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Activities of the
United Nations Human Settlements Programme:
progress report

TOWARDS A HUMAN SETTLEMENTS FUND FOR THE PALESTINIAN PEOPLE

Note by the secretariat

At its eighteenth session held in February 2001, the Commission on Human Settlements adopted resolution 18/12 on illegal Israeli human settlements in the occupied Palestinian territories. The report attached to the present note is a direct follow-up by UN-HABITAT of the action plan to execute the operative paragraphs of that resolution and deals with issues concerning the establishment of a human settlements fund for the Palestinian people. The text of the report has been produced as submitted by the consultant and without any formal editing.

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* In its resolution 56/206 of 21 December 2001, the General Assembly transformed the Commission on Human Settlements into the Governing Council of the United Nations Human Settlements Programme (UN-HABITAT), a subsidiary organ of the General Assembly. This session has been designated as the nineteenth instead of the first session of the Governing Council to signify the continuity and relationship between the Governing Council and the Commission on Human Settlements.

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Proposed Human Settlements Fund
For the Palestinian People

By

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Consultant commissioned by

UN-HABITAT

Oslo, Jan 13th 2003
PROPOSED HUMAN SETTLEMENTS FUND FOR THE PALESTINIAN PEOPLE

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PROPOSED HUMAN SETTLEMENTS FUND FOR THE PALESTINIAN PEOPLE

Introduction

During February 2001, the eighteenth session of the Commission on Human Settlements adopted resolution 18/12, titled “Illegal Israeli human settlements in the occupied Palestinian territories.” This report is made under the direction of UN-HABITAT as part of their action plan to execute the operative paragraphs of the resolution. The terms of references are enclosed (annex 1).

Two reports were commissioned by the UN-HABITAT that are strongly linked. The first is the Housing Need Assessment Report. This includes a review of housing and human settlements in the occupied Palestinian territories as well as actual housing needs assessments. This was carried out by Mr. Åge Tiltnes, Fafo- Amman, Jordan, and Dr. Elias Magembe, Tanzania. The two teams co-operated closely during the fieldwork and interviews so that the two reports would be largely co-ordinated. While in the West Bank and Gaza Strip, the team relied heavily on excellent local support from the Fafo offices in Jerusalem and Gaza that secured maximum access to information under difficult circumstances and under a limited time frame.

This report deals with questions related to establishing a Human Settlements Fund for the Palestinian people. The objective was to conduct a study on the potential establishment of a Human Settlements Fund, its framework, management and sustainability. Efforts have been made to focus on potential areas of development and possibilities rather than on the overwhelming difficulties of the region. The fieldwork was carried out in two intervals between Oct. 14th and Nov. 20th 2002.

Information was gathered mainly through meetings and interviews in addition to review of written material. Interviews and meetings were held with a number of Ministries of the Palestinian Authority; representatives of other public and private agencies; representatives of local, international, Palestinian and Israeli NGOs; and international agencies, including representatives of UNRWA, UNDP, EU and the World Bank. (Annex 3)

The consultant expresses gratitude for valuable comments to the report from staff of UN-HABITAT in Nairobi, Mrs. K. Rust, Mr. T.W.Kiosterud and Mr. S.A.Gale.

1. Summary of findings, conclusions and recommendations

Since the passing of Resolution 18/12 in February 2001, the crisis in the occupied Palestinian territories has deepened. As stated by the UN Technical Assessment Mission in October 2002: “The crisis is fundamentally political – it will continue to worsen unless political decisions are taken to lift closures, curfews and other restrictions on the civilian population. The ultimate resolution of the crisis requires a political settlement that brings security to both sides”. (ref UN-T.A.M. Oct.2002). This background also gives perspectives for all later discussions regarding a Human Settlements Fund for the occupied Palestinian territories.

Poverty has risen sharply among the Palestinian population in the West Bank and Gaza Strip. During the last two years, 56.6pct. of the Palestinians have lost their jobs and income. Household data provided by the PCBS shows that 66.5pct of the Palestinian population live in poverty, with 58.7pct in the West Bank and 84.6pct in Gaza living below the poverty line. While there is high population growth in total, there is an even higher rate of growth in new entrants to the labour market. This indicates that considerable economic
distress continues to occur among the portion of the population that is at risk, in spite of their best efforts to find employment and build a better economic future.

3. A sharp decline in public revenues that has occurred over the past two years has been partly offset by an increase in external donations. In spite of this increased assistance, the Palestinian Authority's inability to cover necessary expenses continues to rise. There is a growing backlog of public projects that cannot be funded. While the international channelling of support to the state budget has increased, the external capital investment has been reduced. Assistance from donors is being redirected from more long-term development projects to secure a minimum level of welfare and to address emergency issues. The issue of a Human Settlements Fund therefore must be seen against a severe economic situation dominated by emergency humanitarian activities in the area of human settlements.

4. Politically the situation of the occupied Palestinian territories is difficult and the government is under constant pressure. Under these circumstances care should be taken to establish a structure for a Human Settlements Fund that will support and strengthen the living conditions of the Palestinians, support efforts to strengthen institution building and facilitate improvement in living conditions that may reduce tension between the two parties. While it is impressive to observe the progress that has been made in institution building since the Oslo Agreement, there are still gaps to be filled in the housing and human settlement area as is the focus of this report. There are ongoing reforms in the central government that may change the roles of central institutions in human settlement as described.

5. A main question to be addressed is whether an intervention in the form of a Human Settlements Fund should await a major breakthrough in negotiations and the arrival of more peaceful circumstances. However, if one was to wait for such a change, chances may be lost to contribute to development of a more sustainable future. There are a number of organisational, legal and structural issues that may be positively addressed, even under the present adverse situation. To deal with these now may help to improve living conditions as well as serve to develop sustainable structures for a more peaceful future.

6. Economic incentives can only be effective in an environment with a firm foundation of laws, administrative rules and regulations, and with adequate means and enforcement. In the area of human settlements, however, this is lacking. Foremost, there are considerable obstacles securing legal titling of ownership to land, accessing land for construction purposes, and for issuance of building permits. These issues present significant challenges in the human settlement sector as well as for promoting a significant level of private investment. There are also a variety of other legal constraints on the way the housing market functions, e.g. with regard to rental laws.

7. As is shown in the housing review, there is a substantial need for improvement in human settlement conditions and a continuing need for new build and renovated housing. There is an estimated backlog to replace 79,000 inadequate dwellings, plus an additional need for 51,000 additional housing units to accommodate multi-household dwellers, which yields a total of 130,000 inadequate or unavailable housing units.

8. The poor do not have access to affordable housing finance in the Occupied Palestinian Territories. The housing finance sector, which is developing with the assistance of the international community, is currently in its infancy. Special housing credit institutions that have been set up target low and middle income groups but not the poor. Comprehensive housing policies and programmes are incomplete or lacking and sector co-ordination and promotion of the human settlement issues seems weak. Municipalities in general seem not to have adequate resources for a more active role within human settlement and planning. The larger municipalities, however, seem to possess a high levels of competence. Land issues and issuance of building permits are problematic and closely connected to political issues. Promotion of a long term, housing financial assistance scheme that reaches to the low-income part of the population is one particular area of recommended focus of the fund. The role of the local community in housing planning and implementation is another area where increased focus by a Human Settlements Fund could make a considerable difference.

9. There are presently many agencies involved in emergency activities to provide immediate humanitarian assistance in the occupied Palestinian territories. This includes UN agencies, in particular UNDP and UNRWA, UN agencies that have a long history in the region. It is recommended that a Human Settlements
Fund focus on more long term development issues, in line with the objectives of UN-HABITAT. In addition, there seems to be a need for an agency such as UN-HABITAT to promote the human settlement aspects of development policies. With respect to development issues, there are a large number of agencies in operation in the occupied Palestinian territories. Information flow between agencies seems somewhat random. The role of co-ordination between agencies implementing various aspects of policy seems particularly important at this time.

10. The report points at a need for a Human Settlements Fund in several areas. However, there are a number of options for how to focus and establish priorities to be undertaken by such a Fund. A choice would have to be made among priorities, such as deciding: should the Fund explore a range of new structures and innovative solutions for specific human settlement purposes or should it include aspects of the human settlements such as municipal finance and physical planning or should it focus only on housing, etc. Even within housing finance there are many options, such as deciding: should the Fund focus and build on existing financial structures to further strengthen the market, or should it focus on financing of new build or renewals, etc. Choosing among competing priorities and possible combinations of working methods must be made with care, especially during the initial phase of operation. Priorities must be formulated in close co-ordination with stakeholders and utilise the strength and expertise of the UN-HABITAT. This would include participatory methods to identify needs, formulate potential interventions, and establish priorities.

11. Lastly, there are a large number and variety of types of NGOs and international agencies working in the occupied Palestinian territories. The human settlement perspective is not often clearly expressed. Another useful role for a Human Settlements Fund, and a potential role for a full time representative of the UN-HABITAT in the region, could therefore be to systematically contribute to a much needed lobbying effort for, and co-ordination of, initiatives from a human settlement perspective.

12. This report does not have the ambition to address all possible options to establish a Human Settlements Fund. Further and more extensive studies and explorations of possible development paths are recommended. Within the limited time at the consultant’s disposal, these recommendations should be seen as a first step in the establishment of a fund.

2. Housing and living conditions in Palestine

   Economic background

13. The past two years saw a stalemate in the Palestinian-Israeli peace process turn into open conflict with hostilities from both sides. Human suffering is at its highest since the Oslo accords. Israel’s closure policies and military operations in the Occupied Palestinian Territories (OPT) have driven Palestinian unemployment rates to new heights, and pushed 60-80% of the population into poverty. A recent report observed that the operations by the Israeli Defence Forces (IDF) in the OPT have had “devastating effects on the housing sector, including needed (new) construction, (coupled) with conditions of an absence of free movement of people and goods. Consequently, investments have decreased and capital withdrawn from the housing market […] while investments are being spent to cover losses and meet more immediate needs in terms of dwellings.” (Kothari 2002).

14. In the occupied Palestinian territories, there is a high degree of dependence on the Israeli economy, with 96% of Palestinian exports destined for Israel and labour flows into Israel accounting for up to one-quarter of total Palestinian employment. When security measures eased in 1998, 1999 and the first part of 2000, the Palestinian economy experienced a 5% yearly GDP growth (World Bank 2002c).

15. However, as a result of tensions and civil strife after September 2000, a severe economic crisis began in the OPT and that crisis continues today. Closures and confrontations have resulted in a drop in trade, employment and investment, and a doubling of already high transportation costs. Palestinian employment in Israel dropped from 145,000 persons in Israel, settlements and industrial zones before the 2nd Intifada to 33,000 in the second quarter of 2002; unemployment was between 34% (standard ILO definition) and 45% (‘adjusted’ or ‘relaxed’ definition, where discouraged workers are included) in the second quarter of 2002.
Real GDP fell by 6% in 2000 and by an additional 12% in 2001 with critical implications for welfare. GDP per capita plunged by 10% in 2000 and another 19% the following year (UNSCO 2002, World Bank 2002b, 2002c).

16. The economy overall does not seem to be sustainable at present. Approximately 70% of the state budget is funded by donor contributions, yet the state is still incurring debt. Increasingly, the state budget is used for salary expenses while the proportion committed to investments declines. Out of necessity, donor focus has shifted from development to emergency issues.

17. There is significant unutilised capital in housing as a funding base for productive commercial activities. This also includes lost opportunities for housing construction as a significant source of employment. In the occupied Palestinian territories there are a large number of skilled workers and enterprises that can deal with substantial construction activities. For instance, most of the Jewish settlements have been built by Palestinian workers.

18. Poverty has climbed from an already high level of 21% before the Intifada (World Bank 2002a) to 55% in the West Bank and 70% in the Gaza Strip (UNSCO 2002). Poverty has been found to vary dramatically among districts, and between localities in the same district. In general, it is highest in Gaza and lowest in Jerusalem. The share of the population living in poverty in the Gaza Strip is more than twice as high as in the West Bank (World Bank 2000, 2001). The World Bank (2002a) has estimated that two-thirds of the ‘new poor’, those who have become poor since October 2000, are to be found in the Gaza Strip.

How Palestinians live

19. Property ownership has been regarded as important among Palestinians. More than 80% own their own dwelling, which is considerably higher than other areas in the region, for instance in neighbouring Jordan. There are also regional differences. Apartments have become more common and almost 50% now live in multi-dwelling housing structures. Apartments are twice as common in urban as compared to rural areas. There are more renters in Gaza than in the West Bank. In the refugee camps 9 out of ten see themselves as owners. The perception that ownership is important persists, even with the increased insecurity related to properties held by Palestinians due, in recent years, to Israeli military activities directed towards housing

20. The type of housing initially set up for refugee households in the camps (erected after the 1948 Arab-Israeli war) to replace tents were “shelters,” or small single detached dwellings. Those who moved into the camps subsequent to this have mostly built their own shelters or purchased them. UNRWA does not own the original camp housing, but refugees are free to use the housing as long as UNRWA is given use of the land upon which it is built.

21. One indication of dwelling density and crowding is the number of households sharing a single housing unit. Such multiple-household dwellings are rare in the West Bank (2.9%), but more common in the Gaza Strip (16.2%). On the average, the phenomenon also occurs more often in the refugee camps. A widely used measure of density is that of the average number of persons per room. Households in the OPT have on average one room per 1.91 persons. Gaza is clearly more crowded than the West Bank, at 2.1 persons per room against 1.8 persons per room. Urban areas appear less crowded than rural areas, which in turn are somewhat better off than refugee camps. Yet the overall picture here is one of similarity across regions and location rather than dissimilarity. The refugee-to-non-refugee differential is also insignificant (PCBS 2000b: Table 15).

22. However, the situation changes when space around the dwellings is considered. This is important since space around the house may be not only a source of recreation but also serve as a base for income generating activities for low-income households. The refugee camps are particularly compact where more than half of all households reside on plots less than 150 sq.m. The average household has 6.4 persons in the occupied Palestinian territories. The largest households are in the camps, Gaza households are slightly larger than in the West Bank.
The vast majority of dwellings have a separate kitchen, bathroom and toilet, and, in this respect, there is no significant difference between the West Bank and Gaza Strip (Table 14). However, rural areas consistently fare worse than urban areas and camps. Since a lower proportion of households in the villages have piped water, the standard of kitchens, bathrooms and toilets is lower here.

In addition to a housing unit's size, the availability of basic services such as electricity, water and sanitation is important to a household's welfare. There are few households overall who do not have piped water, a disposal system for sewage, and electricity. But there are regional differences, whereby a higher proportion of households in Gaza rely on private solutions (water systems, cesspits) than in the West Bank. Moreover, there are also urban-rural variations with towns having better access to public services than villages. As regards electricity, rural Gaza stands out as having a particularly poor provision of electricity as compared to other localities. The refugee camps of both regions on the average fare better than other areas.

The review and needs assessment report indicates that the overall connection to services has a relatively good coverage, except in rural areas. However these services are not necessarily of sufficient quality. During interviews with staff of the Gaza Municipality, we were informed that public infrastructure suffer from many defects and are badly in need for overhaul and repair.

Current and future needs for housing

This section builds in its entirety on a review of the housing needs assessment report (Tiltnes and Magembe). According to the 1997 Census figures the Palestinian population lived in about 401,000 residential dwellings with 6,000 housing units being used for work only, 24,000 being closed and 35,000 vacant. Compared to a total number of 442,000 households at the time, this may seem low, but is explained by the fact that some households share the same housing unit (3% in the West Bank, 16% in the Gaza Strip).

Table 1 below (Tiltnes and Magembe, table 4) displays the housing situation as it currently exists. If we accept that the multi-household dwelling is a solid indicator of housing shortage, then the OPT is currently short of no less than 51,000 housing units. The Table furthermore shows that about 105,000 households are overcrowded (having 3 or more persons per room). It also indicates that there are 7,000 households without a kitchen, almost 12,000 households lacking a separate bathroom, and 2,500 households in need of an inside toilet.

Table 1 Proportion and number of 2002 households by certain housing indicators and region

<table>
<thead>
<tr>
<th>Housing Indicator</th>
<th>West Bank (339,594)</th>
<th>Gaza (175,607)</th>
<th>OPT (511,411)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage</td>
<td>Number</td>
<td>Percentage</td>
</tr>
<tr>
<td>Lack kitchen</td>
<td>1.4</td>
<td>4,754</td>
<td>1.6</td>
</tr>
<tr>
<td>Lack bathroom</td>
<td>2.6</td>
<td>3,829</td>
<td>1.9</td>
</tr>
<tr>
<td>Lack toilet</td>
<td>0.4</td>
<td>1,356</td>
<td>0.7</td>
</tr>
<tr>
<td>3 or more persons per room</td>
<td>18.6</td>
<td>63,844</td>
<td>23.3</td>
</tr>
<tr>
<td>Multi-household dwelling</td>
<td>2.9</td>
<td>9,948</td>
<td>10.2</td>
</tr>
</tbody>
</table>

It is likely that a substantial proportion of the 51,000 multi-household dwellings also are overcrowded (density of 3 or more). We assume that a missing kitchen, bathroom and/or toilet frequently are found in the same households, and that these attributes tend to go together with crowded conditions. 51,000 multi-household dwellers needs to acquire a separate housing unit, which means that as many new apartments or houses have to be built. If 30,000 of the multi-household shelters were also crowded, their housing density problem will be solved with the creation of the same 51,000 new housing units. There are some 75,000 crowded dwellings (equivalent to 75,000 households) left. Assuming that only 4,000 shelters of those lacking kitchen, bathroom or toilet are not overcrowded, we will have a total number of 79,000 inadequate...
dwellings, plus the 51,000 as defined by the multi-household dwellers, which gives a total of 130,000 inadequate or unavailable units.

29. While a considerable lower figure than that of other studies, 130,000 missing or inadequate housing units is a sizeable number and equals 28% of the total housing stock of the OPT in 2002 (excluding 'vacant' and 'closed' units). Also, in other cases the only solution to a housing problem is a new dwelling. For example, if the present place of living is beyond repair or if horizontal and vertical extension is impossible (which is the case for many refugee camp shelters) then a new dwelling is required. If one-forth of the inadequate housing units other than the multiple-household dwellings are of this category, it suggests that a total of 71,000 new shelters have to be built to alleviate the substandard housing conditions that existed during 2002, while another 59,000 units need renovation and/or extension.

30. The housing needs estimates so far have been based on the situation in 1997. The effects of the Israeli occupation and military activities since then and their effect on the housing situation have not been taken into account. The question of damaged and demolished housing has emerged as a consistent pattern (ref). Demolishing and damaging of houses is carried out either as a punitive action or they are administratively demolished due to lack of building permits. The personal loss and feelings that these actions bring about, can hardly be estimated. It is, however, a fact that the loss of material goods and investments that have been put into these houses by the affected households adds a serious strain and material set back to all concerned.

31. Some 40,000 private and refugee homes were reported damaged and destroyed during the first 18 months of the Intifada. Of these, 2,800 had been completely demolished by the IDF, while the rest had suffered damages of varying degree of severity (United Nations 2002a:46). Although house demolitions and damages are devastating to the individual families affected, the need assessment (Tiltnes and Magembe) supposes no special impact from such Israeli offences during the Intifada on the housing needs assessment, as they believe humanitarian assistance to OPT and emergency repair and construction projects carried out by the UNDP, UNRWA, the PA and others will fill (most of) the housing needs and gaps in the housing provision created by the recent Israeli destruction (– although by late November 2002 the grand majority of totally damaged housed had not been re-built, according to interview information).

32. The Intifada has deprived the Palestinian population in the OPT of some 20,000 housing units due to slowdown in the construction sector. If the current stalemate in the negotiations between Israel and the Palestinians continues, the closure policies of the Israelis are not eased, and the Palestinian construction sector as a consequence does not pick up and improve its performance in the production of private housing, the situation will deteriorate. For each year the output stays at its 2001 level, 8-10,000 new households will be denied their right to separate housing. The effect will be a higher proportion of extended households and multi-household dwellers, and increased residential density. Moreover, if the current, difficult situation in the OPT should persist and if the international donor community should not manage to close the housing gaps generated by Israeli closure policies and IDF actions, the housing problem will deteriorate even further.

Land issues

33. The conflict basically revolves around land issues and control of natural resources. These are naturally the critical issues also for the housing situation. The West Bank and Gaza Strip have been occupied and controlled by Israel since 1967. Following the occupation, Israel started to erect Israeli settlements or colonies, as many Palestinians prefer to label them, in the OPT. As seen from the graph below, (based on Tiltnes an Magembe, Israeli Central Bureau of Statistics and ICBS 2002) there has been a particularly sharp growth in settlements since 1983. In 2001 a total of 205,600 Israelis had their residence in the West Bank and Gaza Strip (Table 2.7). Today there are 128 Israeli settlements in the OPT, with 121 in the West Bank and 7 in the Gaza Strip (PASSIA 2002:95).
34. The Gaza-Jericho (Oslo I) Agreement (Cairo, 1994) and Interim (Oslo II) Agreement (Taba, 1995) divided the Occupied Palestinian lands in different zones, giving the Israelis and Palestinians varying degrees of jurisdiction. Roughly, the only so called “autonomous” areas were the Palestinian Authority was given full jurisdiction, were basically within the old city limits as originally defined by the British colonial period. Within these areas, the so called “A” areas, the Palestinian Authority is responsible also for building permits. They could also give such permits in adjacent “B” areas, but there the process is often more complicated. In the remaining territory (Area C) Israel retained its exclusive control and Palestinians, as a rule, are not granted building permits. In all, Area A accounts for just under 2% of the West Bank, Area B 26% and Area C makes up the remaining 72%. (PASSIA 2002:74-77). The result of this partitioning of jurisdiction has been strong growth in urbanisation of the Palestinian population of the West Bank and Gaza Strip.

35. Building permits usually require that legal titles are available. Most buildings in Gaza are now titled. However, this is often not the case in other areas. In the West Bank, land titling is only partly implemented in Area A and B and is totally lacking in Area C.

3. Potentials and challenges short-, medium- and long term

36. How does the housing market meet these challenges? The answer is, in short: very poorly. As is shown in the need assessment report, there are several reasons for this. The shortage of available land and building permits are primary reasons. Structural shortcomings include the lack of legal titles, lack of security for effectively performing mortgage lending, lack of long term funding instruments, and low public confidence in the long-term stability of financial institutions. These are strongly connected to the past performance and future expectations for the economy and the corresponding expectations of household income generation potential. All these factors contribute to ineffective functioning of the housing market. There are only few mortgage loans issued and the need for credit for new and renewed houses is not met, and capital that could be used for this important purpose currently goes largely unutilised.

37. Even at present, however, some housing construction is ongoing. At the same time, a number of vacancies are observed, totalling 7.5% (Tiltines and Magembe). This relatively high number can at least partially be seen as a structural consequence of a housing market responding to rental laws in practise gives a tenant the right to stay as long as the tenant wants and tends to maintain historically low rents that may not even cover maintenance costs. A law that enabled more owners to put their empty units out on the market, would increase mobility in the housing market, increase supply and make housing more accessible to more people. For many reasons, there is an imbalance between housing supply and effective demand. The wrong type of
houses seems to be built in the sense that many of these are expensive houses that will not, now or in the future, be affordable by those who have low income and who need housing the most. Current construction of houses can to some extent be seen as investment for the future by those who have money, but who are not able to invest in more productive and commercially viable activities, due to the present policies of closure and curfews.

38. At present there seem to be very few vehicles for channelling credit for housing purposes into the lower income segments of the population. Although also these operate with income levels above what is the average at present, the PHC, the PMHC and the CHF (discussed below) are exceptions. The imperfections in the housing market should be addressed at a general level. But in so doing, one should include the expansion of access to capital for housing to as many as possible. The normal functioning of the housing market that results should include funding for all segments of the population, including low income households. It is imperative to encourage increasing the housing supply and that the political and institutional obstacles to achieving this objective are removed. Simultaneously, income supply and income side measures should be concentrated to meet the needs of the poorest segments that have the greatest need for housing.

Housing finance in the occupied territories

39. In this chapter, specific issues related to housing finance in the occupied Palestinian territories are presented. Please be aware that the next chapter gives a more general introduction to the understanding of roles and functions of various government agencies and private organizations involved in establishment and implementation of housing policy. The next chapter also focus more widely on human settlement issues of which housing is one, however essential, part. Per the need assessment and the terms of reference for this report, particular attention is given to housing finance. Thus, this chapter provides detailed information that should be considered within the context of the more general observations contained in the chapter that follows.

40. The emergence of a private banking sector is new in Palestine. Banks started operating in this area only 8 years ago. Since then possibilities have emerged for increased access to housing finance for a greater number of people. However, the criteria used to ensure sustainability of lending operations are strict and the poor generally do not have access to affordable housing finance to enable them to buy or construct a house through the commercial lending market. On the supply side, there are no generally available financing schemes in place to support housing construction of a magnitude that can address the housing needs that current exist. On the demand side, support schemes or public subsidies that can enable the poor to obtain financing with the current market terms for lending do not exist. In addition, the various financial schemes that are currently in operation are experiencing increased difficulties as poverty rises in the occupied Palestinian territories.

41. Most of the banks are Palestinian-owned, or banks that have their main offices in neighbouring Arab countries. There are little or no long term funds available and banks accordingly are not interested in making long term commitments such as those required to finance housing. Those banks that do are supported by the PMHC, whose operations are described later in this chapter. The individuals who can qualify for housing loans through the commercial banks, therefore either qualify for such a secured loan or they obtain an unsecured short-term loan that is not as suitable for larger, housing investments. Some short time loans for housing improvements are given through banks and CHF (whose operations are described later in this chapter), but most often such unsecured loans are made by relatives and friends. Even smaller loans can only be obtained from financial institutions on the basis of meeting stringent criteria even times including guarantors and demonstration of a secure source of income. Organizations that provide fund for housing from outside the Financial Institution Sector include the Palestinian Housing Council (described below), that give housing loans and the CHF Housing Improvement Programme that gives loans for housing improvement purposes. The Welfare Association is, to a minor extent, involved in old city rehabilitation.
The UNDP, World Bank, EU and other international organisations take part in human settlement improvement on a broader basis than housing. With regards to housing alone, some of these international organisations engage in emergency activities, specifically including rehabilitation in some of the older cities in addition to improvements in infrastructure and public facilities. At present, a number of other agencies are also similarly involved, but their efforts are limited to emergency activities in order to provide employment and immediate improvement in welfare conditions. In general, comprehensive initiatives to facilitate large scale access to housing finance for those with lower income levels have not been implemented.

42. The functioning and development of a private housing finance market are strongly influenced by the overall legal and social structure within which it operates. Primary obstacles that prevent the smooth functioning of this market include the lack of enforcement of orders issued by courts of competent jurisdiction and lack of support for evictions and enforcement of other claims by property owners. In a circumstance of increasing poverty, the prevailing attitude toward evictions increases the difficulties created by lack of formal enforcement mechanisms. Only few institutions to support market growth have developed in the relatively short period of experience with mortgage lending in the occupied Palestinian territories.

43. Lacking political stability and given continued deterioration in the overall economic situation, the risks associated with mortgage lending are considerable. In this unstable environment, the reluctance of financial institutions to make long term loans that are secured by housing structures that may have no future value is a rational decision. In view of the magnitude of current housing needs, a financial scheme of considerable magnitude needs to be launched. This would have to include subsidies, and/or loan guarantees as well as other kinds of support for new developments. For instance, drawing on experience from South Africa, a simplistic but considerable investment grant system can be introduced as an element of housing policies to bring about a major change in living conditions. No such schemes have been introduced nor are there any such financial means currently available in the Palestinian territories.

44. Another major factor limiting the growth of the housing sector is to be found in the land policies and the scarcity of locations available for new construction for building purposes. This contributes, according to interviews, to sharp rise in housing costs, especially in the Gaza Strip and in East Jerusalem. Land policies are closely related to sensitive political issues.

Traditional lending and housing finance

45. As a matter of long-standing tradition, housing finance in Palestine has not been accomplished using mortgages. Loans and assistance from family, assistance from friends and informal lending outside of financial institutions has been the rule. The traditional way for Palestinians to obtain a home, except for among the highest income households, has been through incremental building whereby the owner, friends and relatives engage in construction activities on a self-help basis whenever funds are available. Typically, a household saves money over a number of years before constructing a first floor, or before extending a house it already owns vertically or horizontally. Construction costs are often paid from savings, oftentimes held in the form of gold or other non-financial assets, or from deposits in a bank or informal savings clubs, called a “jamiyya” (Tiltnes and Magembe, annex). Informal loans generally occur in small amounts on the condition of repayment over a short time period. Thus completion of construction on a single house will take a long time, in many cases requiring several years for rooms to be finished. There is potential for further developing local savings clubs as a source of housing finance, based on the strong tradition of the “jamiyya”. This could prove an essential supplement to the formal housing market in their current situation where access to housing credit facilities is limited for large segments of the middle and poorer income groups. Saving clubs both contribute to mobilise individual resources and build equity while also providing a form of collateral when formal later credit facilities are established. If based locally, this could also strengthen the community building process.
46. At the present time, there is little interest and activity by the private, commercial sector to provide housing finance in Palestine. There are several primary reasons for this situation. Firstly the overall economic situation is not conducive to long-term investments. Housing finance is especially sensitive to expectations of financial stability over time because for most individuals, housing represents the one large investment of their lifetime and most often represent a life's savings. If there are mortgages, these are typically planned to be repaid over a substantial number of years. Economic development of any particular area requires that lenders believe there will be stability or growth in income so that borrowers are likely to be able to repay their loans. In this region, a positive belief in future economic stability has been lacking for some time and development has been lacking for some time as well. Chronic conditions of instability have produced a perception of unreasonable risk exposure to lenders and accordingly, the availability of long-term loans is extremely limited. The risk exposure is foremost related to political insecurity and possible Israeli interventions with adverse consequences for the economy. The current threat of interventions contributes to reduced market values for houses, as well as producing a general lack of income and corresponding perception that there may be an inability to repayment among lenders.

47. Secondly, all of the unsolved questions related to legal issues, including landownership, titling, the issuance building permits and the inability of municipalities to enforce planning regulations produce an environment that exacerbates lender risk exposure. These specific issues have been discussed in more detail above.

48. Thirdly, but not the least, there are substantial problems related to the functioning of the courts and enforcement of its rulings. At best, for a lender to take legal action to take possession of property as a result of non-payment is an extremely lengthy procedure. Of even greater concern to the commercial sector, however, is the general inability to enforce a court order once it has been obtained. It is not uncommon for years to pass without any action being taken on rulings that have been made by a court of competent jurisdiction. The traditional attitudes with respect to evictions play a major role in this area as well. Eviction from ones home is viewed by many in the general population as something that simply should not be done. With continuing escalation of the economic difficulties in the region, public resistance to such measures has increased as well. Yet the growth of an effective housing mortgage finance sector depends on a development in this direction. Along with an improvement in overall economic circumstances, strengthening the court system and establishing effective institutions for enforcement of court orders accordingly pose a challenge that must be met if financial institutions are to undertake long-term lending in Palestine.

49. In lieu of effective foreclosure mechanisms, it is feasible to have alternative mechanisms in place to secure housing loans. These mechanisms would depend on other criteria; assets or guarantor requirements as security. Because social cohesion is strong and there is a considerable sense of mutual responsibility between family members, multiple guarantors to secure the obligations of a family or group member are possible. However, at present, the number of individuals that have regular and strong incomes who can be acceptable guarantors is diminishing. At the same time, people are increasingly selling off other assets that could have provided alternative security for borrowing (Ref Tiltines and Magembe).

50. At present there is generally no long term funding available for banks in Palestine. All deposits are considered short term. To increase private involvement in housing finance, the banks therefore need access to reasonably priced, long term funding. One source could be international donors such as the World Bank. Another source could be issuance of bonds by the local banks. However, the general attitude at present is that people are not interested in tying up any funds for more than maximum of 1-month. As assessed by the private banks themselves, (Interview, commercial banks officials) there is money available in the general public, but there is not sufficient trust in banks and the economy for individuals to hold funds in financial institutions. At present there are 23 banks operating in the West Bank and Gaza Strip. Of these 8 are Jordanian, one Egyptian, two foreign banks and 12 new, local Palestinian banks. It should be remembered that these private Palestinian banks only started operating about 8 years ago. All of these financial institutions are private, commercial banks. The only mortgage lending that takes place in Palestine occurs
through these private banks and loans are funded through the PMHC, whose operations are described below.

51. Based on interviews, banks in Palestine feel that mortgage lending is not a particularly interesting area of involvement. Margins are much higher on short and medium term lending for commercial purposes. For comparison purposes, interest rates in Jordan are 9-13 pct, in Israel 12-24 pct. The rates that banks have been charging for housing mortgages, partly funded by the PHMC, are 7.5 pct. Recently the banks were allowed to increase their rates for these loans by two percent or more, but the rate of return continues to lag alternative commercial lending rates.

52. The economic principle that interest rates reflect the underlying risk of investment supports the lending priorities of banks in Palestine. When higher interest rates are possible for short-term, and relatively less risky, commercial lending, mortgage lending will remain a lesser priority. In order for the housing finance mortgage system to improve and to attract the interest of private banks, improvements in the lending structure, listed in priority order, are 1) obtaining reasonably priced funding, 2) ensure higher risk coverage and 3) improving the timely functioning of the legal system and ensuring that a mechanism for enforcement is in place.

53. Overall, the housing finance situation is characterised by greatly under-utilised potential and unrealised demand among qualified borrowers. Most important of all, confidence needs to be built in the economy at large, in the efficient functioning of a housing finance lending system in particular, and in the legal framework and its implementation. Apart from availability of long term funding for housing purposes, there is a need for further support for capacity building in the private sector serving housing finance. In this field there is experience to draw on from neighbouring countries. Much of the Palestinian laws concerning housing are based on the Jordanian laws, and there are many close business relationships and co-operation between the two areas. Experience with housing finance in Jordan may be especially useful to study as a model for development of this sector in the West Bank and Gaza Strip.

Private sector involvement in financing housing provision and housing renewal

54. The Palestinian Housing Council is a non-profit, national NGO established in 1992 to assist those who do not have a house and are in need of financial assistance to get one. The PHC has administered and supported various programs to construct new dwellings, finish uncompleted ones and upgrade housing units of poor quality. The NGO is administered by a board including broad representation of people from various regional localities and NGOs. With the help of financial assistance from PHC, 1178 apartments have been constructed in the Gaza Strip (34,000 USD per dwelling unit), 408 house units in the West Bank (41,000 USD per unit), 231 houses in rural areas (average loan of 11,700 USD) and 2,000 house units in Jerusalem (16,500 USD per unit). International donors remain the major source of financing for PHC’s activities. In total, PHC has invested approximately 96.1 million USD in housing projects in the OPT (PHC 2002).

55. In the Gaza Strip, the PHC financed the building of mainly apartment buildings (high-rise ‘towers’) that have been used to house the Palestinian police force and civil servants. This particular program has met some criticism regarding its inability to benefit the targeted poor segments of the Palestinian society. The PHC has in the past also had problems with the sustainability of its funds due to low collection of payments. In co-operation with its donors, this has induced the company to modify its mode of operations to maintain a revolving fund as a basis of its financial operations. According to company officials, operations are monitored closely and currently procedures are streamlined to reduce operational overhead. Increased attention is also being given to collection activities Criteria used for lending includes ownership and title to land, evidence of issuance of building permits and documented minimum income levels. In addition, there are limitations on lending available to those with income levels that exceed a define maximum. While these measures increase the sustainability of funding, they also increasingly exclude poorer households from receiving financial assistance.
56. At present the PHC provides soft loans and other credit programs for low and middle-income Palestinians engaged in new housing construction and improvements on old units. It targets families with a monthly income of 500-1,000 USD in the West Bank, while more income is required to be applicable for loans in Jerusalem (700-1,500 USD). Guarantees are also required.

57. These revised operations demonstrate a healthy financial situation up to the breakout of the 2nd Intifada. However, since then, many people have had difficulties repaying loans. The lack of enforcement of claims through the legal system is also hindering achieving sustainable operations of the PHC (Interviews with senior officials of the PHC). It was mentioned by the officials of the PHC that specific assistance is needed for it to enter into activities targeted at the poor, such as development of site and service projects similar to those discussed with MOH and PEC DAR later in this report.

58. Recently, and in co-operation with the Welfare Association the PHC has provided 85 poor families in old city centres with grants of on the average 2,800 USD for the rehabilitation of their houses. (Interview, PHC 2002).

The Palestine Mortgage Housing Company (PMHC)

59. A principal obstacle to private financing of housing is the lack of access to long term funds. The Palestine Mortgage and Housing Corporation (PMHC), which began operation in 1998, provides such long term funds for mortgage lending by its participating lenders in Palestine through its subsidiary Palestine Housing Finance Corporation (PHFC). It also provides mortgage loan insurance for long term loans initiated by commercial lenders through its other subsidiary Palestine Mortgage Insurance Fund Corporation (PMIF).

60. The business objective of PMHC is the creation of a privately owned, commercially viable, financial institution to facilitate the flow of private capital into the production of housing in Palestine. The funding for the scheme comes through a long term loan from the World Bank/IFC at 0.75% fixed over 40 years. At present, there are no other sources for housing mortgage lending available in Palestine other than that which is organised through the PMHC. The advantage of their scheme from the perspective of members of the public is that long-term fixed rate loans are available to the public to obtain or improve housing, with relatively low interest rates.

61. The PMHC, through the PMIF subsidiary, insures mortgage loans against default of repayment by the borrowers. It provides this loan insurance for the full term of the loan and operates on a commercially viable basis. The premium structure includes a provision for a reasonable return to the private investors in the PMHC. By providing the participating lenders with mortgage loan default insurance and reducing the lender’s risk, they are encouraged to invest in the Palestine mortgage market. This insurance also allows the participating lenders to make these loans available at reasonable rates, using longer terms and higher loan to value ratios. Additionally, Palestinian borrowers face more relaxed collateral requirements than usually imposed by the lenders in Palestine.

62. Technical assistance of $3 mill was given through PMHC for the start-up of the company. The initial work that was carried out as part of establishing the institution was to develop guidelines, procedures and provide training in underwriting skills in the private sector. This was necessary because these functions were not previously performed by the involved banks. Successful efforts to enact new condominium laws enabling mortgages to be issued on apartments was also an element in this initiative.

63. Shareholders in the company include a conglomeration of stakeholders from the public, private, local and international agencies; two Palestinian Ministries (Ministry of Finance and Ministry of Housing), The Arab Bank Ltd., Palestine Development & Investment Company (PADCIO), International Finance Corporation (IFC), Consolidated Contractors Company (CCC), German Investment and Development Company (DEG), Peace Technology Fund, Egyptian Arab Land Bank, Al Quds Development and Investment Bank, Jordan National Bank, Jerusalem Real Estate Investment Company, Palestine Commercial Bank and a Real Estate Development Company.
64. By design, the PMHC does not deal directly with the public. Lending activities and servicing of loans take place through the private banks. Banks refinance their mortgage lending at a 5.5% interest rate using the PMHC. Initially banks were allowed to charge 7.5% interest for their subsequent mortgage lending. As the bank’s margin must cover 80% of the risk of the loan, banks found that their margin was too low. They have therefore now been allowed to raise their rates. Banks now commonly charge interest rates starting at 8.5% and increasing at the bank’s discretion above that minimum rate. Thus the banks’ exposure is reduced but the cost for the borrower increased. At the present time, to qualify for a loan a household would be required to have about $850 a month of household income (interview, Arab Bank).

65. The vision of the PMHC extends beyond the scope of its present activities. PMHC was established with the aspiration of being an economic catalyst in the development of the housing finance system as well as the providing a capital market in Palestine. Through the PMIF, banks and other mortgage lenders are able to reduce the risks of mortgage lending, and access new sources of funds through the PHFC. Issuance of bonds by the PHFC that are secured by mortgages, has been planned to help in developing a domestic bond market. The team was not informed about any bond issues that have actually occurred through the end of 2002.

66. Typical terms for mortgages financed through PMHC are as follows: Lending is limited to 80% of the value of the property. The maximum loan amount is $100,000. Loans are given with 10, 15 or 20 year terms of maturity. The interest rate is fixed for 5 years intervals and then renegotiated. The borrower must also pay a one-time fee of three percent up front in order to obtain the loan. This fee covers the cost of default insurance and the purchase of a life insurance policy by the borrower. The borrower is also required to pay monthly instalments and these payments must not exceed 30% of their monthly earnings. If the borrower is an employee, all income and payments must be transferred through an account maintained at the bank that issues the mortgage. As a practical matter, most loans are assumed to be made to relatively low-income earners and employees. If a person pays 7.5% interest over a 20 year period and the loan is $35,000, this would require a monthly income of $850 (interview, Arab Bank).

67. During its 2½ years of operation, the PMHC has not incurred any losses. As of November 2002, The PMHC has a staff of 9 full-time employees, and the portfolio, including about 100 loans, has an insured value in excess of $5 million. In addition, an additional $3 million is committed with 50 new loans in process as of end of November 2002. Considering the extent of the Palestinian housing stock, the activities still seem marginal. The company has a high potential for developing a robust mortgage lending market, but their activities have significantly slowed with the recession in the economy. However, also now there is an unutilised market potential within housing finance, even in Gaza. To mobilize this potential, efforts are currently under way by PMHC to re-launch their program. (ref interview).

68. PMHC experiences that banks are not motivated to handle mortgage applications. As a consequence, the PMHC at present does much of the paper work required to approve mortgage loans for the banks, in order to speed up the process of loan endorsement. Sometimes, only the actual endorsement of the loan and the management of the loan itself is done by the private bank. From the borrower’s point of view, the process of borrowing through these mechanisms is lengthy. The application is first handled in the bank, then by the PMHC before it is again handled by the bank to finalise the transaction. This process, with heavy involvement by the secondary mortgage institution, is inefficient and presents an obstacle to large-scale implementation. Transferring full responsibility for loan approval and issuance back to the primary mortgage lending institution would be beneficial in the long run. An increased interest and motivation for housing mortgages clients by banks seem to be required. On the other hand, it remains to be explored whether the promotion of primary mortgage lending institutions might be a beneficial supplement to the system.

The Co-operative Housing Foundation Home Improvement Programme

69. CHF International is an American NGO that operates several programs in the West Bank and Gaza Strip. The CHF Home Improvement programme started in 1995 in the Gaza strip. The aim is to assist poor
families in the income bracket of US $200-800 to finish or to improve their dwelling. As part of a large international NGO, its operations are funded by the US Agency for International Development (USAID), but is organised as an independent NGO with strict requirements for maintaining sustainable funds. CHF has dispersed 4,300 loans from 1995-2002, with the average loan being 4,000 USD (maximum loan value is 8,000 USD). CHF co-operates with local, commercial banks, that have inserted capital in the project and are handling the lending activities. To ensure the interest of the local banks to maintain their engagement in housing, CHF funds at least 50% of these involvements.

70. Criteria for getting a loan is that the applicant should own both the dwelling or house and the land on which it is built (public documents, contracts and deeds required); borrowers must have a steady income over a certain amount (in the case of CHF 200-800 USD depending on the size of loan); the borrower must maintain a bank account for direct deposit of salaries with the bank handling the loan; and they must have two guarantors with regular income and a bank account in the same bank as the applicant. CHF gives loans up to 10 times the salary, with repayment terms limited to not more than 1/3 of salary, and interest fixed at 9%. CHF targets customers with as low an income as possible with reasonable security of repayment. They report a 99% repayment rate, and link this success to applying strict selection mechanisms and diligent follow-up with beneficiaries and banks. While the NGO has experienced the same difficulties as other lenders due to lack of enforcement of legal claims, this has been minimized by using alternative enforcement methods. This is one factor that separates the CHF from other formal, lending institutions.

71. The lending activities of CHF are the only of this kind in the area. The concept seems to fit very well with the traditional way of constructing houses among Palestinians. Most loans are small and are repaid over a short period of time; however after the completion of one loan and improvement activity, another can be obtained. Experience is that families, who, for instance, have lived for years without windows and doors, are able to substantially improve their living conditions through this loan program. Having attaining sustainability of funds in the Gaza strip in 2001, the CHF Home Improvement Loan Programme activities are now expanding to the West Bank. The goal is to achieve sustainability in this new operating area by the end of 2003. According to CHF, their loans have been very popular. Although demand has dropped somewhat since October 2000, there is still substantial market demand (interview, staff of CHF). This kind of lending has great potential in the Palestinian situation and can be highly beneficial, especially in the short and medium term.

The Welfare Association

72. The Welfare Association is a membership organisation that was established in 1983 by a group of prominent Palestinian businessmen and intellectuals to provide humanitarian and development assistance to Palestinians. It is registered as a non-profit foundation in Geneva, Switzerland. The organisation specializes in fund management and has a diverse and substantial project portfolio. Funds channelled through this organisation not only include substantial amounts from sources such as the Arab Fund, The Islamic Bank, USAID, The World Bank etc., it also has a smaller fund of its own. The Welfare Association’s internal fund is involved in various sectors such as health projects and legal aid. In housing, it is involved in small-scale renovation of houses in the core of old Palestinian cities, especially Jerusalem. Their efforts are directed toward the poorest inhabitants that most often inhabits these houses and with the objective of maintaining urban heritage (Interviews, Welfare Association 2002). Various interviews confirmed that the Welfare Association has a solid reputation for its professional capabilities and has firm roots in the occupied Palestinian territories. Its skills are particularly strong with respect to fund management.

Religious organisations

73. The Waqf is a well-established and renowned institution in the occupied Palestinian territories. It is a Moslem charitable organisation. Within housing, its main contributions are to supply some of its lands for special purposes of its own choosing and based on its own priorities. In many instances, land is rented for a long period of time (30 years) for insignificant rent.
Housing co-operatives

74. An increasing number of co-operatives have been formed in the occupied Palestinian territories, especially in Jerusalem and the larger West Bank cities. They are formed by a group of people with similar housing needs who combine their resources by saving money in a jamiyya. They jointly buy land, acquire building permits, access finance, organise construction and secure the necessary infrastructure services to construct a multi-family dwelling. Very often these groups are people with the same professional background, long-term neighbours or groups of friends. Most individuals forming this type of housing co-operative are in middle or high income groups.

75. There is no umbrella organisation above these co-operatives; nor are there legal or administrative guidelines in place for regulation of these co-operatives (interview with a co-operative member). These co-operatives resemble most of all individually organised building initiatives rather. Typically, a co-operative only exists until the housing construction is complete and individual units are purchased by their first owners. Because the co-operative ceases to exist after all units have been sold, a mechanism for solving management issues that arise after construction on a joint basis does not exist. Similarly, because each co-operative functions independently, none of the experience gained from the process is transferred to others who are forming a co-operative and find themselves in a similar situation. Because building processes in the occupied Palestinian territories are time consuming and resource intensive, facilitating the formation of co-operatives with a life that survives initial construction and the transfer of knowledge gained between projects could substantially contribute to more effective housing delivery to the middle income segment of the housing market. This could be accomplished effectively through support for institution building and without the needs of subsidies for the operations.

4. Roles within the Palestinian human settlement and housing marked

76. In general, roles in the housing market follow the structure shown in the diagram below. The diagram shows primary responsibilities and functions that constitute important elements in a well functioning housing market. As described in this report, on a number of the points mentioned, gaps in structure exist in the West Bank and Gaza Strip. As described later, most of the roles mentioned in the box of the Palestinian Authority need to be undertaken or improved. These gaps and shortfalls negatively affect the functioning of the housing market. Two prime examples is lack of enforcement for evictions and the rental laws that distort the market for rental housing. There is much skills, but also ample capacity for improvement in both the public and private sectors.

77. However the present restrictions on travel, mobility and the imposition of curfews make it difficult to apply human and other capital for housing. An example of the impact of the current situation, as taken from housing renewal undertaken in East Jerusalem follows. In November, delivery of materials for a project was scheduled to occur from a supplier located in a neighbouring community. Prior to imposition of restrictions, such a routine delivery to a job site would have taken no more than 30- minutes to an hour. In the current situation, this same delivery was actually delayed for several weeks. While these specific circumstances are beyond the control of local authorities, local government’s role is critical to improve the functioning of the housing market. Generally there are only a few larger municipalities that have adequate capacity in the human settlement field. Across all levels of government, there seems to be a need for a more active approach to human settlement issues, including improved co-ordination and efforts to achieve effective interventions. It was recommended by several who were interviewed that to do so would be particularly efficient on the local level.
78. The **Palestinian Authority** is still building its capacity and organisation, and currently has limited resources. Housing policies are not fully developed and plans have not been finalised. Elements of the legal framework relevant to the housing sector are still incomplete or altogether lacking, for instance there are omissions in the field of rental law. In addition, many of those interviewed expressed concern about the lack of enforcement of rulings by courts of competent jurisdiction. It was not clear to the team what housing standards apply or how controls are being carried out. There were little sign of co-ordination to ensure consistent implementation on policies on human settlement issues. This area has a substantial potential for strengthening.

79. There is a need for strengthening the overall capacity for government to improve living conditions in the occupied territories. The need for co-ordination of efforts seems particularly relevant not only for the central but also for the **local level of government**. First order capabilities to be developed include physical planning connected to development plans for human settlements. Land use policy must then be integrated with procedures for issuance of building permits, procedures for review of environmental impacts of human settlement, local plans for specific housing developments and housing renewal design review. Concentrating on these program areas would be a useful approach for development of local housing policy. In the smaller municipalities, specific planning skills will need to be acquired in order to build capacity.

80. In the **financial housing market** the existing financial institutions have only been recently established. These institutions do not serve all areas of the housing market and primarily address the needs of a
relatively small, and higher income producing, portion of the market. The present circumstances are not conducive for institutions to make long term financial commitments and this reflects on the availability of capital. In addition, all daily activities and economic activity in the occupied Palestinian territories are affected by the situation of closures, curfew, economic downturn and political unrest. With these circumstances, one can ask whether there is a normal functioning housing market at all in the occupied Palestinian territories. However, as long as there is demand for housing, it seems reasonable to seek to establish a normally functioning housing market, although subject to considerable imperfections due to the restrictions the current circumstances impose and the current state of market responses to the situation.

81. The NGO sector in the occupied Palestinian territories is traditionally very strong. There are also strong personal ties between leading representatives of the government and the local NGOs. However, there are relatively few that are active in the housing sector. As is described below, apart from the PMHC that is organised as a private company and in co-operation with private banks, there are generally only three that the team is aware of that are active in housing finance. One is the PHC that addresses new construction. The second is CHF that lends funds for housing renewals. And the third are smaller NGOs that focus on particular areas of housing such as urban heritage. (Welfare Association). Further, the involvement of the international community is substantial. Loosely organized housing cooperatives also fill some of the gaps with regards to construction of multi-family dwellings. Other NGOs involved in establishment of and/or management of social housing or social housing finance for particular groups do not seem to be noticeably present. In one of the interviews (Polfus) the need for special housing for women was seen as substantial, but was not being addressed by any organizations.

The role of the Palestinian Authority

82. All ministries visited were subject to complicated working conditions characterised by lack of resources, lack of mobility and inability to make contacts with colleagues and partners in other Palestinian areas. The economic recession and political uncertainties not only prevent implementation of policies in the short term, these circumstances negatively impact agencies attempting to deal with long term planning and development issues. At the central government level, there seemed to be little effort to establish a comprehensive human settlement and housing policy or to co-ordinate implementation of existing policies and plans.

83. The Palestinian Authority was set up with a separate Ministry for Housing (MOH). At the time of the first field visit of the team, this ministry was being merged with The Ministry of Public Works (MPW) to form The Ministry of Housing and Public Works. By virtue of this merging of two Ministries, land issues were taken out of the portfolio of the MOH and are now performed by a separate agency. The tasks, responsibilities, and future role of the Ministry for Housing and Public Works after the ongoing institutional reform process remain to be seen.

84. During the first years of its activities, the MOH was heavily involved in housing construction, especially in Gaza, and mainly through the Palestinian Housing Council (PHC). The Ministry was also involved in activities conducted by private entrepreneurs and international donors. During the mid-nineties, number of “towers” and flats were built by the Ministry. However, the success of these projects has been disputed, especially with respect to the targeting of beneficiaries. The beneficiaries of these projects were mainly returnees from abroad and members of the local police force.

85. No housing policy as such has been developed or adopted by the Palestinian Authority. This lack of a coordinating tool and the corresponding inability to establish priorities is a deeply felt need. According to the Ministry, the government is preparing a policy paper defining its new role in housing. This will include an emphasis on the role of the Palestinian Authority as facilitators, co-ordinators, enablers and as implementer.

86. The Ministry of Planning and International Co-operation (MOPIC) has developed national and regional plans with broad guidelines for zoning and physical development, including housing. However, the use of these plans remains limited. Participation of all concerned parties is limited, and in some cases, affected parties and stakeholders do not even know of the existence of these plans (interviews). Although the
capacity and competence MOPIC within the field of planning seems reputable and solid, this level of competence seems not to extend to other levels of government. Further, competency in planning has not been linked to an equally important competence at implementation within the municipalities who have this responsibility. It appears that this high level of competence is contained within the ministry.

87. The Ministry of Local Government (MOLG) makes master plans, including defining built-up areas. In doing so, MOLG is to co-ordinate and co-operate with MOPIC. For master plans on East Jerusalem it was set up to co-operate with planners at Orient House, the Palestinian institution that was responsible for cultural and economic development projects. Available master plans have also been crafted in dialogue with the municipalities. These plans are intended to be the reference for all construction activities, but with the restriction put on land use by Israel, and under the current situation, it is difficult to apply the plans fully. This has lead to cases where private homes have been erected in areas set aside for public use such as parks, or areas protected for historical and cultural heritage reasons. It has recently been decided that the MOLG shall decentralise, with the Ministry at the central level focusing on regional plans, while the Ministry at district levels shall co-operate with the municipalities on local plans (interviews, MOLG staff). This appears to be a positive development.

88. Especially the Ministry of Public Works, and to some degree, the Ministry of Local Government were both referred to during interviews as playing active roles. Along with the other ministries, their normal functioning suffers from the present restrictions on mobility, lack of resources and politically unpredictable circumstances.

The role of the Local government

89. The municipal law from 1966 (Jordanian) regulates the activities of the municipalities and village councils. Municipalities have the responsibility for supply of infrastructure services within their boundaries as well as supply of electricity, water, and sewage systems. This is valid for all municipalities, but applies only to a lesser extent for village councils who are not expected to have the same technical staff. Transfers from the central government to the municipalities have been minimal. The municipalities have relied almost entirely on their own income sources, in particular from the sale of water and electricity. As poverty grows in the region and people become unable to pay their bills, the income base for municipalities is weakened. Until 2000, the local governments in the occupied Palestinian territories received relatively little attention from the international donor community. This seems now to be changing, partly as a consequence of a pragmatic shift toward practical policies in an environment with closures and severe restrictions on mobility. In another sense, this also represents a political shift from central to local government (interviews, local and international experts).

90. In discussing the municipal role in human settlement, there are mainly three aspects to be considered. First is their role, if any, in the finance of housing. This is seen as a private matter by those interviewed, and not something that should be the responsibility of a municipality (ref executive staff, Gaza Municipality). Secondly, are the questions about the extent and quality of housing services to be provided. This would include discussion of the municipal role in establishing infrastructure standards and development of infrastructure to deliver services e.g. sewage, waste disposal, distribution of drinking water and electricity. Management and pricing of these services are also within this area of discussion. Thirdly, there are the questions related to use of land within the municipality, physical planning for housing purposes, issuance of building permits, approval of upgrading and renewal plans, and facilitation of new construction. All three elements are highly influential on the living conditions of local residents and are strongly inter-related from a human settlement policy perspective. However, it is rare that local governments in any country have sound practices for integration of these elements, and the Palestinians seem to be no exception.
91. The capacity and competence level among the municipalities are highly variable, especially between the group of the 7 largest municipalities and the others smaller municipalities. The cities of Gaza, Nablus and Ramallah have been repeatedly mentioned in interviews among those that possess a high level of capacity for land use planning, design review and approval, and implementation of required services. In other words, for planning purposes, there are a few of the larger municipalities that overall have very good competence. Among the others there are many that have one or more well functioning sectors. Overall, there seems however to be a need for increased capacity building in municipalities. The most competent municipalities are able to engage in productive discussion with donor agencies and have achieved a good basis for discussing their priorities. Among the others, no such capacity exists and there is a strong need to strengthen the capacity for planning and implementing human settlement developments. Within planning, some of the institution building that has been carried out at the central level during the years following the Oslo peace accord seems not to have reached down to lower levels of government or to the level of implementation.

92. There seems to be a general view among respondents that, except for certain cities and some larger villages, municipalities in general do not possess adequate human resources to effectively execute physical planning and zoning (interviews). The local level over government needs to become deeper involved in planning and decision-making in order for the Palestinian Authority to improve its development efforts. It has been reported that the PA “did not delegate authority or create mechanisms to enable local councils to fulfil their potential role in the development and administrative processes” (UNDP 2002b:65).

93. Municipal funds are limited. Transfers from the central government have diminished sharply in the last several years. At the same time, the municipalities own income base is shrinking due to the economic and political circumstances. The collection of fees for water has, for instance, declined in proportion to the growth of poverty. As described above, in general there is a high coverage of water and electricity services in the occupied Palestinian territories. However, there are pockets that are not covered, especially in rural areas. In the cities the supply and service nets for water, sewage and electricity are also found to be lacking with regards to quality and extent of services. Infrastructure is in need of major renovation and further development is needed. Through the present emergency activities funded by the international community, a number of issues within infrastructure are already being addressed. There is a need to map the gaps closely before interventions are planned.

94. In view of the extensive housing needs, municipalities will play a critical role in planning land use. Housing needs must be seen in connection with the marked increase in urbanisation that is taking place due to the Israeli policies of restricting building permits for Palestinians to already built-up areas. In co-operation with the national plans for land use, the municipalities hold the key to implementation of a more sustainable future. The scarcity and high utilisation of land in cities, growth in population, and patterns of household formation together also underline the importance of environmentally sound and thorough land use planning and implementation. Until now, many municipalities have not had the means and/or capacity to plan and regulate new construction activities in a coherent manner. This can easily be observed when travelling in the occupied Palestinian territories. The present circumstances have created obvious needs for extensive environmental planning. Practical experiences indicate the absolute necessity of an active and alert municipal role in the implementation of any extensive, social housing policy. This can be done by:

- Planning land use for housing purposes within existing housing,
- Through preparation of sites for new construction
- Cost-based pricing of services and
- Pricing and valuation policies for land

95. The municipalities, at present confined to cities and in nearby areas, have the task of issuing building permits. It is crucial that this task be connected to the local plans for physical development and to the housing policy development plans. At present, some of the ongoing housing construction takes place before any infrastructure development and servicing of the sites are planned. In these instances, infrastructure is developed later. This seems a pragmatic and perhaps necessary way of meeting immediate needs for housing. However, this can scarcely meet the more holistic housing need for effective use of land and resources of the community at large in the long run. For all municipalities, there seems to be a need to connect the planning of land use to social housing policy development and to the issuance of building
permits. The substantial task of addressing the needs of improved human settlement conditions, and specifically the vast need for new construction of housing, places large demands on the municipalities. There are tasks that can only be solved effectively on the local level, in participation with those directly involved with new construction activities. An active approach that relies on land policies for guidance and emphasizes the importance of co-ordinated efforts between all sectors and levels of government, are prerequisites to meet this challenge.

**NGOs and donors involved in broader issues related to housing**

96. An institution of primary relevance to human settlements is the **Palestinian Economic Council for Development & Reconstruction (PECDAR)**, which is an implementing agency that carries out a wide range of infrastructure projects that are funded primarily with international donor contributions. Typical projects implemented by PECDAR include building of roads, electricity grids, water storage and delivery facilities, sewage networks, schools and other public buildings. This NGO reports directly to the President and not to any line Ministry. Its current Managing Director contributed to the founding of the PHC. PECDAR’s role today is to be a vigorous implementer of a wide range of state policies. While this NGO has primary responsibility for construction activities and infrastructure, its role in housing is limited. Basically, it provides provision of infrastructure services to newly built-up residential areas.

97. A number of **other agencies** and bilateral organisations that have a bearing on human settlement conditions are involved in various aspects of institutional support, capacity building and development at the local and central levels. In addition, a number of agencies engage in emergency activities that also affect various aspects of development. Examples are the long standing involvement in strengthening planning capabilities at MOPIC by NORAD and FINAID’s involvement with the local NGO named ARJ to develop environmental planning methods. Some of these initiatives are channelled through the Palestinian Authority; some are joint ventures with other international and local agencies, and some are individually organised on a project basis. One of these projects is currently being carried out by The Arab Studies Society.

98. According to Israeli regulations, when the Israeli authorities present a master plan for a housing area, an alternative and improved plan must be provided in order for Israeli authorities to consider revising their plans. This regulation also applies for Palestinian habitats in East Jerusalem. The making of such plans are demanding and are beyond the capabilities of individual home owners that may be adversely affected by the plan presented. In the past, such plans often have included the demolition of a number of Palestinian housing units without provisions for replacements. With Arab and European Union funding, The Arab Studies Society has specialised in developing such master plans. This unique effort has successfully protected Palestinian housing interests and provided the basis for allowing issuance of building permits in some Palestinian areas in East Jerusalem. The plans made are in accordance with Israeli law and regulations and are enforceable through the Israeli legal system.

5. **UN and international organisations involved in human settlement issues**

99. UNRWA’s main role is the reconstruction of shelters damaged during natural or manmade disasters, or the rehabilitation and maintenance of shelters for families that are registered as “special hardship cases,” and hence are eligible for poverty support. Since the initial construction of shelters for refugees, the stock of refugee housing in the camps has changed considerably – a necessity given that the population has increased while the camp boundaries have not changed. Where they have had the means and permissions, camp refugees have replaced, modified, extended and built additional shelters and houses.

100. **Emergency issues** are a major priority for donor agencies and UN agencies working in the West Bank and Gaza Strip. (UN Tech. Assessment Mission Oct.2002). Within the field of human settlement there is particular attention to water, sanitation and providing shelter. For the first area, UNDP proposes to provide emergency assistance through the Palestinian Water Authority. Total UN requirements for this effort are estimated at US $18,306,225. Within shelter, only the needs of those whose homes have been damaged or
demolished are being addressed. Shelter repair and construction will create 10,000 jobs. This is proposed as an activity by UNRWA and the Ministry of Public Works. The total UN resource requirement is estimated at US $ 30,294,600.

101. As stated in the Housing needs Assessment report (Tiltnes and Magembe), the humanitarian crisis resulting from the current Israeli policies in the Occupied Palestinian Territories are not the focus of that report. The reason is that the Al-Aqsa (2nd) Intifada can be considered an exceptional situation and the negative effects of Israel’s response to it on the housing sector may well be resolved. If the international donor community responds in a timely manner to emergency appeals from the Palestinian Authority (PA), the United Nations Relief and Works Agency for Palestine Refugees (UNRWA), UNDP and other UN agencies working in the OPT, damage to date can be repaired without serious long-term effects on the housing situation.

102. The UNDP has extensive involvement and a long history in Palestine. It also has a unique organisation and structure that is particularly adapted to Palestinian settings and differs from that of UNDP in other locations. UNDP not only facilitates emergency and development activities, but also plays a considerable role coordinating and implementing emergency activities. In addition, as a consequence of Israeli policies, UNDP acts as the coordinator of logistics for a number of other UN agencies in Palestine.

103. The IMF concentrates on overall economic and financial issues as well as addressing institutional challenges related to the functioning of the economy and the financial activities of the state and other framework conditions for the economy. In particular it has promoted the establishment of The Palestinian Investment Fund.

104. Within the area of human settlements, The World Bank/IFC co-operated with CIDA and the Palestinian Authority specifically to develop PMHC and to implement required changes in legislation. The World Bank also support extensive programs for institution building, reforms and capacity strengthening at the central and local levels.

6. Roles for a Human Settlements Fund

105. The above sections have focused on the following:

- There is a growing concern for the living conditions of Palestinians. The gap between housing provision and needs is widening and no comprehensive efforts seem to be under way to address the widening gap.
  The present emergency situation threatens to push long term development activities aside.
- Institutions dealing with human settlement need strengthening and roles need to be clarified.
- Institutional framework for dealing with human settlement issues needs to be further developed
- Spokespersons are needed for Human settlement issues in the context of planning and co-ordination of programmes and projects related to development and emergency issues, that may have long term effects on human settlements.
  There is limited focus on providing access to the housing market for the very poor and the most vulnerable groups in the economy.
- Participatory approaches to developing holistic programs to improve living conditions seem lacking.
- There are great variations and gaps that need to be filled in skills required at the local level with regard to planning and implementation of policies.
  There is a lack of co-ordination at both the central and local level for planning and implementation of human settlements.
  Co-ordination issues need to be dealt with more actively on several levels within government and with the local and international agencies involved.
  There are a lack of policies and clarification of roles at the central and local level within the area of human settlements.
These gaps and shortfalls that exist in the current situation illustrate the need for a driving force to push for and maintain the priorities of human settlement issues. At the same time, it is clear that skills need to be developed, building on existing, local strengths, potentials, competence and priorities to further develop the capabilities of municipalities. Overall, there are strong indications of the need for establishment of a Human Settlements Fund to address these gaps and shortfalls in a cohesive manner.

107. The proposed Human Settlements Fund may in principle cover a variety of different type of activities and in several sectors. The range may include activities at various regional levels, activities involving the private and public sphere, be involved in facilitating policy making and support its implementation. In addition to housing, a Human Settlements Fund will naturally include a number of wider issues within human settlement as well. It would naturally be concerned with questions related to infrastructure and provision of services such as water supply, sewage and solid waste and drainage. Whether these are organised privately or they are services delivered by the municipalities, the local authority has the overall responsibility that such services are delivered. The part of a Human Settlements Fund dealing with these questions will therefore necessarily play a different role and adopt different working methods than it will for instance in the area of housing with its implementation anchorage primarily in the private sphere.

108. The potential scope of work for a fund is very broad. This could include areas ranging from promoting reconstruction and rehabilitation of housing, development of sustainable housing markets, facilitating policies and advocating specific programmes for especially vulnerable groups in the occupied Palestinian territories. Priority setting will be a critical concern and should take place after a thorough examination of ongoing development work, plans and commitments of other agencies and institutions active in the region.

109. It is at all time crucial that activities of a Human Settlements Fund are well co-ordinated and integrated with other, related development efforts of the Palestinian Authority and other major ongoing activities. This would also secure the continued strengthening of relations with public institutional structures that are still being developed. Also, the existence of the Fund and its activities should be such that they facilitate rather than create obstacles for future peace negotiations between the parties involved in the conflict.

7. Strategies for the establishment of a Human Settlements Fund

110. This chapter deals with the question of the time dimension and how the perspective chosen may influence the reasoning and justifications of a Human Settlements Fund. In this chapter, the term “short term” refers to the emergency housing and human settlement needs. By the term “medium term”, reference is made to preparation for long term solutions and addressing interim measures that extend beyond immediate emergency conditions. By “Long-term” is meant operations of the fund in a normalised environment.

A Human Settlements Fund and emergency housing needs

Representatives of the Palestine Ministry of Housing expressed keen interest in the establishment of a Human Settlements Fund to address shelter and housing interests. A strong recommendation was given to proceed with measures targeted at the very poor and to initially focus on the solution of emergency issues. Specifically, it was mentioned that solving the question of demolished houses and to improve housing conditions in refugee camps were among the initial priorities to be addressed by such a fund. There was also an interest to explore and develop new types of broader, means tested subsidy schemes for social housing purposes.

112. This report does not deal with the question of whether there is an emergency need for replacement of infrastructure destroyed by natural or man-made disasters is not dealt with in this report. Accordingly the role of a fund in such activities is not dealt with directly. To ensure that the assumptions for excluding these activities, namely that they are already dealt with adequately by other emergency relief activities, would be one area where a comprehensive study would need to be carried out by a Human Settlements Fund representative.
113. Emergency activities within human settlements includes such activities as providing funding to cover the backlog of housing renewal needs in refugee camps identified by UNRWA and/or providing a "temporary fund" for dealing with demolished houses. One method the Fund could undertake to ensure this needs is met, would be to include a one time, limited block grant to be dispersed directly to the beneficiaries. If this is pursued, the challenge would be to limit the intervention to a "one time grant." This type of an intervention can, however, easily become unmanageable for a fund designed for long term, sustainable development. Such grants, particularly if not limited to a single payment, can lead to undesired dependency of beneficiaries and cause a drain of funds from more development related areas. If such interventions is undertaken, it could be confined to issues that are insoluble under present circumstances and that produce unacceptable living conditions.

114. The threat of such an approach would be that it may be difficult to contain such initiatives to one-time interventions. Further, this may not necessarily be perceived as sustainable use of funds and might actually be seen as a short-term benefiting only a few. However, the dependency question would need to be addressed by setting requirements for receipt of a grant, such as recipient's sweat equity, matching inputs etc. The strategic advantage of a Human Settlements Fund to commence operations in this manner would be the immediate effect of getting activities of the fund off the ground while contributing concretely to the improvement of unacceptable living conditions in Palestine. It could be an initial way of getting the fund known and would also provide an entrance point to promote the Fund's importance to donors, including support for fundraising activities. The greater the distance between the initial funding and the production of visible results of the work, the harder it may be to undertake fundraising.

115. It is not within the target areas of UN HABITAT to deal with emergency issues in the housing area but rather to focus on development and long term sustainable aspects. There are, however, a number of UN agencies and other donor agencies that are heavily involved in emergency questions. A special UN task force recently went through all present emergency issues in Palestine. Shelter and other questions related to housing were well represented in the analytical and conclusive parts of this report when it concerns UNRWA interventions and the needs in refugee camps. However, emergency shelter and housing issues present in other areas in the West Bank and Gaza Strip were not dealt with. This shows the need for support of the sector. (Ref)

A Human Settlements Fund from a long term perspective only

116. At present there is a lack of focus on the development of the housing sector in the West Bank and Gaza Strip. However, establishing a fund with the purpose of developing a sustainable housing sector in an area with a persistent history of extensive conflict, and no current signs of resolution, is however not likely to be successful. Developing a sustainable housing finance market requires a degree of certainty and control over risk that simply does not exist at this time. The question should therefore be raised whether only preparations should be made now for human settlement development, with actual interventions and commitments of funds delayed until a peaceful settlement between the Palestinians and Israel takes place. By applying this thinking, a Settlements Fund could be structured and a minimal staff put in place to monitor activities and prepare for a time when the fund could go into operation in the region. Such preparatory work might prove difficult; however, as it would have to build on a number of assumptions of future developments, while those developments may well run a different course. For instance, singling out housing issues specifically, different behavioural patterns from today would prevail on the part of financial institutions and potential borrowers, influencing patterns of demand, organisation of the construction sector, etc. And, perhaps most significantly, one might need to be prepared for the possibility that the actual implementation of Human Settlements Fund activities may take place a long time in the future.

118. None of those interviewed expressed signs of positive changes in the near future. If UN-HABITAT were only to focus on the establishment of a Human Settlements Fund after a peaceful settlement, this may not be seen as a useful approach. Considering the history of more than 50 years of aggressive and unsettled disputes between Palestinians and Israel over the West Bank and Gaza Strip, such an approach may be considered a mere theoretical exercise of little current importance.
At the time of this assessment, there is little reason to believe that a peace settlement is imminent in Palestine. In acceptance of the complicated and sensitive nature of the conflict and its potential solutions, and in recognition of the immediate needs for improving living conditions for the Palestinians, it seems in the spirit of the resolution not only to look at a Human Settlements Fund designed to be functioning after a peace treaty and a final political solution has come into force, but to focus also on a more interim time period that could commence in the very near future.

To work with the preparation of a fund merely on assumptions about development patterns that may prevail in an unknown future seems questionable. It seems a more viable option to start influencing development of structures that are in needed for land use planning and to support developments in such a manner that living conditions can be improved in the near future more or less regardless of the overall political situation.

If there is an ambition for UN HABITAT to take part in the future of Palestine and contribute to the improvement of living conditions, a pragmatic approach would be to take part in the gradual development of sustainable structures. The needed competence, local skills and institutions, and foremost, developing the required trust in new systems and developments, may be built up little by little. Such an incremental approach may enable the Human Settlements Fund to perform on a larger scale under altered circumstances. The condition for such involvement would be that the political situation makes it possible for UN HABITAT to operate in line with its objectives. Those responsible for management of the fund will need to assess the political and economic circumstances on an active basis in order to determine what is possible during a given time period in the foreseeable future.

A housing fund for the occupied Palestinian territories and the need for interim measures

The very nature of a potential peace settlement would have to influence future housing needs and required policies, as well as the need for interventions by institutions such as a Human Settlements Fund. There are many interwoven threads that need to be settled, each will in turn influence the living conditions of the Palestinian population and the need for, and nature of, support for human settlement and housing. Any potential interim design of a Human Settlements Fund must therefore be flexible and should be reformulated based on the outcome of a peace settlement. As a basis, the structural experience and achievements from the interim and preparatory functioning of a Human Settlements Fund should be incorporated. At the same time, a peace settlement would mean a turning point in Palestine development of living conditions. A well prepared, considerable and well founded assistance in the human settlement area of interest could release the latent potential for substantial improvements in living conditions and employment in accordance with the UN-HABITAT agenda.

The past and current political situation has not only curbed growth, but has also caused such deterioration in living conditions and development efforts that it may take a long time to rebuild. (ref). The structures and attitudes that have been fostered under the present conditions may also influence the future environment for some time.

A Human Settlements Fund aimed at dealing with interim measures for the coming years may contribute to long-term sustainable developments and improved living conditions. Although the fund would not address emergency or relief issues, it would have to deal with present priority issues that are structurally important also for future developments. Among those would be identification of major, accumulated, transitional problems impeding development towards a more sustainable future. In the setting of extensive and immediate needs, it would be a challenge to maintain the focus on long-term priorities. In line with this reality, the medium term funded activities would by necessity address immediate needs while seeking to contribute to the development long-term solutions. A strategy for flexibility would be required.

The potential scope of work for a fund is very broad. This could include relevant areas such as reconstruction and rehabilitation of housing, development of sustainable housing markets, and advocating
for creation of policies and programmes for improved living conditions, especially among the poor in the occupied Palestinian territories. Priority setting will be a critical concern and should take place after a thorough examination of ongoing development work and plans and commitments of other agencies and institutions active in the region.

126. At the same time, it seems advisable that activities of a Human Settlements Fund are well co-ordinated and integrated with other, related development efforts of the Palestinian Authority and other, major, ongoing activities. This would also secure the continued strengthening of relations with public institutional structures that are still being developed. Also the existence of the Fund and its activities should not be such that they create obstacles for future peace negotiations between the parties involved in the conflict.

. Accepting the need for a Human Settlements Fund, a logical and useful approach for the time dimension of a fund seems to be the medium and long term perspective, including activities that can be categorized as interim measures.

8. Main Priorities of a Human Settlements Fund in the occupied Palestinian territories

128. As shown in the housing needs assessment (Tiltnes and Magembe), there is a substantial need for improvement in human settlement conditions and an immediate need for new construction and renewal of housing. According to these calculations a total of 71,000 new shelters have to be built to alleviate the substandard housing conditions of 2002; while another 59,000 units need renovation and/or extension. Considering the present drop in annual construction to half of the pre-Intifada level, the housing situation is worsening. No policies or co-ordinated mechanisms are in place to meet this considerable challenge. To contribute to alleviation of this situation should be an overarching priority of a Human Settlements Fund.

129. According to the housing needs assessment report, there are indications of considerable needs in other areas of human settlements as well, such as improving the quality of the infrastructure to provide essential services. This need is especially acute in certain regions. Infrastructure investments are, however, currently targeted by several international donors and UNDP as part of emergency job creation programs. Also, other major programs administered by other agencies and organizations, including the EU and the World Bank, are addressing infrastructure and capacity building. Especially the European Union has several programs supporting Municipal developments. There are also a number of other bi-lateral and individual donors involved in activities in these sectors. Yet, there are still unmet gaps where the specific competence of the UN-HABITAT and a Human Settlements Fund could make a difference.

130. As described above and illustrated by the diagram above (ref. roles.), there are many gaps to be filled by a potential Human Settlements Fund within the occupied Palestinian territories. However there is a need to structure and to prioritise. To ensure appropriate priorities are established, an initial and careful mapping of these needs should be undertaken, based on the progress made and processes in place at the time of establishment of the Fund. Further, the creation of separate funds to address different programme areas (ref. framework section) is advisable. The setting up of separate programme areas with separate funding is advisable. These areas could include issues related to:

- good governance
- security of tenure
- mobilisation of resources
- Affordable housing solutions.

These issue areas do not, however, necessarily have to be matched directly to a fund. They represent focus areas of the UN-HABITAT that would be essential motivations for and within various types of approaches and programme areas.

1. Each programme area would consist of various projects to support the programme objectives. Some would need long term funding, some would need relatively short term inputs and some a combination of funding at various stages of its development. Examples of what these programmes could contain are:
Good governance:
- Policy development and capacity building at the central level, emphasis on enabling strategies, coordination, planning and capacity building; prioritizations and focus the segments of the population with particular needs
- Capacity building at the municipal level with emphasis on sustainable urban, physical and environmental planning and implementation skills

Increased security of tenure including development of legal rights to housing and land policy, institutional framework for rental laws, gender issues

Innovations and mobilisation of resources and framework development and facilitating growth of private sector involvement in housing finance and as implementers policies; of guarantee mechanisms, development of a legal and financial framework for housing co-operatives etc.

Housing fund for affordability including exploration and promotion of a diverse set of approaches of various models adapted to local settings; support institutional support for revolving funds, NGOs involved in social housing schemes etc.

132. There are already a number of existing activities within these areas that need to be further stimulated and strengthened. While a large number of needs have been identified, there are particularly two that stand out in particular. The first is the area connected to the capacity and functioning of the local level of government in human settlement development. Activities to support the autonomy of and make the role of the local government more clear, to strengthen and to build capacities at the same level may be a key to future, positive developments also in the occupied Palestinian territories.

133. A second area of activity that is felt as a major concern in the region, would be to develop structures to make affordable finance available to those with low incomes. In doing this, the fund will have to balance a variety of concerns. This target group has substantial housing needs and the absence of any financial support scheme to address the needs of this group presents a significant challenge. While addressing this need may ultimately result in creation of a self-financing fund, initial contributions will need to be replenished for some period of time before an affordable housing scheme(s) can become self-sustaining.

134. The need for subsidised schemes has to be balanced with considerations for:
- Lack of resources in public or other budgets for vast subsidies
- Difficulties of raising money for housing purposes;
- Fear of creating dependency syndromes among recipients by use of subsidies;
- Management difficulties, including fear of misuse of funds and corruption
- Administrative costs associated with handling of subsidies.
- Fear of distortional effects on private sector development and fear related to long term sustainability of the housing sector finance if major subsidy schemes are introduced at some point.
- Fear related to long term sustainability of the housing sector finance if major subsidy schemes are introduced.

As access to good housing is a basic need and right, it may be seen as intolerable for the international community that a vast number of people are denied access to decent living standards in the OPT. This has an obvious political dimension as well.

Although considerable, lack of funds for the finance of housing and other investment projects is only one of the bottlenecks to achieving the desired improvements in living conditions in the occupied Palestinian territories. There are market imperfections in the housing market that relates to structural, organisational and legal as well as political issues. Land use planning at local level that also includes environmental concerns; issuance and enforcement of building permits, and legal titles of land have been mentioned as elements in a comprehensive housing policy. Vulnerable groups such as children, single mothers and the old may also need particular attention. This could be done in several ways by the Human Settlements Fund staff as part of their objectives; in co-operation with and in support of other initiatives, by
promotion of training, exchanges, information sharing; co-operative networking and by lobbying for human settlement interests in other relevant programmes and contexts.

137. If a Human Settlements Fund is established, it would be important for Fund management to support legislative and organisational reforms with emphasis on the municipal level. Further, the programme areas would need to be developed in synergy with the target groups.

138. Principles guiding development of a Human Settlements Fund could include:

- Achieve sustainability of funds within reasonable limits and in line with the objectives
- Ensure UN-HABITAT core activities are in alignment with Palestinian policies and that of the major stakeholders in the fund
  - Focus on a few high priorities/core programme areas only
  - Focus out projects for medium-term capacity building and institutional building approach that also have positive long term impacts on sustainability
- Focus on long term, sustainable development efforts.
- Promote innovative approaches, explore and introduce new models for the region
- Mobilise local and private resources
- Promote processes to ensure participation of beneficiaries and stakeholders in priority setting and implementation
  - Contribute to strengthening of sustainable framework and institutions in the field of human settlements
  - Strengthen and support the use of best practises by newly developed structures
- Promote co-ordination of development efforts in the area of human settlements by the UN agencies and by other donor agencies to avoid overlap with ongoing and planned activities.

To address this set of priorities would be in line with sustainable and participatory interventions. Addressing human settlement issues following these principles would also mean that the Human Settlements Fund would fill a gap in the current landscape. The UN-HABITAT’s mission and agenda make the organization uniquely qualified to provide this type of a Human Settlements Fund.

9. Main framework for a Human Settlements Fund

139. The Human Settlements Fund could consist of a number of separate, individually managed capital funds earmarked for specific purposes. Using this approach allows the priorities established by UN-HABITAT to be translated into capital allocations that can be separately tracked and for which individual measurements of effectiveness can be established. For example, based on the priority categories contained in the prior section, The Fund might include 4 separately managed capital funds, 1) the capacity building & institutional planning development fund, 2) mobilisation of private resources fund, 3) the affordable housing fund and 4) the investment grant fund for new build.

140. All four of these windows are mere illustrations of a concept. These would have to be within the priorities of the UN-HABITAT and be operated according to its recommended operating modus. There would be a need for the first to address issues at the central level, but primarily focus at the local level to enable implementation of policies. The second would look at how municipalities and individuals could increase utilisation of its own resources. Primarily within housing, would be natural to for instance to combine traditional approaches with further utilisation of saving schemes to increase equity. There is a need for developing mechanisms that can reach the poor. Demand side activities should be examined. Several innovative approaches should be encouraged. The fourth deals with meeting the massive housing needs by promotion of large scale, low cost building through a simple model of investment grants to target population. (Ref experience from the Republic of South Africa).

141. Each fund would be independently managed to allow programs that are most responsive to the needs of each area of interest to be developed and implemented. This area will be discussed in more depth in the next
section of this report. The approach of using individual funds for specific purposes, with quantifiable measures of performance, allows the fund to be flexible in addressing needs as they change over time.

142. For each fund, there would be an objective of economising funds and within the overriding objectives establish mechanisms for sustainability for long or medium term activities. Various models can be applied; with revolving funds as the central mode.

143. Defining funding sources would occur at the individual fund level because some funds that are heavily involved in capacity building or providing subsidies will not be self-replenishing. On the other hand, a private financing fund can be partially self-replenishing initially and could become wholly self-replenishing over the long term.

144. The call for donations would naturally follow as a response to the resolution 18/12 of February 2001 in the UN-HABITAT Council concerning the hardships suffered by the Palestinians. The donors are assumed to come from international sources and all countries who are concerned with the starkly negative developments in living conditions within the occupied Palestinian territories. Also private partners may have long term interests to get involved and invest in the market and contribute to bring about change.

145. Interviewed experts advised that it is strategically important to have initial seed money available to begin activities early in order to ensure later credibility. It was also advised (interviews, officials in UNDP) that the Fund start slow and allow activities to grow over time as capacities and reputation grow, rather than attempt to start operations on a large scale. It was further argued that at present it is not a conducive atmosphere to start such activities with a very large fund initially. It was advised to start small with results and progress be observed and evaluated after an initial operational phase of about 1-2 years time. This was seen as a crucial element is to secure robust, initial commitments for donor funding.

146. The pledges need to be firm commitments and give a basis for long term sources of income for the planned duration of activities. A number of structures need to be established for information flow and follow up activities to maintain the needed trust between donors and the Human Settlements Fund. Below is an illustration of how the composition of funds will change from initial emphasis on technical assistance to long term commitments and funding over time.

![Structure of Human Settlement Fund](image)

147. It should be emphasised that in the initial years of operations, probably stretching at least as long as military operations and conflict persists at a high level in the region, a large part of the funds will not be self-sustaining. Consequently, in addition to seed funding to commence activities there will need to be an agreement on the part of donor organizations or countries to continue their commitment for some period into the future.
148. As priorities are established, the size of each fund and mechanisms for replenishment of funds over time need to be established as a matter of first priority for fund managers. The size of the total need will depend on the priorities chosen and these mechanisms. Even with the relatively low estimates for housing needs described in the need assessment report, and especially if some investment schemes involving block grants are chosen as an alternative, the early years of operation may require substantial funds.

149. A key characteristic for the housing sector includes the relatively large size and long term nature of individual investments. Correspondingly, there is a need for a high degree of financial stability and a firm commitment on the part of the donors. However, the subsidy component of a housing scheme is not necessarily connected to the duration of the housing project as such. With improvements in the housing market and the economy at large, any subsidy schemes will need to be reviewed and revised over time.

11. Organisation and Governance

150. In order to establish and maintain a mission consistent with stakeholder interests and to provide policy guidance, a supervisory board of trustees should be established. Members of this board would include, in addition to representatives of the UN-HABITAT, major stakeholders in the fund. This would naturally include representatives of the Palestinian government as well as major donors in addition to representation from the beneficiaries. The board would regularly report to UN-HABITAT.

151. The role of the board would be to set priorities, issue overall guidelines, initiate the establishment of individual funds for selected areas of interest and monitor progress and various follow up activities to ensure the well functioning of the fund overall.

152. The fund would be managed by an administration accountable directly to the Board. Director and staff should be recruited on a competitive basis. One of the initial actions of the Board should be selection of the Managing Director. The director should have responsibility for the daily management of the Human Settlements Fund activities and staff; responsibility for programme development implementation and evaluation, administrative responsibility for logistics, and all other activities mandated by the board, including specific evaluations and audits. In addition, the director will be responsible for leadership of fundraising activities, networking with other agencies and facilitating increased co-operation between national and local public and private agencies involved in the field of human settlement.

153. Main activities leading to the establishment of the fund fall into two categories, structural requirements and fund-raising requirements. Prior to establishment of the Fund, UN-HABITAT should provide seed money to accomplish the following structural requirements:

- Agreement to legal form
- Selection of non-donor Board members
- Nomination of Board Chair
- Solicitation for recruitment of Managing Director
- Solicitation for Statement of Capabilities from Fund Manager candidate firms

154. In addition to providing structure for the organization, UN-HABITAT should also undertake identification of donors willing to provide initial funding for the Human Settlements Fund. This fund-raising effort should be undertaken with emphasis on donors who are both willing and capable of a long-term commitment to the mission of the Fund. Accordingly, initial donors with such a commitment should be offered membership on the Board as appropriate, based on their level of commitment. As a condition of Board membership, a mechanism for deposit of donor funds upon formation of the legal entity establishing the Fund should be established so that the Fund has operating capital immediately following its formation. As a practical matter, an agreement for deposit of funds will often include specific criteria to be met before a transfer of funds will occur and a “trigger mechanism” to cause funds transfer a short period of time after all conditions for funding has been met.
As an illustrative example, criteria might include elements such as: 1) securing authority to form the Human Settlement’s Fund under the auspices of UN-HABITAT, 2) securing agreement for initial funding equal to or exceeding a specified amount, from a minimum of 3 independent sources, 3) appointment to one seat on the Board of the organization, 4) selection of a Managing Director and acceptance of a contingent offer of employment by the selected candidate, 5) completion of all actions necessary to form the legal entity. As an illustrative example, the “trigger mechanism” might include transfer of funds to an escrow account 15-days prior to the anticipated date of formation of the legal entity with release of funds authorized within 72 hours after certification that all conditions established in the agreement have been satisfied.

The administration would be based either in the West Bank or Gaza. This should be kept at a minimal level to avoid a heavy burden of administration. It could be considered to establish such an office in cooperation with a local agency to share overhead costs. It was emphasised in interviews held that (ref) the selection criteria for the role of director of the fund, would naturally include extensive knowledge of local networks, society and politics and a proven track record of result orientation within the area.

The focus areas of the fund’s interventions, the programme areas, should be developed in close accordance with the board that sets the priorities and guidelines of the Human Settlements Fund. The implementation of each programme area should be done by a local agency, supervised by the director of the UN-HABITAT.

12. Partners, roles and responsibilities

The role of the UN-HABITAT Human Settlements Fund would be to be a catalyst for initiatives as well as responsible for prudent and efficient management of funds to meet the objectives. The role of UN-HABITAT however is not to be implementers.

The Palestinian Authority has since its creation received considerable support to institutional strengthening and creation. The set backs suffered by the Palestinian Authority caused by the Israeli policies in the occupied territories are however severe. The requirements of reforms and institutional changes are at present at the same time pressing but also difficult to carry out. As the conditions become increasingly severe, it seems tempting for more and more international agencies to bypass the Palestinian Authority. This can itself have a deteriorating effect on the strength and potentials of the government to function well in the future. As a major international player, it seems necessary that the question of establishing and functioning of a UN-HABITAT Human Settlements Fund is done in close liaison with the Palestinian Authority and its policies. As the times go, the organisational structure and capabilities of the Palestinian Authority may change as a major reorganisation programme, initiated by the World Bank, is being implemented. It would therefore be a requirement for the fund to have a robust structure that can adapt to changes in needs and framework conditions over time.

In the search for partners for possible management and implementation of a Human Settlements Fund, emphasis has been put on identifying local partners. This is seen as crucial to its long term sustainability of the fund and for its incorporation in Palestinian public and civil society. At the same time, the region poses particular challenges when it comes to the selection of appropriate institutions, the human resources and required knowledge that can ensure the success of a new entity as the Human Settlements Fund considered.

The model of a Human Settlements Fund must take into account that its structure and organisation must at least at its inception be robust to changes in policies, economic and political circumstances. A pragmatic approach to finding solutions in a developing society would also be useful. The role of national and international NGOs has very strong traditions in the area. Although officials frequently are also on the boards of NGOs, there seems to a need to strengthen the co-ordination within those involved in the human settlement area.
13. Fund management

162. It is a prerequisite that management of a fund is done in a transparent and accountable manner and in accordance with internationally accepted auditing requirements and in particular with UN requirements for fund management. To ensure this, the fund management is advised to be separated from the supervisory role of the board of the fund and from its actual implementation. The fund manager should report to the board of the Human Settlements Fund through its managing director who would have the responsibilities to prepare all relevant documents for decision as specified and requested by the board.

163. It is recommended that a separate, professional and preferably Palestinian based agency who has specialised in this field and that has good track records carries out the responsibility of fund management on behalf of UN-HABITAT. The Fund Manager should be selected on a competitive basis after an open invitation for bids in compliance with international guidelines and recommendations.

164. An agreement between the Human Settlements Fund and the Fund Manager would include general and specific criteria for performance of the Fund Manager. It would also include a description of the relationship and reporting requirements between the Director of the Human Settlements Fund, its governing board and the Fund Manager. The making and contents of such a contract and all required guidelines of operation would be the responsibility of the board with the assistance of the managing director of the Human Settlements Fund.

165. There are a number of reputable, international organisations that specialise in fund management that may well be suitable for management of a Human Settlements Fund. The consultant’s identification of potential local partners in management of the fund results in three such possibilities: The Palestinian Investment Fund, the Local UN-HABITAT representation office to be established in the event of a fund or to the Welfare Association. The selection of a Fund Manager should occur as a competitive process. Consultant’s assessment, based on the field work completed to accomplish the report, is as follows:

166. The Palestinian Investment Fund was established recently through initiatives by the IMF and the Palestinian Ministry of Finance. Its primary function is to be a vehicle for transparent and accountable means of channelling revenues and other funds that accrue on various government funds and through donor investments into the treasury. The Investment Fund has the credibility of the international community and as such functions well. It is however more a tool for orderly management of funds into the National economy rather than an Investment Fund in the ordinary sense. It may not be the most appropriate choice as a partner and fund manager for a Human Settlements Fund.

167. The UN-HABITAT does not have a tradition of direct fund management. Such a fund would require a specialised and high skilled workforce. Even in the case of the establishment of a local UN-Habitat representation, it seems a natural choice to select and partner with a reputable and credible professional agency with particular skills in this line of work.

168. The Welfare Association is a local NGO, formally based in Switzerland that specialises in fund management. Several interviews confirmed the solidity and reputation of the organisation as favourable. It is also used by other international agencies such as the Arab Fund, World Bank, Bi-lateral aid organisations etc. for fund management. The advantage of having a locally based fund manager with solid connections in the Palestinian levels of operations seems convincing.

14. Implementation of activities

169. When it comes to competence and capabilities the general human resource situation and skill level seem favourable in the occupied Palestinian territories. However, the competence level varies greatly between institutions, companies and regions. Identification of relevant partners for implementation would naturally
depend on the field of and nature of the interventions. Ministries would, for instance, be relevant for policy making at the central level; PEC DAR could be asked for facilitating legal reforms (ref) and infrastructure operations; NGOs could carry out developing and managing innovations in affordable housing projects; municipalities would be relevant partners for municipal support programmes, and NGOs and private companies for interventions directed to individuals and the private market.

170. To have a successful operation of the fund, and in accordance with the terms of reference, a number of partners are identified as among the possible viable, local operators for programmes under a Human Settlements Fund: Among these are, Ministry of Housing and Public Works, Ministry of local government, Municipalities, PHC, UNDP, The Welfare Association, ARIJ and CHF. (The list is not exhaustive).

171. PEC DAR has a particular standing as it does not sort under any ministry but is at the same time a central implementer of government policies. It has a substantial competence within planning and has a solid reputation for results.

172. Several of the interviewed sources emphasised the need to be pragmatic in the choice of partners and organisational structures in the occupied Palestinian territories. As institutions have grown unevenly for various reasons, care should be taken to identify sound expertise and competence in order to utilise the potential of each organisation to obtain results. At the same time, the necessity to liaison closely with the Palestinian Authority was emphasised. This considered, the present circumstances affecting the functioning of the Palestinian Authority and its capacity for policy implementation points to the need for the Fund to make initial, independent choices of priorities according to the directions and objectives set by the UN-HABITAT and the donor community in the establishment of the fund.

173. In order to make maximum use of the Fund’s resources and secure a high likelihood of success, the Fund should use a participatory process to determine intervention priorities and developed associated plans of action for proposed project areas. The steps in the participatory process for each project area should include:

- Stakeholder identification and assessment
- Informational meetings to inform stakeholders and other interested parties of the Fund’s mission
- Informational meetings to obtain stakeholder input prior to establishing priorities
- Formal and informal review of proposed priorities in each area of interest prior to selection of projects for funding
- “Circle-Back” informational meetings to inform stakeholders of selected priorities
- Informational meetings to obtain stakeholder input concerning specific interventions
- Formal and informal review of proposed action plans in each area of interest
- “Circle-Back” informational meetings to inform stakeholders about action plans adopted
- Conduct formal and informal meetings to resolve issues and disputes that arise during each phase of implementation

Action plans should also include a set of criteria to evaluate performance for each proposed intervention. The performance criteria should be included in the participatory process so that stakeholder and management’s expectations are similar before an intervention is undertaken.

174. As a particular point in the action plan, facilitating a convention of a “housing forum for the occupied Palestinian territories” could be considered. Such a forum would include all stakeholders, public and private, and interested parties in the development of a coherent housing policy and a Human Settlements Fund for the occupied Palestinian territories. This could be a fruitful starting point for identification of needs and priorities. A similar approach was successfully adopted in The Republic of South Africa as a starting point of its present housing policy.

175. Throughout the implementation process, the Fund will need to provide information and maintain a good working relationship with stakeholder groups and donors. This should be accomplished by a variety of modalities that should be available to the Managing Director for use as appropriate in each project area. Possible modalities include:
Establish a formal liaison function, with an identified primary point of contact, for selected stakeholders and donors
Provide an informal liaison function for identified stakeholders and other interested parties
Establish a working group consisting of key stakeholders and donors to comment on action plans
Establish a working group consisting of key stakeholders and donors to assist in project implementation
Organize informational briefings and on-site visits for selected donors
- Convene conferences and symposia
  Conduct formal and informal meetings with stakeholders and donors to address issues and disputes that arise during each phase of implementation
- Circulate issue papers and position papers for stakeholder and donor review and comment
  Provide written project performance reports

176. At periodical intervals, evaluations of performance should be required for each intervention undertaken by the Fund. The performance measures established for each intervention should be directly related to the goals of the intervention. Measures should be included in the action plan, approved by the appropriate level of management within the organization and subject to reporting to one level of management higher than the level that initially approved the measurement criteria. For example, if an intervention is undertaken to increase participation in the housing market for low-income households, performance evaluation criteria could include a “minimum acceptable” increase in participation by a specific point in time, a target for increase in participation by a specific point in time and a financial criteria related to repayment rates for loans made under the auspices of the Fund. Progress could be evaluated on a semi-annual basis. In this example, assume that the Managing Director originally approved the project. Thus, project evaluations will be reported to the Board for their consideration throughout the life of the program.

. At the completion of an intervention, the successes of the intervention and “lessons learned” should be captured and documented to facilitate learning within the Fund. Possible modalities to capture this information include:
  - Informational meetings to obtain stakeholder and donor feedback
  - Formal and informal review to obtain feedback directly from beneficiaries
  - Conduct a final working group meeting to obtain feedback
  - Convene conferences and symposia
  - Circulate a “program closure report” for stakeholder and donor review and comment

15. Conclusion

178. The review of the housing sector documented in this report indicates that there are clear gaps that need to be filled within the human settlements area of interest within the occupied Palestinian territories. These gaps can be effectively addressed by a Human Settlements Fund initiated by the UN-HABITAT. A number of additional studies will need to be carried out to develop a list of priorities and proposed interventions. One of the main areas where UN-HABITAT could contribute in a substantial manner is by providing special focus, methods and skills to holistic and co-ordinated efforts of human settlement developments. This should include emphasising the needs of the poor and other vulnerable groups, including gender issues

179. In order to produce immediate results that also support creation of a sustainable housing market in the future, the Human Settlements Fund should adopt a medium and long term perspective, including initial activities in the category of interim measures.

. Care should be taken to find a structure for the Human Settlements Fund that will support and strengthen the living conditions of the Palestinians and be supportive and supplementary to other efforts to strengthen institution building in the occupied Palestinian territories. While great care should also be taken to avoid creating increased tension between the two parties, the objective would be to decrease tension
while contributing to improve living conditions of the Palestinians. While it is impressive to recognise the progress that has been made in institution building since the Oslo Agreement, there are gaps to be filled in the human settlement and housing areas that should be addressed.

181. This report argues that an intervention in the form of a Human Settlements Fund should not await a major breakthrough in negotiations and the onset of more peaceful circumstances. If one was to wait for this change, chances to contribute to development of a more sustainable future may be lost. There are a number of organisational, legal and structural issues that may be addressed even under the present adverse situation. To deal with these may help to improve living conditions, as well as serve to develop sustainable structures for a more peaceful future.

182. Economic incentives can only be effective in a stable political environment, with a firm foundation of laws, rules and regulations, and where the means for enforcement are functioning. In the area of human settlements, these fundamentals are lacking in Palestine. Foremost, there are problems with legal titling of ownership to land, there are considerable obstacles accessing land for construction purposes, and for the issuance of building permits. These issues border on sensitive political issues, yet find a solution is essential if the human settlements sector is to be developed as well as for promoting increased private investment. Apart from the political dimensions of these challenges, there are issues that can be addressed in the near term by a Human Settlements Fund. Progress at the local level, in particular, is possible in the near term.

183. Lack of funds is one of the challenges to achieving improved living conditions in the occupied Palestinian territories. The main challenge is to find effective ways to meet priorities established by the Fund, including reaching the poorest parts of the population, in a cost effective and sustainable a manner. A radical increase in attention to human settlement and the housing situation is needed. Four programme areas are identified as main program or priority areas for a fund. These include good governance, security of tenure, mobilisation of resources and affordable housing finance. The report points to various types of schemes that can be explored to reach these goals. It is recommended that the organisation establish four different funds that are aligned with the four priority areas indicated. This would enhance flexibility and accountability. A private, preferably local fund manager is recommended.

184. There are many agencies involved in emergency activities to remedy the immediate humanitarian situation in the occupied Palestinian territories. This includes in particular UNDP and UNRWA. It is recommended that a Human Settlements Fund focus on more long-term development issues, in line with the objectives of UN-HABITAT. Also, with respect to development issues, there is a conglomerate of agencies in operation in the occupied Palestinian territories. The Human Settlements Fund could fill a much needed role by promoting co-ordination of human settlement approaches and programs as an interface between local and central government as well as among international and national organisations.

185. If a Human Settlements Fund is set up it should be as an independent agency under the supervision of UN-HABITAT and central stakeholders. It would be beneficial that its focus revolve around the unique areas of competence that UN-HABITAT has established. There ought to be a commitment to co-operation, clear understanding of roles and responsibilities, and participation in information-sharing networks. It is recommended that the initial step be establishment of a permanent representative for UN-HABITAT in the region. This would permit UN-HABITAT to develop the concept for the Fund further while drawing on local expertise.

186. The actual fund management could be done by a professional, preferably private, and local, agency. Recruitment of management and staff and issuance of contracts should be accomplished on a competitive basis. The Fund could combine activities that need long term commitments to funding and short term technical assistance to promote innovations, capacity building and institutional strengthening. It seems essential that the Fund has a flexible structure to adapt to the rapidly changing and sensitive political circumstances.
187. Strategically, it is advisable to have seed money available to begin activities of some kind initially to ensure later credibility. It was also advised (UNDP) that the Fund start slow and allow activities to grow over time as capacities and reputation grows rather than start on a large scale. At present the situation is not conducive to support such activities of a very large fund. Results and progress should be observed and evaluated after the initial phase of about 1-2 years time. A crucial element will be to make robust, initial assumptions on donor funding. In the chapters of the establishment of the fund a number of concrete suggestions are made for possible immediate steps to establish a Human Settlements Fund.

188. Some important steps have been taken to improve the housing finance market in recent years. Setting up the first separate mortgage company is a major achievement. However, the market overall does not function well with respect to meeting the needs of the poorer segments of the population. Current there are no comprehensive long term, housing financial assistance schemes that reach to the low-income part of the population. This is one particular area of recommended focus of the Fund. The role of the local community in housing planning and implementation is another area where increased focus by a Human Settlements Fund could make a considerable difference.

189. Lastly, there are a large number and variety of NGOs and international agencies working in the occupied Palestinian territories. The human settlement perspective is however not often clearly expressed. Another useful role of the fund and a full time representative of the UN-HABITAT could therefore be to systematically contribute to a much needed lobbying for and co-ordination of initiatives from a human settlement perspective.

190. This report does not purport to address all possible options for establishment of a Human Settlements Fund. Further and more extensive studies and explorations of possible development paths are recommended. Within the limited time at the consultant’s disposal, these recommendations should be seen as a first step in the establishment of a fund. Work being carried out by the Habitat Foundation may constitute a good source of competence for further development of the Human Settlements Fund for the occupied Palestinian territories.
Annex 1 Terms of Reference

Housing Fund Expert for the Establishment of
A Human Settlements Fund for the Palestinian people

TERMS OF REFERENCE

Country: The occupied Palestinian territories

Project Title: Towards a Human Settlements Fund for the Palestinian People

Location: Gaza Strip and the West Bank including Jerusalem and possible travel to Nairobi and/or Beirut to participate in an international conference.

Duration: Four work weeks over a period of three (3) months

Expected Starting Date: September 2002

Project Background: During the Eighteenth session of the Commission on Human Settlements in February 2001, the Member States adopted resolution 18/12 "Illegal Israeli human settlements in the occupied Palestinian territories." In order to execute the operative paragraphs of the resolution, UN-HABITAT created a flex team and action plan for the implementation of the resolution. Pursuant to this resolution and to produce the required outputs, UN-HABITAT has outlined the following objectives:

Objective 1: To assess the current Palestinian housing situation and needs in the occupied territories and propose interventions;

Objective 2: To prepare a framework for the establishment, management, and sustainability of a Palestinian Human Settlements Fund.; and,

Objective 3: To assist in organizing a meeting on the establishment of a Palestinian Human Settlements Fund in the occupied Palestinian territories.

Purpose: The consultant will work in conjunction with the Housing Situation/Needs Assessment consultant to achieve to the following:

1. Conduct a study on the establishment of a human settlements fund for the Palestinian people in the occupied territories. The study will involve the preparation of a framework for the establishment, management and sustainability of the fund.

2. Participate in organizing a meeting on the establishment and funding of a human settlements fund for the Palestinian people in the occupied territories.
Duties: The consultant will prepare a framework for the establishment, management, and sustainability of a Human Settlements Fund for the Palestinian people and contribute towards achieving objective three. To this end, with logistical support from the housing assessment team leader and his/her local counterparts, the consultant will undertake the following duties, tasks and responsibilities:

1 Collect and review relevant data on housing institutions and finance systems in the occupied territories;

2 Review and interpret the draft housing situation report (to be availed on 1 November 2002) as the basis for the tasks described in (3) below.

3 Propose a framework for a Human Settlements Fund for the Palestinian people in the occupied territories including to:
   i) Identify potential partners in the establishment and management of the fund;
   ii) Contact national and international partners in the field;
   iii) Design a work plan for the establishment of the fund; and make suggestions towards: (a) relevant types of legal structures for the Fund, (b) a strategy for the management of the Fund, and (c) a plan to secure the sustainability of the fund.

4 Participate in a UN-HABITAT expert group meeting (EGM) to discuss the draft study and integrate the suggestions from this EGM in the draft study.

5 Participate in the meeting(s) on the establishment of the fund, present the concept, and provide feedback to the participants. as needed.

6 Prepare a draft report on the meeting.

7 Undertake any other assignment related to this mission as may be requested by UN-HABITAT, within the general outlines of these terms of reference.

8 Submit the expected outputs to UN-HABITAT as indicated below in the outputs section.

Outputs:

1. The Consultant is expected to submit a draft technical report, in English, on the framework of the fund, including recommendations on the creation, management, and sustainability of the fund. Further, it should comprise a tentative work plan for implementation by 25 October 2002. The Consultant should submit the report(s) by e-mail as an attachment in MS-Word and an acknowledged receipt from our offices or, alternatively, two hard copies of the report accompanied by an electronic copy on high-density 3.5 inches hard diskette(s), programmed on IBM compatible, in MS-Word. The name of Consultants, project number, method used, and all other relevant particulars should be clearly indicated for easy retrieval of information.

2 Upon receipt of comments from UN-HABITAT, the consultant will incorporate such comments and submit the final report within 4 working days in accordance with the specifications as outlined in 1 above.

Qualifications: A university degree in Housing Finance, Economics or any related discipline (preferably with a post-graduate degree), relevant international practical experience of not less than 20 years

Languages: Fluency in speaking, reading and drafting in English is mandatory, Arabic an asset.
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<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ARJ</td>
<td>Applied Research Institute Jerusalem</td>
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<tr>
<td>CCC</td>
<td>Consolidated Contractors Company</td>
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<td>CHF</td>
<td>Cooperative Housing Foundation</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>FINAID</td>
<td>Department for International Development Co-operation</td>
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### Annex 3 Interviews and meetings held

Institutions and persons met during UN-HABITAT missions to the Occupied Palestinian Territories October and November 2002

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<th>Institution</th>
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<tr>
<td>7/10</td>
<td>Ministry of Housing and Public Works, Gaza</td>
<td><strong>Beth Kuttab</strong></td>
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<td><strong>Marwan Abdelhamid</strong></td>
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<td><strong>Dr. Ziyad Alshagra</strong></td>
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<td>Senior Advisor, Policy and technical Affairs</td>
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<td><strong>Alan Al-Shorafa</strong></td>
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<td>Engineer, Project coordinator and follow up</td>
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<td>Ministry of Planning, Gaza</td>
<td><strong>Dr. Magdi Elkhalidi</strong></td>
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<td>Deputy Minister (Gaza Strip)</td>
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<td><strong>Dr. Samih Al Aided</strong></td>
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<td><strong>Mrs. Laila Tarzi</strong></td>
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<td>CHF International</td>
<td><strong>Alaa Sisalem</strong></td>
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<td><strong>Nader Sh. Hrimat</strong></td>
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<td><strong>Abed Al Raoof Arnaout</strong></td>
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<td>Journalist, Al-Ayam newspaper, Associated Press</td>
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<td><strong>Bendik Sørvig</strong></td>
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<td>Shadia Tougan</td>
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<td>Adnan Huseini</td>
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<td>Jens Mjaugedal</td>
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<td>PCBS - Palestinian Central Bureau of Statistics</td>
<td>Luay A. Shabneh</td>
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<td>MOPIC - Ministry of Planning &amp; International Co-operation</td>
<td>Nabil Shaat</td>
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<td>Dr. Ziyad Alshagra</td>
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<td>Joseph Schechla</td>
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<td>University of Oslo, Institute for Human Rights</td>
<td>Turid S. Pollus</td>
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<td>Per Schreiner</td>
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<td>PMIC - Palestine Mortgage &amp; Housing Company</td>
<td>Mohamed Osama Ammourri</td>
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Annex 4 References and Bibliography


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