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**PALESTINIAN STATE-BUILDING:
AN ACHIEVEMENT AT INCREASED RISK**

Ad Hoc Liaison Committee Meeting
Brussels, 21 March 2012

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LIST OF ACRONYMS

AHLC	Ad Hoc Liaison Committee
CAP	Consolidated Appeals Process
EJHN	East Jerusalem Hospitals Network
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
GoI	Government of Israel
IMF	International Monetary Fund
MoF	Ministry of Finance
OCHA	Office for the Coordination of Humanitarian Affairs
oPt	occupied Palestinian territory
OQR	Office of the Quartet Representative
PA	Palestinian Authority
PASF	Palestinian Authority Security Forces
PCBS	Palestinian Central Bureau of Statistics
PLO	Palestine Liberation Organization
SEMEP	(US) Special Envoy for the Middle East Peace Process
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNSCO	Office of the United Nations Special Coordinator for the Middle East Peace Process
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
WFP	World Food Programme

EXECUTIVE SUMMARY

In April 2011 the United Nations' (UN) report to the Ad Hoc Liaison Committee (AHLC) concluded that Palestinian Authority (PA) institutions were sufficient for a functioning government of a state. Over the course of the reporting period, some advances have been made in building the institutions of a Palestinian state. Progress has been realised *inter alia* in improving the capacity of the security forces in the West Bank and in the provision of basic services, including addressing the needs of the most vulnerable members of Palestinian society. This deepening of institutional progress represents a further step forward in strengthening the institutions of a future Palestinian state.

The title of the United Nations September 2011 report to the AHLC was "Palestinian state-building: an achievement at risk". Unfortunately, while little progress was achieved in the intervening period, the political and financial pressure on the Palestinian Authority has only increased. These factors continue to represent a serious and real threat to the Palestinian Authority's sustainability. The PA has managed to reduce its recurrent deficit significantly, from 24% of GDP in 2009 (on a commitment basis) to 13% of GDP in 2011. Still, in 2011 the PA struggled to meet its financial obligations, as expenditures were mostly in line with the budget but revenue was less than projected, partly due to lower-than-expected growth, and external financing fell short of the budget target. This led the PA to accumulate approximately US\$540 million in arrears, including to the pension fund, private sector suppliers and development projects, and close to US\$140 million in net financing from domestic banks. In its continued effort to address the recurrent deficit the PA is implementing necessary, prudent measures, such as new tax reforms, but donors are still urged to front-load funding for 2012 and to help meet the US\$1.1 billion level of funding to allow the PA to meet its obligations and avoid accruing further arrears. Furthermore, the PA cannot function without a steady and uninterrupted flow of clearance revenue and would benefit from Israeli approval and the implementation of technical agreements to help strengthen revenue collection and minimise revenue leakage. These would represent essential steps in securing PA funds, ensuring its continued ability to operate effectively and reduce future aid dependence.

Beyond the issue of continued funding shortfalls, the depth and breadth of progress in the Palestinian state-building achievement has not been matched by political progress towards a final status agreement. The achievements of the Palestinian Authority still represent the solid basis for a future Palestinian state and must be preserved. However, the prolonged absence of a credible political horizon as a result of the continuing failure by the parties to engage in meaningful negotiations is now beginning to undermine the viability of the Palestinian state-building effort. Despite the efforts of the Quartet, the intervening six months have been marked by growing mistrust between the parties and negative developments on the ground, in particular settlement activity.

A second political challenge is the continued Palestinian divide and the unsustainable situation in Gaza. The process of Palestinian reconciliation continues to face difficulties, preventing the Palestinian Authority from implementing a positive agenda that would yield sustainable, inclusive economic growth throughout the oPt and institution-building in Gaza. In this regard, the United Nations continues to support Palestinian reconciliation in the framework of the Palestine Liberation Organization (PLO) commitments, the positions of the Quartet and under the leadership of President Abbas.

This report continues to focus on progress that benefits Palestinians throughout the occupied Palestinian territory and creates conditions in which a negotiated final status agreement can – once concluded – take root. It identifies a range of immediate measures focused on the West Bank (particularly Area C and East Jerusalem), as well as Gaza, where further progress is now essential. It is hoped that more far reaching progress can be realised in the coming months and in advance of the September 2012 meeting of the AHLC.

Area C remains fundamental to the viability of a future Palestinian state. There are a number of measures that, if implemented in the short term, will make a tangible difference to Palestinians living there. Participatory planning that meets the urgent need for planning in Area C and is in line with the requirements and realities of Palestinians there is a way of ensuring that the needs of these vulnerable communities are addressed. In addition, the provision of basic services in education and health in Area C is essential, and in this respect the OQR/SEMEP package of 19 schools and health centres represents a first important step in establishing an effective permitting regime. Due consideration should also be given to the transfer of land in Area C to the Palestinian Authority, particularly in areas surrounding major urban centres, to facilitate more suitable urban development and relieve the acute pressure on the land and housing market.

Jerusalem remains a fundamental and sensitive issue for Israelis and Palestinians alike. A way must be found for the city to emerge from negotiations as the capital of two states. However, the economic and social ties of East Jerusalem to the rest of the West Bank remain severely constrained. In the interim, a number of measures will be essential in ensuring that Palestinians have adequate access to housing and basic services in East Jerusalem, including health and education. To address the severe housing crisis affecting Palestinians in East Jerusalem, existing initiatives aimed at advancing community master plans that reflect community realities should be given full consideration by the Israeli authorities. In the area of health, measures to allow the East Jerusalem Hospitals Network to procure lower cost pharmaceuticals produced in the West Bank would translate into a significant reduction in the expenditures of this important health provider. With the engagement of the Government of Israel (GoI), progress has already been achieved in improving the movement of medical staff and patients through the Barrier, and the UN will continue to work with the GoI to address any outstanding issues. The education sector would equally benefit from Israeli easing of restrictions on the movement of students and school and university staff. Israel is also reminded again of its obligations under the Roadmap to reopen Palestinian institutions, including the Jerusalem Chamber of Commerce.

Finally, in Gaza, a fundamental objective of the UN remains the end to the closure in the context of Security Council Resolution 1860. In the interim, a number of immediate measures will enable progress towards that overall objective. The long term growth of Gaza's economy will depend on reactivating the productive private sector by enabling local products, including non-agricultural ones, to be transferred to the West Bank and exported to all destinations, including Israel. In this regard, the recent transfer of Gaza-produced date bars to the West Bank is a welcome step. An extension of the fishing limit in keeping with international standards will help restore legitimate livelihood opportunities to some 3,000 families and provide an affordable source of protein for the population. Expanded construction of international community projects will require the unrestricted import through the legal crossing of

aggregate, iron bar and cement. During the past six months, the United Nations received approvals for UN projects that require 'controlled materials' for merely US\$2.5 million, bringing the total value of approvals to US\$276 million. These approved projects, which include the construction of 2,000 housing units, 34 schools and a number of water, sanitation and electric facilities, are currently under implementation. We regret that despite assurances received we are still urgently awaiting the approval of a further package of UN priority projects, including important social housing projects.

The reporting period for this report is 27 September 2011 to 26 February 2012, unless otherwise noted. In exceptional cases, references fall outside this period to illustrate relevant trends.

I. INTRODUCTION

1. This report provides an update on progress on the ground since the last Ad Hoc Liaison Committee (AHLC) meeting, and focuses on a number of specific issues where the United Nations (UN), working with the parties and the international community, hopes to realise progress in advance of the September 2012 meeting of the AHLC. The structure of the report reflects this purpose, providing specific recommendations that are actionable as written.
2. In both April and September 2011, the UN's report to the AHLC concluded that in six areas where the UN is most engaged, governmental functions of the Palestinian Authority (PA) were sufficient for a functioning government of a state.¹ The intervening period has seen a deepening of this institutional achievement which, in turn, has provided the foundation upon which a broadening of state-building activities to areas outside of the PA has taken place. The PA, however, has come under increased pressure due to a major budget shortfall (see paragraph 7 below); a private sector constrained by restrictions to movement and access and thus unable to sustain the economic growth stimulated by public expenditure (see paragraph 8 below); lack of progress towards a final status agreement (see paragraph 10 below); and the continuing Palestinian divide (see paragraph 12 below).
3. **The PA Security Forces (PASF) in the West Bank have demonstrated the capability to fulfil the policing function required of a state, to the extent allowed within the limitations created by the occupation.** The PASF, with international assistance including in the areas of criminal justice and the rule of law, continue to expand their scope of deployment in the parts of the West Bank under their jurisdiction (Area A). Since September 2011 the PA, with international assistance, has trained, equipped and deployed an eighth battalion of PA Security Forces, bringing the total of such personnel to over 4,000. A ninth battalion, composed of 500 personnel, is scheduled for training in Jordan in April 2012 and deployment in the West Bank shortly thereafter. The continued consolidation of the security forces has the potential to yield even greater efficiency.
4. **The provision of basic services has continued to improve with notable advances in the assignment and payment of social allowances.** The 2011 Social Protection Sector Strategy is proving to be an effective framework for increasingly coordinated work among governmental, non-governmental and donor offices, as well as UN agencies. The Palestinian Cash Transfer Program, which unifies much of the cash assistance of the Ministry of Social Affairs, advanced to new levels of sophistication by applying a proxy means testing formula to ascertain the real needs of families and thus improve targeting. It has also successfully integrated the Gaza Social Safety Net Program into the national system, and introduced bank transfers as the normal form of payment to minimise both processes and the potential for irregularities. To build on these advances, the PA is encouraged to streamline and further improve the targeting of social assistance.
5. The provision of care to vulnerable and marginalised groups continues to develop through child protection networks and referral systems, and the activation of the National Committees on Elderly Protection, Women's Protection and Juvenile Protection (in conjunction with the

finalisation of the Juvenile Justice Strategy). Preparations are underway to introduce a disability card scheme to provide a package of health services and integrated social, vocational, educational, rehabilitation and supportive services to disabled persons. Furthermore, several legislative instruments are pending Cabinet endorsement (Juvenile Justice, Child Protection, Family Protection, Disability Protection, Elderly Protection, and Women's Protection against Violence). In order to deal more effectively with cases of domestic violence, Palestinian Civil Police Family Protection Units have been established in eight of eleven governorates.² In the area of workers' rights, the Palestinian National Committee on Wages, with equal representation from government, employer and worker organisations, has been revitalised to carry out the necessary groundwork, analysis and calculations for a minimum wage proposal.

6. In order to address the issue of mines and other remnants of war, the PA has established a mine action centre to be housed in the Ministry of Interior. The PA has allocated staff and logistics resources to this function, and a 36-person team will be trained and deployed to address this threat in the field in the near future. The UN will support the development of technical capacity for this function.
7. **The developments outlined above signal a deepening of progress in the state-building agenda. However, the PA continues to face a major budget shortfall,** which led the Palestinian Cabinet and the Coordination Council of the Private Sector to engage in a national dialogue on the financial crisis and reach an understanding in February 2012 on income and corporation tax reform.³ The PA is encouraged to consider implementing further measures to raise revenue and control expenditures, such as the expansion of the tax base, civil service reform and pension reform. Even with the additional tax revenue expected from the recently-agreed reforms, the leakage of clearance revenue (which is close to 70% of total net revenue) defies efforts to reduce the deficit and points towards the need to adopt measures to improve the transparency and efficiency of clearance revenue transfers from Israel. Government of Israel approval and the implementation of the understanding reached in principle by staff from the Israeli and Palestinian Ministries of Finance in 2011 on a set of measures to help strengthen collection and minimise leakage would be a welcome step in this direction.⁴ Similarly, the withholding of clearance revenue and delays in transfers by Israel compromise the PA's ability to meet its obligations and implement its fiscal plan, in addition to affecting the confidence of businesses and consumers and placing pressure on the banking system.⁵ In November 2011 Israel temporarily suspended the transfer of these funds to the PA in response to the UNESCO admission of Palestine as a full member state.⁶ The regular, timely and unhindered transfer of clearance revenue has to be ensured to avoid fiscal crises that in turn affect the sizable civil service and PA suppliers alike, threaten the banking system and diminish business and consumer confidence, resulting in lower growth.⁷ Another issue affecting the PA's budget is the very low contribution from Gaza to domestic revenue in spite of the PA's substantial expenditure there (see paragraph 48 below).⁸ In this context, and recognising the PA's achievements and continued efforts to reduce its dependence on donor assistance⁹, **securing adequate funding is essential if the Palestinian state-building achievement is to be sustained. Donors are urged to front-load funding for 2012 and to**

help meet the US\$1.1 billion level of funding for the recurrent budget to allow the PA meet its obligations and avoid accruing further arrears.¹⁰

8. **While institutional progress has helped to lay a foundation for increased private sector activity, political and fiscal uncertainty, as well as restrictions on movement and access to resources and markets across the occupied Palestinian territory (oPt), continues to constrain the private sector.** The PA has taken a number of steps to improve the business environment and encourage investment, including the reform of the legal and regulatory framework and the fight against corruption, and is encouraged to build on these advances.¹¹ Israel has also taken measures that help the private sector, such as improvements at some crossings, the establishment of four electrical substations in the West Bank, and the removal in 2011 of three major checkpoints (two in early 2011 and one at the end of the year). However, citing security concerns, Israel still maintains a system of restrictions that limit access to land and resources and the movement of people and goods internally and externally. These restrictions increase uncertainty as well as production and transaction costs, eroding the competitiveness of Palestinian products, thus inhibiting investment and exports and making competition with imports in many cases not viable.¹² In the face of such constraints, economic activity has shifted over time towards those sectors that are less affected by these restrictions, e.g. services. Under these conditions, businesses also find it difficult to expand in size, rendering them unable to benefit from economies of scale. In this context, instead of being driven by the productive private sector, recent economic growth has been led by donor funded public expenditure.¹³ An expansion of the productive base and the tradable goods sector will be fundamental for continued growth. Further measures to ease the movement and access of people and goods are therefore required to enable a shift to sustainable, private sector-led growth which would generate greater employment opportunities, reduce the need for social expenditures, and yield higher domestic tax and non-tax revenue for the PA.
9. Increased private sector confidence/engagement is prominently illustrated by the joint Palestinian/Qatari large-scale housing development project of Rawabi city on the outskirts of Ramallah, which, when completed, will house approximately 25,000 residents.¹⁴ The project symbolises the innovation, ambition and organisational ability that signal a broadening of the state-building agenda. While the first phase of construction is underway and has been helped by the recent Israeli approval of an access road, the project's sustainability is dependent on Israeli approval to connect the city through Area C to a regional road, as well as ensuring sufficient water allocation for its future residents.¹⁵ This provides an example of the need for the Government of Israel to be proactive in facilitating positive Palestinian actions, including the ability of Palestinians to plan for their communities. (see paragraph 33 below)
10. **Progress achieved in the state-building agenda has not, however, been matched by progress towards a final status agreement.** In September 2011, the Quartet provided a framework to resume direct talks and reach a final agreement by the end of 2012. Despite initial progress, the inability of the parties to resume negotiations toward this end is deeply concerning. The absence of a political horizon that would match progress in the Palestinian state-building agenda remains

the fundamental impediment to realising a more meaningful change for Palestinians on the ground. **Political progress is vital for securing a negotiated two-state solution which ends the occupation, ends the conflict, and addresses all core issues.** Citing a lack of movement in negotiations and continued Israeli settlement activity, the Palestinians initiated a membership application with the United Nations on 23 September 2011 to advance their bid for a Palestinian state. Israel claims, however, that the Palestinian bid in UN fora is a unilateral move that contravenes existing agreements, in particular the Oslo Agreements. The application remains under consideration by the UN Security Council. On 31 October 2011, following a vote favouring its bid to join UNESCO, Palestine was admitted as the organisation's 195th member state during the 36th session of the organisation's General Conference.

11. The framework for talks set by the Quartet in its statement of 23 September 2011 with the aim of reaching an agreement before the end of the year 2012 continues to apply. Quartet envoys remain engaged and hopeful that the parties will use the coming period to redouble efforts and refocus on the substance of proposals on territory and security.
12. **The continued Palestinian divide represents a second political challenge. The process of Palestinian reconciliation faces difficulties, delaying the ability of a transitional technical government to implement a positive agenda in both Gaza and the West Bank.** It is our view that any transitional government must operate within the framework of the Palestine Liberation Organization's (PLO) commitments, the positions of the Quartet and under the leadership of President Abbas.¹⁶
13. **Progress that benefits Palestinians throughout the occupied Palestinian territory creates conditions in which a final status agreement can – once concluded – take root.** Without concerted efforts by the parties and the international community to sustain the PA, the valuable gains and the Palestinian Authority itself could be at risk.
14. **The conclusion of the *Program of the 13th Government* in September 2011 has not meant the conclusion of the state-building project.**¹⁷ Indeed, progress has and must continue. While section II of this report reviews the situation on the ground in greater detail, Annex A focuses on the recommendations that need to be implemented in the short term to address needs across the occupied Palestinian territory, but particularly in those areas where the PA faces the greatest challenge in extending its authority: Area C and East Jerusalem of the West Bank, and the Gaza Strip.

II. SITUATION ON THE GROUND

15. **The UN's September 2011 report to the AHLC concluded that a fundamental rolling back of the occupation was now essential. Despite some advances in the intervening six months, this objective has not been achieved. Rather, we have seen a slowdown in the easing of restrictions on movement and access, an increase in demolitions of Palestinian infrastructure and associated displacement of Palestinians in the West Bank, including East Jerusalem. Furthermore, significant settlement activity continues to take place in the West Bank, including**

East Jerusalem, heightening tension on the ground and prejudging the possibility of a negotiated two-state solution.

16. **The economy of the oPt, characterised by high volatility, continues to grow but economic gains appear unsustainable without further easing of restrictions.** In the first three quarters of 2011, real GDP was 10% higher than a year earlier.¹⁸ As a response to the tight fiscal situation the PA is withdrawing fiscal stimulus from the economy, for which the private sector, facing continued restrictions on access to resources and markets, is not able to compensate.¹⁹ Growth has been led primarily by the public administration and defence sector (particularly in the West Bank) and the construction sector (particularly in Gaza)²⁰. There has been relatively little expansion of the tradable sectors of the economy, which are the most affected by the restrictions on movement and access, bringing into question the sustainability of recent growth.²¹ Stark disparities remain between the West Bank and the Gaza Strip, with GDP per capita in the West Bank almost twice the level in the Gaza Strip.²² Although overall unemployment has decreased compared to a year earlier, the unemployment rate remains above 20%, affecting mostly the young, while mean real wages have decreased.²³
17. **Food insecurity has fallen but remains high, with large proportions of the population in vulnerable situations.**²⁴ In 2011, 27% of the total Palestinian population in the oPt, excluding East Jerusalem, (i.e. more than 1.1 million people) was found to be food insecure, and 14% was vulnerable to food insecurity.²⁵ Food insecure households often resort to coping strategies with potentially adverse consequences, including skipping meals, eating lower quality food, selling assets, defaulting on utility bills, and reducing expenditures on health. The main food security challenge faced by Palestinian households is not food unavailability; it is the inability of many households to afford food on local markets. Households in both the West Bank and Gaza dedicate more than 40% of total cash expenditure on food, revealing how vulnerable these households are to any rise in food prices. Recent fuel price increases, which are expected to continue, are likely to translate into higher transport and food commodity prices, bringing adverse consequences for food insecure households and pushing vulnerable households towards greater food insecurity. Further reductions in poverty and improved food security can be achieved only with sustainable, inclusive economic growth and job creation, which in turn require further easing of movement and access restrictions that currently hinder private sector activity.
18. Real GDP in the West Bank was about 6% higher in the first three quarters of 2011 than in the same period in 2010. This lower-than-expected growth was due in part to lower aid flows as many donor countries face economic difficulties, and liquidity problems faced by the PA. The reduced pace of easing of Israeli restrictions was another factor contributing to the lower growth (see paragraph 29 below). Due to their limited linkages with global markets, the Palestinian banking and private sectors have been relatively unaffected by the recent global economic downturn. For 2012 the International Monetary Fund (IMF) projects GDP in the West Bank to expand by 5%. The productive private sector continues to be stifled by restrictions on movement and access within and outside the West Bank, and is hence unable to sustain the growth stimulated recently by the public sector helped by donor funding and earlier Israeli easing of restrictions. Unemployment was

unchanged at 17% in 2011, as labour force participation increased slightly but real mean wages decreased.²⁶ Although the magnitude of poverty and food insecurity in the West Bank is lower than in Gaza, levels are still high and striking internal disparities mean that Palestinians in areas such as Area C face worrying levels of indigence. In terms of vulnerability, 17% of the population in the West Bank was food insecure in 2011, but 25% of those in Area C were in that situation. Similarly, 12% of household in the Central West Bank are considered food insecure, compared to 19% in North/South West Bank.²⁷

19. In Gaza, real GDP in the first three quarters of 2011 compared to the same period a year earlier was about 26% higher. The Gaza economy continues to enjoy the effects of the loosening by Israel of restrictions on the import of consumer goods. Similarly, while we do not have reliable data on the illegal tunnel economy, our assessment is that these activities have been a significant contributing factor to this increase in GDP (see paragraph 53 below). Nevertheless, the Gaza economy is still recovering from a deep contraction in 2006-2008.²⁸ The IMF projects growth to be around 9% in 2012, which, although still high, suggests a much slower pace of growth. The recovery of the productive private sector, which is vital for the sustainability of economic gains, is hindered by restrictions on the import of capital inputs and some raw materials, as well as on exports (see paragraph 51 below).²⁹ Still, unemployment has fallen sharply with the recent economic expansion, but labour force participation continues to be limited and mean wages remain low.³⁰ Economic growth has not translated into an improvement in the livelihoods of many Gazans, with high levels of aid dependence and poverty still registered, food insecurity affecting 44% of the population in 2011, and the proportion of households considered food secure stagnant over the last three years around 23%.³¹
20. **Timely and adequate humanitarian funding in 2012 is needed to prevent a deterioration in the living conditions of Palestinians, particularly in vulnerable areas.** The 2011 Consolidated Appeals Process (CAP) was only 57% funded and the 2012 CAP, developed in consultation with the PA and launched in January this year, currently has received only 8% of its US\$416 million required funding. The 2012 CAP has a narrower scope than previous years³² but significant concerns remain over underfunding and, unless additional funds are sourced quickly, drastic cuts in services may occur, such as those already introduced to programming in both Gaza and the West Bank.³³
21. **The international community continues to make state-building a fundamental component of its work in the oPt.** The UN System currently has US\$2.4 billion of multi-year recovery and development programming under implementation or planned to start by 2013. The UN's recovery and development work in support of state-building in alignment with the PA's National Development Plan and sector strategies is outlined in the UN Medium Term Response Plan. The PA/UN Multi-Donor Trust Fund has been established to provide the UN with readily available funding to support the full spectrum of UN recovery and development work in line with this Plan, including reconstruction activities in Gaza and other activities in the West Bank. To date, the fund has received and disbursed a US\$25 million contribution.
22. **Concern over human rights issues continues,** including the ongoing revocation of residency rights for Palestinians who are identified by Israel for a 'review' due to continuous residence of more

than seven years outside of Israel. Loss of residency rights results in the inability of those Palestinians to remain in the city or return to it (if outside), leading to a complete loss of social services in East Jerusalem and the ability to move between East Jerusalem and the remainder of the West Bank without a permit issued by the Israeli authorities. In a related development, in January 2012 the Israeli Supreme Court, in a 6-5 decision, upheld the constitutionality of the Citizenship and Entry into Israel Law.³⁴ This law severely restricts Palestinian citizens or residents of Israel from living together in Israel or East Jerusalem with their Palestinian spouses from the West Bank or Gaza. Thousands of Palestinian families are affected by this law.

II.1 WEST BANK

II.1.a) West Bank - Overview

23. **As noted in paragraph 3 above, the PA continues to demonstrate its strong commitment to ensuring security in the West Bank.** Continued efforts by the PASF to maintain law and order and combat terrorism and incitement have resulted in improved security conditions throughout the West Bank, to the benefit of both parties. The PA must remain vigilant and confront all those engaged in terror and dismantle terrorist capabilities and infrastructure, within the framework of PA obligations under the first phase of the Roadmap, as was demonstrated on 29 November 2011 when it seized and defused an improvised explosive device.
24. **Security coordination between Palestinian and Israeli security forces should be maintained and enhanced.** In a positive development, PASF were recently allowed to deploy and enforce law and order in the part of Hebron in which Israel maintains full control. For coordination to further develop, it remains important that Israel refrain from measures perceived as undermining PASF, including military incursions into Area A and impediments to the extension of PASF coverage in the West Bank. These leave Palestinians without security and risk undermining the credibility of the security forces and the PA in the eyes of the public.
25. **During the reporting period, Israeli authorities have continued to advance settlement construction in the West Bank, especially in East Jerusalem.**³⁵ Seizure of land for settlement building and future expansion has resulted in the further shrinking of space available for Palestinians to sustain their livelihoods and develop adequate housing, basic infrastructure, services and productive capacity for economic growth. While fenced or patrolled areas of settlements cover only 3% of the West Bank, 43% of the West Bank is allocated to the settlements' local and regional councils.³⁶ New initiatives being advanced by the Government of Israel to retroactively legalise settler takeover of privately-owned Palestinian land are of great concern.³⁷ The UN Secretary General has repeatedly stated that settlement activity is illegal, runs counter to Quartet statements and Israel's commitments under the Roadmap, and will not be recognised by the international community. The Quartet has reaffirmed that action must not prejudice the outcome of negotiations.
26. **Israeli settler violence continues to be a serious concern and remains a source of friction in the West Bank.** The Office for the Coordination of Humanitarian Affairs (OCHA) recorded 134 settler-

related incidents resulting in Palestinian casualties or damage to Palestinian property during the reporting period. These attacks included physical assaults, damage to private property, and attacks on livestock and agricultural land, among others, and resulted in the injury of more than 60 Palestinians, many of them children, and damage to close to 2,000 fruit-bearing trees. Many measures in the current system, such as the requirement for Palestinians to file complaints at police stations located inside Israeli settlements, actively work against the rule of law, discourage Palestinians from filing complaints and result in low rates of prosecution, thus helping to create an atmosphere of impunity. Israel must try to prevent and provide adequate law enforcement for acts of settler violence in line with its obligations towards the Palestinian civilian population under occupation.

27. **Israeli civilians have also been affected by violence.** During the reporting period, ten Israeli civilians were injured by Palestinians in the West Bank, and Israeli settlers suffered material damage, including through stoning and throwing of Molotov cocktails at vehicles.
28. In addition to attacks by Israeli settlers upon Palestinian civilians and by Palestinians on Israeli civilians, there has been a spate of attacks upon highly sensitive targets such as a number of mosques in the West Bank that were desecrated and burned, as well as damage to other institutions including schools and private homes. Attacks upon all civilians and property, particularly religious institutions, are a continuing phenomenon in the oPt, and underscore the responsibility and need for all the relevant authorities to prevent such incidents and ensure that those carrying out such actions are brought to justice.

II.1.b) West Bank – Movement and Access

29. **Restrictions on Palestinian movement and access continue to compromise economic growth, undermine livelihoods, hinder access to basic services including education, health and water supply, and contribute to conditions whereby a continuation of external aid is required.** Israel cites security concerns and the need to ensure that Israelis are protected from attacks for restrictions on Palestinian movement and access. Israel reports the removal of three major checkpoints in 2011. In February 2012, there were still about 520 obstacles blocking Palestinian movement within the West Bank. These include 62 permanently staffed checkpoints (excluding checkpoints on the Green Line), 25 partial checkpoints (staffed on an ad hoc basis) and about 440 unstaffed physical obstacles, including roadblocks, earth mounds, earth walls, road gates, road barriers, and trenches.³⁸ Similarly, almost no changes were observed during the reporting period in the other components of the system of movement restrictions, including the Barrier, the permit and ‘prior coordination’ regimes to access the Seam Zone or settlement areas, or the closure of areas for military training.
30. During the reporting period, construction of the Barrier was almost completely halted, except in the northwest of Bethlehem governorate. However, the negative humanitarian impact of the constructed Barrier on Palestinian communities continues, particularly for rural communities. As a result of the Barrier’s deviation from the Green Line, in contravention of the International Court of Justice advisory opinion of 2004, large areas of agricultural land and water resources are located

in the so-called Seam Zone between the Barrier and the Green Line.³⁹ Palestinian farmers are obliged to apply for 'prior coordination' or to obtain 'visitor' permits from the Israeli authorities to access their farmland in the Seam Zone, with many permit applications not approved.⁴⁰

31. Over the reporting period the continued movement of dairy and meat products to East Jerusalem from the rest of the West Bank was made possible as a result of improved phytosanitary measures (veterinary services) at the producing factories and the continued technical collaboration and dialogue between the Palestinian Ministry of Agriculture and its counterpart in Israel. A six-month-by-six-month work plan has been established since March 2011 and is updated on a regular basis. The permits for the seven factories, now compliant with international phytosanitary rules and standards, are only valid till the end of March 2012, after which they will require renewal to help maintain the progress made in this respect and avoid the breakdown of these important commercial linkages. A central veterinary laboratory is also currently under construction in the Hebron Governorate, and a proposal for a traceability and animal identification system has been prepared for consideration by donors.

II.1.c) West Bank – Area C

32. **In Area C, an increase in demolitions and displacement has been recorded over the reporting period.** According to Israeli authorities, demolitions are carried out because structures lack the required building permits. However, the demolition of homes and other civilian property, the lack of access to services and protection concerns related to Israeli-Palestinian violence, all lead to the displacement of Palestinians. Demolition of existing Palestinian structures – including those established without Israeli permits, which have been nearly impossible to secure in the past – continues to rise at an alarming rate and is increasingly targeting livelihood and basic service structures. During the period, Israeli forces demolished approximately 280 Palestinian structures in Area C, including 95 residential structures, displacing close to 470 Palestinians. More than 270 Palestinians were affected by the demolition of a structure, including those related to their livelihoods. Overall, more than twice as many Palestinians were displaced in Area C in 2011 than in 2010. Such demolitions and consequent displacement and dispossession have a devastating impact on livelihoods. The situation of Palestinian Bedouin and pastoralists residing in sensitive parts of Area C is of particular concern. The highest food insecurity rates in the West Bank have been identified in Area C, amongst Bedouins and other herders who are suffering from water scarcity, combined with decreased access to land, which in turn make herding unprofitable, uncompetitive and unsustainable. A halt to these demolitions is essential. The UN remains engaged in dialogue with the Government of Israel to halt these negative trends and ensure proper plans for the development of these areas.
33. **Area C is fundamental to a future Palestinian state. Palestinian development in Area C continues to be effectively curtailed by planning restrictions, seriously impeding residential development as well as the repair and expansion of roads, schools, water systems, health care facilities and other infrastructure.** The recent initiative, whereby 21 communities located in Area C received Palestinian planning support to develop master plans addressing their needs with close community involvement, has to be supported. It is encouraging to see that the Government of

Israel has reviewed these plans and initiated discussions with the community representatives concerned. Ensuring appropriate community participation from the outset helps make sure that their needs are addressed. In addition to the above mentioned plans, the Israeli authorities have also initiated master plans, which must respond to Palestinian needs and realities and involve Palestinian communities. Planning needs to be scaled up, ensuring community participation from the outset. The UN stands ready to support this process. Master plans will both serve the future needs of Palestinian communities, and have the potential to enable the retroactive legalisation of existing structures.

34. **The UN has prepared a package of social infrastructure works in Area C**, based on needs assessments conducted by the United Nations in collaboration with the respective PA line ministries. A list of approximately 10 facilities will be submitted for consideration by the Government of Israel shortly. These works will follow on the fast-tracking process that facilitated similar development interventions as part of the package of measures agreed between the Government of Israel and the Quartet Representative in February 2011.⁴¹

II.1.d) West Bank – East Jerusalem

35. Since 1967 Israel has occupied East Jerusalem, which has traditionally served as the focus of political, civil, economic, religious and cultural life for Palestinians in the oPt. Policies applied in East Jerusalem by the Israeli authorities negatively affect the residency status of Palestinians (see paragraph 22 above), their access to education and health services, and their ability to plan and develop their communities.⁴² The UN Secretary General believes that a way must be found for Jerusalem to emerge from negotiations as the capital of two states.
36. Palestinian institutions in Jerusalem have traditionally been the main provider of services for Palestinians in the city. Since August 2001, the Government of Israel has closed approximately 30 organisations, including the Orient House, the Jerusalem Chamber of Commerce and the Arab Studies Society. The activities carried out by these institutions were contributing to the social, cultural and economic development of the Palestinian community in Jerusalem, and their closure continues to affect the development of Palestinians. It is not only important that these institutions be reopened in accordance with Israel's commitments under the Roadmap, but that more civil society organisations serving Palestinians in Jerusalem be supported in light of the primary role they play in catering to a wide range of community needs. The United Nations has continued to call for the reopening of the institutions.
37. **There is a severe housing crisis affecting the Palestinian population in East Jerusalem**, as only 13% of the annexed municipal area in Jerusalem is allocated for Palestinian construction.⁴³ While natural population growth among Palestinians in Jerusalem is estimated to require 1,500 additional housing units annually, only an average of 400 new housing units are actually authorised, resulting in an additional shortage of some 1,100 housing units every year.⁴⁴ This differential has rendered unauthorised construction to be the main effective option for Palestinians in East Jerusalem to respond to their acute housing needs.

38. Israeli authorities are urged to favourably consider various community initiatives in East Jerusalem aimed at advancing community master plans that reflect community realities, and take both natural growth and developmental needs into consideration.
39. **In a number of sectors, Palestinian East Jerusalemites receive less than optimal levels of services. The following paragraphs focus particular attention on one area which illustrates the types of challenges faced and solutions achievable. In many respects health is not a sector *sui generis* –and many of the challenges are similar and many of the solutions could be applied to other equally important humanitarian sectors.** Citing security concerns, Israel has severely restricted access to East Jerusalem for Palestinians from the rest of the West Bank and the Gaza Strip through the imposition of a permit regime, and particularly since the completion of the Barrier around the city in 2006. The resulting separation of communities and families has disrupted normal patterns of living for Palestinians on both sides of the Barrier, and is particularly detrimental for those needing specialised health services at any of the six Palestinian hospitals in East Jerusalem and for their staff, as well as medical students and health professionals in training programmes at the hospitals.
40. **Restrictions on movement and access affect the proper functioning of health institutions in East Jerusalem.** The six referral hospitals serve the Palestinian population of the West Bank, including East Jerusalem, and the Gaza Strip, offering facilities and treatments that are not available elsewhere in the oPt. According to the East Jerusalem Hospitals Network (EJHN)⁴⁵, some 1,600 Palestinian employees work in these six hospitals, and 65% of them are from elsewhere in the West Bank and hence require permits to work in Jerusalem. Permit denials and delays affect the access of hospital staff and negatively impact the hospitals' ability to offer consistent and predictable treatment to patients. Moreover, current Israeli Health Ministry licensing and staff certification criteria disadvantage employees from elsewhere in the West Bank. Patients referred from elsewhere in the West Bank or the Gaza Strip for specialised treatment in East Jerusalem (a significant portion of the patient caseload) are subject to the complicated permit regime. Accompanying family members can also be denied permits which may mean that patients cannot attend their hospital appointments.
41. **The engagement of the Government of Israel with the EJHN during the past few months has resulted in some improvement in the access of Palestinians to health services in East Jerusalem.** There are a number of areas where additional progress is possible. Ambulances should be granted direct access when transporting patients from the West Bank to hospitals in East Jerusalem and there should be a humanitarian lane for patients and ambulances at the checkpoints open 24 hours a day, 7 days a week. The granting of long term permits with direct access through all checkpoints for all hospital staff is essential to ensure the proper functioning of the East Jerusalem hospitals. Further facilitation for patients with chronic illnesses, such as issuance of long term permits for them as well as their companions, is required. The documentation and publishing of procedures related to the permit application is welcome and expected to reduce the number of unsuccessful applications for permits, which is estimated at 20%, for patients and their companions in 2011.

42. Beyond challenges of access, the EJHN faces a financial crisis resulting primarily from accumulating debts by the Palestinian Authority for patient referrals. The EJHN has indicated that the procurement of pharmaceuticals produced in the West Bank could free the EJHN from buying more expensive Israeli and internationally produced pharmaceuticals and result in substantial savings of up to 30% of its drug costs.
43. **A second area that faces similar challenges in East Jerusalem is education.** Access for students from elsewhere in the West Bank and school staff is also heavily curtailed by the permit regime.⁴⁶ Reliable and predictable access for school staff and students alike is essential and could be modelled on that developed for health access to East Jerusalem.
44. In addition to movement and access, the shortage of classrooms remains a fundamental challenge, with approximately 5,000 children within the compulsory education age group uncatered for.⁴⁷ These challenges require serious investment in the educational system, with the increase in the number of classrooms to absorb those students currently unable to find a study place in Jerusalem schools as a priority. Efforts by the Government of Israel to expedite the approval process for the expansion of a number of private schools that can help in absorbing an additional 3,000 to 3,500 new students would be welcome. Further steps, including the construction of new schools, will be essential to ensure that the educational needs of Palestinians in East Jerusalem are addressed.

II.2 GAZA STRIP

45. Hamas remains in *de facto* control of Gaza following its June 2007 violent takeover of the Strip, and continues to reject basic principles of the peace process. The GoI continues to implement a policy of closure, which challenges the livelihoods and social fabric of Gaza's 1.6 million inhabitants. In this context, the situation in and around Gaza remains characterised by serious human rights, humanitarian, socio-economic and security concerns. The UN continues to seek the full implementation of Security Council Resolution 1860.⁴⁸
46. The fragility of the relative calm between Israel and Gaza was again demonstrated by escalations on 26 October and 7 December 2011.⁴⁹ During the reporting period, 274 rockets and mortars were fired from Gaza, killing one Israeli civilian and injuring four. Israel conducted 22 incursions and 78 airstrikes in Gaza resulting in property damage and the death of 20 militants, with 34 injured, and the death of six civilians, with a further 70 civilians injured, including women, children and elderly persons.⁵⁰ Militants must cease firing rockets and mortars into Israel. Israel must show maximum restraint in addressing security threats from Gaza, while also ensuring that it acts responsibly to meet the needs of Gaza's people. All sides must comply fully with international humanitarian and human rights law. The UN will remain actively engaged in efforts to urge all parties to move towards a more durable ceasefire.
47. On 17 October 2011, Israeli Corporal Gilad Shalit was released after being held in captivity by Hamas in Gaza since 25 June 2006. The prisoner exchange agreement reached for his release involved the release of 1,027 Palestinian prisoners in Israel custody, including 55 children. More than 4,400 Palestinian prisoners remain in Israeli jails.

48. In spite of recent advances in job creation and poverty reduction, high levels of unemployment, particularly among the young, low and stagnant average wages and persistent poverty imply that the economy of Gaza and its inhabitants remain vastly dependent on external assistance. Seventy-five percent of the population in Gaza relies on some form of humanitarian assistance⁵¹, and given their low incomes, people in Gaza are especially vulnerable to fluctuations in prices of food and fuel. More than 60,000 civil servants (including security staff, teachers and health workers) in Gaza hired before December 2005, many of them not working, remain on the PA payroll.⁵² PA support to Gaza in the form of these salaries, medical supplies and other expenses amounts to about US\$1 billion a year.
49. Gaza's infrastructure continues to require considerable investments, including a continued flow of approvals for UN works. The Government of Israel's approval to date of 84 UN projects and the partial approval of three further projects that require 'controlled materials' valued at around US\$276 million has been welcome. These approvals have allowed for the construction of 2,000 housing units, 34 schools and a number of water, sanitation and electric facilities. During the past six months, the United Nations received approvals for UN projects that require 'controlled materials' for merely US\$2.5 million. This is insufficient to facilitate the ongoing and planned programme of UN works, valued at around US\$850 million and covering a total of 10,500 housing units, 105 schools and twelve water and sanitation projects needed to address severe overcrowding and demographic pressures. We regret that despite assurances received we are still urgently awaiting the approval of a further package of UN priority projects (including 32 UNRWA schools and 3 major UNRWA housing projects) worth US\$200 million.⁵³
50. The health sector in Gaza suffers from insufficient investment in its facilities and continues to face challenges to meet the increasing needs of a rapidly growing population. Most existing health facilities are unable, in their current condition, to provide safe and adequate services and are in need of rehabilitation and upgrading. A package of works, valued at approximately US\$60 million, to restore the condition of the Gaza health estate has been identified following a UN assessment, and includes the construction of a number of primary health care centres, a new central warehouse, a national oncology centre, as well as a blood bank. The construction of these facilities would substantially enhance service delivery, assist in infection control, reduce mortality and help prepare for any future crises. This new package of work will be submitted to the Government of Israel shortly, and donors are urged to support this work via the PA/UN Multi-Donor Trust Fund.
51. The UN welcomed the 8 December 2010 announcement by Israel on the expansion of the number and range of exports permitted from Gaza, consistent with security conditions. Export opportunities are key to reviving Gaza's productive base, generating employment, reducing poverty, and sustaining recent economic gains. Since the announcement, only cash crop products, namely carnations, strawberries, sweet peppers and tomatoes, have been exported, almost exclusively to Europe.⁵⁴ Exports of strawberries and vegetables have increased during the current season compared to the previous one, but carnation exports are lower.⁵⁵ Recent encouraging developments towards diversification of markets and goods are the transport of furniture to a trade exhibit in Jordan and the export of tomatoes to Saudi Arabia (through Jordan). The

humanitarian transfer of Gaza-produced, nutritionally re-enforced date bars for WFP's school feeding programme in the West Bank in March 2012 represents an encouraging step towards the reestablishment of commercial links between the West Bank and Gaza. Access to non-Israeli international markets alone will not be sufficient to revive the export sector, and the restoration of Gaza's export potential will require the re-opening of its traditional and natural markets, namely the West Bank and Israel.⁵⁶ Similarly, the benefits of exporting for the legitimate private sector will not be fully realised if exports are not diversified to include higher value-added manufacturing products, for example, which in turn would require easier access for the private sector to necessary raw materials, capital inputs and traditional markets.⁵⁷

52. Israel, citing security concerns, continues to limit Gaza's fishing waters to three nautical miles from the shore, posing a major obstacle to economically viable fishing. The UN estimates that the total fish catch has decreased by almost 50% and sardine catches, once the backbone of the fishing industry, have fallen by as much as 80% since 2008. While the reduced output of the fisheries sector may not have a substantial effect on the overall Gazan economy, there is no easy livelihood alternative for some 3,000 fishermen and their 20,000 dependents. Fish has also traditionally been an affordable source of protein for a largely food insecure and vulnerable population. In-land fish farming currently being developed in Gaza could take many years to yield enough output to compensate for the reduced sea fish catch and would not be a livelihood option for many of the affected fishermen who do not possess required land or resources. The current fishing limit also poses a challenge for proper seawater resource management and carries environmental implications, especially as the fish stock continue to be depleted through overfishing of juvenile fish within the currently accessible waters. The restoration of the fishing limit, in line with international standards, would allow for access to sardines that are found at the eight mile mark and would help resolve, in part, the challenges described above.
53. The UN continues to call for the lifting of the ongoing restrictions on the movement of goods to and from Gaza to the extent possible, subject only to legitimate security considerations. The upholding of these restrictions for the reported purpose of restricting access to dual-use material in Gaza, in particular aggregate, iron bar and cement (ABC), is not reconcilable with the reality of a fully active, albeit illegitimate, tunnel system supplying these construction materials in mass.⁵⁸ The Palestinian Federation of Industries in Gaza estimates that some 75,000 tonnes of aggregate, 75,000 tonnes of cement and 12,500 tonnes of iron bars reach Gaza every month via the tunnels, considerably more than the amounts of the same materials entering Gaza through the Kerem Shalom crossing for authorised projects. Prices in Gaza for these materials are now on a par or even lower than the cost of material coming from Israel. The upholding of these restrictions is only adversely impacting the efficient and cost-effective implementation of international community projects. Furthermore, tunnel operators are increasingly subjected to payment of fees and taxes by the *de facto* authorities, further transplanting a legitimate economy.⁵⁹
54. Movement restrictions imposed by Israel (which cites security concerns) have consequences for the health and education of Gazans. While Israeli authorities permit the access of medical supplies into Gaza, there are frequent breakdowns of medical equipment resulting from power

interruptions and water impurities, among other factors. For this and other reasons, many patients are forced to seek treatment outside Gaza for a wide range of medical problems. Restrictions on the movement of Gaza residents have particularly adverse consequences for those patients who are referred to health facilities in the West Bank, including East Jerusalem, Jordan or Israel, as they must apply for permits not more than ten days from their scheduled hospital appointment. There were improvements in patient permit approval in 2011, with 7% of the more than 3,200 permit applications from patients between October 2011 and January 2012 denied or delayed beyond their appointment.⁶⁰ Continued efforts to maximise permit approvals remain important. Students from Gaza also face restrictions and are too often unable to access higher education opportunities in the West Bank or abroad.⁶¹ Enabling students to obtain the required permits to enter the West Bank to attend universities remains a second important priority.

¹ The six areas are: 1) Governance, human rights and rule of law; 2) Education and culture; 3) Health; 4) Social protection; 5) Livelihoods, food security and employment; and 6) Infrastructure/water and sanitation.

² The eight governorates with a Family Protection Unit are Bethlehem, Hebron, Jenin, Jericho, Nablus, Ramallah, Tubas and Tulkarem.

³ In 2011, largely due to lower-than-expected external budget support the PA accumulated approximately US\$540 million in arrears, including to the pension fund, private sector suppliers and development projects, and close to US\$140 million in net financing from domestic banks.

⁴ The key understandings reached in principle by staff from the Israeli and Palestinian Ministries of Finance in 2011 are summarised by the IMF in its September 2011 AHLC report as follows:

- . The assessment of clearance revenue owed to the PA should be made on the basis of the data compiled by the Gol on trade between Israel and the West Bank and Gaza. Both sides should have equal access to data collected through shared electronic interfaces.
- . It is important that PA officials be present at border crossings to enable close monitoring of imports into the West Bank and improve the collection of invoices for VAT and other taxes and fees.
- . Discontinue the current practice of settling unpaid electricity bills (owed by the Gaza Electricity Distribution Company and by Palestinian municipalities to the Israeli Electricity Company) through automatic deductions by the Israeli MoF from clearance revenue owed to the PA. Instead, to raise efficiency and transparency, the Israeli electricity company should send electricity bills to the Palestinian MoF which will be responsible for their settlement.
- . Several practices of revenue sharing should be reviewed to ensure that they are in line with the Paris Protocol. In particular, exit fees levied by Israel on Palestinian passengers crossing the Allenby Bridge should be equally shared between the two sides.

⁵ For more information on the consequences of suspensions by Israel of clearance revenue transfers to the PA, see IMF (2011), *West Bank and Gaza: Recent Developments in Clearance Revenues*.

⁶ The Government of Israel agreed on 30 November 2011 to transfer to the PA the clearance revenue it had been withholding for some weeks. The agreement came a few days after the PA had announced it would not be able to make salary and pension payments due to the suspension of the transfer of clearance revenue.

⁷ According to the Portland Trust (February 2012a): "An ongoing inability to pay the private sector is likely to have a significant negative effect on the Palestinian economy. The small size of a typical Palestinian company does not allow enterprises to receive bridging finance from banks. In addition, private suppliers have lost confidence in the PA hampering its ability to conduct normal business with the private sector and the banking sector. There is some anecdotal evidence that private suppliers have started charging higher prices to the government in order to cover the interest on potential bank loans in case the PA does not pay on time. Private companies are also sometimes refusing to supply products or services to the PA's ministries and institutions. If the financing problems persist, which seems likely, the PA will continue accumulating arrears in 2012 and the private sector and wider economy will be increasingly affected." (*Palestinian Economic Bulletin #65*)

⁸ According to the Palestinian Ministry of Finance, one of the reasons for the recent decrease in the proportional contribution of Gaza to the PA's clearance revenue collection is the replacement by the Gaza electricity generating company of Israeli fuel imported through the legal crossing with fuel smuggled from Egypt through the tunnels, eliminating the petroleum excise tax revenue received from Gaza. In September 2011 only 3% of total clearance revenue derived from Gaza, down from an average of 5% in 2010.

⁹ The PA has managed to reduce its recurrent deficit significantly, from 24% of GDP in 2009 (on a commitment basis) to 13% of GDP in 2011.

¹⁰ IMF projections suggest a recurrent deficit of US\$1.1 billion in 2012, based on projected growth rates of 5% in the West Bank and 9% in the Gaza Strip. In February 2012, the IMF estimated the financing gap to be around US\$0.5 billion.

¹¹ A 2011 amendment to the Investment Law, for example, is meant to provide incentives particularly for smaller businesses as well as for the service sector. A decentralization plan announced recently by the Ministry of National Economy is meant to lower costs for businesses by allowing them to access services, such as applying for

certificates to import or export, in their governorate branches of the ministry instead of in Ramallah. The World Bank's 2012 *Doing Business Report* ranks the West Bank and Gaza ahead of several countries in the region in categories such as paying taxes, protecting investors, registering property and enforcing contracts. The World Bank (September 2011) assesses the situation in terms of corruption as follows: "According to Transparency International's Global Corruption Barometer 2010, 59 percent of those surveyed in [West Bank and Gaza] say corruption has declined in the last 3 years, and only 22 percent say it increased. This compares to Lebanon, where only 6 percent say it declined, and 82 percent say it increased. Thus, while many countries in the region suffer from high corruption, it does not seem to be a significant problem for doing business in [West Bank and Gaza]. Indeed, the PA and private sector associations backing anti-corruption reforms should be given due credit, particularly in light of the fact that many governments far more sophisticated than the PA continue to struggle to develop effective governance arrangements regarding the relationship between the public and private sector." (*Sustaining Achievements in Palestinian Institution-Building and Economic Growth.*)

¹² According to the World Bank (October 2011): "The resulting delays [of checkpoints] increase transport costs through higher costs of labour and other inputs such as fuel. The extra travel time also means that any given vehicle will on average be transporting lower trade volumes per time unit, which implies a higher fixed cost per transaction. Uncertainty is also introduced by the unpredictability of waiting times at the checkpoints. These unanticipated delays may result in penalties, or even discontinuation of trade, if on-time delivery is demanded. Even if no penalties are incurred, delays may result in damage to shipment, especially for perishable goods, which too adds to the costs." (*Coping with conflict: Poverty and inclusion in the West Bank and Gaza*, p81). A quantitative analysis of the economic implications of checkpoints for trade within the West Bank suggests that two checkpoints or more can increase prices by up to 10%. UNCTAD (2011) estimates that "removing the constraints imposed by Israel on Palestinian trade would increase Palestinian merchandise exports by about 40 per cent. Until a sovereign Palestinian State is established with own trade infrastructures, there is large scope for facilitating Palestinian trade flows and reducing the excessive transaction cost to which Palestinian businesses are subjected. Removing all [non-tariff barriers to trade] imposed by Israel will allow the realization of the significant Palestinian trade potential and would thus stimulate economic growth and employment" (*Rebuilding the Palestinian Tradable Goods Sector: Towards Economic Recovery and State Formation*). Furthermore, according to ARIJ and the Palestinian Ministry of National Economy (September 2011), import and export restrictions on trade to and from the West Bank and Gaza, including with Israel, give rise to different types of costs, particularly: a) Lack of availability and higher costs of inputs to production due to the 'dual use' item list; and b) Costs of the restrictions in handling, processing and transporting imports and exports (*The Economic Costs of the Israeli Occupation for the Occupied Palestinian Territory*).

¹³ See for example IMF (September 2011), *Recent Experience and Prospects of the Economy of the West Bank and Gaza* and World Bank (September 2011), *Sustaining Achievements in Palestinian Institution-Building and Economic Growth*.

¹⁴ Rawabi, a US\$850 million private investment project, is designed as a modern city with high environmental standards that will offer affordable high quality-of-life housing opportunities for more than 5,000 families. More information is available on www.rawabi.ps.

¹⁵ The 2011 first issue of corporate bonds by the Palestine Development and Investment Company (PADICO) in the amount of US\$70 million is another example of ambitious, large-scale private sector activity that signals a broadening of the state-building agenda.

¹⁶ The Quartet asked that all members of future Palestinian Governments be committed to non-violence, recognition of Israel, and acceptance of previous agreements and obligations, including the Roadmap.

¹⁷ The *Program of the 13th Government* of the Palestinian National Authority set out the national goals and government policies for a two-year period starting in August 2009, and centred around the objective of building strong state institutions capable of providing, equitably and effectively, for the needs of citizens.

¹⁸ GDP and labour statistics used in this report for the oPt and the West Bank exclude East Jerusalem due to the unavailability of data.

¹⁹ Whereas wage expenditure on a cash basis grew by 4.2% in 2010, it grew by 3.0% in 2011. Similarly, nonwage expenditure on a cash basis grew by 1.3% in 2010 but it shrank by 1.7% in 2011. Net lending has been drastically

reduced by 25.7% in 2010 and 47.2% in 2011. Furthermore, as mentioned in paragraph 7 in the main text, a new tax reform was agreed in early 2012, raising tax rates, among other measures.

²⁰ Between January and September 2011, the public administration and defence sector expanded by US\$55.8 million in the West Bank compared to the same period in 2010, accounting for 30% of overall GDP growth in the 9-month period. In Gaza, the construction sector grew by US\$120 million in the first three quarters of 2011 compared to the same period in 2010. This implies that construction accounted for 46% of overall GDP expansion in Gaza during that period.

²¹ Between the first and fourth quarters of 2011, the proportion of owners/managers of active industrial enterprises in the West Bank who perceived that there was no improvement in their situation in terms of obtaining raw materials and inputs ranged between 85% and 90%, and in terms of transporting finished goods to market it ranged between 90% and 94%. (PCBS)

²² In the third quarter of 2011 nominal GDP per capita was US\$383 in Gaza and \$696 in the West Bank. (PCBS)

²³ PCBS data indicate that the unemployment rate for the oPt has remained above 20% since the year 2000. The unemployment rate was 21% in 2011 (17% in the West Bank and 28% in Gaza). According to the ILO, few countries (among those with available data) had unemployment rates above 20% in 2011. These countries include South Africa and Spain. (*Short Term Indicators of the Labour Market*). According to PCBS, unemployment in the oPt among the young is higher than the average, and in Q4/2011, 33% for those between 15 and 19 years of age and 38% of the 20-to-24-year age group were unemployed. Mean daily nominal wages for workers in the West Bank (excluding East Jerusalem) and Gaza were NIS79 in Q4/2010 and NIS78 in Q4/2011, while inflation was about 3%.

²⁴ According to the World Bank (October 2011), in addition to poverty, vulnerability to poverty is significant among the population of the West Bank and Gaza, due to “a sizeable concentration of households around the poverty line”. This implies that a large segment of the non-poor population remains at risk of falling below the poverty line in the event of a shock. (*Coping with conflict: Poverty and inclusion in the West Bank and Gaza*, p17). The World Bank also finds that high levels of poverty and risk of poverty in the oPt are associated with lack of employment.

²⁵ Source: PCBS/FAO/UNRWA/WFP 2011 Socio-Economic and Food Security Survey. Food insecure households are those whose income and consumption are below US\$5.39 per adult equivalent/day, or those showing a decrease in total food and non-food expenditures, including households unable to further decrease their expenditure patterns. Vulnerable households are those showing both income and consumption below US\$6.76 per adult equivalent per day except households showing no decrease in expenditure patterns. (As comparison with countries in the region) It was estimated that 15% of people in Iraq were food insecure in 2009, and that 32% of people in Yemen were in that same situation in 2010.

²⁶ Mean daily wages decreased from NIS87 in Q4/2010 to NIS86 in Q4/2011, while inflation in the West Bank during the year was close to 4%. (PSBC)

²⁷ PCBS/FAO/UNRWA/WFP 2011 Socio-Economic and Food Security Survey.

²⁸ The World Bank (October 2011) estimates that the Gaza economy contracted by 20% in 2006, 8% in 2007 and 10% in 2008, and comparing the Gaza case with other economic crises, calls the contraction of the Gaza economy “almost without precedent”.

²⁹ Recent GDP growth in Gaza has been led by the construction sector, which expanded by US\$120 million in the first three quarters of 2011 compared to the same period in 2010, accounting for 46% of GDP growth in that period. This sector was followed by services and the public administration and defence sector, which accounted for 17% and 12% of GDP growth, respectively. In contrast, manufacturing and agriculture contributed 1% and 8%, respectively, to total GDP growth during the period.

³⁰ According to PCBS, the unemployment rate in Gaza fell from 38% in 2010 to 29% in 2011 while labour force participation increased from 36% to 38% and mean daily wages were basically unchanged around NIS60.

³¹ PCBS/FAO/UNRWA/WFP 2011 Socio-Economic and Food Security Survey.

³² The 2012 CAP focuses on two strategic objectives, namely enhancing the protective environment including access to services, and tackling food insecurity, targeting the most vulnerable communities with priority in the Gaza Strip, Area C, the Seam Zone and East Jerusalem, where the PA has limited or no access.

³³ This shortfall in humanitarian funding has compelled UNRWA, for example, to introduce cuts to services provided in Gaza, particularly in the support of the job creation programme, as well as in the food basket for absolute and abject poor refugees. These cuts have been met by several strikes and demonstrations by

beneficiaries over the past months. On 12 January 2012, about 70 persons from the Workers Unity Block, UNRWA abject and absolute poor beneficiaries and representatives of Refugee Popular Committees of the Middle Area organised a sit-in in front of Nuseirat South UNRWA Relief Office in Nuseirat camp in protest of the cut of UNRWA services in the Relief and Job Creation programmes. In the West Bank, two key programmes that target the poorest of the poor are also underfunded. UNRWA also reports that the current fuel shortages in Gaza may have a negative impact on its overall requirements, as during previous shortages it fell to UNRWA to provide fuel to the blood bank, hospitals and other key service providers in Gaza. If the shortage continues, the growing need for fuel will require a reprioritization of the overall requirements, at the expense of basic core humanitarian services such as food aid and job creation. Similarly, due to funding constraints, WFP has been forced to deliver as of the January/March 2012 food cycle a reduced in-kind food ration for the General Food Distribution (2 months allocation covering 3 months). WFP estimates that it covers only 50-60% of Kcal requirements. In the West Bank, cuts were made as of July 2011 in the in-kind General Food Distribution project, and the Kcal daily requirements coverage went from 60% to 40%. Related to the West Bank voucher programme, WFP had to reduce the transfer value from US\$13.60 per person per month to US\$9.00.

³⁴ See www.adalah.org/newsletter/eng/jan12/docs/Summary%20Citizenship%20Law.pdf.

³⁵ On 27 September 2011, Israel announced 1,100 East Jerusalem settlement units. On 10 October it announced 11 new housing units in the East Jerusalem settlement of Pisgat Zeev, and on 11 October it significantly advanced plans for the construction of some 2,600 housing units in the East Jerusalem settlement of Givat Hamatos. On 1 November, Israel announced the accelerated construction of housing units in occupied East Jerusalem after the decision by UNESCO to admit Palestine as a member. Israel subsequently publicised its intention to invite tenders for the construction of 1,557 new units in East Jerusalem and 673 units in other areas of the West Bank. On 27 November, a plan for the construction of 119 housing units in the West Bank settlement of Shilo was approved. On 7 December, construction permits on 14 housing units in the East Jerusalem neighbourhood of Ras el-Amud were advanced. On 12 December, 40 homes and a farm were approved near the West Bank settlement of Efrat. On 17 December, the Government of Israel announced its intention to issue construction tenders for 1,028 housing units in the settlements of Har Homa, Beitar Illit and Givat Ze'ev. On 22 February 2012, 695 units were approved in the settlement of Shilo and the outpost of Shvut Rachel (Peace Now).

³⁶ OCHA (January 2012), *The Humanitarian Impact of Israeli Settlement Policies*. The land allocated to the local and regional councils is part of Area C.

³⁷ For further details see: OCHA (January 2012), *The Humanitarian Monitor*.

³⁸ OCHA estimates that 200,000 people from 70 villages are forced to use detours between two to five times longer than the most direct route to their closest city due to movement restrictions. Also, despite the easing implemented in previous years, nine of the ten governorates' main cities have one or more of their historical entrances currently blocked, resulting in traffic congestion and frequent delays through those entrances that are open. Access to the main traffic arteries leading from the villages to the cities also continues to be limited to select junctions. As a result, much of the Palestinian traffic between the villages and the main service centres is funnelled along secondary and often lower-quality routes.

³⁹ When completed, only approximately 15% of the Barrier will be constructed on the Green Line or in Israel, and approximately 85% of its route will run inside the West Bank, isolating approximately 9.4% of West Bank territory, including East Jerusalem and No-Man's Land. See OCHA (July 2011), *Barrier Update*.

⁴⁰ According to OCHA, while data are not available for the number of permits granted, a larger number of permits are approved each year on the eve of the olive harvest season. For the 2011 season, between 15 September and 15 December, approximately 42% of all permit applications were rejected, primarily due to 'security reasons' or lack of 'connection to the land', as required by the Israeli authorities. This is slightly above the rate of denial during the previous season, which stood at about 39%. These figures do not capture those who have stopped applying for permits, discouraged because of repeated rejection, or others who refuse to apply as a matter of principle. The According to Israel, its Supreme Court, sitting as High Court of Justice, has carefully considered route of security fence in several cases, and Israel has complied with its rulings.

⁴¹ For details on the package see www.tonyblairoffice.org/quartet/news-entry/package-of-measures-agreed-between-the-government-of-israel-and-the-quartet/.

⁴² In 2008 more than 30% of Jerusalem families lived below the poverty line (compared to 16% throughout Israel). Palestinians were particularly disadvantaged, with average income estimated to be three times less than Israeli Jerusalemites. Additionally, 82% of Arab children lived below the poverty line compared to 44% among Jews. Jerusalem Mayor Nir Barkat has made improving services and infrastructure in East Jerusalem a prominent part of his publicly stated agenda. In his 2010 budget he increased funds to East Jerusalem, including adding NIS300 million for new classrooms, NIS2.8 million for planning and zoning and NIS23 million for infrastructure and roads. In addition, according to Maariv Newspaper from 22/2/2012: "A new multiannual plan launched on 22nd February 2012 is slated to transfer in the coming five years over NIS0.5 billion for developing roads in the eastern neighbourhoods. According to a plan of the Transport Ministry and the Jerusalem Municipality, over 30 lateral roads will be paved in the eastern part of the city, including eight roads in Beit Hanina, two in Wadi Joz, eight in Ras el-Amud, a-Tur and Silwan, and seven additional roads in Beit Safafa, Jabel Mukaber and Issawiya. Sources in the Transport Ministry said that "the new road plan in East Jerusalem was prepared in cooperation with the community councils and representatives of the residents in order to set priorities for development of the neighbourhoods and in order to provide a response to transportation needs." Minister Yisrael Katz and Mayor Nir Barkat emphasised that the plan is expected to greatly improve the quality of life and the municipal services for the residents by improving access to neighbourhoods, schools and public and business institutions. The municipality hopes that the plan will lead to economic development and minimise the number of construction violations in the area."

⁴³ OCHA (March 2011), *East Jerusalem Key Humanitarian Concerns*.

⁴⁴ Ir Amim (March 2009), *A Layman's Guide to Home Demolitions in East Jerusalem*.

⁴⁵ The EJHN was established in 1997 with the strategic vision of unifying the health facilities in East Jerusalem and emphasising their critical role within the Palestinian health system. In 2003, the EJHN began efforts to officially institutionalise the Network as the first hospitals network in East Jerusalem. The EJHN includes six facilities: Princess Basma Rehabilitation Center, Augusta Victoria Hospital, Maqassed Hospital, St. John Eye Hospital, St. Joseph Hospital, and the Palestinian Red Crescent Society Hospital.

⁴⁶ According to information provided by the Israeli authorities to UNRWA, 17,000 teachers and students have to cross checkpoints into East Jerusalem from the rest of the West Bank to reach school on a daily basis.

⁴⁷ Ir Amin (August 2010), *Palestinian Education System in East Jerusalem 2010*. There are four types of schools in East Jerusalem. Thirty-eight schools are Waqf schools and serve 12,500 students. Eight are UNRWA schools with a student population of 3,400. Forty-five private schools are run mostly by churches and charitable institutions and accommodate 20,500 students, and 55 schools are run by the Israeli Ministry of Education (eight by private business contractors) and serve a total student population of approximately 39,000.

⁴⁸ Security Council Resolution 1860 can be found on www.un.org/docs/sc/unsc_resolutions09.htm.

⁴⁹ The recent escalation of violence between Gaza and Israel that started in March 2012 is not dealt with in this report as it falls outside of the reporting period, but will be covered in the next report to the AHLC.

⁵⁰ Data from the UN Department of Safety and Security.

⁵¹ Various actors provide social assistance in both the West Bank and Gaza, most importantly the PA (mainly through the Ministry of Social Affairs), international organisations such as UNRWA, and non-governmental organisations, including charitable organisations and political parties. According to the World Bank (October 2011), "the assortment of sources of aid [in Gaza] does not result in high rates of overlapping across programs, where selected groups are able to capture multiple benefits from various sources ... This is noteworthy and encouraging for future initiatives to streamline social assistance programs." (p127)

⁵² World Bank (September 2011), *Sustaining achievements in Palestinian Institution-Building and Economic Growth*.

⁵³ The UN has submitted a total of 130 projects worth US\$476 million to the GoI for approval, and a further US\$374 million are to be submitted as part of the programme of UN works.

⁵⁴ UNSCO reports an average of 1,062 truckloads exported from Gaza per month between December 2006 and April 2007. In 2011, the total number of exports was 301.

⁵⁵ According to the Palestinian Agricultural Relief Committees (PARC) between November 2010 and February 2011 a total of 262 truckloads were exported. Between November 2011 and February 2012 a total of 213 truckloads were exported. (The measure used is the number of Palestinian trucks.)

⁵⁶ According to PalTrade, the West Bank and Israeli markets are important for the future economic growth of Gaza since Gazan exports struggle to compete in other markets due to the higher transportation costs involved (The Portland Trust (February 2012b). *The Private Sector in the Gaza Strip*. According to UNSCO, Israel and the West Bank were the market for an average of 63% and 17% of Gazan products, respectively, during December 2006 and May 2007 (measured in truckloads).

⁵⁷ Israel was the market for 76% of furniture exports and 90% of textile exports from Gaza before the tightening of the closure in 2007. See The Portland Trust (February 2012b).

⁵⁸ The lists of controlled dual-use items and dual-use items for projects can be found on www.mfa.gov.il/NR/rdonlyres/F1E4CCD4-AC96-4BA9-803A-816E51300594/0/COGATCivilianPolicyGazaStrip.pdf.

⁵⁹ According to a recent study by The Peres Center for Peace: "The Israeli-led closure of the Gaza Strip enabled Hamas to consolidate its monopoly of economic power in the Gaza Strip, mainly through:

- . Institutionalization of a vast network of underground tunnels into a massive trade route – at its peak involving 1,000 tunnels bringing over 4,000 different types of products, including raw materials, consumer products, and illicit contraband.
- . Hijacking Gaza's legitimate trade lifeline and commercial institutions through its own set of taxes, regulations, and checkpoints.
- . Replacing Gaza's private sector – the main engine of economic activity up until 2005 – with a new elite of Hamas-loyalist businesses, resulting in a drop of 95% in the number of industrial businesses in operation." (*Gaza Strip Crossings: Israeli Policies in a Broader Perspective*, p5)

⁶⁰ This figure increases to 22% for males 18-40 years old. Between October 2010 and January 2011 there were a total of 3,512 permit applications from patients, and 19% of them were denied or delayed. See WHO (several months), *Referral of Patients from the Gaza Strip*.

⁶¹ OCHA (January 2012) reports that an official document recently released following a petition under the Freedom of Information Act specifies 16 categories of people who are eligible for permits to leave Gaza and enter Israel or the West Bank. These include, among others, patients in need of life-saving treatment, merchants, first-degree relatives of the very ill, journalists, and staff of international organizations. Students enrolled in West Bank universities, however, are not included. (*The Monthly Humanitarian Monitor*)