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**PALESTINIAN STATE-BUILDING AT STAKE:
PRESERVING THE TWO-STATE SOLUTION**

Ad Hoc Liaison Committee Meeting
New York, 23 September 2012

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LIST OF ACRONYMS

AHLC	Ad Hoc Liaison Committee
CAP	Consolidated Appeals Process
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
UN	United Nations
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

The April 2011 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 –an assessment maintained by the UN since then. Further progress has been realised since, helping to create an enabling environment which makes sustainable economic growth possible.

However, the prolonged absence of a credible political horizon for a final status agreement, ongoing conflict and the occupation represent ever more acute challenges to this progress, bringing us to a critical juncture which will determine whether the two-state solution remains viable. During the reporting period no tangible progress on the political track was made. The continued Palestinian divide is a further challenge. Reconciliation talks remain deadlocked, especially with regard to the implementation of previous agreements. The Palestinian Authority is thus not able to fully extend its state-building efforts to the Gaza strip, where they are urgently needed. In addition, a fundamental rolling back of the occupation, which remains the essential complement to the state-building agenda, has not been realised.

The current slowdown in economic activity in the West Bank and Gaza is dampening hopes of reducing the high unemployment, poverty and vulnerability that still affect thousands of Palestinians.¹ Unfortunately, high levels of economic growth in the past two years has not benefited all Palestinians, as the food security situation improved in both the West Bank and Gaza in 2011, but no progress was made in poverty reduction and unemployment remains above 20%. This has contributed to continued humanitarian vulnerability.

It is now essential that progress on the ground be accelerated to maintain the achievements of the state-building agenda. Three elements are of particular importance:

1. In order to better serve Palestinians, and also to increase the revenue generated for the PA through taxation, it is now essential that economic activity be expanded, including in Gaza and Area C.
2. While economic growth will lead to the generation of additional revenue, in the short term donors will need to increase their contributions to the PA to ensure its fiscal viability.
3. Measures which can be implemented now, which will improve the situation on the ground, and in particular, the security environment which must be sustained.

Each of these is elaborated upon below and in the main body of the report.

Despite increasingly prudent budget management, the PA's fiscal situation remains grave, a result mainly of a decrease in foreign aid, the failure of donor countries to fulfil their financial pledges and slowing economic activity. The PA has accumulated large amounts of arrears to the private sector and the pension fund, as well as debts to local banks, and the deficit for 2012 is currently projected at US\$1.3 billion, with a financing gap of US\$400 million. Achieving fiscal sustainability in the medium term hinges on the PA's continued efforts to decrease the deficit by controlling expenditure and increasing revenue. Also key for the PA's medium term fiscal sustainability is Israel's cooperation to enhance revenue capture and to ease movement and access restrictions sufficiently to allow the Palestinian private sector to develop and lead economic growth, and in so doing to provide an additional source of revenue through taxation for the Palestinian Authority. The UN welcomes the recent exchange of letters between the parties on this issue and hopes to see quick finalisation and

implementation of the associated technical agreement. It is therefore essential that economic activity be expanded both for Palestinians and as a means of increasing revenue generated for the PA through taxation. Such growth must be driven by a vibrant private sector and not by donor-funded public expenditure. In the short term, however, donors will need to increase their contributions to the PA to ensure its fiscal viability.

Funding for the UN's work is an additional source of concern. By the end of July UNRWA was in need of an additional US\$50 million to meet the shortfall in its core operating budget, which, if not met, will lead to the suspension of its essential services, including the operation of schools, health clinics, and relief for the poorest of poor in both the oPt and the other countries in the region in which UNRWA works in December.

While political progress remains essential, there are nevertheless a range of measures which if undertaken now, will help to maintain the viability of a two-state solution. This report focuses on a number of specific issues on which the UN, together with the parties and the international community, will work to realise progress. In this regard, the analysis presented here is accompanied by specific recommendations focused on the security environment broadly, the West Bank (particularly Area C and East Jerusalem), and Gaza.

Sustaining improvements in the security environment and the rule of law must remain a priority. Palestinian Security Forces (PASF) have continued to demonstrate the capability to fulfil the policing function required of a state in the areas currently under its jurisdiction. In order to maintain this performance, it is now essential that the PASF receive a delivery of equipment that is currently awaiting GoI approval for import.

Area C is fundamental to the contiguity of the West Bank and the viability of a future Palestinian state. In the short term, Palestinian access to and development in Area C is vital to accommodate the natural growth of the Palestinian population in the West Bank, and for the use and development of natural resources that are essential for the private sector to drive the economic growth needed for a rapidly growing population. The establishment of participatory planning and an effective permitting regime in Area C is necessary to address the needs of vulnerable communities and to allow them to develop without risking demolition and eviction due to unauthorized construction. There are initial indications that plans for between six and eight Palestinian communities may soon be published. However, further progress to address the planning needs of over 200 Palestinian communities in area C remains essential. In addition, social infrastructure works are also essential for Area C. The reporting period saw the continued implementation of 14 schools (three complete and the remainder on-going) and five clinics (all completed) that were part of the original US Government/Office of the Quartet Representative agreement reached in February 2011. In addition, the recent approval of 14 facilities including both schools and clinics is particularly welcome. Funding for these works is now essential and donors are encouraged to support them through the PA/UN Trust fund. The UN, along with a number of member states, has now prepared a number of additional agricultural works which will soon be submitted to the GoI. Approval of these works would represent a further step in ensuring that Palestinian needs in Area C are addressed.

While the status of Jerusalem remains a final status issue to be resolved through negotiations between the parties, the UN Secretary General believes that a way must be found for the city to emerge from negotiations as the capital of two states. A number of immediate steps have the

potential to significantly improve the lives of Palestinians living in East Jerusalem. The economic and social ties of East Jerusalem to the rest of the West Bank and Gaza remain severely constrained, contributing to rising poverty. The health sector would benefit from Israeli easing of measures to allow the East Jerusalem Hospitals Network to procure lower cost pharmaceuticals produced or imported from the rest of the West Bank. The reopening of Palestinian institutions in East Jerusalem would represent a further positive step.

Finally, the situation in Gaza is characterised by recurrent tension with continued indiscriminate rocket fire from Gaza, as well as Israeli air strikes and incursions. This uneasy situation is made worse by serious human rights, humanitarian and socio-economic concerns. The UN's ultimate objective in Gaza is the full implementation of Security Council Resolution 1860, including an end to the closure.² However, there are a number of immediate measures that can help achieve this ultimate objective. Gazans face serious socio-economic challenges that result from their vulnerabilities, including unemployment and poverty, shortages in education and healthcare, and lack of drinking water and electricity. If developed, the Gaza Marine gas field could, however, help address Palestinian energy needs, alleviate the current power shortage and as indicated above, have a positive impact on PA revenue. The sustainable growth of Gaza's economy will depend on reactivating the productive private sector by allowing it to have easier access to necessary raw materials and capital inputs and by allowing it to access its traditional and natural markets, namely the West Bank and Israel. Reconstruction remains a primary focus of the international community. Lifting restrictions on the entry of aggregate, iron bar and cement would enable the growth of Gaza's private sector and provide an additional source of revenue for the Palestinian Authority, through taxation at the point of entry. In the absence of this more fundamental change, a steady flow of approvals for works involving 'dual use' material should be maintained. In advance of the last AHLC the GoI approved US\$80 million of UN projects requiring 'dual use' material, bringing the total approved works to approximately US\$365 million. In addition, the UN welcomes the recent approval of an additional US\$38 million of UN projects, including 449 housing units in Khan Younis, six UNRWA schools and infrastructure works. The UN will continue to engage the GoI to secure the approval of the remaining UN projects. In order to better address the health needs in Gaza, the UN has developed a programme to enhance the necessary capacity and infrastructure valued at approximately US\$80 million. Donors are encouraged to support this work. Finally, an extension of the fishing limit in keeping with international standards will help restore legitimate livelihood opportunities to some 3,000 families.

The reporting period is 28 March 2012 to 22 August 2012, unless otherwise noted.

I. Political context

1. In its last three reports to the *Ad Hoc* Liaison Committee (AHLC) the United Nations (UN) has concluded that in six areas where it is most engaged, governmental functions of the Palestinian Authority (PA) are sufficient for a functioning government of a state.³ The International Monetary Fund (IMF) and the World Bank have also reconfirmed the Palestinian Authority's institutional readiness for statehood, a conclusion that has been reaffirmed by AHLC Members in those same meetings.⁴
2. **The fundamental constraint to the PA results from the continuation of conflict and the lack of progress on the political track.** Quartet partners met on 12 March 2012 in New York and again in Washington D.C. on 11 April to develop a way forward building on the Quartet statement of 23 September 2011. After direct contacts earlier in 2012, Israeli and Palestinian negotiators met in Amman in April and agreed to exchange letters outlining their positions. On 17 April a letter from President Abbas was delivered to Prime Minister Netanyahu, who responded on 12 May. The exchange was kept confidential and led to quiet direct engagement aimed at identifying the steps necessary to create an environment conducive to high-level contacts. Quiet dialogue continues on these issues but has yet to lead to any tangible results.
3. **The continued Palestinian divide is another political shortcoming.** Reconciliation talks remain deadlocked, especially with regard to the implementation of previous agreements. The sequence of elections remains a central point of division. We were disappointed that the *de facto* authorities prevented the Palestinian Central Elections Committee from undertaking its work in Gaza during July and August. We continue to support efforts to promote reconciliation through Egyptian auspices, under the leadership of President Abbas, and within the framework of the commitments of the Palestine Liberation Organization, the positions of the Quartet, and the Arab Peace Initiative.
4. The political process continues to lag behind progress on the state-building achievements. As a result of lack of progress on the political agenda we are now approaching a moment that will determine if we slide towards a one state reality. This is compounded by further settlement activity. In a rapidly changing region, the vision of the two state solution and the achievements of the Palestinian Authority are elements of stability and progress that should not be lost but rather maintained and realized in full without further delay. Real progress can only be achieved through a meaningful peace process. But regardless of the pace of progress on the political track, building upon and deepening state-building gains remains vital. Progress that benefits Palestinians throughout the oPt helps to enable an environment conducive to development and creates conditions in which a final status agreement can take root. Development progress will also help reduce humanitarian needs throughout the oPt.

II. Palestinian State-Building

1. The UN's March 2012 report emphasised that this achievement was at *increased* risk and that the PA was facing ever greater political and financial pressure. Recent steps to address the clearance of goods and tax procedures, as well as the recent approval of additional permits for Palestinian labourers in Israel bring the total number of permits to a reported 41,450, are welcome. These steps follow others reported previously, and we encourage continued positive measures. As Muslims celebrated the month of Ramadan, restrictions remained on access to pray at the Al-Aqsa Mosque. Israeli authorities did, however, ease access to East Jerusalem by lowering the age of those permitted to enter the city for prayers from 50 to 40 years of age. Nonetheless, further and more fundamental measures are required. In particular this will mean three things:
 - a. First, in order to better serve Palestinians, and also to increase the revenue generated for the PA through taxation, it is now essential that economic activity be expanded, including in Gaza and Area C.
 - b. Second, while economic growth will lead to the generation of additional revenue, in the short term donors will need to increase their contributions to the PA to ensure its fiscal viability.
 - c. Measures which can be implemented now, which will improve the situation on the ground, and in particular, the security environment which must be sustained.
2. This report focuses on a number of specific issues on which the UN, together with the parties and the international community, will work to realise progress. The structure of the report reflects this purpose, providing analysis accompanied by specific, actionable recommendations. These do not supplant the full spectrum of recommendations presented in previous reports, many of which remain as valid today as they were when originally published.
3. The reporting period has seen further progress in the effort to build the institutions of a future Palestinian state. The conclusion of the PA's *Programme of the 13th Government* has not meant an end to Palestinian progress in building institutions, nor to the UN's support to that endeavour.⁵ Over the reporting period the state-building achievement has progressed further, increasing both the depth and breadth of institutional readiness. This, in turn, has helped to create an enabling environment within which the economic potential of the oPt could be realized. However, a fundamental rolling back of the occupation, which is the essential complement to the state-building agenda, has not been realised. Section III of this report reviews the situation on the ground in greater detail, particularly in those areas where the Palestinian Authority faces the greatest challenge in extending its authority: Area C and East Jerusalem in the West Bank, and the Gaza Strip.
4. The reporting period has seen further institutional progress in the oPt, including in areas as diverse as mine clearance, official statistics and security, as detailed below.
 - a. **The PA Security Forces (PASF) in the West Bank have continued to demonstrate the capability to fulfil the policing function required of a state in the areas**

currently under its jurisdiction. 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 April 2012, the PA, with international assistance, has trained, equipped and is in the process of deploying a ninth battalion of PA Security Forces, bringing the total of such personnel to over 4,500. The continued consolidation of the security forces has the potential to yield even greater efficiency. This increased enforcement capacity has been complemented by improvements in the area of rule of law, for example the recent opening of the state-of-the-art Palestine College for Police Sciences in Jericho, which will allow the Palestinian Civil Police to provide cadets and officers with high level police training. Potential attacks have been prevented, including one on 27 April when the PASF dismantled two unexploded devices near Jenin, and a rolling security operation commenced in early May in the northern West Bank. It is essential that the PASF be adequately equipped, and require a further delivery of weapons currently awaiting Gol approval for import.

- b. The Palestinian Central Bureau of Statistics (PCBS) has, in a remarkably short period of time, built a robust and trusted national official statistical system capable of fulfilling the statistical information requirements of a modern state.** PCBS's achievements have been widely recognised, including through the 2010 ISO 9001 accreditation for its quality management system, and its subscription to the IMF's Special Data Dissemination Standard in April 2012. The Bureau is currently leading a consultative process to develop a comprehensive 'statistical monitoring system' to track progress towards the objectives of the National Development Plan, the sectoral strategies and other important development goals. This system will serve as a basis for the design and pursuit of sound policies and will facilitate decision-making for the PA, development actors and others, thus representing a further important contribution to Palestinian development. PCBS is active through its offices in the north, central and south West Bank, as well as in Gaza.
 - c. The PA has enhanced its mine action capacity** through the inauguration of the Palestinian Mine Action Centre (PMAC) in April 2012, to develop mine action capacity and mine risk education. There are an estimated 91 minefields in the West Bank – 78 along the border with Jordan and 13 in the governorates of Jenin, Tulkarm, Qalqiliya, Bethlehem, Hebron and Ramallah. Contamination figures will be confirmed upon the completion of the survey of minefields and suspected areas currently under way by the PMAC, UN and HALO Trust. Most minefields and hazardous areas are located in fertile agricultural and grazing land and, in some cases, inside or in the vicinity of villages. In addition to posing a constant risk to the population, the contamination undermines socio-economic development and livelihoods of Palestinian communities. Arrangements for access to these minefields are currently under discussion with the Gol.⁶
- 5. Institutional progress has helped create an enabling environment for private sector activity, but Israeli restrictions that limit access to land and other resources, and the movement of people and goods internally and externally continue to represent the main constraint on the private sector.**⁷ The PA has taken a number of steps to improve

the business environment and attract investment, including reform of the legal and regulatory framework. The PA is encouraged to build on these advances and exert further efforts to enhance the quality of its services and the environment for investment and private sector activity, for example in the areas of company registration, regulation of competition, access to credit, and land registration, among others.⁸ Measures taken by Israel which help the Palestinian private sector, such as issuing permits for Palestinian businessmen traveling through Israel, the replacement of certain roadblocks with road gates that are normally kept open and commercial crossing upgrades, are welcome. Yet these measures have not had a significant effect on the performance of producers, exporters, importers, suppliers and traders in general, given the magnitude of restrictions that Israel still keeps in place citing security concerns.⁹ The result of years of restrictions has been the diminished competitiveness of Palestinian goods in local and international markets, low productive investment, and the shift over time of economic activity away from tradable, productive sectors towards those sectors that are less affected by these restrictions, e.g. public administration and services. A reversal of these trends and an expansion of the productive base and the tradable goods sector will be the basis for sustainable private sector-led growth, but this will only be feasible with a significant easing by Israel of the restrictions on the movement of people and goods, and access to land and other resources that it still keeps in place, including in Area C.

6. **The PA's fiscal crisis is worsening, mainly due to a decrease in foreign aid and the failure of donor countries to fulfil their financial pledges to the PA in a timely manner – a situation compounded by slow economic activity.**¹⁰ Israel's advances of clearance revenue it collects on behalf of the PA (some US\$45 million in July and US\$65 million in September) to help the payment of salaries provide welcome but momentary relief.¹¹ Due to the depth of the crisis, the PA has recently been unable to pay full salaries to all its employees on time, or to honour its full commitments to the pension fund and the banking and private sectors, although a significant proportion of private sector arrears were recently paid in an effort to boost private sector confidence and activity. The situation of the Ministry of Health is illustrative of the severity of the crisis facing the PA: burdened with debts, the Ministry has had to reduce the referrals of patients for specialised treatment abroad and has found itself unable to secure essential medicines and drugs. It thus launched an appeal in August for support in addressing the severe shortage in medicines and drugs at the Central Medical Stores in the hopes of being able to continue providing the Palestinian population with adequate medical services.¹²
7. **The grave financial situation of the PA threatens to undermine not only progress in the state-building agenda, but the fiscal sustainability of the Palestinian Authority as well. Concerted efforts by the PA, the Government of Israeli (GoI) and donors are required to address this situation.** The PA's stability in the immediate term will depend on increased donor funding, but achieving fiscal sustainability in the medium term hinges on the PA's continued efforts to decrease the deficit, as well as on Israel's cooperation to enhance revenue capture and to ease restrictions sufficiently to allow the Palestinian private sector to develop and lead economic growth.
 - a. The PA's on-going efforts to strengthen its fiscal position have led to increased revenue collection, significantly reduced net lending and slower growth of the wage

bill. As a result, the PA has managed to reduce its recurrent deficit, from 21% of GDP in 2008 to 13% of GDP in 2011.¹³ External budgetary support, however, has fallen sharply, from 93% of budgeted financing needs in 2009 to 69% in 2011, leaving a wide financing gap to be settled through the accumulation of bank debt and arrears to the private sector and pension fund.¹⁴ In this context, the PA must continue its austerity efforts, most importantly by addressing the growth in the wage bill and transfer payments, for example through a limiting annual cost of living salary adjustments and discontinuing some allowances, such as transportation allowance, for Gaza staff who are not working.¹⁵ A significant reduction in the civil service, however, would have significant negative consequences unless it is accompanied by an increase in employment opportunities in the private sector, lest it generate even higher levels of unemployment, poverty and vulnerability in both the West Bank and Gaza. The development of the Gaza Marine gas field could provide a new significant source of revenue for the PA.¹⁶

- b. The exchange of letters between the parties at the end of July, aimed at enhancing PA revenue capture by reducing illegal trade and tax evasion, raises expectations of an improved PA fiscal position.¹⁷ The full implementation of the agreed measures, to start in 2013, is key to helping the PA increase revenue collection and will thus contribute to reduced deficits and aid dependence in the future. The UN hopes to see quick finalisation and implementation of the associated technical agreement.
- c. Nevertheless, the medium term development and sustainability of the Palestinian economy will depend on ensuring that economic activity is fuelled by a vibrant private sector and not by donor-funded public expenditure.¹⁸ The private sector will only be able to become the engine of economic growth, when movement and access restrictions are lifted and it is able to operate and compete in the local and international markets. An economy solidly based on private sector activity will in turn allow the PA to increase its domestic revenue collection, decreasing its dependence on aid.
- d. By the end of July the PA's deficit reached US\$713 million.¹⁹ Recent contributions from Iraq (US\$25 million), Saudi Arabia (US\$100 million), Japan (US\$10 million) and the Netherlands (US\$6 million) are welcome, but further support is needed to finance the deficit, currently projected to reach US\$1.3 billion by the end of the year, and help the PA, which has reached its borrowing limit with domestic banks, avoid accruing further arrears and debts. By the end of July external budgetary support was only 45% of the budgeted amount for the year. Given that the PA does not have access to IMF funding or international financial markets, donors are urged to honour their pledges and meet the shortfall to help overcome this crisis in the immediate term.²⁰

III. Situation on the ground

- 8. In the West Bank, economic activity is slowing, with unemployment still high, particularly affecting refugees, women and youth. The economy in the West Bank contracted by

more than 3% in real terms in the first quarter of 2012 compared to the previous quarter.²¹ Unemployment decreased to 17% in the second quarter of 2012.²² The lack of opportunities and prospects for young people remains a worrying issue.²³

9. **In the West Bank, advances in food security were achieved despite modest progress in poverty reduction.** Eighteen per cent of West Bankers were living below the national poverty line in 2011.²⁴ Advances in poverty reduction in the last few years have been modest, with the poverty rate falling by less than 2 percentage points between 2009-2011, during which time real GDP grew by an average of close to 7%. The overall food security situation in the West Bank improved in 2011, with food insecurity estimated at 17% while food security rose to 45%.²⁵ A total of 25% of households report receiving assistance in 2011, without which it is estimated that food insecurity would have reached 22%.²⁶
10. Whilst data for Palestinians in East Jerusalem are scarce and generally not comparable to those for the rest of the oPt, there are indications that poverty is on the rise, including among children.²⁷ Poverty is linked primarily to employment difficulties, including low labour force participation, chronic unemployment, low wages and underemployment.²⁸
11. In Gaza, the economy is slowing while unemployment remains high, especially for refugees, women and young people.²⁹ Unemployment fell to 28% in the following quarter. Unemployment was higher than average for the youth.
12. **Food insecurity in Gaza has fallen but remains high, with large proportions of the population in vulnerable situations, and poverty unchanged even with the recent high economic growth.** Poverty affected 39% of people in Gaza in 2011. These figures reflect no reduction in poverty since 2009. This is worrying considering that real GDP in Gaza grew by an average of 17% a year in the period 2009-2011, implying that this high economic expansion did not manage to lift households out of poverty. Food insecurity did fall significantly in 2011 but remained very high at 44% and food security increased to 23%.³⁰ It is further estimated that without assistance, food insecurity would have reached 51%.³¹
13. **In advance of the last AHLC meeting the UN welcomed the approval by the Government of Israel of reconstruction projects in Gaza valued at approximately US\$80 million, raising the amount of works since March 2010 that require 'controlled materials' to US\$365 million.** In addition, the UN welcomes the recent approval of an additional US\$38 million of UN projects, including 449 housing units in Khan Younis, six UNRWA schools and infrastructure works. The UN will continue to engage the GoI to secure the approval of the remaining UN projects. A continuous and steady flow of approvals should be maintained in order to address Gaza's significant infrastructure needs, as long as the import of key building materials, particularly aggregate, iron bar and cement, remains restricted. The removal of construction materials from the GoI's 'dual use' list would allow for more effective implementation of reconstruction works in Gaza. The recent import of 20,000 tons of construction materials for the private sector in Gaza via the Sufa crossing without the end-user verification required for international projects confirms the continued demand for such materials and the decreased need for these restrictions. These materials continue to be readily available in the Gaza Strip

through the illegal tunnel trade, bringing into question the rationale for maintaining these items on the Israeli list of 'dual use' imports. Allowing the unrestricted import of these materials for the private sector would also provide a much needed source of revenue for the PA through taxation at the point of entry.

14. In 2012 the Consolidated Appeals Process (CAP) required US\$415.4 million (a reduction from \$536.9 million in 2011). As of 22 August US\$268 million (or 64.5%) of the total requirements had been met.³² Nevertheless, critical gaps remain, including in the education and agriculture clusters, which were only one-third funded, and in the Gaza strip, where eight out of ten households receive some form of assistance.³³ By the end of July UNRWA alone required an additional US\$50 million to meet the shortfall in its core operating budget, which, if not met, could lead to the suspension of its essential services, in particular its ability to operate schools, health clinics, and relief for the poorest of poor in the oPt and the region. UNRWA is also in need of an additional US\$173 million to fully fund the requirements of its own emergency appeal, which covers a broader scope of humanitarian needs of refugees than its requirements within the CAP, both in terms of programmatic reach and budget requirements. Most urgently required is the funding of US\$7.5 million by November 2012 to procure the full food rations for more than 700,000 refugees in Gaza. Funding shortfalls have already resulted in the cancellation of UNRWA's "Summer Games" for the children of Gaza. If not addressed, continued funding shortfalls will result in additional cuts to essential UNRWA programming across the oPt.
15. **The international community has increased its effort to ensure a smooth transition from relief to recovery.** The United Nations System has more than US\$2.5 billion of multi-year recovery and development programming currently under implementation or planned to start as funding becomes available. The United Nations' (UN) recovery and development work, outlined in the UN Medium Term Response Plan, is complementary to the PA's National Development Plan and sector strategies.³⁴ 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 work in Gaza and other activities in the West Bank. To date, the fund has received and disbursed a US\$22.6 million contribution.

III.1 WEST BANK

West Bank - Overview

16. **During the reporting period, settlement activity** contrary to international law, **continued apace, including in East Jerusalem.** On 24 April, the Gol also announced the intention to retroactively legalise three settlement outposts in the West Bank. Following High Court orders, the Gol evacuated settlers who were living on private Palestinian land on the Ulpana hill in June and Migron in September. In both cases, the Gol provided the settlers with temporary alternative housing closeby. The territorial fragmentation of the West Bank significantly impacts Palestinian freedom of movement and access to land and resources. On 9 September, the cabinet voted in favour of upgrading the status of a college in the settlement of Ariel, in the West Bank, to that of a university, representing a further encroachment into the West Bank. All settlement activity is in violation of

international law, runs counter to Israel's Roadmap commitments, and makes the two-state solution all the more difficult to achieve.

17. **Israeli settler violence remains a serious concern as the continuous friction undermines the physical security and livelihoods of Palestinians and risks increased tension.**³⁵ The UN recorded close to 200 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 about 90 persons, including many children, and damage to more than 2,400 fruit-bearing trees. Israel must prevent and provide adequate law enforcement for acts of settler violence in line with its obligations towards the Palestinian civilian population under occupation.³⁶ Desecrations of religious sites also continued to occur, including a mosque on 19 June near Ramallah, one near Hebron on 11 September, and a monastery in Latrun on 4 September. While the GoI has strongly and consistently condemned these attacks and made several arrests, more must be done to prevent such violence and provide adequate law enforcement for acts of settler violence, in line with its obligations towards the Palestinian civilian population under occupation.³⁷
18. **The reporting period also witnessed incidents in which Israeli settlers were affected by violence,** including 5 injuries. On 20 May, Israeli security forces announced the arrest of Palestinians attempting to kidnap Israelis in the West Bank.

West Bank – Movement and access

19. Approximately 62% of the Barrier route is now complete, with very few new sections constructed during the reporting period but 80% of the existing Barrier route built inside the West Bank.³⁸ As a result of the Barrier's significant deviation from the Green Line, in contravention of the International Court of Justice advisory opinion of 2004 which called for those portions of the Barrier built inside the West Bank to be dismantled, large areas of agricultural land and water resources are located in the so-called Seam Zone (which represents 9.4% of the West Bank) between the Barrier and the Green Line.³⁹ The negative humanitarian impact of the constructed Barrier on Palestinian communities thus continues, raising serious concerns for the livelihoods of farmers living in 150 villages that own land located on the 'Israeli side' of the Barrier.⁴⁰
20. In July the GoI approved 5,000 new permits for Palestinian construction labourers to work in Israel. This was in addition some 20,000 permits that had been issued already for employment, often short term, of Palestinian workers mostly in construction and agriculture. In addition, another 6,000 permits are expected to be approved. These initiatives are welcome. Further measures to ease access and movement and enable the growth of the Palestinian economy throughout the West Bank, including Area C and the Jordan Valley, and in Gaza are now needed.

West Bank - Area C

21. Area C is fundamental to the contiguity of the West Bank and the viability of a future Palestinian state. Palestinian access to and development in Area C is necessary to accommodate the natural growth of the Palestinian population in the West Bank,

estimated at more than 2.5% a year.⁴¹ Access to natural resources located in Area C, such as agricultural land and quarries, is also key for the private sector to spur the type of economic growth necessary to support this rapidly growing population. The Union of Stone and Marble, for example, estimates that the future of the stone and marble industry in the oPt “depends on access to and effective exploitation of quarries in Area C”.⁴² Among the urgent needs stated by quarry owners to keep the industry from dwindling are a “transparent, streamlined, affordable [permitting] system that functions effectively”.⁴³

22. **Demolitions of Palestinian-owned structures and displacement continue.** During the reporting period, the Israeli authorities demolished close to 235 residential and non-residential structures in the West Bank ((including East Jerusalem), displacing 273 Palestinians, and reducing the livelihoods or otherwise affecting over 2,400 others.⁴⁴ The United Nations has continued to coordinate and provide humanitarian assistance in such cases. 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. In a worrying development, the Israeli Ministry of Defense recently stated its intention to evict Palestinians living in eight communities located in an area in the southern Hebron governorate designated by Israel as a “firing zone” for military training.⁴⁵ This would result in the forced eviction of 1,000 persons and have a serious immediate and long-term impact on their physical, socio-economic and emotional welfare.⁴⁶
23. According to the Gol, demolitions are carried out on grounds that structures were built without permits. Palestinian construction in Area C is normally permitted only within the boundaries of a plan approved by the Israeli Civil Administration (ICA), which only a small minority of Area C communities have.⁴⁷ This reality highlights the need to address the planning needs of all Palestinian communities in Area C as a prerequisite measure for them to develop without having to resort to building unauthorized structures. Addressing these planning needs, however, must go beyond retro-actively enabling the authorisation of Palestinian structures, but must also generate community-based plans that reflect current realities and satisfy the future needs of these communities. This would allow the effective and organized development of these localities by their own communities, with the support of international community investments. There are initial indications that plans for between six and eight Palestinian communities may soon be published. However, further progress to address the planning needs of over 200 Palestinian communities in Area C remains essential. The submission would, however, have to be followed by the regular processing and approval of plans in order to adequately address the outstanding neglected development needs of Palestinian communities and to capitalise on the interest of various donors to support development interventions in these areas. Pending such a change the UN continues to call upon the Gol for a moratorium on demolitions and evictions. Due consideration should also be given to the transfer of land in Area C to the Palestinian Authority, particularly in areas

surrounding major urban centers, to facilitate more suitable urban development and relieve the acute pressure on the land and housing market.

24. In addition, the international community has engaged the GoI a range of planning and social infrastructure works in Area C.
- a. The on-going PA effort to formulate its National Spatial Plan is followed closely by the international community with the expectation that this exercise will serve to both identify unexplored potential in a range of sectors and propose plans and strategies with a comprehensive geographical and national outlook that can effectively guide future international investments, for example, in the agricultural sector. With the development potential in certain sectors increasingly saturated in Areas A and B and thus in increased need of resources located in Area C, the completion of these plans is becoming increasingly urgent to accommodate growth needs. In parallel with the elaboration of the above mentioned National Spatial Plan, the international community will continue to work to define needs for Area C along with relevant PA Ministries. Such plans must address the full spectrum of urban needs including anticipated growth, provision of services and other infrastructure.
 - b. Implementation of the package of works introduced by the Office of the Quartet Representative and the US Government (OQR/USG) in February 2011 which involved the rehabilitation and expansion of 20 schools and health clinics has advanced significantly, with works on eight facilities already completed and the remaining facilities falling between imminent completion and the tendering stage.
 - c. Furthermore, an additional package of social infrastructure works has been assembled as a collective effort by the UN, the US Government and the OQR. The reporting period saw the continued implementation of 14 schools (three complete and four on-going) and five clinics (all completed) that were part of the original package approved in February 2011. In addition, the recent approval of 14 facilities including both schools and clinics is particularly welcome. The technical permits, expected to require between four and six months to be issued by the Israeli Civil Administration, in keeping with the timelines achieved in the February 2011 package, will be sought as funding is secured. With formal response from the GoI now received, funding from a number of member states that have expressed interest in supporting these significant interventions can now begin to be allocated. Further donors are invited to join this effort through the PA/UN Multi-Donor Trust Fund.
 - d. Additionally, the United Nations and the OQR with the expertise of the Food and Agriculture Organization of the United Nations (FAO) and in alignment with the PA national agricultural strategy, are formulating a set of works to support the agricultural sector, much of which is based in Area C. Interventions of scale should support agricultural communities as opposed to assistance to individual farmers if this vital sector is to grow in terms of production, employment and its contribution to the Palestinian economy. The proposed works, shared with the GoI, include the rehabilitation of ground water wells and the construction of community water

reservoirs, for example, which are aimed at restoring agricultural potential and improving cost-effectiveness to enable a more commercially viable sector.

- e. This represents an important step forward in ensuring Palestinian needs in Area C are gradually addressed. Further requirements will continue to be identified with the emphasis shifting from basic social infrastructure needs of communities located in Area C to those that serve the Palestinian population more generally and hold economic potential, such as in the agricultural and stone and marble sectors. With less than 20% of the arable land in Area C currently utilised, the effective development of the agricultural sector necessitates increased cultivation in Area C. With Israeli facilitation, the agricultural land utilisation rate could be increased by a further 2-3% by 2017.

West Bank - East Jerusalem

25. As already noted above, there are indications that poverty in East Jerusalem is on the rise.⁴⁸ Chronic unemployment and poverty among the residents of East Jerusalem places acute stress on many families. The reopening of the East Jerusalem Chamber of Commerce would be an important step in rebuilding a vibrant private sector in East Jerusalem.⁴⁹
26. 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 remains a concern. 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.
27. There are a number of areas where East Jerusalemites receive less than optimal level of services. Palestinian children in East Jerusalem, for example, face challenges in accessing quality education, including an insufficient number of municipal preschool establishments, a shortage of classrooms, poor school infrastructure, and access restrictions that inhibit teachers and students living on the 'West Bank side' of the Barrier to reach school on time or at all.⁵⁰ The result is thousands of school-aged children who do not have access to free public education, a large number of children not enrolled in any educational institution, and a high dropout rate.⁵¹
28. Ambulance access from the West Bank to Jerusalem remains an area of concern. A total of 693 patient transfers were made from the West Bank to hospitals in Jerusalem by the Palestinian Red Crescent Society (PRCS) in the period from January to June 2012. However in over 90% of the cases (632 patients) had to be moved from a Palestinian-plated ambulance to an Israeli-plated ambulance at the checkpoints in order to proceed. The Gol is urged to ensure ambulance transfers proceed without the need for patients to switch ambulances.
29. The on-going restriction on the procurement by health institutions in East Jerusalem of pharmaceuticals produced in other parts of the West Bank or imported by West Bank suppliers has the two-fold effect of negatively affecting the pharmaceutical industry in the West Bank and raising the costs for East Jerusalem hospitals, who are forced to buy

more expensive pharmaceuticals from Israel or other countries.⁵² Allowing these institutions to procure pharmaceuticals made elsewhere in the West Bank or imported by West Bank suppliers would help them save on the cost of medical supplies and would, at the same time, help the Palestinian private sector. This would be particularly welcome in the present situation where the six non-government hospitals in East Jerusalem that serve as referral hospitals to the PA and serve the residents of East Jerusalem have accumulated considerable debts that threaten their survival. Their current debt is estimated to have reached US\$57 million by the end of June 2012, including US\$12.5 million for medical and pharmaceutical supplies and US\$6.25 million for other supplies.

III.2 Gaza Strip

30. Since its violent takeover of the Gaza Strip in June 2007, Hamas remains in *de facto* control of the Strip and continues to reject basic principles of the peace process. The United Nations continues to seek the full implementation of Security Council Resolution 1860, including an end to the closure.⁵³
31. **During the reporting period, continued rocket fire from Gaza, Israeli airstrikes and incursions, as well as cross border attacks in the Sinai including on 5 August underscored the continued fragility of the situation in Gaza.** During the reporting period 11 Grad rockets, 191 home-made rockets and 32 mortar shells were fired from Gaza, injuring two Israeli civilians. In the same period, Israel conducted 29 incursions and 51 airstrikes in Gaza, resulting in damage to property and the death of 15 militants, with 32 injured, and the death of five civilians, with 98 injured. Rocket fire is unacceptable and must stop. In addition, the GoI must show maximum restraint.
32. Gazans face serious socio-economic challenges that result from their vulnerabilities, including unemployment and poverty, lack of drinking water and electricity, and shortages in education and healthcare, which are becoming more acute.⁵⁴ The population of Gaza is projected to grow by another half million people to 2.1 million in 2020, which would result in a high population density of 5,835 people per km².⁵⁵ The IMF's economic forecasts foresee only modest growth in real gross domestic product per capita if the status quo is maintained, leaving Gazans still worse off by 2015 than they were in the late 1990s.⁵⁶ Infrastructure in electricity, water and sanitation, municipal and social services, is not keeping pace with the needs of the growing population. By 2020, electricity supply will have to double to meet a projected demand of 550 megawatts;⁵⁷ otherwise, daily power cuts will continue. If developed, the Gaza Marine gas field could, help address Palestinian energy needs.⁵⁸ Today, 90% of the water from the aquifer in Gaza is already not safe for drinking without further treatment.⁵⁹ By 2020, demand is projected to increase by about 60%, to 260 million cubic metres,⁶⁰ while damage to the aquifer may become irreversible if it is not rested immediately.⁶¹ An additional 450 schools will need to be constructed to respond to a current shortage and future needs.⁶² Similarly, to keep pace with population growth, more than 700 additional hospital beds, over 1,000 doctors and 2,000 nurses are needed by 2020.⁶³
33. After a period of extremely high growth beginning from a very low base, the economic slowdown in Gaza is raising serious concerns about the prospects for job creation and

poverty reduction. Eighty per cent of households in Gaza rely on some form of humanitarian assistance, and given their low incomes, people in Gaza are especially vulnerable to fluctuations in the prices of food and fuel, which could easily be affected by changes in global prices or a crackdown on smuggling through the tunnels from Egypt, for example. Approximately 60 thousand civil servants and security personnel in Gaza hired before 2007, many of them not working, remain on the PA payroll. PA support to Gaza in the form of these salaries, medical supplies and other expenses is estimated to amount to about US\$1 billion a year.⁶⁴ Since the PA is unable to collect taxes in Gaza and the tax revenue it collects on Gaza's imports is minimal, most of the PA's expenditures in Gaza are being financed by international aid. Gaza is thus basically being kept alive through external funding, in the form of aid and remittances, and the illegal tunnel economy.⁶⁵ The *de facto* authorities, on their side, are raising revenue by 'taxing' the tunnel trade.⁶⁶ Longer-term sustainable growth in Gaza will depend on the reactivation of the legitimate private sector, which in turn rests on its ability to import and export normally to and from the rest of the world, including Israel, and to trade with the West Bank.

34. Change on a large scale is required to address Gaza's needs. A fundamental objective of the United Nations remains the full implementation of Security Council Resolution 1860, including an end to the closure of Gaza. In the interim, a number of immediate measures, outlined below, will help shift towards that overall objective.
 - a. Given the limited size and purchasing power of the local market, trade with the West Bank and exports to Israel and other countries, are key to reviving Gaza's productive base. The 2011/2012 cash crop season saw increases in the export of vegetables and strawberries compared to the previous season, but a decrease in the export of flowers.⁶⁷ With external assistance, a small amount of clothes were also exported to the United Kingdom in May and July.⁶⁸ This is a welcome step. However, these modest amounts of mostly internationally sponsored exports are not enough to restore Gaza's export potential or to have a tangible impact on the Gazan economy. Goods exports from Gaza in 2011, for example, are estimated to have amounted to US\$21.6 million and accounted for less than 2% of total oPt goods exports.⁶⁹ Whereas goods exports from the West Bank, which also face significant challenges due to Israeli restrictions, increased by 135% between 1994 and 2011, exports from Gaza in 2011 were 60% below the 1994 level.⁷⁰ In order to be able to operate without external assistance and contribute to a sustainable economic recovery in Gaza, the productive sector requires access to its traditional and natural markets, namely the West Bank and Israel. It also requires easier access to necessary raw materials and capital inputs to allow it to diversify towards higher value added products, and to reduce production and transaction costs and so be more competitive in the international and local markets. Two truckloads of school furniture from Gaza destined for PA schools in the West Bank are scheduled for transfer in the last week of September 2012. It is hoped that this as well as the upcoming resumption of transfers of date bars from Gaza to the West Bank (as part of the World Food Programme's (WFP) school feeding program) will provide a basis for the reestablishment of commercial links between Gaza and the West Bank.

- b. Since March 2010, the United Nations has received approval for a total of US\$365 million of works that require 'dual use' material allowing it to play a significant role in Gaza's reconstruction. These 103 projects include 2,800 new housing units, 54 schools and a broad range of health, water, sanitation and hygiene, and infrastructure works. In parallel, however, the illegal tunnels now play a central role in Gaza's economy, including the entry of aggregate, iron bars, cement, fuel and some luxury goods. The *de facto* Hamas authorities have also been able to implement a range of infrastructure projects, shoring up support for themselves. In this context, the removal of construction materials from the 'dual use' list would have a range of benefits: improved efficiency and effectiveness of international assistance, including reducing the need for donor support for access coordination mechanisms; renewed ability by the PA to collect tax revenue from the legitimate sale of these items, thus strengthening its fiscal position; improved safety standards for new structures in Gaza; and a reduction in the number of people, including many children, exposed to death and injury while working in tunnels.
 - c. The UN in close cooperation with the Ministry of Health, has developed a three-year program to address the growing capacity and infrastructure needs in the Gaza Strip, caused in part by Operation Cast Lead and further aggravated by the prolonged closure that has further eroded the structural and operational capacity of the health care system. The program, valued at approximately US\$80 million, including medical equipment, involves the construction of various health facilities such as a central medical warehouse, a blood bank, a national oncology centre, as well as seven primary health centres. Donors are strongly encouraged to fund this significant program to sustain this vital sector.
 - d. Economically viable fishing in Gaza is hindered by Israel's restriction on fishing waters, imposed citing security concerns, to only three nautical miles from the shore, seriously affecting more than 3,000 fishermen and their 20,000 dependents. Inland fish farming currently being developed in Gaza could partially compensate for the sharply reduced sea fish catch but only in the medium term, and would not be a feasible option for many of the affected fishermen who do not possess required land or resources. The three-mile limit on fishing waters also complicates seawater resource management and has serious environmental consequences, especially as overfishing of juvenile fish within the currently accessible waters leads to the depletion of the fish stock. 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 so would help restore livelihood opportunities for Gaza's fishermen in an environmentally sustainable way.
35. Thus far in 2012 the proportion of permit applications for referrals abroad has been higher (93.8% approved) than during previous reporting periods.⁷¹ Gazans' access to specialised medical treatment is however, being affected by the PA's difficult financial situation. The PA's attempts to cut down on expenditures have led it to reduce the number of referrals to the most expensive destinations in the last months. In addition, the referral of patients out of Gaza for specialised medical treatment was suspended for a nine-day period in July following a dispute between the health authorities in Ramallah

and Gaza over the management of the Referral Abroad Department (RAD) in Gaza, although the Palestine Human Rights Centre in Gaza handled the submission of urgent applications during this period. The issue was resolved with the help of intermediaries including the World Health Organization (WHO) and a number of other health leaders in Gaza. Referral patients' access to specialised medical treatment is also vulnerable to delays in the processing of their applications for a permit to cross Erez, non-response or denial of their applications, all of which can be critical for patients who are waiting for urgent care.⁷²

¹ Due to their limited linkages with global markets, the Palestinian banking and private sectors have been relatively unaffected by the recent global economic downturn, which is however, affecting donor countries' ability to provide budgetary support to the PA.

² Security Council Resolution 1860 can be found on www.un.org/docs/sc/unsc_resolutions09.htm.

³ 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.

⁴ See Chair's Summary from 18 September 2011 AHLC meeting: 'Meeting of the Ad Hoc Liaison Committee New York, 18 September 2011, Chair's summary' and Chair's Summary from the 21 March 2012 AHLC meeting: 'Meeting of the Ad Hoc Liaison Committee Brussels, 21 March 2012, Chair's Summary'.

⁵ 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 on the objective of building strong state institutions capable of providing, equitably and effectively, for the needs of citizens.

⁶ Nearly 3,000 mines are located in or near the historically and religiously significant Baptismal site in the Jordan Valley. There are concerns that mines have also shifted further downward into the valley, with years of precipitation, into locations which have yet to be identified. Since fencing and markings have been poorly maintained, children have accounted for most of the casualties.

⁷ See World Bank. 2012. *Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth*. Also see Aix Group. March 2012. *The Arab Peace Initiative and Israeli-Palestinian Peace: The Political Economy of a New Period*.

⁸ For details on proposed improvements to the legal and regulatory environment see World Bank. 2012. *Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth*. According to the World Bank's *Doing Business in the Arab World 2012* report, the oPt economy ranks 131st out of 183 on the ease of doing business index, and 13th out of 20 economies in the Arab world. The oPt economy was relatively poorly rated on the cost, duration and number of procedures necessary for starting a business, and on the ease of getting credit and of resolving insolvency. The economy was relatively well rated on the ease of dealing with construction permits, getting electricity, registering property, and paying taxes, and it ranked fourth on the strength of investor protection and fifth on the ease of enforcing contracts. Although few documents are needed for imports (6, in a range for the Arab world of 5-10), imports require a long time (40 days, compared to a low of 7 in the United Arab Emirates and a high of 83 in Iraq). It also has the fourth highest cost of export (US\$1,310 per container, compared to a low of US\$577 in Morocco and a high of US\$3,550 in Iraq).

PCBS's *Survey of the Perceptions of Owners/Managers of Active Industrial Enterprises Regarding the Economic Situation, Second Quarter 2012*, more than half of those who had an opinion in West Bank and Gaza were not satisfied with the information provided by the government to enterprises, promotion policies, access to government consulting and training, or access to information on industrial technology, markets, global conventions, financial grants, etc. Most were satisfied with the judicial system and conflict resolution, obtaining necessary permits and licenses, the laws and regulations, and the provision of services such as telecommunications, internet services.

⁹ In addition to non-tariff barriers to trade, Israeli impediments, imposed citing security concerns, identified by the private sector as affecting its activities are: the closure of Gaza; internal closures within the West Bank; the Barrier; the implementation of border crossings between the West Bank and East Jerusalem and Israel. See National Economic Dialogue Programme. 2008. *Israeli Impediments versus Palestinian Private Sector Requirements under the Current Political Situation*. www.nedp.ps. Oxfam provides a detailed analysis of the

restrictions faced by Palestinian farmers in the Jordan Valley and their effect on the farmers' competitiveness and ability to trade internally and externally. See Oxfam. July 2012. *On the Brink*.

¹⁰ Also, by the end of July 2012, total net revenue (on a commitment basis) was below the annual budget, but total expenditure and net lending was above budget.

¹¹ It has been reported that Palestinian debts for electricity provided by the Israel Electric Corporation reached approximately US\$175 million in August 2012.

¹² WHO. June 2012. *Monthly Report, Referral of Patients from the Gaza Strip*. www.emro.who.int/countries/pse, and Palestinian National Authority Ministry of Health. August 2012. *Appeal: Essential Drugs and Medicine List with Zero Stock in the Central Medical Stores*.

¹³ IMF. March 2012. *Recent Experience and Prospects of the Economy of the West Bank and Gaza*.

¹⁴ IMF. May 2012. *West Bank and Gaza – Economic Update*.

¹⁵ World Bank. 2012. *Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth*. On 11 September, the PA announced that half of August salaries would be paid by Wednesday 12 August, as well as its intention to further decrease spending in ministries and governmental institutions, excluding Health, Education and Social Affairs Ministries.

¹⁶ Official letters have been submitted and the PA and the GoI have held meetings to discuss the development of the gas field.

¹⁷ The new measures include “the accurate calculation of taxes based on the actual transfer of goods (as opposed to the reported transfer of goods in the current practice), the establishment of a bonded facility in the West Bank, a shared online data base for information on the import of goods, and laying a fuel pipeline between Israel and the PA”. Israeli Ministry of Foreign Affairs. 14 August 2012. *Economic situation in the West Bank and Gaza and positive Israeli measures towards the PA*. www.mfa.gov.il.

¹⁸ World Bank. 2012. *Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth*. According to the World Bank “...most of the recent growth can be attributed to the large inflow of aid, which has funded government expenditures. This has skewed the economy towards the public sector and non-tradables. Public administration, defense and other mostly public services such as health, education, electricity and water grew from less than 20 percent of GDP in 1994 to more than 27% percent in 2010. Meanwhile, the industrial and agriculture sectors declined from 13 to 10 percent and 9 to 6 percent respectively” (pp. ii-iii).

¹⁹ Palestinian Ministry of Finance. August 2012. *Fiscal Operations: Revenues, Expenditures and Financing Sources for July 2012*. www.pmf.ps.

²⁰ The PA is not a member of the IMF and is thus not able to obtain loans from this institution. In July the IMF declined Israel's request on behalf of the PA for a bridge loan.

²¹ Real GDP in the first quarter of 2012 was 5% greater than in the same period in 2011. Economic activity since the first quarter of 2011 was led primarily by services and wholesale and retail trade. The sectors that contracted the most between the first quarters of 2011 and 2012 are agriculture, manufacturing and construction. Services expanded by US\$23.7 million between Q1/2011 and Q1/2012 (12 over its Q1/2011 value) and wholesale and retail trade expanded by US\$12.1 million (13%). Construction contracted by US\$9.5 million (9%), manufacturing by US\$4.9 million (4%), agriculture by US\$3.3 million (7%) and public administration and defense by US\$1.3 million (1%).

²² PCBS. August 2012. Labor Force Survey (April – June 2012) Round (Q2/2012) Press Report on the Labor Force Survey Results. Unemployed are those 15 years and older who are willing and able to work, actively searching for work but unable to find a job in the reference period. Important disparities remain in the West Bank: Unemployment was 19% in the south West Bank (Hebron and Bethlehem) and was above 20% in some northern governorates (22% in Qalqilya and 26% in Tulkarem); 19% refugees were unemployed in the second quarter of 2012 compared to 16% of non-refugees, and 21% women were unemployed, compared to 15% of men.

²³ PCBS. August 2012. Labor Force Survey (April – June 2012) Round (Q2/2012) Press Report on the Labour Force Survey Results. The unemployment rate in the West Bank was 40% for women 15-29 and 23% for men.

²⁴ PCBS. 10 June 2012. *Levels of Living and Poverty in the Palestinian Territory, 2011*.

²⁵ PCBS, FAO, UNRWA and WFP. May 2012. *Socio-Economic and Food Security Survey 2011*. The proportion of food insecure households was 22% in 2009 and 2010, while the proportion of vulnerable to food insecurity was 13% and 12%, respectively in 2009 and 2010. Food security rose from 36% in 2009 to 41% in 2010 to 45% in 2011. However, improvements in the food security levels are not uniform. Food insecurity levels among registered refugees (20%) are higher than among non-refugees (17%). Furthermore, some population groups such as refugees living inside refugee camps show significantly higher levels of food insecurity (29%) than the

West Bank average (17%). 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. Food secure households are those with income and consumption above US\$6.76 per adult equivalent per day or with income or consumption between US\$5.39 and US\$6.76 but that show no decrease in total food and non-food expenditures.

²⁶ PCBS. June 2012. *Levels of Living and Poverty in the Palestinian Territory, 2011*.

²⁷ National Insurance Institute. 2011. *2010 Poverty and Social Gaps Annual Report*. www.btl.gov.il. Poverty increased from 64% in 2006 to 78% in 2010 (and from 73% to 84% for children). The poverty line used is different from the one used by PCBS, and the methodology for data collection is also different, making the data for East Jerusalem not comparable to the data for the rest of the West Bank.

²⁸ ACRI. May 2012. *Policies of Neglect in East Jerusalem: Policies that Created 78% Poverty Rates and a Frail Job Market*. www.acri.org.il.

²⁹ PCBS. Value added by economic activity for the quarters of the years 2009-2012 at Constant Prices. Real GDP in the first quarter of 2012 was 6% higher than a year earlier.

Construction expanded by US\$19.2 million (40% over its value in Q1/2011), services by US\$18.6 million (14%) and wholesale and retail trade by US\$3.0 million (67%). Agriculture and fishing contracted by US\$16.3 million (43% of its value in Q1/2011) and public administration and defense by US\$5.4 million (5% of its value).

³⁰ PCBS, FAO, UNRWA and WFP. May 2012. *Socio-Economic and Food Security Survey 2011*. The proportion of food insecure households was 60% in 2009 and 52% in 2010, while the proportion of those vulnerable to food insecurity was 9% and 13%, respectively in 2009 and 2010. Food security was 24% in 2009 and 19% in 2010.

³¹ Types of assistance include assistance from the PA (Ministry of Social Affairs or other), UNRWA, WFP, international organizations, Zakah, and relatives.

³² Data for humanitarian funding are from the Financial Tracking Service, fts.unocha.org.

³³ PCBS, FAO, UNRWA and WFP. May 2012. *Socio-Economic and Food Security Survey 2011*, p. 30.

³⁴ The UN's Medium Term Response Plan 2011-2013 provides an overview of United Nations recovery and development programming in the oPt summarized in six strategic areas: 1) livelihoods, food security and employment; 2) governance, human rights and rule of law; 3) education and culture; 4) health; 5) social protection; 6) infrastructure/water and sanitation. Governance, human rights and rule of law is the best-funded sector, with funding at 84%. Infrastructure/water and sanitation, and health are funded at 48% each. Livelihoods, food security and employment is funded at 44%, and education at 41%. The most poorly funded sector is social protection, with funding at 29%. These data are updated twice-yearly and may not be complete as they are based on preliminary data provided by agencies. The data include partially or fully funded projects that are currently ongoing; partially or fully funded projects that are planned and for which an agreement is in the process of being signed, or for which an agreement has been signed but whose activities have not yet started; and unfunded project proposals. The projects cover different time frames and are not all aligned to the same time period.

³⁵ OCHA-oPt has identified a total of 110 communities with a population of approximately 315,000 people as being highly or moderately vulnerable to settler violence. Of particular concern is the situation of six Palestinian villages in the Nablus governorate, located around the Israeli settlement of Yitzhar, whose inhabitants have been victims of systematic violence by settlers.

³⁶ According to the Israeli non-governmental organization (NGO) Yesh Din, over 90% of monitored complaints regarding settler violence filed by Palestinians with the Israeli police in the past six years have been closed without indictment.

³⁷ According to the Gol, occurrences are investigated by the relevant law enforcement agencies and referred, when necessary, to the State Attorney's Office or the relevant State Attorney's district. A combined inter-ministerial team against incitement, uprising and ideological crimes deals with these issues. The Israeli Defense Forces have been instructed to immediately intervene in every incident of disturbance of the peace in order to stop the incident and detain suspects until the arrival of police. The District Police includes a professional prosecution unit which examines cases. The use of administrative measures, restraining orders and deployment of troops are meant the help prevent criminal activity.

³⁸ 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*.

³⁹ OCHA. August 2011. West Bank Movement and Access Update. According to Israel, its Supreme Court, sitting as High Court of Justice, has carefully considered route of the Barrier in several cases, and Israel has complied with its rulings.

⁴⁰ These farmers are obliged to go through the Israeli permit and 'prior coordination' regime to obtain 'visitor permits' to access the farmland they own in what is now the Seam Zone, with many permit applications not approved by Israel for various reasons.

⁴¹ PCBS. Estimated Population in the Palestinian Territory Mid-Year by Governorate, 1997-2016. www.pcbs.gov.ps.

⁴² Union of Stone and Marble. 2011. *Stone and Marble in Palestine, Developing a Strategy for the Future*.

⁴³ Israel reports that it is currently working to revise the planning procedure for construction of stone quarries in Area C. The new procedure, to be implemented in the next few months, is expected to decrease significantly the planning requirements for stone quarries.

⁴⁴ Each demolished structure is counted as a separate structure. This methodology for counting may differ from those used by others, including the Gol.

⁴⁵ Approximately 18 per cent of the West Bank has been designated for this purpose, placing the 5000 Palestinian residents of these areas, many of whom have lived there for generations at risk of displacement.

⁴⁶ OCHA. July 2012. *The Monthly Humanitarian Monitor*. www.ochaopt.org.

⁴⁷ It is therefore virtually impossible for Palestinians to obtain the necessary building permits. Recently released official figures indicate that since 2000, over 94% of Palestinian building permit applications have been rejected by the ICA. The large number of demolition orders issued against Palestinian-owned structures is indicative of the extent to which this planning regime has failed to meet Palestinian housing needs: since 1984, the ICA has issued over 12,500 such demolition orders.

⁴⁸ National Insurance Institute. 2011. *2010 Poverty and Social Gaps Annual Report*. www.btl.gov.il. Poverty increased from 64% in 2006 to 78% in 2010 (and from 73% to 84% for children). The poverty line used is different from the one used by PCBS, and the methodology for data collection is also different, making the data for East Jerusalem not comparable to the data for the rest of the West Bank.

⁴⁹ The UN continues to call for the reopening of Palestinian institutions in East Jerusalem, consistent with Israel's roadmap obligations.

⁵⁰ Palestinian residents of East Jerusalem have the right to free public education from the age of 5 to 18, in accordance with the Israeli 1949 Compulsory Education Law and from the age of 3 to 4 in accordance with the Israeli Mandatory Free Education Law. It is estimated that over 2,000 students and more than 250 teachers face delays at checkpoints as a result of permit checks on their way to school.

⁵¹ UNESCO. 2011. *The Education for All (EFA) Global Monitoring Report*. OCHA. March 2011. *East Jerusalem Key Humanitarian Concerns*.

⁵² In an interview with The Portland Trust, Dr. Iyad Masrouji, CEO of Jerusalem Pharmaceuticals, explained that since being prevented from selling in East Jerusalem the company has searched to expand production out of the oPt. (The Portland Trust. April 2012. *Palestinian Economic Bulletin #67*.)

⁵³ Security Council Resolution 1860 can be found on www.un.org/docs/sc/unsc_resolutions09.htm

⁵⁴ United Nations Country Team in the occupied Palestinian territory. August 2012. *Gaza in 2020: A Liveable Place?*

⁵⁵ Palestinian Central Bureau of Statistics. May 2012. *Population projection for the Gaza Strip*. Unpublished data. The population density is calculated based on the population projection.

⁵⁶ The International Monetary Fund, in its last AHLC report in March 2012, presented two growth scenarios for Gaza for the years 2013-2015. A low-growth scenario assumes an annual growth rate of real GDP (in 2004 constant US dollars) of 4% to 5%, and an annual growth rate of real GDP per capita of 0.6% to 1.5%. A high-growth scenario, which "envisages a significant easing over the medium term of trade and other restrictions", assumes an annual growth rate of real GDP of 9% to 10% and an annual growth rate of real GDP per capita of 5.7% to 6.6%. Based on the estimation by the Palestinian Central Bureau of Statistics in June 2012 of real GDP and GDP per capita in 2011 in Gaza, and the projected growth rates of the IMF, real GDP and GDP per capita for the years up to 2015 was calculated.

⁵⁷ Gaza Electricity Distribution Company (GEDCo). This number excludes possible additional electricity demand for large-scale desalination.

⁵⁸ Office of the Quartet Representative. September 2011. *Report for the Meeting of the Ad Hoc Liaison Committee on OQR Action in Support of Palestinian Authority State-Building*.

⁵⁹ Office for the Coordination of Humanitarian Affairs, 2012e. *Five Years of Blockade: The Humanitarian Situation in the Gaza Strip, June 2012*.

⁶⁰ Al-Yaqubi, Ahmad. 2006. *Sustainable Water Resources Management of Gaza Coastal Aquifer, Palestine*. Paper presented at the 2nd International Conference on Water Resources and Arid Environments.

⁶¹ Oxfam. 2011. *The Big Uneasy – Israel’s easing of the Gaza land, air and sea blockage: promises and realities*. United Nations Environmental Programme. 2009. *Environmental Assessment of the Gaza Strip following the escalation of hostilities in December 2008 – January 2009*.

⁶² Calculations carried out by UNSCO based on PCBS population projections of the number of children of school age in 2020. In 2011, there were 677 schools in Gaza (Palestinian Central Bureau of Statistics. 2012. *2011 Statistical Report*) and up to another 250 schools are needed now (Gisha. 2012. *The Gaza Cheat Sheet: Real Data on the Gaza Closure*). An additional 190 schools would be needed until 2020 to cater for additional children of school age while maintaining the ideal ratio of children per school.

⁶³ Calculations carried out by UNSCO based on PCBS population projections. In 2011, there were 2,047 hospital beds, 3,530 doctors and 5,910 nurses in Gaza (Palestinian Central Bureau of Statistics. 2012. *2011 Statistical Report*). To maintain the ratio of beds, doctors and nurses per 1,000 people as the population is projected to grow, additional beds, doctors and nurses would be needed by 2020.

⁶⁴ Aix Group. March 2012. *The Arab Peace Initiative and Israeli-Palestinian Peace: The Political Economy of a New Period*.

⁶⁵ United Nations Country Team in the occupied Palestinian Territory. 2012. *Gaza in 2020: A Liveable Place?*

⁶⁶ The Hamas authorities currently charge NIS10 per tonne of aggregate, NIS20 per tonne of cement and NIS50 per ton of iron bars in taxes on tunnel construction materials. It is estimated that in June 2012 alone, Hamas authorities were able to accumulate NIS2.1 million in taxes on these items alone.

⁶⁷ UNSCO (based on Palestinian Agricultural Relief Committees and Ministry of National Economy). Various periods. *Socio-Economic Report*. The export of tomatoes increased from approximately 7 tons to 246 tons, that of peppers from 6 to 44 tons, that of strawberries from 398 tons to 446 tons, and that of carnations decreased from less than 11 million stems to close to 9 million stems.

⁶⁸ The Portland Trust. June 2012. *Palestinian Economic Bulletin, Issue 69*. www.portlandtrust.org. UNSCO. August 2012. *Socio-Economic Report June 2012*. In addition, one container of furniture was sent to an exhibit in Jordan in June, to be sold there afterwards

⁶⁹ PCBS. June 2012. *Press Report: Preliminary Estimates of Quarterly National Accounts (First Quarter 2012)*. www.pcbs.gov.ps. According to flash estimates from PCBS, exports of goods from Gaza in nominal terms amounted to US\$5.3 million in the first quarter of 2012 and to US\$21.6 million in 2011. Overall oPt goods exports amounted to US\$229.4 in the first quarter of 2012 and to US\$1,442.9 in 2011.

⁷⁰ According to PCBS, goods exports from Gaza were US\$33.9 million (in 2004 dollars) in 1994, whereas in 2011 they amounted to US\$13.4 million (in 2004 dollars).

⁷¹ Between January and July 2012 there were 5,631 applications by referral patients for permits to cross Erez to visit hospitals in East Jerusalem or elsewhere in the West Bank, Jordan or Israel, and 93.8% of them were approved, 0.8% were denied and 3.3% were delayed or did not receive a reply. In the first seven months of 2011 the corresponding figures were 6,735 permit applications, 88.4% approved, 2.5% denied and 9.0% delayed or not replied to. WHO. Various months. *Monthly Report, Referral of Patients from the Gaza strip*.

⁷² In 2011, WHO documented three cases of patients who died while waiting to receive permits to travel through Erez crossing to access their referral treatment, but this figure is considered underreported due to the lack of systematic follow up of the health status of patients denied health access. WHO. June 2012. *Monthly Report, Referral of Patients from the Gaza strip*.