JERUSALEM, April 12, 2011 - The Palestinian Authority is now largely ready to govern a state, the office of the United Nations special coordinator for the Middle East peace process said in a report on Tuesday.

"In six areas where the UN is most engaged, governmental functions are now sufficient for a functioning government of a state," said the report, which will be submitted to Palestinian donor nations meeting in Brussels on Wednesday.

But the report warned that it would be difficult for the Palestinian Authority to make any additional progress while the Israeli occupation continued and peace talks remained stalled.

"The key constraints to the existence and successful functioning of the institutions of a potential state of Palestine arise primarily from the persistence of the occupation and the unresolved issues in the Israeli-Palestinian conflict," the report said.

"The institutional achievements of the Palestinian state-building agenda are approaching their limits within the political and physical space currently available."

The Palestinian Authority (PA) has set itself a September 2011 deadline to be ready for statehood, with the hope of pressuring Israel and the international community to recognize a Palestinian state.

Peace talks between Israel and the Palestinians have been on hold since late 2010 over the issue of Jewish settlement in the West Bank and east Jerusalem.

But the Palestinians have said they will seek United Nations recognition for a unilateral declaration of statehood if the talks do not resume, and have touted their state-building efforts as evidence of their readiness for statehood.

In a statement accompanying the report, UN special coordinator for the Middle East peace process Robert Serry, praised Palestinian Authority president Mahmud Abbas and prime minister Salam Fayyad.

"This is a decisive period," he said, warning that progress could be retarded or even unravelled without more Israeli cooperation and a return to negotiations.

"No-one should underestimate what is at stake now. What we urgently need are further steps on the ground that can enable a broadening of this progress," he said.

"I believe Israel needs to roll back measures of occupation to match the PA's achievements. I also stress the urgent need for Israeli-Palestinian peace negotiations on a two-state solution to resume."
The report also stressed that the continuing divide between the Palestinian Authority in the West Bank and the Hamas rulers of the Gaza Strip "deprives the PA of the ability to extend its institutional authority".

"The progress that has been achieved by the PA must be more meaningfully connected to all areas of de jure PA responsibility and to all Palestinian citizens."

Hamas and Abbas's Fatah party, which dominates the Palestinian Authority, are bitter rivals whose antagonism boiled over in 2007, a year after the Islamist group won legislative elections.

After fierce street battles, Hamas routed Fatah fighters from Gaza and seized control of the coastal strip, where it remains in charge.

It has not participated in the state-building programme championed by Fayyad, and successive rounds of reconciliation talks between Hamas and Fatah have been unsuccessful.

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