



INTERNATIONAL LABOUR ORGANIZATION

REGIONAL OFFICE FOR ARAB STATES

Information note

Revitalization of the Palestinian Fund for Employment and Social Protection

Implementing Partners: Ministry of Labour, employers' organizations, workers' organizations

Brief Description: This information note provides a rationale and a strategy for the revitalization of the Palestinian Fund for Employment and Social Protection, originally established in 2003 with ILO technical support. Inactive since 2006, the Fund is today recognized as a key element of the economic reform program and the National Employment Policy of the Palestinian Authority. The aim of the Palestinian Fund for Employment and Social Protection is to provide support for the implementation of active labour market policies and measures in the occupied Palestinian territory to address the employment gap. The Fund will provide a wide range of financial and non-financial services including employment services, employment guarantee schemes, enterprise development support, capacity development of small and medium enterprises and employment intensive public investment.

**Meeting on the ILO programme of technical cooperation
in the occupied Palestinian territory**

Geneva, 15 November 2010

I. Background

As a result of existing economic constraints, the socio-economic conditions in the occupied Palestinian territory are poor, in comparison to other low-income developing countries. Low labour market participation rates (41%) are combined with high unemployment (25%) and low GDP per capita (\$1,390).

Economic indicators show that the occupied Palestinian territory (oPt) lags far behind other Arab economies. On average, other countries in the region have 20% more people with (paid) employment, while GDP per capita is more than three times higher compared to that in the oPt. Both the Palestinian Central Bureau of Statistics (PCBS) and IMF estimates indicated flat growth in 2007, with a 28% drop in GDP per capita from its peak in 1999, indicating a continuous negative trend¹. Though the latest data for the National Accounts confirm an increase in GDP during the first two quarters of 2009 and a positive general trend for the third and fourth quarters², the figures remain the lowest in comparison with the other Arab countries.

The development of purchasing power is negative, with a loss of 24% in 2009 compared to the base year 2000, also illustrating a negative trend. Approximately 60% of families in the oPt live below the poverty line, with a poverty incidence three times higher than in neighboring countries.

The labour market is subject to a chronological imbalance between labour supply and demand. In 2009, 724,000 people entered the labour market, 126,000 among them women. The demographic increase is estimated at 3.6% a year, with 43.5% of the population under 15 years of age. The limited absorption capacity of the labour market leads to an increase in the dependence ratio and a high level of unemployment. The labour supply (mostly new entrants) has proliferated, necessitating the need to create approximately 270,000 jobs in the period 2010-2015.

The labour demand in turn is low, so that the domestic Palestinian economy provides only 68% of the jobs. The Israeli labour market provides 7.5%, while the rest of the labour supply is unemployed. Over the past ten years and until the end of 2009, the unemployment rate exceeded 24% on average and remains very high among youth especially new graduates (46% of unemployment) and females. This is an under estimation since many of those who lost their paid jobs, accepted unpaid jobs working for family, or others who quit the job market from despair and discouragement, having lost hope for finding a job.

Unemployment percentages indicate gender-based imbalance. For females who completed more than 13 years of studies, the unemployment rate of 37.5% results in a weak female participation of only up to 15.5% in the labour force.

Moreover, there is a high level of geographic imbalance as the unemployment ratio in the Gaza Strip reached 38.6% on average in comparison to 17.8% in the West Bank. All other cross-section indicators are worse-positioned compared to the average for the oPt. Thus, Gaza has experienced negative economic growth since 2000 until present, with real GDP per capita (\$776 US) remaining significantly lower than the oPt average (\$1,390).

High unemployment rates indicate the urgency to take adequate measures to ward off the continuous increase of impoverishment and deterioration in living conditions. This requires the implementation of a series of effective mechanisms and policies to respond to the surplus of labour force and enable the labour market to absorb it.

¹ Economic Monitoring Note for West Bank and Gaza, April 2009

² Overview of the Palestinian Economy, Prepared by the Palestinian Economic Policy Research Institute, MAS, April, 2010

II. Rationale and justification

The aim of the Palestinian Fund for Employment and Social Protection is to provide support for the implementation of active labour market policies and measures in the occupied Palestinian territory. Established with ILO technical assistance, the reactivation of the Fund is seen as a priority for the Palestinian Authority. The Fund will ensure provision of active employment and business-oriented services to support economic activity and promote employment. It will be used as a means for the management of various programmes, promoting synergies between existing Government labour market policies and their instrumental vehicles.

Social and Employment Funds have a proven record of helping the most vulnerable groups in society, including the unemployed and excluded, marginalized and disadvantaged, to develop their physical, human and social capital through capacity building and training, investment in social and economic infrastructure and other innovative measures tailored to the specific local situation.

The Fund will address structural poverty and unemployment through the promotion of effective market structures and activities. It will be revitalized as a financial arm of the Government, which will be responsible for allocating financial resources in the form of programmes and projects. In this way, the Fund will contribute in the management of public resources allocated for employment issues.

The revitalization of the Fund is also an opportunity for more effective collaborative networks with donors in support of the Government's reform efforts and will help the Government build capacity to better provide public assistance to the economically disadvantaged groups of the population.

III. Previous achievements of the Fund

The Palestinian Fund for Employment and Social Protection is established by virtue of Presidential Decree number 9 of 2003. It is established as a result of a collaborative effort between the Palestinian Authority and the ILO to address the rising poverty and increasing unemployment in the occupied Palestinian Territory since 2002. The mandate of the Fund is poverty-alleviation and employment promotion. The Government and the ILO see the Fund as a long-term mechanism to promote economic development through active labour market measures for employment generation.

With ILO support, a feasibility study was conducted in 2003 to assess the viability of the Fund under the specific conditions prevailing in the oPt. This assessment reflected the views of a wide range of stakeholders, including the relevant government ministries, employers' and workers' organizations, NGOs and academics, the donor community working in the oPt as well as other international agencies.

The feasibility study established two main arguments in favour of the Fund:

- The Fund can be a vehicle for the envisaged strategic shift from "exporting labour" to the "development of an export-oriented economy which employs labour domestically and sells its products abroad". The Fund can be a tool for a more systematic approach towards sustainable employment creation based on the labour market demand-supply trends and with the active participation of key stakeholders. This approach opposes the existing one where a plethora of projects and programmes are being implemented with no link between them or with the MOL, all of which diminishes the effectiveness of the investments made.
 - The Fund can be a bridge for the private sector becoming a recipient of direct support, thus filling the gap in the capital market by providing credit windows based on innovative lending methods.
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In addition, and based on the recommendations of the feasibility study, two technical cooperation projects, endorsed by the Board of Directors, were implemented within the framework of the Fund:

- **Support for Palestinian Small and Medium Enterprise Development: Emergency Assistance to EMPRETEC Palestine:** This project was launched in 2001 to support entrepreneurship and the creation of sustainable, innovative and internationally competitive small and medium enterprises (SMEs);
- **Vocational Graduates Job Placement:** The project's aim is to stimulate employment and income generation opportunities for 140 unemployed newly graduates from the Palestinian industrial/vocational schools and Labour Ministries' VTCs in the West Bank and Gaza. Of the 140 fresh graduates who received vocational training, 55% of them successfully secured permanent jobs.

Since 2006 and due to continuous changes in the Cabinet followed by legislative elections that led to a complete halt in technical assistance programmes with the Palestinian Authority, the Fund has not been active in recent years. Only recently have serious efforts been initiated by the Palestinian Minister of Labour as part of the new employment national policy to revitalize the Fund.

IV. Lessons learnt

The Fund in its overall activity will pay special attention to the lessons learned since its launch in 2003. The major lessons may be categorized at the: (i) policy level; (ii) management and administrative level and; (iii) Fund operations level.

The Programme of the 13th Government "Ending Occupation, Establishing the State," and the various strategy papers including the Strategy for the Development of the Labour Sector and the Revised Technical Vocational Education and Training (TVET) Strategy provide the policy framework for the Fund's programme and operation. As per government priorities, the Fund will focus on labour market sector development, employment generation with focus on youth, entrepreneurship and enterprise development. Based on the goals and objectives set up in the policy documents, the active labour programmes need to move away from temporary employment programmes (which are costly and have marginal downstream impact on employment and wages), to programmes that actively contribute to job creation. As such, programmes need to be carefully designed and targeted to improve net impact.

At the management and administrative level, the Fund needs to be established and staffed in line with its organizational structure. Its annual programme, work plan, and relevant operational guidelines also need to be elaborated.

At the level of ground operations, there is a need for strong collaboration between the stakeholders at the local level to strengthen the capacity of the Fund, the MOL and its structures as operations roll out.

V. Operational arrangements - Fund's programmes, beneficiaries and operations

From the perspective of leveling off the labour market imbalances and conducting the Government's strategy for the development of the labour sector, the Fund's operations aim to:

- Encourage self-employment and creating new jobs through enterprise development, including capacity development of established enterprises to improve performance and achieve growth;

- Assist business bodies in meeting their social responsibilities;
- Improve labour force skills by investing in human capital development;
- Support marginalized segments of the population through improved access to the labour market;
- Increase the participation of women as promoters and beneficiaries of the services.

The Fund will support two types of operations: non-financial (employment services, skills training, enterprise development, institutional capacity development) and financial operations (wage subsidies, emergency aid, linkages to existing financial institutions).

At this initial stage of the Fund's development, both financial and non-financial provisions will be grant-based. The Fund will provide support through five demand-driven and performance-based active labour market programmes targeting four different beneficiary groups (see Table 1). The envisaged numbers are close to maximum estimates.

Table 1: Fund Operational Portfolio

Programme/ Funding window	Narrative Explanation	Type of the operations	Target groups and Performance indicators Projection
1) Supporting unemployed young women and men	The Programme covers two groups of young people: - youth who enter the labour market for the first time and need information / orientation; and - youth who have been in the job market for X number of months (to be set) and face difficulties finding a suitable job and career development perspectives	<u>Non financial</u> Integral package of service provision including: - job matching; - career counselling; - vocational guidance; - assistance in access to finance and other services (training, mobility, etc.)	<u>Target group:</u> Young unemployed 16 – 33 y.o. <u>Performance indicators:</u> 10 -12 000 young unemployed (16 – 33 y.o.) per year served 20% placement rate
2) Employment guarantee schemes	The Programme will help employers who find it difficult to operate amid escalating logistical costs due to the closures and restrictions on the mobility of workers to access their jobs or restrictions on exports and imports. The Programme will help employees, contracted workers and those who work on apprenticeship schemes, situation facing similar circumstances,	Financial and Non financial <u>Financial:</u> - provision of wage subsidy for the contracted workers and those on apprenticeship scheme <u>Non financial:</u> - training schemes (on-the-job and institutional training) according to the existing TVET system	<u>Target groups:</u> - employers - employees, contracted by the selected employers <u>Performance indicators:</u> 1 000 <u>employers</u> with 5 to 10 contracted workers and workers on apprenticeship scheme to be supported with wage subsidies and training provision funds for 1 year; Between 5000 and 10000 <u>employees contracted</u> by the selected employers to pass through on-the-job and institutional training during the year; 100% of supported job places with wage subsidy and / or training provision to remain sustainable for 1 year.

3) SME and self employed support	The Programme is envisaged to develop the capacities of the unemployed to become self-employed and start a business. The programme will promote women's and youth empowerment, employment generation and economic operators' sustainability – all in line with the PRDP and the ILO Policy Framework for the Development of MSMEs.	<u>Non financial:</u> - Vocational Training - Training for business start up, including: - business planning - accountancy, finance, legal, marketing, management consultancy services - networking and information about the access to markets, to financial and trade services - knowledge training about the relevant legal and institutional arrangements - communication skills, customer care, presentation skills <u>Financial</u> - Access to credit through linkages to existing financial institutions	<u>Target groups:</u> - unemployed (under skilled, needing training, workers from settlements) - SME staff and self employed needing training <u>Performance indicators:</u> Between 5000 and 10000 <u>unemployed</u> (and SME staff) per year ready to start business and /or self employed activities (for the SME – those needing training to be selected and involved in training; Between 10% -20% success rate to be achieved – registered businesses, ready to start operating from all those included in training.
4) Maximizing employment outputs of emergency aid	The Programme will provide direct support to enterprises that need to survive through raising the productivity of their workers by improving their skills. The training to be linked with the existing TVET system and provided through public private partnership.	Financial and Non financial <u>Financial</u> - provision of funds to the enterprise for vocational/ skills training run by training institutions (on the basis of public private partnership) <u>Non financial</u> - qualification and up skills training of the employees for rising their productivity;	<u>Target groups:</u> - enterprises - employees in the selected enterprises <u>Performance indicators:</u> Between 1000 and 3000 <u>enterprises</u> with up to 10 contracted workers to be supported for up skills training of their employees; The training to be programmed as per the requirements of the existing TVET system; Minimum of 5000 <u>contracted employees</u> from the selected enterprises to be included in training for a period of 2 years.
5) Promoting employment intensive public investment	Possibility of turning public investment into effective local employment and income, as well as enhancing skills and capacities. The key ministries and public authorities will collaborate with the private sector and civil society in the design of public investments. The community will get involved in active local-level planning.	<u>Non financial operations</u> - capacity building activities - institutional development activities - seminars, round tables, discussions, presentations - training - publications	<u>Target beneficiaries:</u> Key ministries, public authorities, private sector and civil society organizations. <u>The outputs are:</u> - Identification and elaboration of infrastructure investments initiatives; - Elaboration of Local Economic Development Plans; - Promotion of the Economic Development Plans, infrastructure investments, local initiatives.

The Fund can start with an initial portfolio covering funding windows 1, 2 and 3 as per the above table and covering the number of beneficiaries in accordance with the funding available (See Financial Projection section further in the text).

VI. Governance and structure

Institutional Arrangements

The current efforts of the Ministry of Labour (MOL) towards institutional development of the employment services infrastructure are important for the Fund's policy and operational activities. An Employment Agency, supported by different donors, is created in the new plans of the Government. It is foreseen to take over the decentralisation of the Fund as soon as it starts its operations. For the time being, the Fund and the Employment Directorate will cooperate in the field of job creation, employment promotion and human capital development with clearly defined roles and responsibilities.

The Ministry of Labour will play a leading role in planning, coordinating, monitoring and implementing job creation and employment promotion activities. The implementation of the active labour market programmes and support to the projects will be decentralised through the area labour offices (LO) that will serve as information and coordination focal points of the programmes and activities and will be responsible for day-to-day operations. In line with the ongoing institutional development, the MOL is in the process of adopting integrated Management Information System (MIS) as a reliable source of information for employment policy purposes. The MIS will provide data on the socio-economic profile of the beneficiaries of the Fund, while also tracking the impact of the different interventions on improving the living standards. With the enlargement of the Fund's operations and number of beneficiaries served under the supported active labour market services, the Fund will invest in its own MIS equipped with appropriate software and hardware.

The Fund will serve as "Financial arm" of the Employment Directorate of the Ministry of Labour for the employment activities, programmes and services on its agenda.

The Fund will establish a tripartite plus partnership led by the Minister of Labour between the Government, employers' and workers' organizations, in addition to civil society organizations. The adoption of the tripartite plus partnership principle is a strong proof that the development of the employment sector development is seen not solely as the responsibility of the Government, but rather as a common objective of all economic stakeholders.

The Fund acts as a semi-autonomous quasi financial separate funding entity and its objectives relate to many aspects of labour market and entrepreneurship. Thus the Fund becomes a cross point of other governing bodies' strategies as explained below.

Fund's Governance Arrangements

The Fund will be responsible for the management and supervision of the running programmes, including management of the funds. To ensure the effectiveness of the operations, the Fund will put in place systems, procedures and communication channels of good management practice. The Fund will stick to a proven by practice two-tier governance structure, represented by the Board of Directors (BOD) and Executive Committee (EC) with managerial autonomy in terms of decision making, procurement and disbursement.

The organizational structure devolves sufficient operational initiative to Fund specialists and will stick to the following principles:

- Flexibility of specialized staff;
- Clear delineation between functions of operational and general support staff;
- Decentralization of operations but centralized control and supervision of project activities;
- Unity of direction and command.

The Fund's By-Laws adopted by the Governing Body are in place. The Board of Directors (BOD) will lead strategic planning and decision-making. It is supposed to link the Fund's strategies with the general

Government's labour policy. The BOD headed by the Minister of Labour will guarantee that the Fund's operations are pursued in compliance with Government's priorities in the field and under Government's political guidance.

The Executive Committee will seek to ensure practical implementation of the Board of Directors' decisions, contributing to management arrangements for cost efficient Fund operations.

The governing body will determine financial regulations and organizational structure. Administrative and financial reports will be prepared by the Executive Committee and presented to the Board and donors on a quarterly and annual basis.

The Executive Manager will be held accountable for the actual management and administration of the Fund.

Fund Management

To make sure that the Fund operates within a reasonable administrative cost framework in support of the main bulk of projected activities, further optimization of the Fund's structure will take place. In view of the Fund's focus on employment creation and enterprise development, the Fund's organizational structure will fall into two departments and general support staff. The Fund's structure will be comprised of a Board of Directors, an Executive Committee, and an Executive Manager of a team of specialists (e.g. Legal Specialist, Accountant, MIS Specialist, Procurement Officer, Monitoring and Evaluation Officer, Technical Assistant, and general support staff).

The organizational structure will provide the minimal organizational settings to roll out the Fund activities in the short run, in line with the envisioned technical focus areas of the Fund. For some operations requiring intense work over a short period of time (promotion campaigns, assessment of subproject proposals, monitoring and evaluation), the Fund may recruit part time employment specialists and assistants, including ones from the MOL/ Department of Employment.

Given the existing composition of the Board of Directors, the Executive Committee and the Fund's portfolio, the Fund may become operational with 20 staff on board, including an Executive Manager.

Once the Fund starts expanding its activities, it may expand its functions and departments, as proposed in the Fund by-laws, to include a Public Relations & Secretarial Office, Gender Unit, Human Resources & Training, as may prove relevant.

Financial Responsibilities

The Fund will be in charge of all the financial management aspects of the launched programmes and projects and will strictly follow the financial regulations and instructions. The Fund will keep separate project accounts, categorized by financing source and project component and activity. The disbursement arrangements will be made as per the financial regulations. The Fund will prepare quarterly Financial Monitoring Reports (FMR) for the projects under implementation and for operating costs and activities. Audit arrangements will be put in place, where the Fund will be audited each fiscal year (and/or upon request) by independent auditors. Transparency in decision making, procurement and disbursement will be maintained through the financial management systems in line with the international audit practice.

Monitoring and Evaluation

The Fund will put in place effective monitoring and evaluation arrangements to assess operations, including:

- Regular on-site monitoring of service providers' implementation of activities to ensure the delivery of intended goods and services;

- Beneficiary assessments – to prove the extent to which the intended groups and individuals benefit;
- Financial and technical audits – to prove the extent to which the services are delivered and funds are utilized as per the programme regulations;
- Impact assessments – to estimate the gross and net impact assessment of active labour programs;
- Progress reports, supervision visits, and mid-term reviews.

The adopted management systems and M&E procedures will provide ground for increased transparency and accountability, and thus for sustaining long-term financing.

VII. Duration and budget

In addition to the annual commitment of the Palestinian Authority to allocate US\$5 million annually to the Fund, substantial funding is required to ensure the success and sustainability of the investments in creating and generating sustainable job opportunities, and securing the fulfillment of the Fund's aims and objectives.

The targeted first phase is three years. A detailed operational budget and financial projections have been developed and are available.

For further information, please contact

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