerned, actions most likely to have largest economic impact (but yet to be negotiated) include: ‘the removal of key checkpoints, reducing/eliminating internal vehicle permits, promoting free truck movement along key commercial corridors, removing the internal back-to-back platforms, improving access to isolated rural areas and easing access to tightly restricted areas, in particular the Jordan Valley, the seam zone and East Jerusalem.’²³

38. The Movement and Access Agreement was ‘forged under pressure and will not implement itself,’²⁴ requiring the active engagement not only of the two parties but also of the US Government, the Quartet Special Envoy for Disengagement and his staff, and the United States Security Coordinator and his staff. Strong international pressure is particularly important since, as one interlocutor explained, few, if any, of the access and movement issues, are ‘mission critical’ for Israel, and are dependent on Palestinian security performance. What is more, while the PA recognizes the value of such measures, ‘it is concerned that a dialogue of this kind between donors and the GoI could be construed as acceptance of the legality of settlements.’²⁵

39. Keeping both parties to the letter and intent of the Agreement will require sustained commitment by the USSC – at a time when SSRT and the restoration of internal law and order are identified as equally urgent priorities, along with the need for the PA to implement a strong fiscal stabilisation programme.²⁶

IV.3 Financial management in the security sector

40. The PA budget is in serious deficit, and there are concerns about the PA’s ability to meet its wage bill on a month-to-month basis. The increase in the size of the PASF and particularly the security wage increase that came on stream in the third quarter of 2005 have been taken by development donors as a sign of serious fiscal indiscipline. Several other factors offer additional cause for concern.

- ❑ First, there is the strong possibility of further recruitment of Fateh and Hamas militants into the PASF following the PLC elections.
- ❑ Second, there is the dependence of near- to mid-term economic prospects on a range of inter-related variables that are hard to control or predict.
- ❑ Third, while operational improvements, savings and adjustments will also need to be made in a number of related areas (Box 1), it may be difficult to

²² The text of this agreement can be found at:
http://www.thejerusalemfund.org/images/Rafah_Crossing_Agreement.pdf.

²³ *World Bank, The Palestinian Economy and the Prospects for its Recovery*, pp.13-14.

²⁴ *Ibid.*, p. 10.

²⁵ *Ibid.*, p.14. The Agreement also requires the PA to establish a ‘Palestinian Authority for Borders and Crossings’ (approved by Cabinet on November 29, 2005). The Authority will address security, customs, financial management and trade aspects of border services at all access and crossing points, including the proposed sea and airports. *Ibid.*, Annex 2: Indicators of Economic Revival, p. 34.

²⁶ *Ibid.*, p. 4.

make significant progress in the short term.

- ❑ Finally, the PA, Fateh and some PASF units all have alternate sources of funding, which do not flow through the PA's Ministry of Finance single treasury account.

41. While fiscal issues have been largely deferred until after the PLC elections, donors have taken the position that 'a comprehensive programme of restructuring, downsizing and reform is needed, and will need serious donor technical and financial support.'²⁷ (See also Box 2.)

Box 1. Potential Areas of Operational Improvements and Savings

- ❑ The January 2005 *Security Services Pension Law* provides over generous and financially unsustainable pension coverage to all security personnel 45 years and above.
- ❑ The May 2005 *Unified Pension Law* covering civil servants and security personnel under 45 years is equally unsustainable.
- ❑ There is anecdotal evidence of corruption but the true scale is unknown because there are no internal or external monitoring/audit mechanisms in place, particularly concerning disbursements for the PASF.
- ❑ Most, but not all, security personnel are on the MoI/MoF payrolls. Some 7,000 + recently recruited Fateh militants are being given NIS 1050/month as a form of transfer payment.
- ❑ Currently, it appears impossible to know the exact number of security personnel.
- ❑ Budget leakages occur through paying allowances such as: transport costs, fuel, per diems, food and unknown 'special allowances' accrued through subjective measures like 'years of service,' there are potentially other criteria not fully understood.
- ❑ The July 2005 'internal personnel audit' conducted by the MoF only loosely touched the MoI and the PASF. Similarly, it is hard to draw succour from a PASF audit or 'muster' reportedly conducted after the salary increases granted the PASF in mid-2005.
- ❑ It is also hard to believe that the unification of all PASF finance, promotion and administration departments – into single departments under the MoI – has been achieved.
- ❑ PA reformers describe the MoI as a 'black box,' some are even more scathing and lament a broken system 'corrupt from top to bottom.'
- ❑ International assistance to the PASF (ammunition, cars, uniforms, flak jackets and so on) continues to arrive on an *ad-hoc* and un-costed basis. This should be reflected in the 'security budget,' including demurrage and customs fees charged by Israel, as in other countries.
- ❑ There is anecdotal evidence that payment of salaries via NPD in banks has not completely stopped the unofficial taxation of salaries through currency exchange rate differentials and other taxes or cuts, which the NPD system was supposed to obviate when it was established in 2003.
- ❑ Neither the MoF nor the PLC Economics Committee has been able to exercise their oversight functions for the PASF budget.
- ❑ Payouts for some retiring generals appear to far exceed recognizable allowances.
- ❑ It is not clear exactly how many senior PASF officers have elected to retire. Nor is it clear what each has received by way of entitlements. Another round of retirements is scheduled in January 2006. It is important that these not set unrealistic precedents.
- ❑ Parity has to be maintained between the PASF and the wider civil sector.

²⁷ Ibid., p.18.

42. The starting point for the World Bank and the IMF since mid-2005 has been fiscal stabilisation, to be achieved in part through retrenchment of PASF personnel. Underlying this approach is the assumption that ‘savings’ generated by retrenchment can be used to reduce the budget deficit and that a retrenchment process will give the donor community the necessary confidence in PA commitment to reform to increase budget support significantly.²⁸

43. The starting point for the PA has been political stability, and for the USSC team it has been SSRT. Both of these involve providing militants employment in the PASF. Underlying the PA and USSC Team’s approaches is the assumption that the size of the PASF will have to increase before it decreases and that donor support will need to be forthcoming in the short- to medium-term to sustain both political stability and SSRT, including eventual downsizing. What neither the development nor the security donors have taken into account in any significant way is the urgent need for improved financial management in the security sector.

44. The ‘problem’ is not just the need to reduce the size of the PASF, cost SSRT and DDR programmes, or fund a ‘bell curve’ of further rises in PASF personnel and costs that will be followed by a retrenchment programme over the next twelve to eighteen months. Rather, the whole system of financial management of the security sector needs sustained attention. Sufficient financial resources are required to support service delivery in the security sector and strategic priorities, while sound public financial management is required to ensure financial sustainability in the security sector and hence a sustainable national security agenda. Absent sound public financial management of the security sector, SSRT and DDR efforts could well be jeopardised and the ‘problem’ will inevitably resurface downstream.

45. The PA needs to embark on a serious program of financial management reform in the security sector with the financial and technical support of its security

Box 2. World Bank Country Director on Public Sector Retrenchment

‘The PA now faces some unpleasant choices. It will either have to cut public sector salaries, or cut staff, both of which are treacherous options. If you cut staff, much of this would need to come from the security services. This you cannot do these days by putting young, relatively untrained men out onto the street again, because there is a good chance that unemployment will remain high in the next few years (in the upper 20%, and over 30% in Gaza). This suggests an approach to “downsizing” that goes beyond simply providing cash retirement packages. These people need retraining, and they need opportunities to start their own businesses and to reintegrate into civilian life. This means a different retrenchment approach from one you might adopt in an economy in which unemployment is low. ... If the PA is not exercising fiscal restraint, it becomes very difficult for some donors to justify continued budget support. What is needed now is clear fiscal leadership from the top of the PA, and the definition of a multi-year adjustment program which gradually reduces the fiscal deficit. If the PA shows real commitment here, then I believe the donors should step up and support the adjustment process – with higher levels of budget support than in the past three years.’

Source: “‘Money won’t fix things here,” Nigel Roberts, World Bank Country Director for the West Bank and Gaza, discusses the Bank’s work in West Bank and Gaza in a frank interview,’ *World Bank Group West Bank and Gaza Update*, November 2005, pp. 3-4, <http://siteresources.worldbank.org/INTWESTBANKGAZA/Data%20and%20Reference/20732511/WBGUpdate-Nov.2005.pdf>.

²⁸ An initial policy option of imposing an across the board ‘taxation’ regime proposed by the in-theatre World Bank and IMF directors was ruled out by the IMF representative on the December 2005 PER mission. Even if this were feasible, the ‘maths’ have not been done to calculate the net savings gained by such a measure.

and development partners.²⁹ In particular, the International Community (development and security components) and the PA need to focus on the following challenges:

- ❑ How to encapsulate financial management reform as part of the SSRT agenda in all aspects?
- ❑ How to embed the security sector into all financial management work?
- ❑ How to insert this into the Palestinian National Security Agenda?
- ❑ How to achieve genuine Palestinian-International partnership to address these issues?

46. Opportunities do exist for bridging the very different expectations held by the PA and the development donors. However, the vehicles currently being employed by the International Community for economic stabilisation and reform have not yet incorporated the security sector adequately.

- ❑ The draft MTDP presented to the Ad Hoc Liaison Committee (AHLC) in December 2005 for the first time included a security component. But it does not describe ongoing activities; nor does it outline security sector development plans for the next three years. Also missing is any linkage between policy, planning and budgeting in the security sector. In consequence, considerably more work needs to be done on the security portion of the MTDP before it will fully inform the non-security portions of the plan or help guide the direction of the security sector.
- ❑ The Medium Term Fiscal Stabilisation plan being developed by the PA with assistance from the World Bank and the IMF may be ready during the second quarter of 2006. It will include a number of retrenchment and cost cutting options for the public sector (including security), to be identified in a supporting World Bank PER consultancy to run January-April 2006. It is unclear, however, how the PER team is going to be able to develop options that reflect Palestinian political realities and evolving security needs in the absence of a PA plan for security-sector reform and transformation.
- ❑ The new donor support structures agreed at the December 2005 AHLC do not include security, although there has been discussion of creating a security sub-group within the governance group. However the development donors organise themselves, there is an urgent need to link with nascent security co-ordination mechanisms.³⁰

47. For any of these mechanisms to function optimally, the economic actors (national and international) need adequate information on which to base their projections. This could be achieved if the PA developed a comprehensive, costed plan that brings together various ongoing strands of security sector work – the white paper process, train and equipment efforts, and institutional reform – supplemented by work on DDR and weapons management that could be supported by the

²⁹ A central feature of sound financial management in any sector is linking policy, planning and budgeting. Annex 2 shows a generic security sector financial management process.

³⁰ See Annex 3.

International Community. Such an effort could be facilitated by the USSC team, working in close collaboration with the development donors, in order to mainstream security across all areas. The issues that would have to be incorporated into such a plan are explored in the following section.

IV.4 Economic priorities

48. Given the underlying importance of security issues, there is an urgent need to 'mainstream' the security sector in all areas of interaction on economic issues between the PA and the International Community. Dialogue on fiscal discipline has to date been solely conducted through the Ministry of Finance and the World Bank/IMF. This dialogue has also not permeated below a select number of élite Palestinian interlocutors. The security and fiscal/development strands of the International Community's interaction with the PA have only just begun to work together.

49. As pointed out at the start of this section, a concerted effort has to be made to address youth unemployment, particularly in southern and central Gaza, but also in other parts of the Palestinian Territories. Additionally, sustained efforts are required to dismantle, to the extent possible, the access and movement restrictions imposed since September 2000 to enable a revival of the Palestinian economy.

V. Security Processes

50. The Palestinian security services are facing a deep crisis. This crisis is linked to the challenges of meeting – on a fiscally sustainable basis – the increasing demand for protection against crime and other sources of insecurity within the Palestinian Territories as well as the implementation of Road Map obligations to tackle terror and assure Israeli security. Related to this, the PA needs to regain the monopoly over the means of violence, by disbanding militias and instituting systems of managing legal and illegal weapons. In order to develop more professional and capable security forces and to address development donor concerns about affordability, the PA is also beginning to undertake a process of security-sector reform and transformation, which includes addressing the implications of rightsizing the security forces (Figure 1).

VI. The security-sector reform and transformation agenda

51. The security-sector reform and transformation agenda emerged within development and security policy circles in the late 1990s in recognition of the need for a broader approach to security assistance. This agenda was heavily influenced by a parallel process of rethinking security concepts underway in Africa, Asia and Latin America. It has been linked with debates on poverty alleviation, sustainable development, professionalisation of the security services, democratic governance, restructuring of security forces, and conflict mitigation. As a result, it has different meanings for different audiences. As Box 3 demonstrates, different audiences also use different labels for referring to SSRT.

Box 3. Varying Terminology

- ❑ The UK has a policy on ‘security-sector reform.’ *Security Sector Reform Policy Brief*, <http://www.dfid.gov.uk/pubs/files/security-sector-brief.pdf>.
- ❑ The members of the OECD Development Assistance Committee have endorsed a policy statement on ‘security system reform’ that speaks of ‘the transformation of the “security system”.’ OECD Development Assistance Committee, *Security System Reform and Governance: Policy and Good Practice*, Paris: OECD, 2004, p. 20
- ❑ African security specialists who have been influential in developing the concept, frequently speak of ‘security-sector transformation,’ a term that they feel connotes more fundamental change than ‘reform.’ *Security-Sector Governance in Africa: A Handbook*, Lagos and London: Centre for Democracy and Development, 2004, especially Chapter 1, <http://www.gfn-ssr.org>.

To a large extent, these terms refer to the same processes, although they have also been applied to activities that do not, strictly speaking, fall within these definitions such as programmes that are aimed solely at training and equipping security forces.

52. Different Palestinian interlocutors also expect different things from SSRT: ending terrorism, saving money, ending Fateh domination of the security services, integrating militias, improving law and order on the streets, obtaining better equipment, and adopting higher standards of professionalism. From a conceptual perspective, conversations with Palestinians and members of the International Community suggest that the overarching objective of Palestinian SSRT is:

the establishment of a professional, disciplined, transparent, democratically accountable and affordable security organisation with clearly identified roles operating under civil control within a sound legal framework, capable of ensuring the safety and security of the Palestinian people and able to manage effectively its human and physical resources.³¹

This is broadly consistent with the Palestine Civil Police Development Programme (PCPDP) and the most recent Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) formulation. The latter speaks of 'three inter-related challenges facing all states: *i*) developing a clear institutional framework for providing security...; *ii*) strengthening the governance and oversight of security institutions; and *iii*) building capable and professional security forces that are accountable to civil authorities and open to dialogue with civil society and organisations.'³²

V.2 The reform environment in Palestine

53. Security-sector reform and transformation is generally carried out in independent, sovereign states that are not in conflict. SSRT also normally involves transforming existing state institutions, rather than creating institutions from scratch.³³ None of this holds true in West Bank and Gaza. Thus, while many of the constraints on the PASF's ability to meet domestic security needs and Road Map obligations are similar to those encountered in poor, conflict-affected countries, they are even more extreme in the Palestinian environment.

54. The PASF lack a monopoly over the means of violence. Israel continues to control significant portions of the West Bank. Communications between West Bank and Gaza are difficult. Command and control of the PASF is factionalized and personalized. There are overlapping responsibilities among the different services and no unifying doctrine. The security services have limited political support, and there is an inadequate legislative framework to guide them. The judiciary is weak. Parliamentary and other forms of oversight are virtually non-existent.

55. Following the second *Intifada*, the PASF face deep infrastructure and equipment gaps. They also have a relatively high number of ineffective personnel, in part because employment in the security services has been and continues to be used as a form of social safety net. The PASF are affected by low morale and a degree of apathy, deriving to some extent from the prevailing political environment. The culture of secrecy inherited from the Arafat era persists and there are perceptions of corruption within the security sector.

56. At the same time, there is a competent and committed core of individuals

³¹ Different interlocutors place different emphasis on different parts of this definition. Authors' interviews, November-December 2005 and EU Co-ordinating Office for Palestine Police Support and Palestine National Authority Ministry of Interior, *Palestinian Civil Police Development Programme: Transformational and Operational Plans, 2005 – 2008*, Ramallah, June 2005.

³² OECD, *Security System Reform and Governance: Policy and Good Practice*, Policy Brief, May 2004, <http://www.oecd.org/dataoecd/20/47/31642508.pdf>, p. 2.

³³ Interview with Laurie Nathan, Cape Town University, January 2006.

within the security sector who have a clear vision of security and the requirements for professional security services. They have been preparing for a significant reform of the PASF for some time, independent of the external support and encouragement that is now being provided by the International Community. They feel that they have the strong backing of the President who, during his electoral campaign, promised to establish 'one authority, one law and one gun.'

57. Within the security sector as a whole, there is a growing respect for the rule of law and opposition to political interference in the judiciary. Some improvements in morale have been registered as a result of new vehicles, communications equipment and uniforms, rental of buildings to replace those damaged during the second *Intifada*, and the salary increases approved during 2005. The consolidation of the PASF into three branches is also viewed as a useful step forward in the reform process, as are the efforts of the Ministry of Interior to improve co-ordination between the different security services. Similarly, the drafting of security legislation, while still imperfect, is also seen as laying the basis for a more coherent approach to the security sector.

V.3 Building a comprehensive plan for SSRT

58. While the environment for SSRT is far from permissive, the opportunity does nonetheless exist for embarking on a significant effort to meet the security challenges facing the Palestinian Territories following the legislative elections in January 2006 (Figure 1). One of the main challenges facing the PA is the lack of a comprehensive plan to guide SSRT activities. Such a plan is essential in order to prioritise the activities of Palestinian stakeholders and their international partners.

59. Much of the assistance that the PA has received to date was intended to assist the PASF to meet the challenges of Disengagement in 2005. In consequence, much of it has taken the form of equipment and training. There is currently an absence of any significant support for planning, management, governance and oversight of the security sector. Table A.3-1 in Annex 3 summarises the August 2005 matrix of donor-supported activities, which was the most recent material available to the DFID team.

60. In common with governments in low-income, conflict-affected countries, the PA faces the need to produce short-term improvements in Palestinian safety and security and the suppression of violence at the same time as it undertakes a longer-term transformation of the entire security sector. While a start has to be made on the short-term needs before there is a dialogue on a broad national strategy, every effort should be made not to prejudice the eventual outcome of the dialogue on a national security policy and strategy. This will be facilitated by the PA preparing a comprehensive SSRT plan. The Palestine Civil Police Development Programme overseen by the European Union Co-ordinating Office for Palestinian Police Support (EUCOPPS) may prove instructive in terms of addressing the dichotomy between short- and longer-term needs. The PCPDP has both an operational plan that addresses 'hardware' needs and a transformational plan that focuses on SSRT 'software' (Box 4).³⁴

³⁴ The EU-supported programme is discussed in more detail in Annex 3.

Box 4. PCPDP 'Hardware' and 'Software'

The transformational plan 'software' includes:

- Organisational structure for improved command and control;
- Leadership;
- Institutional approach including norms and core values;
- Human resources management;
- Systems of accountability and oversight;
- Systems for financial management and administration;
- Communication and information systems; and
- Human rights compliance.

The operational plan 'hardware' includes:

- The improvement of operational capacity;
- Combating and preventing crime/political violence; and
- Building support infrastructure.

Source: EU Co-ordinating Office for Palestine Police Support and Palestine National Authority Ministry of Interior, *Palestinian Civil Police Development Programme: Transformational and Operational Plans, 2005 – 2008*, Ramallah, June 2005.

61. Figure 5 provides an overview of the four main challenges facing the PA that need to be incorporated into any comprehensive SSRT plan:

- Developing democratic governance and accountability of the security sector;
- Creating an appropriate institutional framework;
- Strengthening the professionalism and operational effectiveness of the security services; and
- Addressing the legacies of conflict.

62. The environment in which these challenges are tackled should be characterised by: 1) adherence to the rule of law, 2) accountability to elected representatives of the Palestinian people and to the Palestinian people themselves, and 3) transparency. In this regard, civil society has four crucial roles to play in supporting an SSRT process:

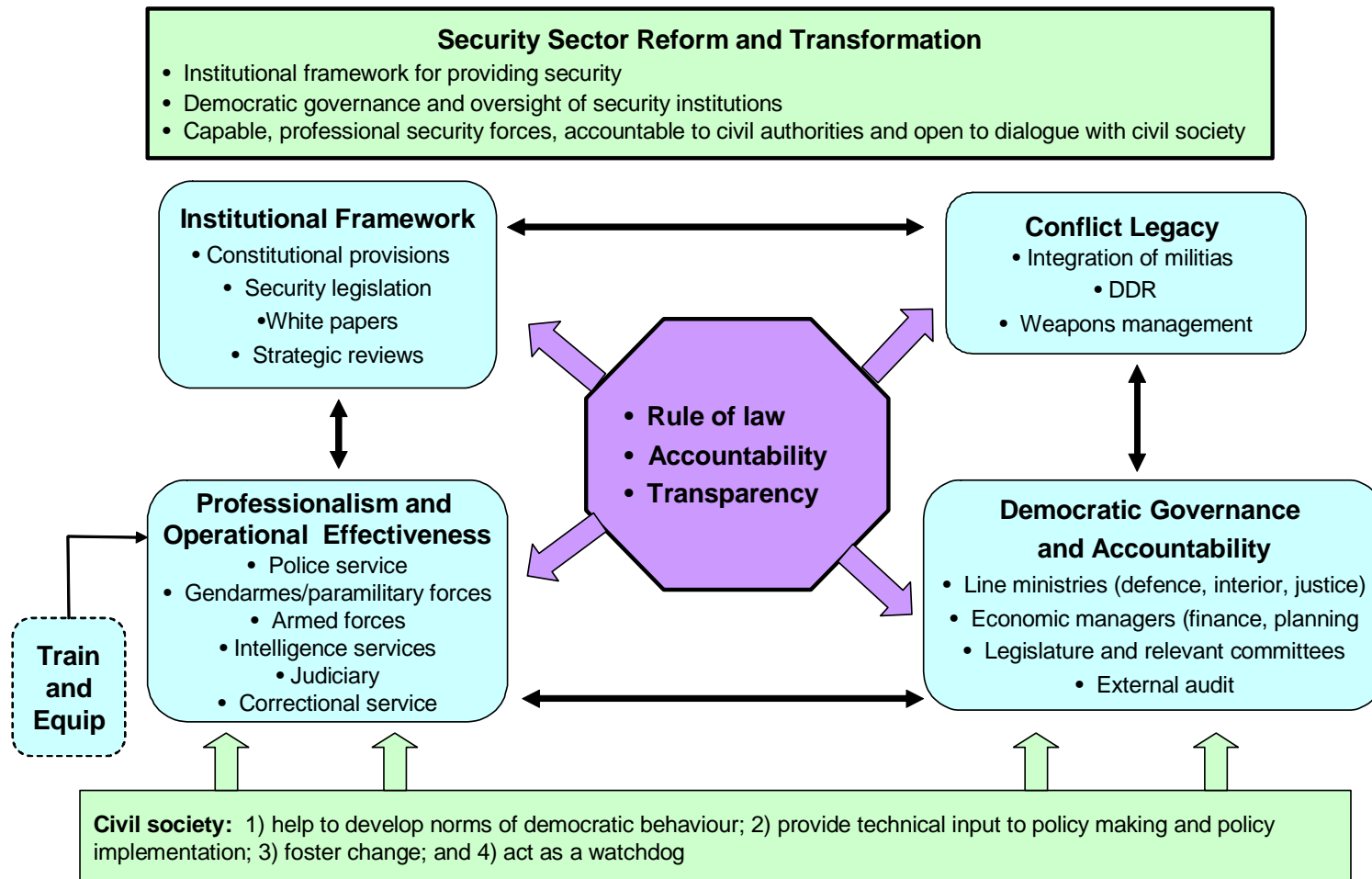
- Helping to develop norms of democratic behaviour,
- Providing technical input to policy making and policy implementation;
- Fostering change; and
- Acting as a watchdog.

63. The PA has taken a number of steps to address each of the four main SSRT challenges and has also requested and received various levels of assistance from the international community to date (see Annex 3).

64. In the process of developing and implementing an SSRT plan, particular note will have to be taken of the following issues:

- Key aspects of transforming the PSAF into a professional, accountable and affordable force of a size commensurate with its task;

Figure 5. Components of a Security-Sector Reform and Transformation Plan



- Methods of determining an interim size of the PASF in the face of a severe fiscal crisis;
- Rightsizing and retrenchment options;
- Disbanding militant groups through a process that some Palestinian interlocutors are calling Reintegration, Disarmament and Demobilization (RDD, as opposed to Disarmament, Demobilization and Reintegration, or DDR). This more accurately captures the PA's 'co-opt rather than confront' strategy; and
- Managing weapons so that the PA has a monopoly over the means of violence.

Key Aspects of Transforming the PASF

65. As outlined in section II, SSRT should reflect broader political, economic and security considerations. This is consistent with a set of principles endorsed by ministers and agency heads at the OECD Development Assistance Committee High Level Meeting in April 2004 (Box 5).

Box 5. OECD DAC Guidelines for Security System Reform and Governance

To support SSR work with partner countries and other actors, DAC donors confirm a commitment to the following basic working principles. SSR should be:

- *People-centred, locally owned and based on democratic norms and human rights principles and the rule of law, seeking to provide freedom from fear.*
- *Seen as a framework to structure thinking about how to address diverse security challenges facing states and their populations through more integrated development and security policies and through greater civilian involvement and oversight.*
- *Founded on activities with multi-sectoral strategies, based upon a broad assessment of the range of security needs of the people and the state.*
- *Developed adhering to basic principles underlying public sector reform such as transparency and accountability.*
- *Implemented through clear processes and policies that aim to enhance the institutional and human capacity needed for security policy to function effectively.*

Source: OECD, *Security System Reform and Governance*, DAC Guidelines and Reference Series, Paris, 2005, p. 12.

66. These principles are valid in the Palestinian context. Several interlocutors, both Palestinian and international, have made reference to some of these principles, although not in a comprehensive manner.³⁵ This is not to imply that the Palestinians should adopt a donor-driven approach. There are very specific challenges to be addressed, which will require home-grown solutions based on Palestinian dynamics.

67. In order to create an appropriately structured, accountable and affordable security sector, Palestinians and their international partners will need to address a number of specific challenges:

- To change from a political militia mentality to a professional service mentality;

³⁵ In this respect, it may be worth translating these guidelines into Arabic for dissemination among key stakeholders in the SSRT process.

- To move from a culture of secrecy to one of accountability;
- To re-establish the trust of the public through enhanced accountability and results on the street;
- To strengthen general skills and capabilities, provide equipment, as well as specific tactical skills, especially in Gaza;
- To develop a plan for the needed capital investments in infrastructure;
- To establish appropriate financial and human resource management system;
- To ensure links with a reformed judicial system;
- To develop an adequate legal framework; and
- To determine a size that is appropriate to tasks as well as affordable.

Possible methods of determining an interim size for the PASF

68. Under normal circumstances, the size of security forces is determined on the basis of an analysis of the security environment and operational tasks within a broader policy framework that includes the level of available funding. Such an analysis may take a considerable time to conclude. (A generic process is shown in Annex 4). If fiscal pressure is such that the PA is forced to begin a process of reducing the size of the PASF without the benefit of a such an analysis, it could choose to adopt an interim staffing level that would go some way toward satisfying both fiscal needs and operational effectiveness as well as political considerations. While ultimately the rightsizing of PASF should be conducted on the basis of a review of fiscal, security and stability needs in an inclusive political process, there are several methods that could be employed to come up with an interim level if necessary.

69. Oslo levels. One such method, which has some legal and political basis, is to revert to the level agreed upon in the 1995 Interim Agreement, 30,000 police personnel, and supplement that figure with an adequate level of civilian support staff. For the latter there is no hard and fast rule. Internet-based research on global (para)military-to-civilian staff ratios indicates ranges of 15 to 30 percent of civilian personnel. This would produce a figure of 34,500 to 39,000 personnel. Taking the 70,000 figure reported to the World Bank Public Expenditure Review team in December 2005 by Mol, this would imply a 45 to 50 percent reduction.

70. Oslo levels plus population growth. Another option that could be considered is to account for population growth since 1995. Assuming a population growth of 30 percent and a civilian staff ratio of 25 percent, a possible interim staffing level based on this method of calculation would be 52,000. This would require a reduction in force of about 18,000 personnel from the December 2005 figure, or some 25 percent of the total.

71. Comparative force strength per capita levels. Yet another method would look at force strength per capita and compare this with other countries. For example, the Rand Corporation has compared police staffing ratios per 100,000 population for ten countries, nine of which bear some similarity to the Palestinian Territories (the tenth being the US).³⁶ The study concludes that there is no absolute level of staffing

³⁶ The Rand Palestinian State Study Team, *Building a successful Palestinian state*, Santa Monica, CA: Rand Corporation, 2005, pages 47-48, http://RAND_MG146.pdf.

associated with internal security and suggested three ranges of police strength for the Palestinian police:

- Low: 1,369 (police staffing ratio as in Egypt)
- Medium: 9,465 (police staffing ratio as in Poland)
- High: 25,940 (police staffing ratio as in Bosnia)

Applying the US staffing ratio would lead to a strength of 8,863. It is not clear if any of these figures include civilian support staff. The current size of the Palestine Civil Police is approximately 18,500.³⁷

72. If one instead compares the military to population ratio in various countries in the region, one can conclude that at present strengths, the PASF are comparable in size to the military forces of Egypt, Morocco, and Turkey. In contrast, the military forces of Israel, Jordan and Lebanon are much larger on a per capita basis than those of West Bank and Gaza.

PASF rightsizing/retrenchment options

73. Irrespective of whether rightsizing the PASF occurs following a deliberate process such as that shown in Annex 4 or as a result of estimating an interim size in response to fiscal pressure, on the basis of current plans, it is widely assumed that the size of the PASF will initially increase (as a result of the 'co-option' strategy), but that it will then decrease in the coming years. Little precise information is available, in spite of requests to the MoI, on length of service, ranks and age of security personnel. However, based on information from the USSC team, it appears highly unlikely that a short-term retrenchment exercise involving thousands can be achieved by normal attrition (retirement or death). Contrary to some expectations, the PASF are not top heavy. The number of personnel at retirement age (60 years) is no more than a few hundred – or less than 1 percent, with the bulk of personnel (some 60 percent) in the productive age group of 26 to 40 years (Figure 2).

74. While normal retirement combined with a recruitment freeze is not expected to have a significant fiscal impact, current pension liabilities are considerable. According to the World Bank, PA pension fund obligations have been left unpaid in favour of salaries and the PA is currently over US \$200 million in arrears to the Gaza Pension Corporation.³⁸ Additionally:

- ❑ The May 2005 *Unified Pension Law* covering all civil servants and security personnel under 45 is unsustainable, as contribution levels cannot finance the prescribed benefits. For personnel under 45, to be covered under the new pension law, the average pension liability is about US \$59 million per year;
- ❑ The January 2005 *Security Services Pension Law*, for personnel over 45 is also unsustainable (retirees receive above 100% of final salaries). As there are no security pension assets the costs will have to be met from PA revenues, with an annual liability according to the World Bank of some US \$40 million;

³⁷ Data from European Union Co-ordinating Office for Palestinian Police Support, November 2005.

³⁸ World Bank, *The Palestinian Economy and the Prospects for its Recovery*, p. 20.

- Alternatively, the costs of a severance scheme providing one-off payments to those over 45 would cost about US \$140 million. If one includes those aged 50 and over, the Bank estimates that the costs would be slightly less at US \$120 million.³⁹

75. Another option would be an alternative employment scheme for personnel below the age of 45. However, this is not likely to be very attractive in the near term. Currently, jobs in the private sector are scarce, difficult to create and sustain, and pay significantly less than public sector positions. However, this may be reversed over time if public sector wages are cut and if efforts to revive the private sector, including significant progress on access and movement issues, are successful.

76. Given the hard choices involved, the PA may decide that an attractive option would be to conduct an in-depth audit of personnel records and attendance to find out whether savings can be made by cutting down on unjustified allowances currently used to supplement wages (see Box 1, section IV). It may also wish to follow up on the Ministry of Finance audit conducted in 2005 that shows some security service personnel simultaneously holding civil service positions and other irregularities. Cutting wages is always possible, but in the current context not advisable. The salary increase of 2005 was reportedly a boost for morale and a cut or some form of taxation to recover the increase may have serious repercussions on morale and performance at a time when the latter is needed most.⁴⁰

77. Another option would be to 'retrench' those 8-14,000 personnel who are on the payroll but who, according to Mol, normally do not show up for work. However, this should not be undertaken without conducting a study of the socio-economic profile of this group, in order to estimate the possible needs in terms of safety-net arrangements, and reintegration assistance (similar to what is described below for the militants). It would also be necessary to assess both the risks that the individuals put on the street may turn to militancy or crime and the potential value that some of these individuals may have to the PASF.

78. Most of the retrenchment options require study. A necessary starting point will be a decision to open the books of the Ministry of Interior. This will need political support in view of the break with the culture of secrecy that it implies, as well as the sensitivities involved in accessing data related to people's livelihoods, whether legitimately earned or not.

79. The Public Expenditure Review currently undertaken by the World Bank provides an excellent framework within which to conduct these studies. In the report on its December 2005 mission, the Bank suggests terms of reference for a civil service rightsizing analysis that would produce much of the information needed to make political decisions on retrenchment options.

Disbanding militant groups

80. Disbanding militant groups will require either the consent and active cooperation of the parties or a sufficient deterrent capability to impose it. The latter

³⁹ World Bank, 'Public Sector Pension Liabilities in West Bank and Gaza,' draft, 2005, p. 6.

⁴⁰ Authors' interviews, November-December 2005.

appears to be the preferred line of action by some stakeholders, whose plans include giving the PA a decisive military edge over the militants through training and capacity in intelligence gathering and analysis as well as tactical skills and human rights. While this is necessary, it is highly doubtful that the political and socio-economic costs of an open confrontation would be worth it at this stage. To give the PA the monopoly of violence is a necessary objective, but not at all costs. Neither the Palestinian people nor the world can afford a civil war in the West Bank and Gaza.

81. Thus, Palestinian armed factions may have to be brought on board through a negotiating process that will centre on their political future, the livelihoods of their members and the control/transfer of their weapons. However, in the Palestinian context, it will be difficult for Fateh and the PA to present credible political options that would cause Hamas and others to relinquish their weapons, without potentially serious political costs in their relations with Israel and key donors. President Abbas thus finds himself in a very difficult spot: his options for both co-option or coercion are limited and until he has the political clout and the material means to exercise one or the other strategy, it may be unrealistic to expect significant progress in the near term. In recognition of this the PA is focusing first on reintegrating Fateh-aligned militias such as the *Al-Aqsa Martyrs Brigades* and the various *Tanzim* offshoots.

82. That said, it is nevertheless worthwhile considering how the disbandment/integration of militants could work on the basis of some positive incentives or benefits at the level of individual militants if the political situation would allow it. In general, benefits should be proportional to the objectives of the DDR programme (e.g. 'buying time' costs less than longer term reintegration) as well as to benefits available to groups in comparable situations in order to avoid tensions related to perceived preferential treatment. Levels of benefits may be linked to standard of living, per capita income, or salaries of the armed forces. If warranted, the level of benefit could be made commensurate with rank. (On DDR, see Box 6.)

83. In principle, four possible 'exits' would be open for those leaving the militias:

- Join the PA security forces;
- Receive a cash demobilization premium;
- Obtain dedicated access to training/education/job creation (on condition they do not already have a job); or
- Benefit from reintegration or job employment opportunities through a community-based scheme available to all.

84. Accepting the first option – join the PA – would preclude access to the others. Given past experience and current economic outlooks, an overwhelming majority of militants will opt for the relative security and status of a job in the security services. However, this may create a number of risks for the PA:

- The lines of command and control – already dispersed – will be complicated by the introduction of more (Hamas) or less (Al-Aqsa) disciplined militants. Hamas in particular may after the elections want to have greater influence over a security force that is dominated by its main political rival.
- Incorporating militants will radicalise the PASF to the extent that it will become a suspect of involvement in terrorist attacks and thus become a target – once

again – for Israeli retribution; and

- ❑ The PA cannot afford fiscally to accept high numbers of militants without a significant increase in revenue or donor support, which is unlikely to come if this is perceived as funding (former) terrorist organisations.

85. The fiscal issue aside, these risks point clearly to the need to adopt and enforce a plan to de-politicise the PASF. This would achieve several purposes simultaneously. If the current link between Fateh and the PASF is cut and the PASF is seen to be professional, neutral and impartial, the incentive for Hamas to put its imprint on the PASF may be reduced. Furthermore, the de-politicisation of the PASF also opens a door to continuing support from donors after militants join the PASF on an *individual* basis, provided they take an oath that is currently required of officers only, but which may need to be applied to the rank and file as well.⁴¹

86. The three types of socio-economic benefits mentioned above can be combined in packages or options. In the prevailing circumstances, delivery of benefits in tranches is preferable as it provides an incentive to stay with the programme and it enables programme managers to stop benefits if the process breaks down or when individuals drop out. For all of these options, financial support

Box 6. Some Observations on DDR

The term 'DDR' has gained traction among certain international partners with relation to the situation in the West Bank and Gaza. DDR covers a broad range of activities that include the organised disarmament, demobilization and socio-economic reintegration of combatants after armed conflict as a vital part of a comprehensive peace agreement that includes guarantees towards the political aspirations, security and economic needs of combatant groups. DDR is therefore not applicable in the absence of a underlying political deal. This, of course, is the case in West Bank and Gaza.

This distinction is not well understood within the donor community. Furthermore, all too often, international partners tend to underestimate the complexity and sensitivities of these activities. Some donor capitals put pressure on local stakeholders to design and execute a DDR programme in the mistaken belief that the availability of a technical document and some technical capacity can solve problems that are deeply rooted in the politics and economics of the region. There should be clarity among donors and recipients about what DDR is expected to achieve, whether it be short term stabilisation ('buy time') or longer term, durable socio-economic reintegration. International experience demonstrates that expectations about the nature of DDR and what it can achieve differ significantly, leading to misunderstanding and disappointment. Such is likely to be the case in Palestine as well.

To get DDR right from the outset requires political will, reconciliation and economic growth, all at the same time. A DDR programme by itself cannot create conditions for durable employment by ex-militia members or for lasting stability. If jobs cannot be held or found after DDR ends and if poverty and perceived injustices remain rampant, very few sparks will be needed to trigger renewed militarization. Over 20 percent of DDR programs during the last decade were preceded by failed attempts. Several others went through stop-and-go cycles and programme adjustments brought about by changing military-political environments.

Putting in place a viable DDR programme takes time. All of the key steps involved in getting to the stage of implementation are time consuming: political negotiations over conditions, eligibility and benefits as well as preparatory work for the establishment of structures for the management of the programme, including complex arrangements for the handling of finances in order to satisfy donors' demands for fiduciary guarantees, and – of course – fundraising. The entire process leading up to implementation may take at least eighteen months. Clearly this is not an immediate solution to the problem of excess security personnel or unemployed members of militant groups.

needs to be lined up before implementation and disbursed by donors in a flexible manner. However, donors may require certain conditions related to delivering benefits to groups designated as ‘terrorist,’ financial management and reporting, and other issues. It is therefore important to keep donor apprised of developments in planning for the socio-economic reintegration of militants from the outset.

87. At this stage no reliable information is available on the size and composition of militant groups. Experience elsewhere indicate that both benefits and numbers are arrived at through negotiations and project implementation, as parties keep information about their capacity close to their chest and/or would wish to include as many followers as possible in the economic rewards of the programme.

88. Both issues often float back and forth between technical and political bodies before a consensus is arrived at. In most cases the final number will not be known until the programme has run its course. Key factors in this regard are the design of eligibility criteria and the screening procedures. Eligibility criteria may include documented membership of a well-organised armed group or – in the case of armed groups with loose or informal lines of command – other proof of militia status. The latter may include testimony from commanders, demonstrated weapon skills, and independent verification by an (impartial) third party.

89. However, once word gets out that militia membership can be traded for money or other value, the militias may see a rise in membership (not what is intended). Also, one can expect the discussion on who will benefit to become eminently political, as this is a fine opportunity to trade favours or buy loyalties. The discussion on the target population will likely be driven by the politics of Road Map implementation and intra-Palestinian dynamics, as well as by the demands of key international partners and the availability of resources.

90. Table 1 shows the estimated costs of creating economic options for militia members. This estimate is *back-of-envelope only* and based on two options for the delivery of benefits: all cash and a 50/50 mix of cash and vocational training/job creating. Overhead cost ratios for the two options are set at 20 percent and 40 percent respectively, which is in line with global experience. Overall benefits over a three-year period (a possible period of stabilisation) are assumed to be at par with an average income of \$1,200 per year. This amount can flow to recipients directly or through community-based programs. The number of beneficiaries is given at three levels *for illustrative purposes only*. The table does not include costs for weapons control and management.

Number of beneficiaries	All cash benefits US \$ million	Cash/training/education US \$ million
8,000	35	40
16,000	70	81
24,000	106	121

Managing weapons

91. Both Gaza (in particular) and the West Bank are awash in weapons. Anecdotal information suggests that the PASF are outgunned, both with regard to the quantity and the calibre of weapons involved. This problem has two dimensions. First, under the Road Map the PA is expected to disarm militant groups. Second, the availability of weapons to individuals, criminal groups and families creates a serious law and order problem that, if left unchecked and combined with poor economic prospects and low political hopes, can lead to chaos and anarchy. Very little thought has been put into these issues to date. This is problematic, as insecurity will continue to plague the Palestinian Territories until the PA achieves a monopoly over the means of violence, complicating the task of rightsizing the PASF. Simplistic solutions, such as weapon buy-back schemes, are bound to fail if the reasons for weapon possession are not addressed: security, political struggle and status.

92. Weapons management has three dimensions: organised (as a result of political agreement), individual (given proper incentives), and legal weapons.

93. It is generally understood that the surrender of weapons is a first and necessary step in a sequence that leads militia members to civilian status and reintegration. However, the surrender of weapons can either be linked to demobilization/reintegration or conceived as a stand-alone measure if that makes tactical sense. Effective disarmament requires several conditions:

- ❑ Appropriate incentives. An assault weapon costs around \$1,000. Having made that investment, an individual being disarmed will need something in return that offsets financial loss and/or the loss in status and pride associated with weapons. At the same time, there is a risk that financial rewards for surrendering weapons may stimulate the weapons market. It is also important not to forget that some *negative* incentives (arrest and detention) play an important role. But this requires a credible capacity to confront armed groups (means *and* will) that the PASF do not appear to have at present.
- ❑ A high level of confidence that in the future weapons will no longer be needed for political or security reasons. There is a correlation between the types and quality of weapons received and the level of confidence in the overall process. In other words, the WW II weapon will be presented first while the new M-16 is kept for a rainy day. Higher political and financial incentives may be required for heavy weapons.
- ❑ A capacity to adequately process, account for and manage weapons received, and where appropriate to destroy them. Such a capacity does not exist at present in the Palestinian context and the disarmament of factions would need to be accompanied with an investment in PA armouries. One cannot expect to control illegal weapons if legal weapons are not managed appropriately. This is an area where Egyptian and USSC assistance is currently active.
- ❑ A legal framework and capacity to address 'civilian' and criminal weapons possession. This may be accompanied with a period of amnesty and perhaps some positive incentives, which should be followed with strict enforcement of the law as a negative incentive.

94. To date, little thinking appears to have gone into the design and implementation of a weapons management program, the political imperative of 'disarming terrorists' notwithstanding. Abu Mazen has pledged to address this issue following the PLC elections. In that context, these preliminary observations may help provide some starting points for a more substantive discussion that may lead to a program that is both technically feasible and politically and socially sustainable.

V.5 Resistance to reform

95. Engaging in SSRT will require a clear break with past practices of fragmentation, patronage, social safety net appointments, and other practices that have characterised the Palestinian security services over the last decade. Such a break will involve painful political steps for the Palestinian leadership and for Fateh in particular. Resistance to reform can, therefore, be expected.

- Resistance is likely to be associated with giving up the social safety net function of appointments to the security services from which the PA derives much of its legitimacy.
- The loss of status and income, given the absence of viable alternatives, would also be a threat to many within the PASF.
- Managerial reform might generate information implicating some security-sector personnel in acts of corruption or other misuse of resources, e.g. unjustified claims for allowances and overtime.

96. It is therefore essential that the process of reform give due attention to the creation of viable alternatives to the loss of income, perhaps including an amnesty of some kind for misuse of resources, and to the management of expectations.

97. Reform will also require a change in thinking on the part of many senior Palestinian security officials. During a workshop on the Palestinian Civilian Police Development Programme in Gaza, a recurring theme in comments by PCP leadership was that the Israeli occupation and the lack of equipment are to blame for security problems. The audience at that workshop had a different view. While accepting the problems cited by the PCP leadership, they also underscored the importance of serious shortcomings in accountability and legal and judiciary systems. For a reform process to take root, the PA needs to take a hard look inward and examine how its own systems functions.

VI. Main Findings

98. Sections III-VI demonstrate that there are multiple agendas at work that have the capacity to influence, directly or indirectly, the structure, viability and sustainability of the Palestinian security sector. More often than not, these agendas have operated at cross purposes. For example:

- ❑ Strengthening the capacity of the PASF to meet its security obligations is a necessity, but this process must be financially sustainable.
- ❑ Efforts to downsize the PASF in the absence of adequate income-generating options may bring short-term fiscal gains but are likely to create medium-term instability and insecurity.

99. **Finding 1:** The central finding of this report is accordingly that there is an urgent need to harmonise the emerging Palestinian national security agenda with its development and fiscal strands. International assistance in these areas must be similarly aligned. Achieving these objectives will require realistic expectations, patience, and the synchronisation of timelines on the part of all actors – Palestinian, Israeli and international.

- ❑ The average time frame for preparing a security white paper is eighteen months. In an environment where the entity responsible for conducting a white paper process does not yet have statehood, its political legitimacy is contested and it is engaged in a conflict, it can be expected that the time required to carry out this process will exceed the norm. However, some interlocutors were anticipating at the end of 2005 that a safety and security white paper could be completed by March 2006.
- ❑ The EU programme of support for the Palestine Civil Police will run for three years. It is widely recognised, however, that sustainable police reform requires support over approximately a ten-year period.
- ❑ The perception that the PA's fiscal deficit can be significantly reduced within a year or two by retrenching 10, 20, or 30,000 security service personnel fails to take into account the amount of time necessary to make both an informed determination about the appropriate size of the Palestinian security services and the political deals necessary to enable retrenchment to occur at all.
- ❑ A timetable that foresees significant retrenchment in 2006 also appears not to take into account that setting up a severance fund for individuals who leave the security services before reaching retirement age will require some twelve to eighteen months.

100. While a case can be made for ambitious timelines as a means of keeping pressure on reforming institutions and their political masters, to be effective, the timelines need to be relatively realistic.

101. **Finding 2:** To achieve this harmonisation, the International Community needs to find a mechanism for sustained dialogue between security and development/fiscal actors. This could be an expansion of the aid coordination meetings that the USSC holds from time to time, or it could be an addendum to the

new donor co-ordination mechanism agreed at the Ad Hoc Liaison Committee meeting in December 2005. Ideally, there would be some combination of both. Whatever form this intra-International Community dialogue assumes, it is essential that the members of the International Community break down the stovepipes that have heretofore characterised their approach to the PA on security and fiscal issues.

102. **Finding 3:** The PA needs to strengthen its dialogue with the donors and the international financial institutions in security-related issues. It needs to explain to these actors the political imperatives driving its decisions and to lay out clearly its national security priorities. By clarifying its own security priorities, the PA will be in a much better position to influence the type of security-related assistance it received from the International Community and to ensure that this assistance supports Palestinian, rather than donor, priorities.

103. **Finding 4:** The PA must demonstrate enhanced transparency and accountability on security issues, first and foremost to the Palestinian people and their elected representatives and within government.

104. There is ample evidence from international experience that consultation strengthens policy outcomes and that civil society has an important role to play in this regard (Box 7). Palestine has the foundations of a strong civil society that can be expected to contribute in the future to policy dialogue and oversight. Good international practice also dictates that security policy is developed and implemented with input from all relevant actors within the executive branch and the legislature (Annex 4).

105. **Finding 5:** In order to ensure that security priorities are adequately funded and in view of the serious budgetary imbalance confronting the PA in early 2006, it is essential that the security sector be integrated into all aspects of public sector planning and management. Two key areas in this respect are the MTDP and financial management systems, especially the policy, planning and budgeting process and external and internal audit functions.

Box 7. Consultative Process for the South African White Paper on Safety and Security

The draft White paper on Safety and Security was released for public consultation in May 1998. The draft was discussed at provincial public hearings, a national hearing at which the recommendations from the provincial hearings were presented, consultations with key actors (political parties, local governments and the like). It was also discussed within the South African police Service, most national government departments and key trade unions.

After the White Paper was approved by the Cabinet and Parliament in September 1998, a user-friendly booklet was developed to explain policy changes resulting from the White Paper and their implications for stakeholders and other relevant actors in safety and security in South Africa.

Source: South Africa, Department of Safety and Security, *White Paper on Safety and Security: In Service of Safety*, www.gov.za/whitepaper/1998/safety.htm#drafting.

VII. Recommendations

106. There are six recommendations that flow from these findings.

Recommendation 1: Strengthen donor co-ordination and dialogue

107. The International Community urgently needs to establish an intra-International Community mechanism that meets regularly to develop:

- Common approaches to security-sector reform and transformation;
- A common understanding of the status of security-sector reform and transformation and priority issues that need to be dealt with in order to move security-sector reform and transformation forward; and
- An agreed division of labour within the International Community on discrete aspects of security-sector reform and transformation.

108. In view of the US Security Coordinator's lead on security-related issues, it is likely that this mechanism would be sponsored by the US Security Coordinator mission. This should be complemented, however, by the inclusion of security sector issues into the development donor co-ordination mechanism agreed at Ad Hoc Liaison Committee, perhaps as a sub-group of governance, in order to facilitate the development of a common development donor approach and division of labour.

109. In order to strengthen dialogue on security-related issues with Palestinian counterparts, the US Security Coordinator should work with the Palestine National Authority to create a forum for dialogue between the Palestinian Authority and other Palestinian interlocutors (such as the Technical Team), on the one hand, and the International Community, on the other hand, on security-sector reform and transformation-related issues. The Palestine National Authority should take the lead in developing this partnership. This would help to deepen the mutual understanding and trust needed for its international partners to better appreciate the issues surrounding intra-Palestinian relations that drive the Palestinian Authority's security and fiscal strategies

Recommendation 2: Develop a costed, comprehensive security-sector reform and transformation plan

110. Supported by the US Security Coordinator and other members of the International Community as required, the Palestine National Authority should develop, as a matter of priority, a costed, comprehensive security-sector reform and transformation plan. Such a plan would help ensure that international assistance supports Palestinian priorities. It would also provide a basis for continued international support to Palestinian reform efforts more broadly, by increasing donor confidence that the Palestinian Authority is committed to serious security-sector reform and transformation.

111. The plan should accommodate as many of the following elements as possible:

- Continuation of the White Paper process;
- Consideration of the relative merits of integrating militants into the Palestine National Authority Security Forces as a conflict-reduction mechanism;

- ❑ Consideration of how the Palestine National Authority can be provided with adequate space by Israel to make significant progress on restructuring and reforming the Palestinian Authority Security Forces;⁴²
- ❑ Harmonisation of ongoing efforts by the Palestinian Authority and the International Community to enhance the operational capacity of the Palestine National Authority Security Forces. In this respect, specific linkages need to be made between:
 - Ongoing law and order operations;
 - Train and equip plans for National Security Force battalions in Jericho, Ramallah and Bethlehem;
 - Mentoring and advisory assistance to National Security Force battalions in Gaza;
 - Support and assistance to the establishment of the Palestinian Authority for Borders and Crossings;
 - Weapons management; and
 - Joint training, logistics and maintenance facilities.
- ❑ Further development of linkages to the criminal justice sector;
- ❑ Harmonisation of national security legislation, particularly as it relates to the powers of arrest and detention and the 'rules of engagement' for the different Palestinian National Authority Security Forces branches; and
- ❑ Financial management in the security sector, focussing on accountability and affordability.

112. With regard to this plan, the US Security Coordinator should support the Palestinian Authority's efforts to:

- ❑ Develop a plan that builds on existing Palestinian Authority initiatives such as the ongoing White Paper process and the Palestine Civil Police transformational and operational plans;
- ❑ Establish realistic timelines for implementing that plan, based on a pragmatic assessment of Palestinian Authority capacity, and
- ❑ Agree technical assistance needs.

113. With regard to the White Paper process, the International Community should provide support to the ongoing White Paper process as defined and requested by the Technical Team for security-sector reform. Such support might include financial assistance, targeted technical assistance, and some material assistance (computers, office space, study materials and the like).

114. In providing this support, the International Community must understand that the White Paper process is currently at a very early stage. The White Paper must reflect Palestinian principles and objectives, not just those of one political party or faction. In consequence, there will need to be sensitive and probably lengthy

⁴² The benefits to Israeli and Palestinian security of such an approach have been recognised by, *inter alia*, the US Security Coordinator.

discussions of a political nature in order to arrive at a policy statement that will have broad legitimacy. Additionally, the policy statement will have to be supplemented by an implementation plan that will enable the broad principles and objectives to be operationalised. This will take additional time. While the International Community should facilitate this process, it must recognise that the process will have its own internal dynamic and timetable that must be respected if a viable product is to result.

115. For its part, the Palestine National Authority should provide political support and guidance to empower the Technical Team. As a first step, the Leadership Committee should review the draft white paper prepared by the Technical Team following the Jericho Workshop and authorise the beginning of a consultative process on the revised draft.

Recommendation 3: Support oversight of security sector

116. The International Community should provide financial and technical support to strengthen security sector oversight. Such assistance could be directed as requested to:

- The Palestine Legislative Council Economic and Security Committees,
- The central audit office (whose creation should be expedited by the Palestine National Authority), and
- Civil society in its various manifestations.

It would be useful to continue the dialogue between the Palestinian Authority and the security forces, on the one hand, and civil society and legislators, on the other hand, that was started at the Jericho Workshop on the White Paper in November 2005. In particular, the Palestinian Authority should ensure that civil society's voice is heard in the coming debates on security policy.

Recommendation 4: Integrate the security sector into public financial management work

117. The International Community urgently needs to ensure that the Palestinian National Authority security sector is integrated into the full range of public financial management work, in particular the Medium-Term Development Plan, the Medium-Term Fiscal Stabilisation Plan, and the ongoing Public Expenditure Review.

Medium-Term Development Plan

118. The Ministry of Planning, working with the Ministry of Finance and the Ministry of Interior, needs to build on the security-sector component of the draft presented to the Ad Hoc Liaison Committee. Specifically, the section on security needs to specify the basic framework for a costed, comprehensive security-sector reform and transformation plan, together with a process for developing the plan, and a realistic timeframe for implementing the plan. In addition, the Medium-Term Development Plan should note that the principles of integrating policy, planning and budgeting will be applied to the security sector in due course. Members of the International Community actively engaged in security-sector reform and transformation need to work with the various Palestinian Authority stakeholders to agree what aspects of

security-sector reform and transformation should be reflected in the Medium-Term Development Plan.

Medium-Term Fiscal Stabilisation Plan

119. With regard to the Medium-Term Fiscal Stabilisation Plan, there are seven main priorities:

- ❑ First, the process of agreeing the Medium-Term Fiscal Stabilisation Plan between the new government, the World Bank, and the IMF needs to be sensitive to the key elements of a security-sector reform and transformation plan developed by the Palestinian Authority (Recommendation 2). Specifically, the timeframe of the Medium-Term Fiscal Stabilisation Plan (currently anticipated as 2006-2008) should be synchronised with the costed, comprehensive security-sector reform and transformation plan.
- ❑ Second, the expenditure parameters of the Medium-Term Fiscal Stabilisation Plan relevant to the security sector (i.e. the wage bill) should be negotiated by the international financial institutions and the Palestinian Authority so that they do not undercut an effective security-sector reform and transformation process and therefore do not compromise the Palestinian Authority's security obligations either domestically or under the Middle East Peace Process. Clearly, the broader expenditure parameters of the Medium-Term Fiscal Stabilisation Plan must be driven by what the Palestinian Authority can realistically afford from existing domestic revenues and the likely amount of external financing as well as by the magnitude of the overall fiscal deficit. This necessarily carries implications for the security wage bill over the lifecycle of the Medium-Term Fiscal Stabilisation Plan, and possibly pre-empts the outcomes of a security-sector reform and transformation policy process (Recommendation 2 and Annex 4). At the very least, the international financial institutions need to be aware of the risks of Medium-Term Fiscal Stabilisation Plan targets where they are not synchronised with a security-sector reform and transformation policy process and consider how to balance penalties of not achieving those targets with political realism.
- ❑ Third, the International Community as a whole needs to consider whether it wishes to reduce these risks and provide more fiscal space for the Palestinian Authority. To this end, donors should consider increasing the amount of assistance provided as budget support as well as increasing the predictability of that support by making multi-annual budget support commitments. This will provide a basis on which to assess the proportion of the budget deficit that can realistically be financed by external budget support.
- ❑ Fourth, related to this, the Medium-Term Fiscal Stabilisation Plan needs to take into account the Palestine National Authority's policy of co-opting militants and the associated costs. It is critical for the international donor community to decide whether this policy should be formally recognised as an appropriate process for dealing with militants. If accepted, any cost savings in the security services over the short- to medium-term are likely to be very difficult to achieve, with implications for the feasibility of the expenditure ceilings in the Medium-Term Fiscal Stabilisation Plan.
- ❑ Fifth, it will be important for the IMF and the World Bank to be clear with the

Palestinian Authority stakeholders that short-term management of the size and structure of the security service wage bill must be related to a security-sector reform and transformation plan of the sort outlined in Recommendation 2. This is important to ensure that any short-term wage bill reduction is seen as part of a deeper process of achieving better planning and budgeting in the Ministry of Interior, including linking Ministry of Interior planning and budgeting into the government-wide process, in order to promote more efficient delivery of security services.

- ❑ Sixth, the international financial institutions and the Palestinian Authority should be clear about the cost of retrenchment to achieve a more affordable wage bill. They should also agree that the cost of any retrenchment programme should be reflected in the budget and channelled through the Treasury. Both the Palestinian Authority and the International Community as a whole need to be transparent about the way in which retrenchment is financed.
- ❑ Seventh, the likely fiscal impact of retrenchment should be assessed in the context of the need to identify considerable resources for operations and maintenance and investment. The Palestine National Authority Security Forces are currently receiving some grants of lethal and non-lethal goods, as well as maintenance on some of the equipment being donated. However, there will be ongoing costs associated with these grants both in the short- and medium term. For example, fuel for vehicles, spare parts and the like will need to be procured on an ongoing basis. Material will have to be replaced. All of this needs to be costed and compared with savings in personnel costs associated with retirements and retrenchment.

Public Expenditure Review

120. The Public Expenditure Review should lay the foundation for further technical work that will both complement ongoing policy work through the White Paper on Safety and Security and operational improvements in the Palestine National Authority Security Forces and help develop plans for retrenchment. Specifically, the PER could encourage work in the following areas: a) follow up to the Ministry of Finance's internal audit in order to determine how to correct problems identified, b) a review of the salary and allowance system with a view to identifying potential cost savings, c) a technical review of the socio-economic profile of Palestine National Authority Security Forces personnel to support the development of retrenchment plans, and d) a thorough public financial management assessment of the security sector, in order to identify priorities for strengthening and reform.

Recommendation 5: Create appropriate conditions for rightsizing the Palestine National Authority Security Forces.

121. To support rightsizing of the Palestine National Authority Security Forces, urgent attention should be given to creating viable means of compensating members of the security services who are retired or retrenched for their loss of income. This is likely to include:

- ❑ Creating a severance fund;
- ❑ Reforming existing pension legislation to enhance its sustainability; and

❑ Generating jobs.

To complement these options, some form of amnesty for misuse of resources could be considered in order to encourage compliance on the part of individuals (especially those at senior levels).

122. With regard to employment generation, there is an urgent need for targeted quick-impact projects in central and southern Gaza and Qalqilya. Labour, capital and implementing agencies need to be mobilised on a priority basis to provide employment opportunities in these especially hard-hit areas.

123. As part of this process, the International Community needs to assess the appropriate way to apply the disarmament, demobilization and reintegration concept in the Palestinian environment. In this, they should draw on existing thinking among Palestinians. Any rightsizing of the Palestine National Authority Security Forces should be conducted on the basis of a review of fiscal, security *and* stability needs in an inclusive political process, and not merely based on abstract numbers.

Recommendation 6: Ensure that International Community is appropriately staffed to meet the challenges of security-sector reform and transformation.

124. In order to support the Palestine National Authority and other Palestinian stakeholders in achieving the objectives laid out above, the International Community must staff up appropriately:

- ❑ The US Security Coordinator will be in the lead on security-sector reform and transformation. He will require a dedicated deputy for security-sector reform and transformation issues and an aid co-ordinator to act as the link between the International Community and Palestinian Authority/Technical Team to ensure that Palestinian requirements drive security assistance. These individuals should preferably be Arabic speakers and have the ability to travel throughout Palestinian Territories.
- ❑ The World Bank and IMF need to identify means of providing technical support for strengthening public financial management in the security sector consistent with their mandates. They should be supported by other members of the development donor community as required.

Annex 1. Terms of Reference

West Bank and Gaza: Political and Conflict Risks to Fiscal Stabilisation and Security-sector reform

Introduction

1. The Palestinian Authority (PA), with support from the International Community and notably the Ward Mission, is expected shortly to embark upon a major programme of security-sector reform. At the same time, concerns about the sustainability of the Palestinian Authority's (PA) budget deficit have implications for the size of the security services, which take up a considerable proportion of the PA's salary recurrent costs. DFID wishes to undertake an analysis of the risks of any future retrenchment in the security forces, to ensure a balanced and politically-sensitive approach to both fiscal deficit stabilisation policy in the West Bank/ Gaza Strip (WBGs) and wider security-sector reform.

Background

2. Security-sector reform is a PA, UK and international priority. It is also a major concern of the Palestinian people. Recent opinion polls have highlighted the legitimacy deficit which official PA security organisations currently face and the strong importance which Palestinians place on improving security sector oversight, accountability and responsiveness⁴³.

3. The International Community has provided a range of assistance, both hardware and software, to various Palestinian security agencies. Much of this support was previously set in the context of preparing the PA for Gaza disengagement. The International Community, through the Ward Mission, is now focused on assisting the PA in developing a more comprehensive agenda for the reform of the security sector and its governance institutions. This will inevitably involve a rationalisation and streamlining of those security agencies which do not have a meaningful contribution to make to Palestinian security over the long-term, and which are not subject to democratic control. There are currently over 10 official security agencies⁴⁴ employing approximately 57,000 people (as of April 2005). This compares with 78,000 in the rest of the civil service.

4. The PA's wage bill containment plan (WBCP) sets a ceiling on salaries to be afforded within the annual budget. A medium term fiscal stabilisation plan (MTFSP) 2006-2008, which includes an extension of the WBCP, is currently being developed by the PA with IMF and World Bank support. Recent increases in the size of the security service and in staff salaries have led the PA into violation of the WBCP. This has raised concerns amongst the international development community, particularly in the context of the future of budget support to the PA. The twin

⁴³ See for example "Palestinian Perceptions of Security-sector reform Governance", by Geneva Centre for Democratic Control of Armed Forces. The report also confirms that informal armed militias such as the Al-Aqsa and Al-Qaseem brigades enjoy much higher levels of trust than official Palestinian security agencies.

⁴⁴ This list includes: Civil Police, the National Security Forces, Preventive Security, Military Intelligence, General Intelligence, Civil Defence, "Force 17", Naval Police, and Presidential Guard.

requirements of Security-sector reform and budget stabilisation point to a programme of retrenchment in the Palestinian Security Forces. But there are substantial political risks to retrenching security forces in an already unstable environment. A radical approach to the restructuring and streamlining of the security forces could serve to increase the potential for violent conflict and thereby have an adverse impact on the International Community's long-term objectives in relation to the Middle East Peace Process (MEPP).

5. DFID has been heavily involved in efforts to promote a more effective, accountable and fiscally sustainable Palestinian Authority through our support to the World Bank Trust Fund and our involvement in Public Administration and Civil Service Reform. We have also been engaged in the security-sector reform agenda through our support to EUCOPPS, the Ward Mission and work with HMG partners on a range of activities under the UK Global Conflict Prevention Pool. The challenge now is to ensure that these streams of work are brought together in a way which both enhances the prospects for peace and reinforces the institutional architecture of a nascent Palestinian state. The objective of this work is to help us to understand better the risks associated with pursuing a vigorous security-sector reform agenda, with a focus on downsizing, at a time of a political instability in Palestine. It will also help to inform the approach of the PA and the wider International Community in implementing medium-term strategies related to SSR, demobilisation and reintegration of security sector personnel, and wage bill containment.

Purpose of consultancy

Analyse the risks to political stability of retrenchment in the Palestinian Security Forces as part of a process of medium-term fiscal stabilisation and security-sector reform, and make recommendations on parameters and sequencing for such a programme.

Scope of consultancy

- Consultation with PA and Palestinian counterparts (to be added), UK Government and its representatives in Jerusalem and Tel Aviv, with the Ward Mission, the World Bank, the Office of the EUSR in Jerusalem, USAID, US State Department, the PACSR team in the RCSU.
- Assessment of the key issues affecting the ability of the PA to develop and maintain an affordable security sector.
- Analysis of the links between the proposed Medium Term Fiscal Stability Plan and the process of right-sizing the Palestinian security forces, both in the short (2006) and medium term (2007-2008).
- Assessment of the main risks from a process of reducing the size of the security service:
 - Economic and social consequences;
 - Political legitimacy of the PA (capacity to maintain law and order in WBGS + to deliver security obligations related to the MEPP)
 - Intra-Palestinian conflict (intra-PA, Hamas/PA, retrenched security staff-PA).
- Analysis of the profile of personnel (by age, rank, political affiliation etc.) within the security services with a view to identifying possible incentives for retrenchment (e.g. compensation, employment, training) in the Palestinian context.

- Recommended parameters and sequencing for a programme of retrenchment in the Palestinian Security Forces.

Outputs

- Stocktake after initial two weeks field work to assess:
 - Emergency implications implied by the risk assessment for donor support for retrenchment and/or 2006 budgeted ceiling for security sector salaries.
 - Further work required to complete the analysis and report by end December 2005.
- Draft report in e-version by 9th January 2006 to include an outline of the main findings of the work.
- Final report in printed and e-version by 16th January 2006 to include:
 - Executive summary of not more than 5 pages of A4
 - Main report of not more than 30-40 pages of A4, formatted with sequential paragraphs
 - Annexes as appropriate
 - Dissemination – handling to be added

Timeframe

- Field work to commence 19/20th November 2005
- 6 weeks, including up to three weeks in country + visits to Ramallah + Gaza, as appropriate

Skills and expertise

This piece of work covers a range of issues such that a single consultancy is unlikely to provide the skills and expertise required. Therefore a team of three individuals will be contracted to cover the following specific areas of expertise:

- Knowledge of the links between security-sector reform, public administration reform and public expenditure management
- Knowledge of policy and strategic issues around retrenchment and rightsizing of the security sector
- Knowledge of the political and economic issues surrounding the security-sector reform in West Bank/Gaza

The team will be expected to work together across the scope of the work covered in the TORs, however each member will lead on the area corresponding to their particular area of expertise.

- Nicole Ball will lead of the links between security-sector reform, public administration reform and public expenditure management and also act as the team leader. She will be responsible for putting together and submitting the draft and final reports to DFID.
- Adriaan Verheul will lead on the policy and strategic issues around retrenchment. He will be responsible for submitting the main points from his input to this work to the team leader on 3rd January 2005 and thereafter further inputs at the request of the team leader to complete the report for submission on 16th January.

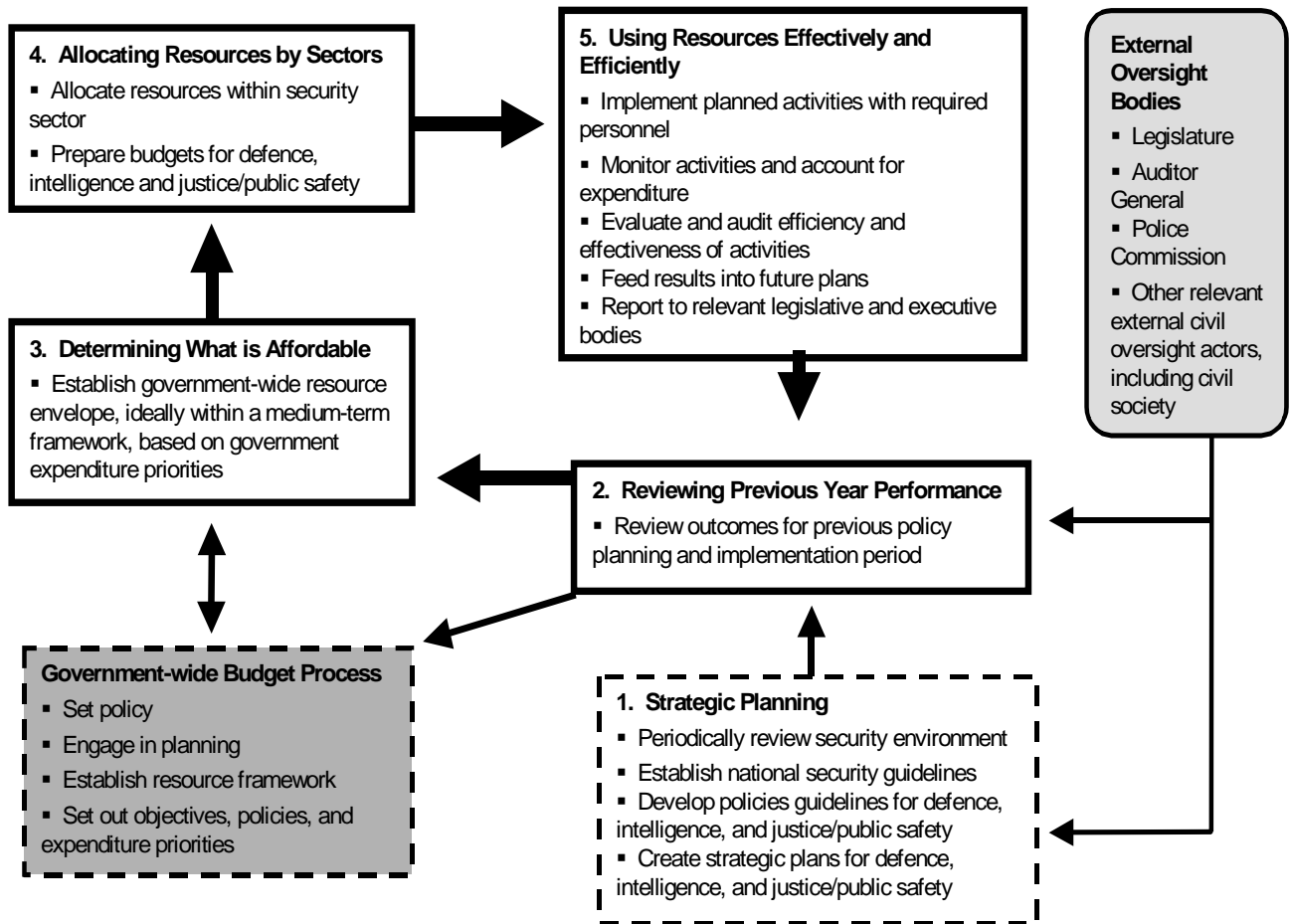
- Dr Peter Bartu will lead on the political and economic issues surrounding the security-sector reform in West Bank/Gaza. He will be responsible for submitting the main points from his input to this work to the team leader on 3rd January 2005 and thereafter further inputs at the request of the team leader to complete the report for submission on 16th January.

Management of the consultancy

- The consultants will report to the DFID conflict advisor.

DFID Palestine
November 2005

Annex 2. A Generic Security Sector Financial Management Process



Source: Derived from Nicole Ball and Malcolm Holmes, "Integrating Defence into Public Expenditure Work," Paper commissioned by UK Department for International Development, January 11, 2001, <http://www.grc-exchange.org/docs/SS11.pdf>.

Annex 3. Current Security Processes and Donor Support and Co-ordination

1. In view of the dependence of the PA on external sources of financial, material and technical assistance, it is essential that external support meets Palestinian priorities and is well co-ordinated. Once the new PA is installed, however, it will be essential for the donors to align their assistance more closely to PA-wide priorities and for the PA to enunciate these priorities clearly. This section examines the security processes already underway and discusses security sector coordination issues:

- Consolidation of the PASF;
- White Paper process;
- Legislative efforts;
- The European Union Co-ordinating Office for Palestinian Police Support;
- Egypt's support to the PASF; and
- The US Security Co-ordinator and donor co-ordination.

Consolidation of the PASF

2. In April 2005, all security forces were consolidated into three branches under the Ministry of the Interior:

- National security forces: comprising presidential security and coastal police;
- Internal security: preventive security, civil police, and civil defence;
- General intelligence.

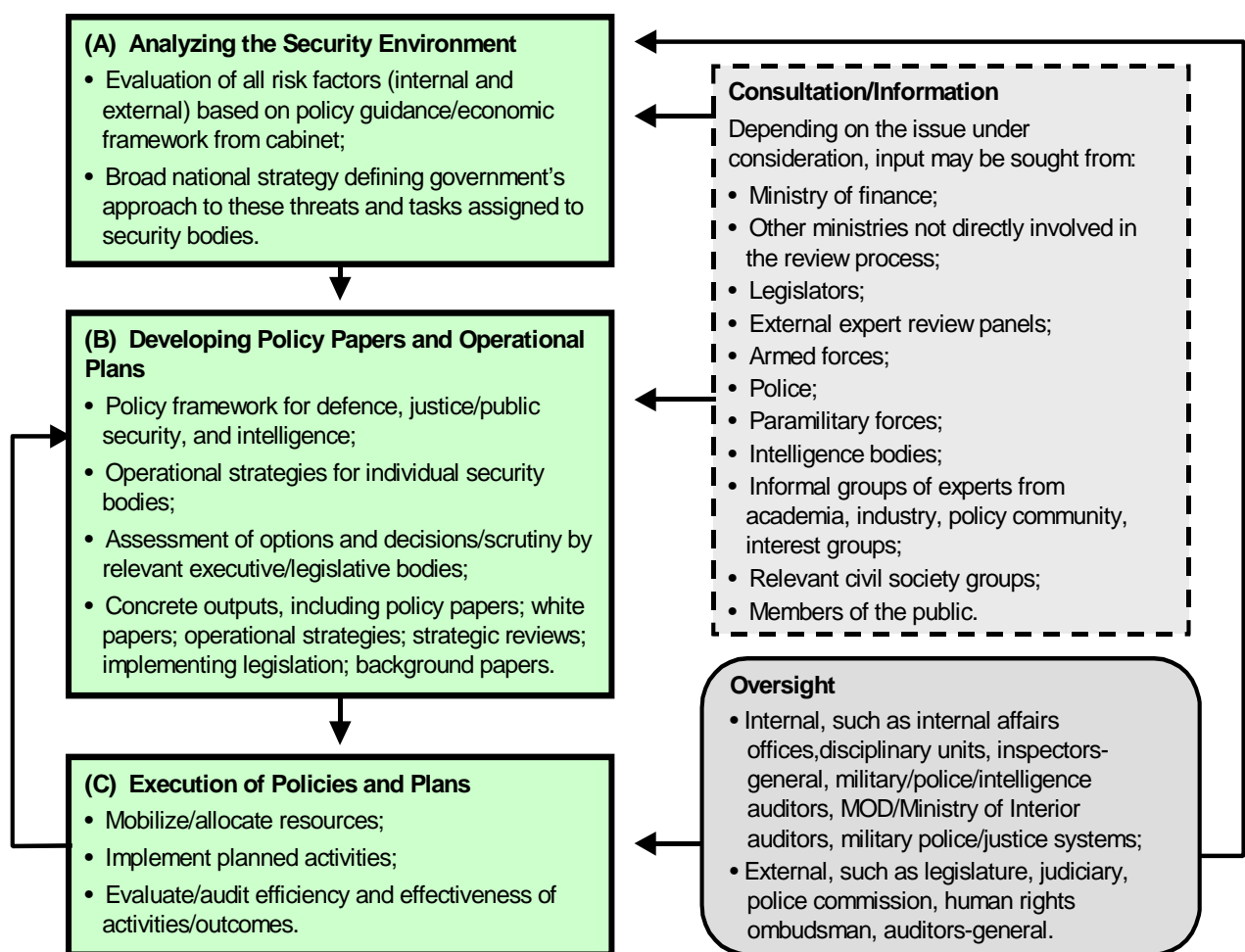
3. As an additional reform measure, the administration and human resources management of all services have been unified, a single finance department established and a single training department created. The PA also adopted legislation on retirement and pensions, which enabled some of the very old officers (70+ years of age) to leave the services. On the financial side, all salaries of the civil and security services are now being paid through bank accounts. Each of these reform steps needs to be followed up, to ensure that the new integrated bodies function and that better control is exerted over security-related expenditures.

White Paper process

4. The PA has taken the first step toward developing security policy in inaugurating a safety and security white paper process. A generic process developing policies and programs for the reform of the security sector follows a series of steps: 1) an analysis of the security environment and adoption of a broad national security strategy, 2) the development of policy papers and operational plans, and 3) the execution and evaluation of plans and programs. As government agencies move through these steps, they seek input from a variety of agents from both inside and outside government. In addition, the process is normally subject to professional and parliamentary oversight (Figure A.3-1).

5. As this suggests, policy development and institutional reform are integrally related. In the long-term, institutional reform must be informed by policy and strategy. In the short term, policy development must be driven by institutional reform. Thus, while institutional reform of the PASF should start as soon as possible in order to restore donor confidence and enable streamlining and cost-cutting, a dynamic process needs to be established between policy development and institutional reform. Cognizant of this fact, the PA have established an organisational set-up intended to allow the linkages to be made and managed, namely the SSR Leadership Committee and SSR Technical Committee mandated by Abu Mazen. Essential institutional elements of a successful transformation process are listed in Box A.3-1.

Figure A.3-1. A Generic Policy Process



Source: Nicole Ball, Tsjearl Bouta, Luc van de Goor, *Enhancing Democratic Governance of the Security Sector: An Institutional Assessment*, The Hague: Clingendael Institute, 2003, p. 53.

6. The 'White Paper' process began in October 2005, when PA President Abbas established the Leadership Committee for Security Sector Reform comprised of the Minister of Interior and National Security, the Minister of Finance, and the National Security Advisor. This Leadership Committee formed and empowered a Technical

Box A.3-1. Promoting Institutional Change: Criteria for Success

To be successful, institutional transformation of the Palestinian security-sector reform requires the following:

- a single high-level address, endowed with adequate political support and sufficient authority over the PASF;
- a role for parliamentary oversight and civil society participation;
- a sufficiently broad mandate to encompass relevant political and economic linkages;
- a comprehensive approach encompassing all security services;
- and adequate capacity for analysis, planning and coordination (this would be a good entry point for donor support).

Team to develop a 'White Paper on Safety and Security.' The Technical Team subsequently took part in a workshop on 15-17 November 2005, with participants drawn from all security services, both Gaza and West Bank. General Intelligence was invited, but did not attend. Non-statutory forces were not invited. Civil society and legislators were invited to informal discussions with workshop participants.

7. The workshop produced a White Paper outline and a drafting committee was tasked with preparing a fuller version, which was to be submitted to the Leadership Committee for its approval, followed by wider consultation. This will presumably have to await the outcome of the Palestinian elections. Nonetheless, this process – and the reform agenda it implies – constitutes a beacon of hope in the reform of Palestinian security services. Under the appropriate conditions, this process carries significant promise:

- The resulting White Paper could be a key building block for Palestinian sovereignty;
- It can provide a coherent platform for the development of medium-term plans for restructuring and professionalization of the PASF;
- By inclusion of key segments of society, it can serve as a vehicle for dialogue and consensus building among the security services, other branches of government, as well as the PLC and civil society;
- Depending on the shape discussions take, it can build some confidence towards the Palestinian public, Israel, neighbouring countries and the International Community, that the PA is serious about tackling security issues.
- It can serve as a sounding board for the International Community to test the validity of donor-driven assistance projects within the larger reform context.

Legislative efforts

8. Several efforts have been made to draft enabling legislation for security-sector reform and transformation and to provide a statutory basis for the PASF and the public service, in particular:

- The January 2005 *Security Services Pension Law* (over 45 years);
- The May 2005 *Unified Pensions Law* (under 45 years)
- The *Law on General Intelligence*;

- ❑ The *Security Services Law*, and
- ❑ The *Basic Security Law* (before the PLC).

9. These laws are a good start to this process, but they will need to be reviewed in the light of the outcome of the White Paper process and new economic realities. In particular, the *Basic Security Law* maintains significant areas of duplication of tasks of the various services. There is a clear need to create greater clarity in roles and functions, command and control and parliamentary oversight. Additionally, the powers of arrest and detention and the 'rules of engagement' of the different PASF branches need further explication. The fiscal implications of the pension laws are unsustainable, and they will therefore need to be readjusted. The fiscal implications of the benefits specified under the *Basic Security Law* are unclear. The PLC needs to cost each of its conditions of service and consider what is valid and affordable.

European Union Co-ordinating Office for Palestinian Police Support

10. A team of senior EU police advisers headed by Chief Superintendent Jonathan McIvor has been active in the West Bank and Gaza since mid-January 2005, based in the Ministry of Interior building in Ramallah. Its mandate is to co-ordinate EU donor activities and assists in the creation of a coherent framework for change for the Palestinian police. It provides advice to donors for information and provides facilitation and advice to those engaged in policing development. It liaises with other stakeholders and monitors and facilitates project implementation. We found that all donors (except China) have agreed to use the EUCOPPS framework. Beginning 2006, EUCOPPS will deploy some 30 police monitors/trainers to Palestinian police stations.

11. EUCOPPS has agreed with the PA to pursue a twin-track approach to assist the PA in developing a modern, effective and accountable civil police service focused on service delivery. It entails providing support both for operational priorities and longer-term transformational change. EUCOPPS has assisted in the formulation of the Palestinian Civil Police Development Programme, which consists of a transformational plan and an operational plan (Box A.3-2). Progress to date has been limited and new 'hardware' has yet to find the appropriate new 'software'. Some equipment has been delivered, but this has yet to be accompanied by changes in operating concepts. For example, while the police have received handheld radios for communication, this has yet to be made part of a more effective system for command and control.

12. The 'software' includes:

- ❑ Organisational structure for improved command and control;
- ❑ Leadership;
- ❑ Institutional approach including norms and core values;
- ❑ Human resources management;
- ❑ Systems of accountability and oversight systems for financial management and administration;
- ❑ Communication and information systems; and
- ❑ Human rights compliance.

Box A.3-2. The Palestine Civil Police Development Programme

Launched in July 2005, the PCPDP has two main components – a **Transformational Plan** and an **Operational Plan**. The Transformational Plan is concerned with fundamental organisational change and its elements tend to be long term. The Operational Plan is concerned with raising operational capacity and performance and its elements tend to be shorter term. The Transformational Plan might usefully be thought of as the organisational **software** and the Operational Plan as the **hardware**. The plans consist of tiers of activity formulated as Components, Sub-components and Elements.

The objective of the PCPDP is to establish a “transparent and accountable police organisation with a clearly identified role, operating within a sound legal framework, capable of delivering an effective and robust policing service responsive to the needs of society and able to manage effectively its human and physical resources”.

The PCPDP provides the Programme Steering Committee with a range of activities, which must be undertaken to achieve the above objective, and a range benchmarks against which to monitor progress. The activities are sequenced, as some are conditional upon the completion of others and because of priorities and management capacity. For the Change Management Team, the PCPDP is in part a manual of guidance (rationales are provided throughout) and in part an explicit plan of activities. Crucially however this is a working document and must be built upon and amended incrementally with a formal review after the first year.

The programme is not a police action plan for addressing public disorder, crime, traffic or activities by armed groups for example. Such a plan is necessary to focus and co-ordinate activity and EUCOPPS will provide advice and assistance in this area. The PCPDP is intended to build the capacity required to produce and carry out such an action plan effectively but it should not be regarded as a substitute.

Source: EU Co-ordinating Office for Palestine Police Support and Palestine National Authority Ministry of Interior, *Palestinian Civil Police Development Programme: Transformational and Operational Plans, 2005 – 2008*, Ramallah, June 2005.

The operational plan or ‘hardware’ covers:

- The improvement of operational capacity;
- Combating and preventing crime/political violence; and
- Building support infrastructure.

13. This two track-approach, dealing with both governance and change management and operational effectiveness is one that could be applied to the PASF as a whole. EUCOPPS has established solid frameworks for planning, support and coordination along these two tracks. As a result of this, as well as of the natural inclination of many donors to channel support to civil police rather than to (para)military units, the civil police are likely to attract funding and support more rapidly than other security services. This may result in the creation of disparate pillars of SSRT and donor frameworks, as well as resentment between different security services. Stronger coordination and a more consistent approach between USSC and EUCOPPS are called for, starting with an integrated matrix of donor support.

Egypt

14. Egypt has deployed a significant number of advisers to National Security Force battalions in Gaza. Their credibility with the various groups is high and they have managed to broker key agreements between Palestinian groups that allowed for the relatively smooth disengagement by Israel from Gaza. In particular, they

have introduced and are monitoring systems for the management of weapons and ammunition of the NSF.

United States Security Coordinator and donor co-ordination

15. The United States Security Co-ordinator with a mandate to advise, assist and monitor the reform of the Palestinian security sector and to co-ordinate international assistance.⁴⁵ In broad terms, US support to Palestinian SSRT appears to have six components:

- Overall political support in the context of Road Map implementation;
- Co-ordination of international support;
- Support to the White Paper process and rightsizing of the security forces;
- Support to civilian oversight structures;
- Increasing public confidence in the security sector, particularly in the civilian police; and
- Train and equip selected units of the PSAF for the purpose of establishing law and order on the street.

16. All but the first two components are expected to be mainly executed by civilian contractors to be hired by the US Government under multi-year contracts. The contract support to the White Paper process, rightsizing of the security forces, civilian oversight structures and increasing public confidence in the security sector, will be awarded only in late January 2006. The train and equipment component envisages the refurbishment of training centres, some equipment support and training in gendarmerie style policing. It has, however, yet to be formulated and put out to tender.

17. While politically best-placed, the USSC is faced with a number of challenges and issues that affect its role as SSRT facilitator, as follows:

- The attention required, at high levels, to deal with day-to-day political and security issues which threaten to undermine the recent gains toward the Road Map;
- There is no overarching plan for support to the PASF that is based on a serious review of needs and capabilities;
- A focus on military and policy operational capacities that may be to the detriment of judiciary and penal functions. It makes little sense to train police to arrest people without an adequate judicial process and correctional facilities in which to hold them;
- Limited or no access of US personnel to Gaza and the West Bank, due to US

⁴⁵ According to a statement by US President Bush on 20 October 2005, the USSC was expected to take on 'an enhanced mission to help the Palestinian Authority end terror attacks, dismantle terrorist infrastructure, maintain law and order and one day provide security for their own state.' 'President Welcomes Palestinian President Abbas to the White House,' Press Release, White House, Washington, DC, 20 October 2005, <http://www.whitehouse.gov/news/releases/2005/10/20051020.html>.

security regulations, severely limiting the ability to gain trust and develop an understanding of Palestinian perceptions and intricacies; and

- ❑ Relatively long lead times to secure US funding for SSRT activities.

18. The US Security Coordinator has begun to co-ordinate international donors through monthly meetings and has established an *ad hoc* advisory group, composed of representatives of the US, UK, European Union (EU), Egypt and Jordan. Feedback from several donors indicates that this process is extremely welcome. However, some pointed out that a higher degree of transparency on the part of the USSC mission itself would enhance the overall quality of co-ordination.

19. The most recent matrix of donor-supported activities available to the DFID team was compiled in August 2005. (This is summarised in Table A.3-1.) The following major categories were not considered within the initial assistance listing; however, these mid- and long-term requirements were considered to be the next logical steps for donor assistance and are essential in addressing Palestinian security reforms.

- ❑ Facilities: repair and restoration of permanent facilities such as headquarters, barracks, police stations, detention facilities and training facilities.
- ❑ Training: long-term training assistance for basic, advanced and technical training programs.
- ❑ Weapons: establishing adequate weapons, ammunition, and weapons maintenance requirements.
- ❑ Equipment: assisting in the procurement of additional personal and unit-level equipment.
- ❑ Transportation: ground, maritime and aviation requirements.
- ❑ Maintenance: the development of long term sustaining programs.

The current framework relates to 'hardware' only, with the possible exception of a few audits. There is no category for support for planning, management, governance and oversight of the security services. As recommended in section VII, the PA should take the lead, with the support of the USSC, in developing a partnership with international donors in which a plan for donor support and a credible division of labour can be developed.

20. Moreover, security matters have not been included in the larger donor co-ordination structure. Current structures show a division of labour among four broad groups, each with a designated 'lead' donor country or organisation:

- ❑ Economic policy (World Bank),
- ❑ Governance (EU),
- ❑ Infrastructure development (US) and
- ❑ Social development/humanitarian assistance (UN).

21. Such a structure, without a clear centre of responsibility for security-sector reform and transformation and without an exchange of information on issues that mutually affect SSRT and the other groups, would again give rise to risks of

misunderstandings and the adoption of policies that, while logical within one group, would create difficulties for the others. A structure that takes SSRT into account can benefit from timely and adequate information, and stakeholders would be better placed to take complementary action.

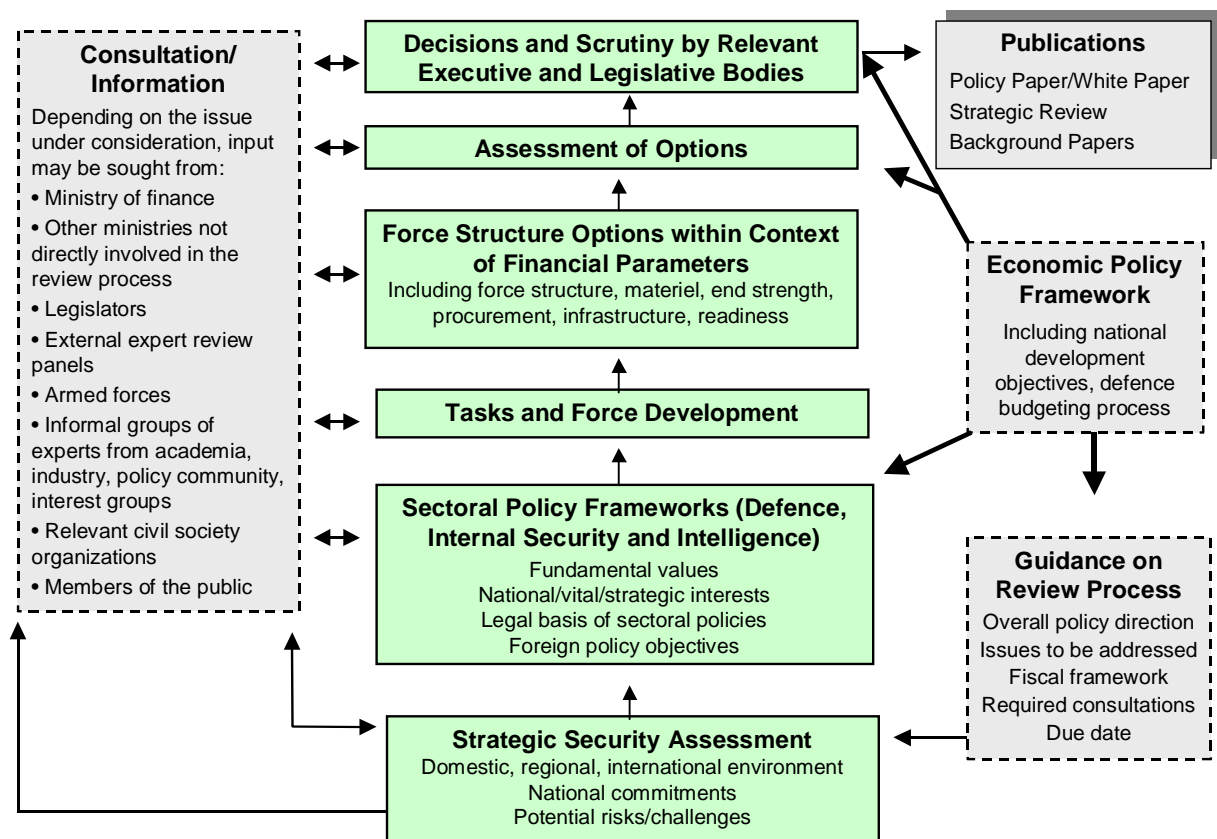
Table A.3-1. Donor support as of August 2005				
AREA OF SUPPORT	ESTIMATED COSTS (US\$)	DONOR FUNDS (US\$)	DONOR(S)	INFORMATION SOURCE(S)
<u>Communications, Command and Control</u> (includes radios, IT, public affairs)	2,467,000	2,251,000	EUCOPPS (Denmark and Norway). Germany and UK,	UK Global Conflict Prevention pool, EUCOPPS
<u>Mobility and transportation</u> (includes buses, 4WD vehicles, motorcycles, patrol boats, spare parts and maintenance)	17,579,000	8,852,000	Netherlands, Canada, EUCOPPS (Denmark and Spain)	EUCOPPS, NSF Gaza requests (not funded)
<u>Logistics and Medical</u> (includes aid and field supplies, wat/san, cots, ambulances and field kitchens)	4,385,000	-	-	Palestinian security forces requests
<u>Force protection</u> (includes anti-riot equipment and vehicles, webbing)	3,452,000	800	EUCOPPS (Spain)	EUCOPPS PA requests (not funded)
<u>Additional projects</u> (includes the PCPDP audits, refurbishment and close protection equipment and capacity building)	1,993,000	1,907,000	Netherlands, Turkey, UK	EUCOPPS, Netherlands, Turkey and the UK
<u>Totals</u>	29,876,000	13,010,000		
Source: USSC				

22. A clear example is the need to adjust economic policy if the security sector increases the number of personnel temporarily for reasons of stability. Another would be appropriate action by donors in other groups to help create jobs for those who may be made redundant in a demobilization exercise decided upon in the security group. There are two basic options:

- Create a fifth 'security only' column;
- Place security under one or several of the agreed pillars. In this case security falls best under 'governance.'

In either case, the donor co-ordination structure needs to work closely with the security co-ordination structure established by the USSC.

Annex 4. Process for Developing Security Policy Frameworks and Conducting Strategic Reviews



Source: Derived from Nicole Ball and Malcolm Holmes, "Integrating Defense into Public Expenditure Work," Prepared for UK Department for International Development, January 11, 2002, <http://www.grc-exchange.org/docs/SS11.pdf>.