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**Closing the Gap:
Palestinian State-building and Resumed Negotiations**

**Report to the
Ad Hoc Liaison Committee
New York, 25 September 2013**

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LIST OF ACRONYMS

ACRI	The Association for Civil Rights in Israel
AHLC	Ad Hoc Liaison Committee
API	Arab Peace Initiative
BCI	Business Cycle Indicator
CAP	Consolidated Appeals Process
CoC	Jerusalem Chamber of Commerce
EJHN	East Jerusalem Hospitals Network
ERW	Explosive remnants of war
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
ICA	Israeli Civil Administration
ICT	Information and communications technology
IMF	International Monetary Fund
MW	Megawatt
MoEHE	Ministry of Education and Higher Education
NM	Nautical mile
NIS	New Israeli Shekel
OCHA	Office for the Coordination of Humanitarian Affairs
OECD	Organisation for Economic Co-operation and Development
oPt	occupied Palestinian territory
PA	Palestinian Authority
PACC	Palestinian Anti-Corruption Commission
PCBS	Palestinian Central Bureau of Statistics
PCP	Palestinian Civil Police
PLO	Palestine Liberation Organization
ODA	Official development assistance
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSCO	Office of the Special Coordinator for the Middle East Peace Process
US	United States
US\$	United States dollar
WFP	World Food Programme

EXECUTIVE SUMMARY

This meeting of the Ad Hoc Liaison Committee (AHLC) comes at a more hopeful time. Though many challenges remain, the resumption of direct negotiations on 29 July 2013 in Washington has renewed hope for a final status agreement in which Palestinians can realise their rightful aspirations for an independent and viable Palestinian state and Israelis can meet their legitimate security needs and become a full partner in the development of a stable and prosperous Middle East. In its September 2012 report to the AHLC, the United Nations (UN) highlighted the growing risk to the viability of the two-state solution, while its March 2013 report emphasised the widening gap between state-building advances and the lack of progress on the political track. That gap, the report argued, could only be addressed by establishing a credible political horizon for the two-state solution. United States Secretary of State Kerry's engagement has been decisive in this regard, and the UN Secretary-General has travelled to the region to extend UN support to the leaders and their negotiations. Both have been encouraged by the commitment of the leaders, and it is all the more important for meaningful progress to take place in the set timeframe of the next 6-9 months.

This is the time for the parties to take steps that will preserve an environment allowing the peace process to move forward. The current situation is volatile and makes it urgent to reverse negative trends. Measures should include Israel's further easing the numerous restrictions in place both in the West Bank and the Gaza Strip, Palestinians sustaining efforts to improve law and order and to combat extremism against Israel, and to continue building strong and democratic institutions that are essential to a viable, independent Palestinian state. In this regard, the UN Secretary-General has been troubled by Israeli settlement activity. Both parties should also continue combating incitement against the other. The international community must work in concert, including through the Quartet, to assist the parties in their effort to forge a way forward within an agreed political framework accompanied by tangible measures on the ground. All socioeconomic trends indicate that the status quo is not sustainable absent real political progress, pointing to dire consequences for Palestinians and Israelis alike in the event of another failure of negotiations.

In this context, many of the recommendations identified in this report are geared towards expanding economic activity, including in the Gaza Strip and Area C, in order to both improve the lives of Palestinians and as an additional source of revenue through taxation for the Palestinian Authority (PA). Though this will ultimately reduce the amount of external donor assistance required, in the short-medium term donors must continue to provide timely, predictable direct budget support while also scaling up development financing and supporting the upcoming Palestinian National Development Plan, covering the period 2014-2016. In support of this plan, the UN, working closely with the PA, has developed its first ever United Nations Development Assistance Framework (UNDAF) for the State of Palestine,¹ signed in August 2013 in the presence of PA Prime Minister Hamdallah and UN Secretary-General Ban Ki-moon. The UNDAF, which requires US\$1.2 billion (30 per cent secured) is the strategic planning framework that will guide the UN's development programming from 2014 to 2016. Its focus is on those areas where the PA is least able to extend its authority – the Gaza Strip, Area C and East Jerusalem.

The Gaza Strip remains a high priority for the UN. Between March 2010 and August 2013 the Government of Israel approved an estimated US\$450 million of UN construction works in the Gaza Strip involving what are still classified as 'dual use' materials. These projects include almost 3,000 housing units, 67 schools, eight health buildings, 31 water and 10 electricity-related structures, and road rehabilitation. We continue to promote the further liberalisation of access through legal crossings, including for construction materials. However, a sustainable recovery depends on restoring the Gaza Strip's ability to trade externally, given the small size and purchasing power in the Gazan market. We welcome some recent steps taken in this regard, but would encourage a more comprehensive lifting of restrictions on trade, including transfers to and from the West Bank and enabling in particular exports to Israel and other countries, while maintaining due consideration for

Israel's security concerns. Ultimately, real and lasting progress can only be realised through the implementation of Security Council Resolution 1860 in all its elements, building on a full calm and a lifting of the remaining closures.

Area C, which accounts for more than 60 per cent of the West Bank's land mass, is fundamental to the contiguity of the West Bank and the viability of Palestine and its economy. It is essential for the expansion of public infrastructure, such as transportation, water and electricity networks, wastewater treatment plants and landfills, private sector development, and the development needs of communities in Areas A and B. Area C carries vast potential for the occupied Palestinian territory (oPt) and the human development of the Palestinian people. Development of Area C will also serve to increase the PA's tax revenue. In the short term, the PA should accelerate progress in national spatial planning, a process that donors are encouraged to support. The Government of Israel is encouraged to enable the development of Area C in consultation with the PA and the international community, and to respond to the needs of Palestinian communities in Area C. Timely approval of 40 Palestinian community-driven master plans submitted by the communities to the Israeli Civil Administration (ICA) would represent a welcome first step towards addressing planning needs for all Palestinian communities.

In East Jerusalem, particularly affected by restrictions on Palestinian movement and residence, Israeli steps on access and permits can help ease the pressures on the education sector, and Israeli engagement in community-based planning and easing of the construction permitting process is needed to address housing and displacement issues. The international community is also encouraged to support development initiatives that can counter economic stagnation, in particular ongoing initiatives targeting the technology and tourism sectors.

I. INTRODUCTION

1. This meeting of the Ad Hoc Liaison Committee (AHLC) comes at a more hopeful time. Though many challenges remain, the resumption of direct negotiations has renewed hope for a final status agreement in which Palestinians can realise their rightful aspirations for an independent and viable Palestinian state and Israelis can meet their legitimate security needs and become a full partner in the development of a stable and prosperous Middle East. While lasting progress can only be achieved through such an agreement, in parallel it will be crucial to make visible progress on the ground for the benefit of both parties and to sustain the peace talks.
2. As was the case for previous United Nations (UN) reports to the AHLC, this report both identifies the UN's position on key issues and focuses on a number of specific recommendations on which the UN, together with the parties and the international community, will continue to work to realise progress. Many of these are geared towards expanding economic activity, including in the Gaza Strip and Area C, in order to both improve the lives of Palestinians and as an additional source of revenue through taxation for the Palestinian Authority (PA). Though this will ultimately reduce the amount of external donor assistance required, in the short-medium term donors must continue to provide timely, predictable direct budget support while also scaling up development financing and supporting the upcoming Palestinian National Development Plan, covering the period 2014-2016.

II. POLITICAL CONTEXT

3. Efforts to achieve a peaceful comprehensive settlement on all final status issues intensified during the reporting period. On his sixth trip to the Middle East, United States (US) Secretary Kerry secured the commitment of both sides, announcing on 19 July 2013 in Amman, Jordan that the parties had established the basis to resume dialogue. Direct Israeli-Palestinian negotiations resumed on 29 July 2013 in Washington, and a number of meetings have been held since in Israel and Palestine. The UN Secretary-General travelled to the region – Jordan, Palestine and Israel – on 15 and 16 August to extend UN support and his appreciation for the courageous decision of both leaders to return to talks, which are in the interest of both their peoples. Direct negotiations are the single most credible way towards achieving a two-state solution.
4. Prospects for peace were renewed against a challenging situation on the ground. In a positive development, 26 Palestinian prisoners were freed on 13 August 2013 as part of an understanding reached between the sides, with further releases to follow. The UN Secretary-General has welcomed this step. In the West Bank, tensions persisted while overall the situation remained quiet but settlement activity continued to accelerate. The UN Secretary-General has stated that he remains troubled by Israel's continuing settlement activity, warning that it deepens the Palestinian people's mistrust in the seriousness on the Israeli side towards achieving peace and can make a two-state solution impossible.
5. Real progress can only be achieved through a meaningful peace process that provides a credible political horizon to achieve a two-state solution. Any substantive political initiative must also yield early dividends in the immediate period ahead. It is now all the more important that the pace of progress on the resumed political track be matched by visible and tangible improvements on the ground, building upon and deepening state-building gains. Progress that benefits Palestinians throughout the occupied Palestinian territory (oPt) will help create stability and an environment in which a final status agreement can take root. Beyond the need for reversal of negative trends, as called for in the UN's March 2013 AHLC report and subsequent UN reporting, both sides now need to sustain an environment conducive for the peace process to move forward. The parties must refrain from actions that would risk undermining the negotiations or the viability of the two-state solution.

6. The continuation of the conflict and a prolonged political stalemate have constrained progress on the Palestinian state-building agenda. Nevertheless, the resumption of direct talks and accompanying economic initiative to reactivate the Palestinian private sector offers the possibility of a new opening. This is the time for the parties to take steps that will allow the peace process to move forward, including by Israel ceasing settlement activity and further easing the numerous restrictions in place both in the West Bank and the Gaza Strip; by Palestinians sustaining efforts to improve law and order, combat extremism against Israel, and to continue building strong and democratic institutions that are essential to a viable, independent Palestinian state; and by both parties combating incitement against the other. It is also for the international community through concerted efforts, including through the Quartet, to assist the parties in their effort to forge a way forward that shapes a legitimate and balanced framework. Another failure of negotiations will have dire consequences for Palestinians and Israelis alike.
7. In a noteworthy visit to Washington, on 29 April 2013, the League of Arab States' Follow-up Committee on the Arab Peace Initiative (API) reaffirmed the importance of the API first proposed in 2002, reviving prospects that its promise of regional stability can become an important part of developing peace efforts. The UN's September 2012 report to the AHLC concluded that: "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 realised in full without further delay." It is the view of the UN Secretary-General that a renewal of talks is also the best way to contribute to regional peace. Amidst continued regional unrest, that assessment is even more appropriate today.
8. Bearing in mind Security Council resolutions 1860 (2009) and 1850 (2008), the UN continues to support efforts to advance Palestinian unity within the framework of the commitments of the Palestine Liberation Organization (PLO), the positions of the Quartet and the API. Despite a series of meetings between members of Fatah and Hamas in Cairo to advance the implementation of existing reconciliation agreements, there has been little progress to date other than the successful voter registration drive conducted from 11 to 20 February 2013 in both the West Bank and the Gaza Strip, for the first time since 2007. A total of 450,000 new electors were registered by the Palestinian Central Election Commission, including 350,000 in the Gaza Strip.

III. PALESTINIAN STATE-BUILDING

9. The UN has continued to support Palestinian state-building efforts and in August 2013 signed the first ever United Nations Development Assistance Framework (UNDAF), in the presence of PA Prime Minister Hamdallah and UN Secretary-General Ban Ki-moon. The UNDAF is the strategic planning framework that will guide the UN's development programming in 2014-2016. The document, developed in full partnership with the PA focuses on six priority areas: economic empowerment, livelihoods, food security and decent work; governance, rule of law, justice, security and human rights; education; health; social protection; and urban development, natural resource management and infrastructure. The estimated financial resources required for the assistance provided through the UNDAF amount to US\$1.2 billion for the period 2014-2016, 30 per cent of which is already secured. This estimate, which will be revised periodically, reflects the UN's continued commitment to Palestinian human development and the state-building agenda, as well as the UN's efforts to transition, when possible, from humanitarian assistance to sustainable human development. The 2013 Consolidated Appeal (CAP) for the oPt (developed in consultation with the PA) requests US\$401 million for at least 1.8 million vulnerable Palestinians in the Gaza Strip, Area C, East Jerusalem and the Seam Zone. By August 2013 the CAP was about 59 per cent funded.

10. The reporting period has seen further progress in strengthening Palestinian institutions, including in areas as diverse as enhancing labour market governance and fighting corruption, as detailed below.
- a. The Palestinian Civil Police (PCP) is taking further steps to become a modern and professional police at the service of the citizens. The PCP recently embarked on a broad consultative process to finalise an accountability strategy and implementation plan in line with the principles of rule of law and respect for human rights. The strategy is aimed at enhancing oversight mechanisms within the PCP, developing cooperation with civil society organisations, and strengthening public trust, including through a fair complaint system. The first-ever Family Protection Unit Strategy and Regulations have also been finalised and endorsed by the PCP, and are expected to help in addressing cases of family violence against women and girls.
 - b. The Palestinian Anti-Corruption Commission (PACC) is playing a critical coordinating role in anti-corruption efforts in the oPt with different PA stakeholders and civil society organisations.² Although Palestine is not a signatory to the UN Convention against Corruption (UNCAC), the PACC has invested important efforts to implement UNCAC in the oPt.³ After having conducted the UNCAC self-assessment, PACC is working to identify two signatory countries to perform the peer review function on a voluntary basis. As part of its efforts to implement the National Strategy on Anti-Corruption (2012-2014), PACC is pursuing closer ties with civil society organisations and is currently working on institutional capacity development, raising the awareness of PA institutions and the Palestinian people on the national strategy, and conducting media campaigns on anti-corruption, among other activities. PACC has reported a significant increase in the number reported cases it receives: 78 complaints in 2011, 386 complaints in 2012, and 186 complaints as of June 1 in 2013.
 - c. As part of its efforts to foster financial and monetary stability in the oPt, the Palestinian Monetary Authority (PMA), which oversees and regulates banks and other financial institutions in both the West Bank and the Gaza Strip, has developed the Business Cycle Indicator (BCI) for the Palestinian economy, following international standards. The BCI is key for policy and decision-making in any economy as it monitors the business environment, economic performance and repercussions of any fluctuations, including in production and employment, on the economy as a whole, thus providing the real-time information necessary for monetary policy design and forecasting. The BCI is computed monthly for the oPt as well as for the West Bank and the Gaza Strip separately, allowing policy-makers and businessmen to assess current economic performance and to predict future trends in the oPt, West Bank and Gaza Strip economies.
 - d. The PA has made progress in strengthening labour market governance and labour rights, while pursuing social dialogue as a means to achieving solutions and building up social cohesion and the rule of law around labour issues. Towards this end, a range of forums have been established/reconstituted, including the National Tripartite Advisory Committee to deal with labour policy, the National Social Security Committee to promote the progressive establishment of a comprehensive social insurance system for workers and their family members, the National Committee for Women's Employment, and the Palestinian Economic and Social Council. Furthermore, through the national tripartite Minimum Wage-Fixing Commission, a minimum wage was introduced in January 2013.⁴
 - e. In an important milestone for the Palestinian healthcare system, the St. John's Eye Hospital and Augusta Victoria Hospital became the first Palestinian hospitals to receive, in June 2013, the US-based Joint Commission International three-year accreditation for quality and patient safety.⁵ The East Jerusalem Hospitals Network (EJHN) serves as the main provider of specialised care within the Palestinian health system. Patients needing services and

procedures that are not available in the rest of the West Bank and the Gaza Strip are referred for treatment in the EJHN facilities by the Palestinian Ministry of Health, constituting over half of the EJHN workload. As such, the EJHN plays a critical role in providing health services to the Palestinian people.

12. Institutional development has helped improve the environment for investment and private sector activity, for example through the relaxation of the minimum capital requirement for company registrations, new regulations to stimulate bank lending to small and medium enterprises, and the introduction of new anti-dumping measures.⁶ The development of a national export strategy, currently being finalised, that reflects the aspirations of the public and private sectors, is expected to help align different trade development efforts in Palestine and provide a roadmap for export growth.⁷ Projects such as industrial parks and the development of the Gaza Marine gas field offer further opportunities to stimulate economic growth. Still, continued restrictions on access to land, water and other resources, on the movement of people and goods, and on imports and exports represent the main constraint on the private sector, especially on sectors with higher job-creation and value-added potential such as agriculture and manufacturing.⁸ The competitiveness of Palestinian tradable sectors is further impeded by the requirement for most goods to be palletised and the back-to-back trucking system imposed by Israel, citing security concerns, in the West Bank and in the Gaza Strip. In spite of improvements in crossing infrastructure in recent years, including the installation of scanners and the expansion of operations, waiting, inspection, scanning and transfer times can be lengthy and unpredictable, sometimes resulting in damage to agricultural produce; opening hours at the crossings remain limited; and the actual transportation time and costs associated with this system can be very high.⁹
13. The UN welcomes the resumption of economic cooperation and meetings between Israeli and Palestinian financial authorities, including at ministerial level, as well as the regular and timely transfer by Israel of PA clearance revenue, which represents two thirds of the PA's total revenue.¹⁰ The introduction of shared electronic interfaces can help the PA in tax collection through better and timely access to trade data. Increased transparency in the amounts that Israel regularly deducts from PA revenue for things such as electricity and health referrals would allow the PA to further improve its fiscal management. There is also a need to review revenue sharing practices. In particular, exit fees paid by Palestinian passengers to the Israeli authorities at the Allenby Bridge should be equally shared between the two sides, as agreed in the Paris Protocol. We hope that the ongoing discussions between the Palestinian and Israeli financial authorities will help the parties find a way to strengthen cooperation on these and other important financial issues.
14. Weak private sector activity and below-potential output levels have limited the tax base and restricted the PA's capacity to raise revenue. At the same time, high rates of unemployment, poverty and food insecurity have put pressure on the PA to maintain high levels of spending on social services and transfers to avoid large scale impoverishment and recurrent humanitarian crises. The private sector, constrained by restrictions on movement and access, is incapable of substantial job creation, and the PA is thus compelled to act as an employer of last resort and absorb a portion of the growing labour force. In addition to recurrent fiscal crises, the accumulation of domestic debt, private sector arrears (tax refund arrears plus other private sector arrears) and pension fund arrears (estimated at the end of June to be US\$1.3 billion, US\$0.9 billion and US\$0.992 billion, respectively), as well as the PA's focus on social spending instead of investment bring the PA's medium term fiscal sustainability into question.¹¹
15. In 2013 the PA has managed to keep total expenditure, including the wage bill, close to target, although net lending and tax refunds for fuel are considerably higher than budgeted.¹² The PA continues to struggle to control net lending, as the debts of Palestinian municipalities and electricity distribution companies to the Israeli Electric Company, estimated by Israel at present

to be around US\$978 million, grow and arrears are deducted by Israel from the PA's clearance revenue in the form of net lending. Revenue, notably clearance revenue, has been below budget, and the International Monetary Fund (IMF) projects an overall deficit of US\$1.7 billion (before grants) for 2013.¹³ Between January and August 2013 the PA received significantly more external financing than in the same period in previous years. By July 2013 the PA had received 77 per cent of the expected budget support for the year.¹⁴ Still, a negative and worrying trend is reflected in the low 15 per cent of budgeted development financing assistance received by the PA by August 2013. The IMF projects a financing gap of US\$0.33 billion (taking into account expected donor disbursements). Hence, despite the resumption of economic cooperation and an observed improvement in budget support in 2013 with respect to 2012, the PA's financial position remains fragile and is further threatened by slowing economic growth.

16. The PA's current financing model (i.e. arrears accumulation, bank lending and uncertain donor support) is not sustainable in the medium term. The focus of public spending on the wage bill, pension payments and transfers instead of on productive human and physical investment does not foster future economic growth. A viable financing model is needed for the economy to move to a sustainable track. To achieve this, concerted efforts are required by all parties, as outlined below:
 - a. The PA will continue to depend on donor aid in the short term. To help the PA transition to a viable financing model, the donor community needs to maintain or increase its delivery of aid, but improved predictability, including through multiyear commitments, is required to help the PA manage its budget responsibly. Donor support is similarly necessary in the form of development funding, including for the upcoming Palestinian National Development Plan 2014-2016.
 - b. The PA has made progress in controlling the wage bill and improving revenue collection. Continued fiscal discipline, with due consideration to avoiding wider negative economic or social consequences, is important to help the PA break the current cycle. In addition the PA needs to reduce its deficit and shift its spending away from the wage bill and pension fund and prioritise investment in human and physical capital to build up productive capacity and stimulate sustainable economic development.¹⁵
 - c. The PA's sustainability requires the development of a sustainable and stable tax base, which in turn requires private sector growth. As explained recently by the IMF, "...persistent Israeli controls and obstacles on internal movement, exports, and imports in the West Bank, as well as the virtual closure of Gaza, thwart the private sector."¹⁶ A far-reaching relaxation of Israeli restrictions would unshackle the private sector, thereby boost growth and employment, and provide increased tax revenue for the PA.
17. 'Indirect imports', that is goods produced in a country other than Israel, cleared as Israeli imports and then sold in the oPt as if they had been produced in Israel and are thus exempt from Palestinian import duties, result in considerable revenue leakage for the PA. As these goods are imported by Israeli importers and are not labelled as being destined for the oPt, the corresponding customs revenue is collected by the Israeli authorities but not transferred to the PA, as stipulated in the Paris Protocol in the case of imports destined to Palestine. It was estimated in 2010 that indirect imports could be as high as 38 per cent of total imports from Israel, resulting in considerable revenue lost by the PA. There are additional sources of lost revenue, including purchase tax collected by Israel on goods consumed in Palestine, and value added tax on the lost customs duties from indirect imports and on the purchase tax from direct imports mentioned above.¹⁷ Access to trade data in an equal, timely and transparent manner, for example through the shared electronic interface for the Israeli and Palestinian systems, as well as Palestinian presence at crossings, including in the Gaza Strip, would allow the PA to enhance revenue capture and improve its fiscal management.

IV. SOCIOECONOMIC TRENDS

18. Following a period of rapid Gross Domestic Product (GDP) expansion, growth in the Palestinian economy reversed trend in 2012.¹⁸ This deceleration has continued in 2013 and is having an adverse impact on already high levels of poverty and food insecurity.¹⁹ Real quarterly GDP in the first quarter of 2013 was 2.7 per cent higher than in the same quarter a year earlier, but it decreased slightly in per capita terms.²⁰ The West Bank continues to be the central component of the Palestinian economy, so it is worrying that the slowdown was felt particularly in the West Bank, where real quarterly GDP in the first quarter of 2013 was even lower, by 0.6 per cent, than in the same quarter a year earlier.²¹ Growth was higher in the Gaza Strip, where real GDP in the first quarter of 2013 was 12.2 per cent above its level a year earlier. This represents continued recovery as the Gaza Strip tries to restore its pre-closure GDP levels; real GDP per capita in the Gaza Strip at the end of 2012 was still about 20 per cent lower than in 1994.²²
19. Lower growth rates hold back improving the situation in the labour market. Despite low labour force participation of only 43 per cent in the second quarter of 2013, the unemployment rate remained high at almost 21 per cent (234 thousand persons), showing no improvement on the same quarter in 2012.²³ Unemployment affected 17 per cent and 28 per cent of the labour force in the West Bank and the Gaza Strip, respectively, the same as a year earlier.²⁴ The youth faces particularly dire employment prospects, with 29 per cent of economically active 15-to-24-year-olds unable to find a job in the West Bank, and more than half of those in the Gaza Strip in the same situation. Unemployment in the oPt increased dramatically following the outbreak of the second intifada in 2000 and the subsequent introduction/tightening of Israeli restrictions on movement and access, and since 2001 the jobless rate has remained above 20 per cent and youth unemployment has remained above 30 per cent. The Palestinian labour market is further characterised by large numbers of discouraged workers, underemployed persons, and long periods of unemployment.²⁵ As pointed out by the World Bank, social cohesion can be affected by protracted unemployment, especially among the youth.²⁶ Falling real wages have also added to the difficult living conditions in the West Bank and the Gaza Strip.²⁷
20. In 2012, a total of 1.6 million people, representing 34 per cent of households in the oPt, were food insecure (after receiving social assistance), a dramatic rise from 1.3 million persons or 27 per cent of households in 2011, and representing a reversal of the positive trend observed since 2009.²⁸ In the West Bank, household food insecurity levels rose from 17 to 19 per cent, and a total of 36 per cent of households were either food insecure or vulnerable to food insecurity. The deterioration was more pronounced in the Gaza Strip, where food insecurity levels surged from 44 to 57 per cent over the year, and 71 per cent of households were either food insecure or vulnerable to food insecurity in 2012.²⁹ Food insecurity in the oPt is not caused by lack of food but is instead driven by the lack of livelihood opportunities. In this context, the consequences of the slowing economic growth and the PA's fragile fiscal situation are particularly worrying.
21. These high levels of food insecurity perpetuate the need for aid; in the Gaza Strip alone approximately 1.1 million out of 1.7 million people are receiving food assistance from the World Food Programme, UNRWA and partners in 2013.³⁰ In 2012, 74 per cent of households in the Gaza Strip and 23 per cent in the West Bank received some form of assistance, mainly food and school feeding.³¹ Regarding the degree of dependence on assistance, 29 per cent of those households receiving assistance in the West Bank say they are totally dependent on aid. The corresponding figure in the Gaza Strip is 21 per cent. Furthermore, 51 per cent of households in the Gaza Strip and 42 per cent in the West Bank say that, without assistance, they would not be able to manage or would survive economically for only 1-2 months.
22. Moreover, the economy's shrinking productive base results in difficulties in the provision of sustainable livelihood opportunities to the population and perpetuates a growing need for aid. A case in point is UNRWA's assistance in the Gaza Strip in the form of food, cash and the

emergency appeal portion of its job creation programme. In 2012, the combined cost of this assistance was six times higher than in 2000, and between January 2000 and June 2013 UNRWA had spent a cumulative amount of around US\$900 million. A decrease in these levels of aid would only be possible with a reactivation of the economy, led by a competitive private sector that can trade externally.

23. A recent study by the Organisation for Economic Co-operation and Development (OECD) assessed the oPt to be one of the most aid dependent economies in the world, with an average ratio of official development assistance to GDP (ODA-to-GDP ratio) of 25.5 per cent between 2000 and 2010.³² A worrying trend is the increasing relative aid dependency of the oPt over time.³³ In per capita terms the situation raises more concerns, with the oPt ranked third in ODA per capita in 2010, with an average of US\$622 of aid received per person – almost five times more than the average per person for all fragile economies.³⁴ Although aid has been crucial for the provision of basic services to the population, for example, there are risks associated with it, particularly its volatility and uncertainty. The effects of an aid shock would be compounded in a context such as the oPt with continued conflict, high population growth rates, large proportion of young people and lack of opportunities. Furthermore, these high levels of aid have made a considerable contribution to cover recurrent spending but have not contributed to productive investment or to bringing about the development of a robust productive base for the economy.
24. Investment is of the utmost importance to an economy as it helps expand productive capacity and increase potential output, thus stimulating future economic growth, employment creation, a rise in living standards, and a decrease in the need for aid. Investment in the oPt is mostly in the form of building, a lot of it residential building, which has a more modest impact on productive capacity than other types of investment, such as capital formation in the form of machinery. In 2012, productive investment (measured through gross fixed capital formation in the form of non-building) was very low at only 4 per cent of GDP in the West Bank and less than two per cent in the Gaza Strip.³⁵

V. THE WEST BANK

West Bank – Situation on the ground

25. The situation on the ground in the West Bank has been relatively quiet but tensions persist, with a high number of reported attacks perpetrated by Israeli settlers resulting in either injury of Palestinians or damage to their property, including the uprooting or damaging of fruit-bearing trees.³⁶ There are also continued reported attacks perpetrated by Palestinians that resulted in casualties or property damage among Israeli settlers.³⁷ ‘Price tag’ settler attacks similarly continue to be reported, such as burning of Palestinian vehicles and attacks on religious sites in the West Bank, including in East Jerusalem. The absence of adequate law enforcement in regard to settler attacks against Palestinians and their property remains another matter of concern. We note that Israel has taken some measures to address these issues.³⁸
26. The reporting period experienced the acceleration of settlement expansion, in violation of international law, and the retroactive ‘legalisation’ of settlement outposts built on public (‘state’) land. According to data released by the Israeli Central Bureau of Statistics, during the first half of 2013 there were 1,277 ‘building starts’ of housing units in West Bank settlements, excluding East Jerusalem. This represents a 110 per cent increase compared to the equivalent period in 2012 and a record high for the past seven years.³⁹ In early August 2013, the Israeli Minister of Housing announced the issuance of tenders for the construction of approximately 1,200 new housing units in settlements, including nearly 800 in East Jerusalem. This expansion of settlements is carried out on land that has been seized by the Israeli authorities since 1967, mostly land considered as public land. The establishment and expansion of settlements violates the 1949 Fourth Geneva Convention prohibition on the transfer of civilians from the territory of

the occupying power to an occupied territory.⁴⁰ Noting relative lulls in February-March 2013 and during the month of Ramadan, the UN continues to be worried about demolitions and displacement, mainly in Area C and East Jerusalem (see corresponding paragraphs below).

West Bank – Movement and access

27. Israel continues construction of the Barrier, citing security concerns, and by July 2013 approximately 62 per cent of the Barrier had been completed and 10 per cent was under construction.⁴¹ If completed according to the planned route, approximately 85 per cent of the Barrier will run not on the Green Line but inside the West Bank, despite the advisory opinion of July 2004 of the International Court of Justice, which established that the sections of the Barrier which run inside the West Bank, including East Jerusalem, violate Israel's obligations under international law.⁴² The result is a fragmentation of the West Bank that undermines the geographical and demographic integrity, contiguity and unity of the oPt. According to current plans, the Barrier will effectively isolate about 9 per cent of the West Bank territory, including East Jerusalem, and approximately 25,000 Palestinians will be isolated in the closed area between the Barrier and the Green Line.⁴³
28. Consistent with a trend observed since mid-2008, during the reporting period the Israeli authorities implemented some additional measures that improved movement between the main Palestinian towns and cities in the West Bank.⁴⁴ In July 2013, the Israeli authorities removed two earth mounds that since 2001 had blocked vehicular access to a main road leading to Ramallah city from the north. In addition, the Israeli authorities partially opened the historic access road into Hebron City from the south to Palestinian traffic.⁴⁵ This road had been blocked for the past 12 years, forcing over 70,000 Palestinians living in villages adjacent to Hebron to use alternative detours through the western or eastern entrances to the city.⁴⁶ Both Ramallah and Hebron cities function as regional hubs for services and commercial activities so these measures are likely to have a significant positive impact in terms of access to services and livelihoods and reduction in travel times.
29. Access to East Jerusalem from the rest of the West Bank continued to be restricted by the Barrier, the checkpoints and the permit system, which applies to Palestinians holding West Bank identifications (IDs). In the context of the 'Ramadan easings', during the Muslim holy month of Ramadan that started on 10 July, the Israeli authorities relaxed restrictions for Palestinians from the rest of the West Bank to reach East Jerusalem through one of the authorised checkpoints. There were approximately 1 million visits during the month.⁴⁷
30. In a positive development, Israel recently approved an additional 5,000 permits for West Bank ID holders to work in Israel, to add to the estimated 45,000 permits already in place.

West Bank – Area C

31. Area C, which accounts for more than 60 per cent of the West Bank's land mass, is fundamental to the contiguity of the West Bank and the viability of Palestine and its economy.⁴⁸ As the only contiguous part of the West Bank, Area C is essential for the development of public infrastructure, such as transportation, water and electricity networks, wastewater treatment plants and landfills, private-sector development, and the development and expansion of communities in Areas A and B. Area C carries vast potential for the oPt and the human development of the Palestinian people. Effective access to land and other resources such as water and quarries is fundamental not only for the development of Area C communities but the Palestinian economy as a whole, especially to enable the Palestinian private sector to generate economic growth, which would serve to increase the PA's tax revenue as well.⁴⁹
32. The advancement of national spatial planning as well as national sector strategies are proving increasingly important for development in Area C to effectively support Palestinian economic growth and steer the required international and domestic investment. Substantial progress in

the processing and approval of the 40 Palestinian community-driven master plans submitted by the communities to the Israeli Civil Administration (ICA), some since 2010, however, is essential for the demographic and economic growth of these communities. Such tangible progress is also necessary if planning is to prove a meaningful approach for these 40 communities as well as an estimated 200 communities still in need of enabling master plans. The adoption of these plans is expected to enable the wide-scale retroactive formalisation of structures built without an Israeli permit. The adoption of master plans must also be followed by the devolution of the permitting authority within the area of approved plans from the ICA to the respective municipal/village councils.

33. Palestinians require access to a fair planning and zoning regime so as not to resort to the building of structures without an Israeli permit that leads to demolitions. The ongoing practice of demolition of Palestinian structures that do not have an Israeli-issued permit, which are very difficult to obtain, only highlights the need by the ICA to address the outstanding developmental needs of Palestinian communities in Area C. As in the previous period, the majority of demolitions in the West Bank and resulting displacement occurred in Area C. During the reporting period a total of 242 structures were demolished in Area C, displacing 253 persons, including 103 children, compared to 306 structures demolished in the same period in 2012.⁵⁰ These communities are among the most vulnerable in the West Bank, and forced evictions and demolitions deprive people of their homes and undermine livelihoods, leading to entrenched poverty, need for humanitarian assistance and aid dependency.⁵¹ The Israeli authorities are urged to halt demolitions of structures without an Israeli-issued permit and address this issue by accelerating the processing of community-driven master plans instead.
34. As part of the international community's efforts to address development needs in Area C, further progress has been made in the implementation of social infrastructure works consisting of 15 schools and health centres, the majority of which have now been completed. Funding for a further set of works consisting of 15 schools and health centres prioritised by the PA has also been recently secured, and permits will be requested from the ICA once the design works are completed, with the understanding that these will be processed within the previously established timeline of 4 to 6 months. Funding is currently being sought for works to advance the agricultural sector in Area C, valued at around US\$5 million, that have already received notional approval from the Coordinator of Government Activities in the Territories (CoGAT). The Government of Israel is encouraged to make the procedures and timelines of 4 to 6 months used for the issuance of permits for these projects routine and available to both donors and Palestinian actors alike, as well as for sectors such as tourism and agriculture which have high economic potential.
35. A negative development during the reporting period is the advancement by the Israeli authorities of a 'relocation' plan that puts small herding communities residing in the hills east of Jerusalem at risk of forced eviction.⁵² The plan raises serious concerns, not least because of the reported limited consultation with the affected communities, as well as the apparent inadequacy of the two sites proposed for their relocation in planning schemes that are at final stages of approval.⁵³ In this and other similar cases, we remind Israel of its obligations under international law to respect the rights and needs of these affected communities. In a worrisome development, one such community (39 Palestinians, including 18 children) in East Jerusalem was evicted and their homes were destroyed on 19 August 2013, without any viable alternatives proposed. On 25 August 2013, the remaining members of the Tel al 'Adassa Bedouin community, along with most of their herd, left Tel al 'Adassa and crossed over to the 'West Bank' side of the Barrier, dispersing into two separate locations, after being instructed to do so by the Israeli authorities.

West Bank – East Jerusalem

36. East Jerusalem is the traditional focus of Palestinian political, commercial, religious and cultural life, yet it is increasingly being cut off from the rest of the oPt by the Barrier, settlement expansion and related restrictions on Palestinian movement. Residents of East Jerusalem face poor quality of and hindered access to educational services, a shortage of housing options, threats of displacement and of revocation of residency status, and low economic activity with few work opportunities.
37. The East Jerusalem economy is linked to both the Israeli and Palestinian economies, yet not really integrated into either – a situation that lies at the root of its stagnation. In particular, the economy of East Jerusalem depends on the rest of West Bank to sustain its production and trade of goods and services and for employment, but Israeli restrictions on the movement of good and people from the rest of the oPt to the city have gradually severed its economy from the broader Palestinian economy. At the same time, the East Jerusalem economy is dependent on the Israeli economy as a source of employment and trade and a channel for tourism to the city, but it is not structurally integrated into it. In this context, the East Jerusalem economy has stagnated and its size has decreased steadily relative to that of the rest of oPt from 14-15 per cent in the pre-Intifada period to an estimated 7 per cent in 2010.⁵⁴ Reopening the Jerusalem Chamber of Commerce (CoC), closed by the Israeli authorities since 2001, would be an important step in rebuilding the private sector and supporting economic activity in East Jerusalem.⁵⁵ The international community is also encouraged to support development initiatives, such as the Al Quds Technology Park and the reinforcement of the Notre Dame Hotel Management and Travel Training Centre, that aim to return the city's economic centrality and revitalise the East Jerusalem economy.⁵⁶
38. The education sector in East Jerusalem largely fails to address the needs of the population and provide access to quality services.⁵⁷ The Municipality of Jerusalem estimated in 2012 that there was a shortage of 1,100 classrooms in East Jerusalem.⁵⁸ Due to an overall scarcity of resources, many children forfeit the right to free education to which they are entitled and enrol in tuition-run private schools instead, if they can afford it. To address this shortage, the Government of Israel is urged to provide adequate planning and grant needed building permits to facilitate the expansion and upgrading of all school facilities in East Jerusalem, and to cancel all demolition and stop-work orders, sealing orders and fines on educational facilities. To maintain adequate quality of education, it is also imperative that Israel facilitate protected access to East Jerusalem schools for all students and teachers crossing checkpoints, including granting permits for teachers with West Bank ID cards to work in schools in East Jerusalem.⁵⁹
39. Only 13 per cent of the land in East Jerusalem is allocated for Palestinian construction and much of this area is already built up. Effective engagement by the Israeli authorities in the processing and approval of community-based plans is becoming increasingly urgent for Palestinians to be able to obtain construction permits and to enable the 'formalisation' of homes built without Israeli-issued permits, and would thus help prevent the demolition of Palestinian homes and property. We are concerned that the number of structures demolished in East Jerusalem in the period from March – August 2013 was more than double that of the same period in 2012 (52 compared to 25). The number of persons displaced as a result of demolitions during the reporting period was 178, including 97 children.⁶⁰

VI. THE GAZA STRIP

40. The situation in the Gaza Strip continues to be precarious and non-sustainable. 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.⁶¹ Real and lasting progress can only be realised through the implementation of Security Council Resolution 1860 in all its elements. The

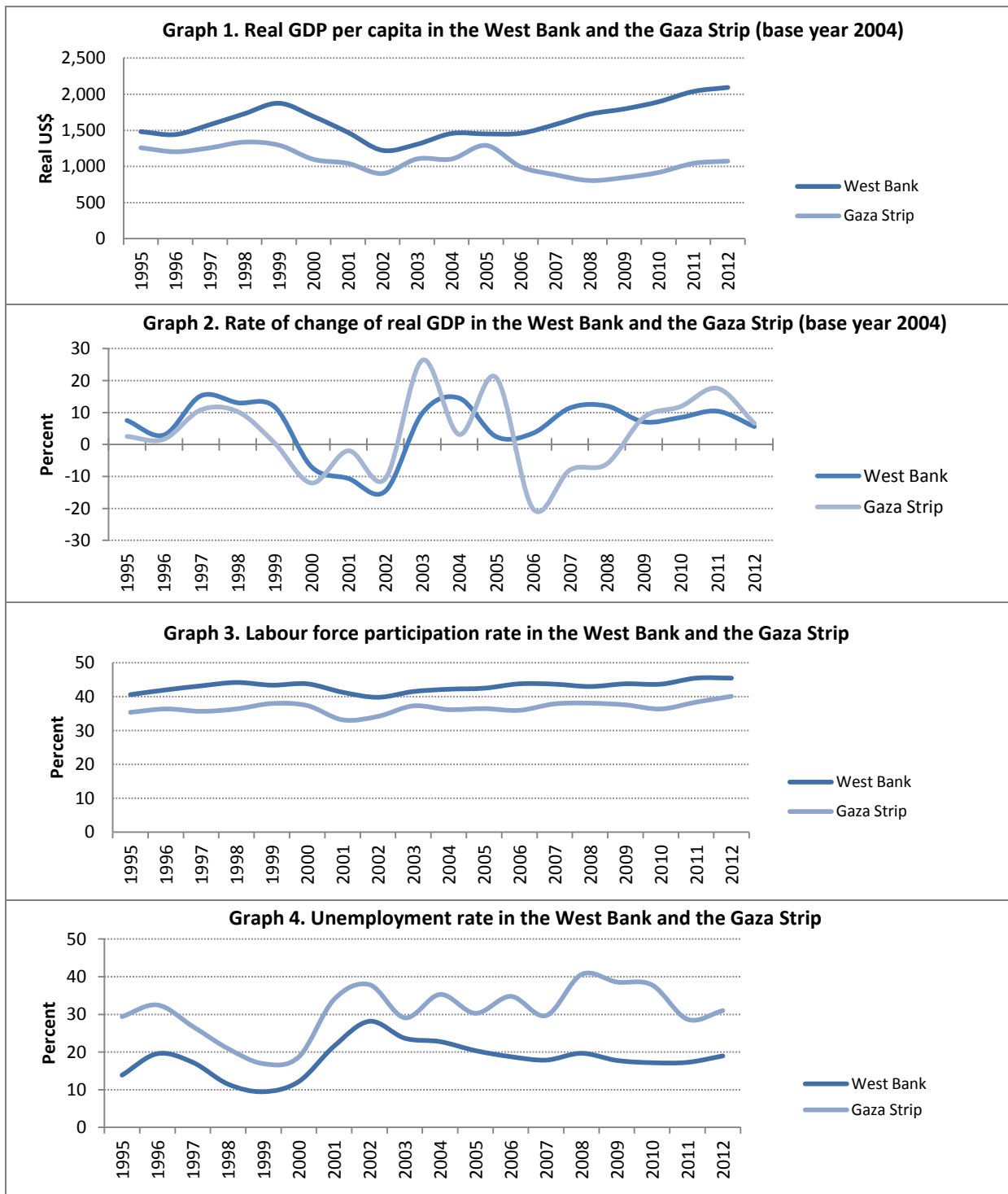
opening of the Gaza Strip and the lifting of remaining closures is part of the November 2012 understanding on the ceasefire, and as part of the confidence building measures agreed, Israel has relaxed some restrictions on the import of aggregate as well as access to land and sea. The other part of the understanding is adherence to a full calm, and we call on the de facto authorities in the Gaza Strip to heed their commitments as part of this understanding. Any violation of the ceasefire by rocket fire at this delicate juncture is not only unacceptable but also completely irresponsible.

41. At the same time, we look forward to Israeli steps to further increase access to the Gaza Strip through the legal crossings. This has become even more urgent as Egyptian authorities have been taking serious steps to combat the illegal tunnel trade, closing down a considerable number of tunnels. Restoring access through legal crossings is key to avoid worrisome effects on the humanitarian and economic situation. We hope that Israel will soon take such steps, in particular to liberalise entry of essential construction materials for the private sector, to help address the vast infrastructure needs in water, sanitation, housing, and health and education structures. Another issue of concern is the Rafah crossing, access through which the Egyptian authorities have limited considerably in the wake of recent events in Egypt, affecting students, patients and others. The movement of people in and out of the Gaza Strip through the Erez crossing continues to be restricted. Still, data from the Government of Israel show that an average of 120 businesspeople cross Erez every day, representing the main category of people using the Erez pedestrian crossing.⁶²
42. The lifting of restrictions on trade, including transfers to and from the West Bank and enabling in particular exports to Israel and other countries remains essential for Gazan producers to be competitive again and allow the private sector, especially productive sectors such as agriculture and manufacturing, to lead economic activity. Allowing the trade of goods in containers rather than on pallets, in a manner consistent with Israel's legitimate security concerns, would add to the benefits from the scanner already installed at the commercial crossing by decreasing transport, packaging and processing costs, and would further contribute to private sector competitiveness.
43. Given the small size of and purchasing power in the Gazan market, a sustainable recovery depends on restoring the Gaza Strip's ability to trade externally.⁶³ However, exports represent only about 4 per cent of GDP in the Gaza Strip – a rate that has decreased since 2011 – and about 80 percent of Gazan exports are in the form of services.⁶⁴ In the present circumstances where Israel restricts exports, citing security considerations, exports have remained limited to very few goods, and thus far in 2013 export levels for most goods have been lower than in 2012.⁶⁵ Unsurprisingly, most of the Gazan products traded outside the Gaza Strip are currently subsidised through foreign funding. Destinations remain similarly limited.⁶⁶ While Israel allows Gazan goods to transit through its territory en route to other countries, it does not allow exports to Israel or transfers to the West Bank – the Gaza Strip's natural markets.⁶⁷ Exceptions were made for the export of palm leaves to Israel in August 2013, and the transfer of 485 tons of date bars to the West Bank in March 2012 and one shipment of school furniture ordered by the PA in September 2012. We call on Israel to ease export restrictions and allow exports from the Gaza Strip to Israel and transfers to the West Bank.
44. The Gaza Strip's infrastructure remains inadequate and its fast-growing population is posing strains on basic services such as electricity and water supply, healthcare and education.⁶⁸ The electricity crisis in the Gaza Strip continues, with residents experiencing on average 12 hours of blackouts per day, affecting all aspects of daily life and negatively impacting economic activity.⁶⁹ In the medium term, the development of the Gaza Marine gas field could help address Palestinian energy needs, alleviate the power shortage in the Gaza Strip and have a positive impact on PA revenue. The people of the Gaza Strip are also facing severe shortages of potable water.⁷⁰ To help address this situation in the immediate term, Israel recently announced an

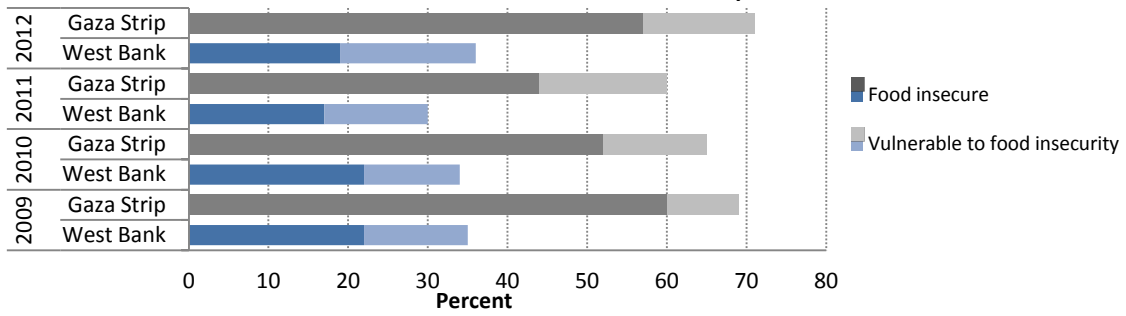
increase of 5 million cubic meters in the supply of drinking water to the Gaza Strip. Large-scale desalination has been identified as the only viable alternative for drinking water supply in the Gaza Strip, and in this regard the Union for the Mediterranean is planning to install a large-scale desalination plant in the Strip, a plan that the UN and the Government of Israel fully support. Desalination could also change the dynamics of the conflict, by reducing the perception of water issues as a zero-sum game. Removing remaining restrictions on 'dual use' lists is also important, as currently only 25 per cent of wastewater in the Gaza Strip is treated, while 90 million litres of raw and partially treated sewage are being released daily into the Mediterranean Sea.

45. Shortages in the education and health sector are acute. There is an insufficient number of school buildings in the Gaza Strip, with two shifts operating in several schools, and many existing schools have poor infrastructure and inadequate water, sanitation and hygiene facilities. The ongoing closure and the internal Palestinian political divide have also resulted in the degradation of the quality of healthcare and of the health sector in general, which suffers from serious problems that are expected to worsen as population grows.⁷¹ The restricted access to healthcare for patients and movement of health providers into and out of the Gaza Strip is another issue of concern, as well as the lack of financial resources to ensure fuel supplies to both the power plant and the backup generators in hospitals.
46. There has been significant progress in the removal and destruction of stored explosive hazards in the Gaza Strip, resulting in improved protection of civilians there. Over the past six months, most explosive hazards that were dangerously stored in Gaza City, many found in the access-restricted areas or in built-up areas, have reportedly been removed, and over 2,000 items of explosive hazards have been safely destroyed since January 2013.⁷² Explosive remnants of war (ERW) continue to be a hazard though, and to date in 2013, there have been 25 casualties from ERW, including 21 children. The total number of such casualties from 2009 to 2013 is 141, including 83 children.⁷³
47. Since the November 2012 ceasefire understanding between Israel and Palestinian factions, farmers have had improved access to previously restricted areas on land. Israel still largely prohibits access to farming land within 100 metres of the fence, but access to the area between 300 and 1,500 metres from the fence has improved.⁷⁴ This represents a positive step, with farmers now able to reach land that was off limits for years, since up to 35 per cent of the Gaza Strip's agricultural land has been affected by such access restrictions at various points since 2000.⁷⁵ The areas adjacent to the fence have at times been used for militant activities.
48. At sea, the Israeli authorities re-extended the permissible fishing area in May 2013 from three to six nautical miles (NM) from the coastline. Economic gains were measured, with the total fish catch in May 2013 estimated to have been 76 per cent higher than in May 2012 when the limit was set at 3 NM.⁷⁶ The UN welcomes this step, although a further extension of the fishing limit to at least nine NM in a manner consistent with Israel's legitimate security concerns (less than the 20 NM established by the Oslo Accords) is necessary for a further significant increase in the size and value of fishermen's catch.⁷⁷ Fishing and fishing-related activities traditionally supported the livelihoods of thousands of families across the Gaza Strip.⁷⁸ There also continue to be incidents at sea between Palestinian fishermen and Israeli naval patrols.⁷⁹ More recently, a similar incident involving Egyptian forces was reported.⁸⁰
49. The Gaza Strip remains a high priority for the UN and the UN will continue its efforts to contribute to improving the living conditions of the Gazan population. We welcome the recent approval of another package of UN construction works involving what are still classified as 'dual use' materials. UN construction work in Gaza includes almost 3,000 housing units, 67 schools, eight health clinics, 31 water and ten electricity related structures and road rehabilitation, totaling some \$450 million.⁸¹ Projects worth another US\$92 million are awaiting approval (including 521 housing units, 34 schools and two health structures).

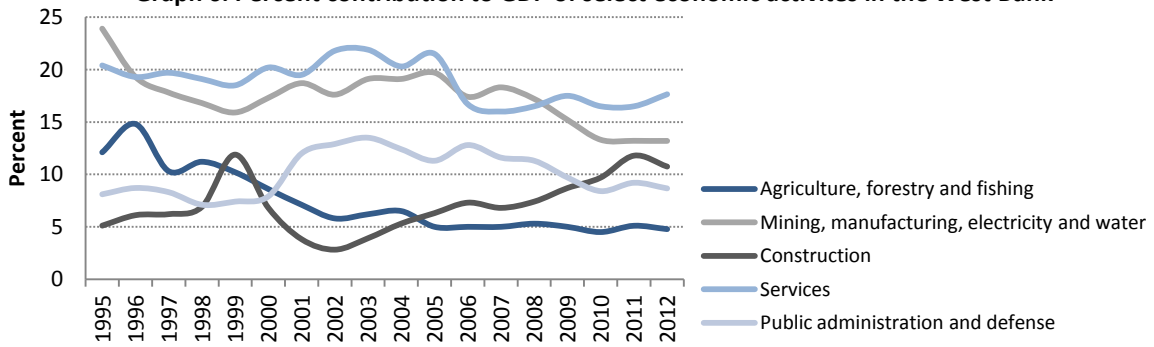
ANNEX A. GRAPHS



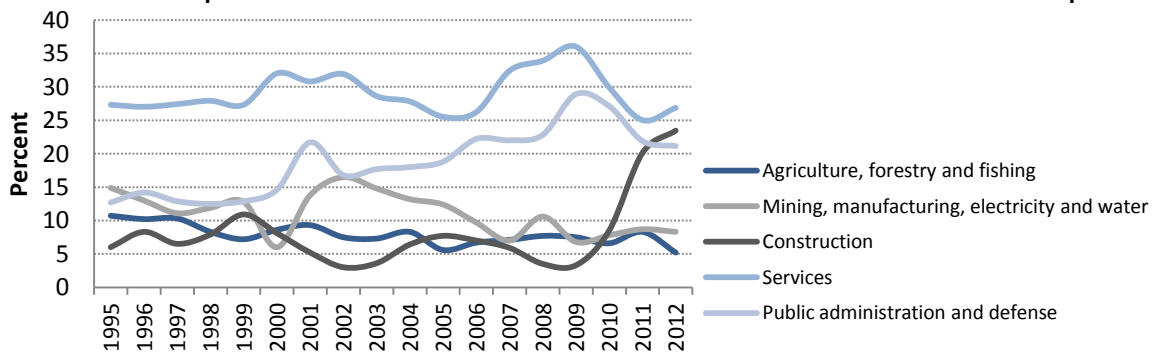
Graph 5. Food insecurity and vulnerability to food insecurity among households in the West Bank and the Gaza Strip



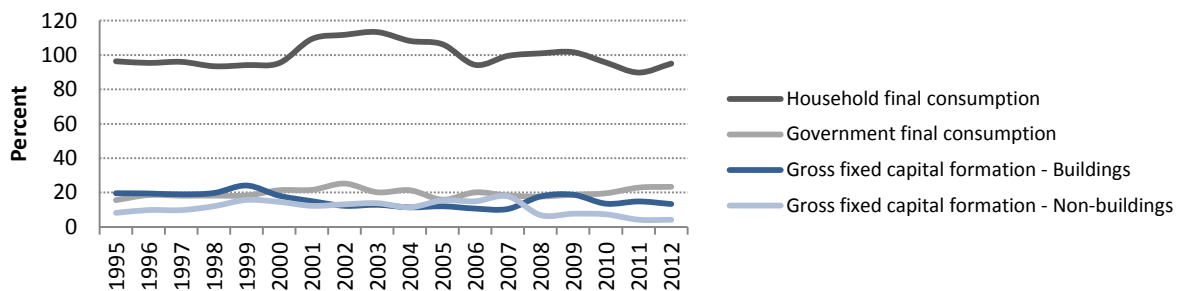
Graph 6. Percent contribution to GDP of select economic activities in the West Bank

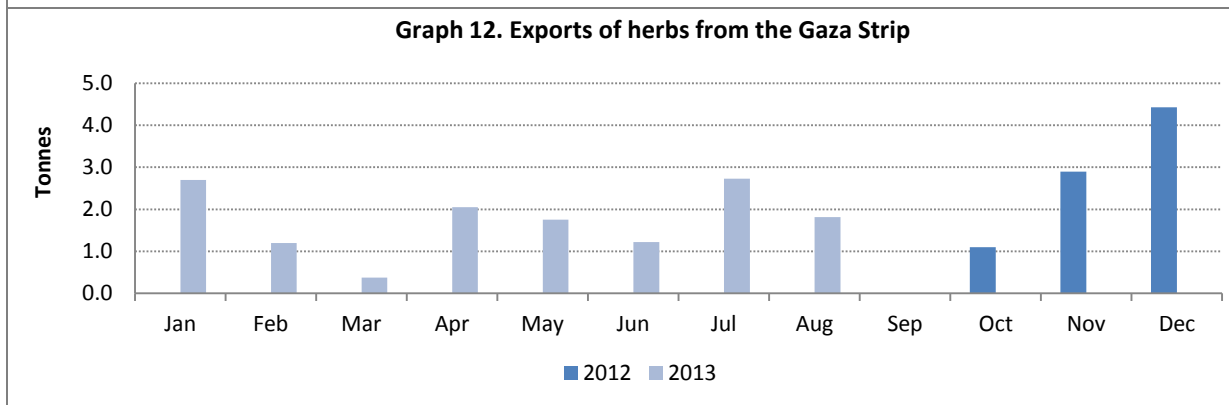
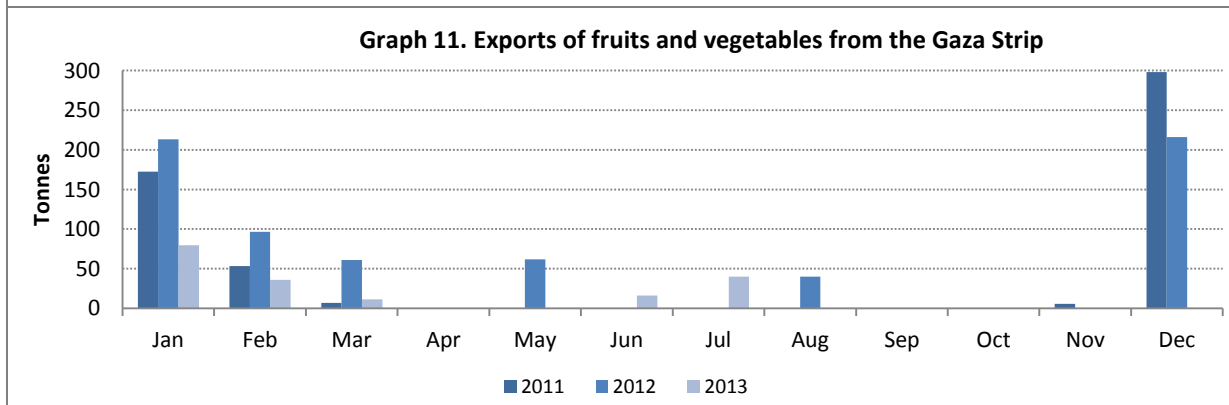
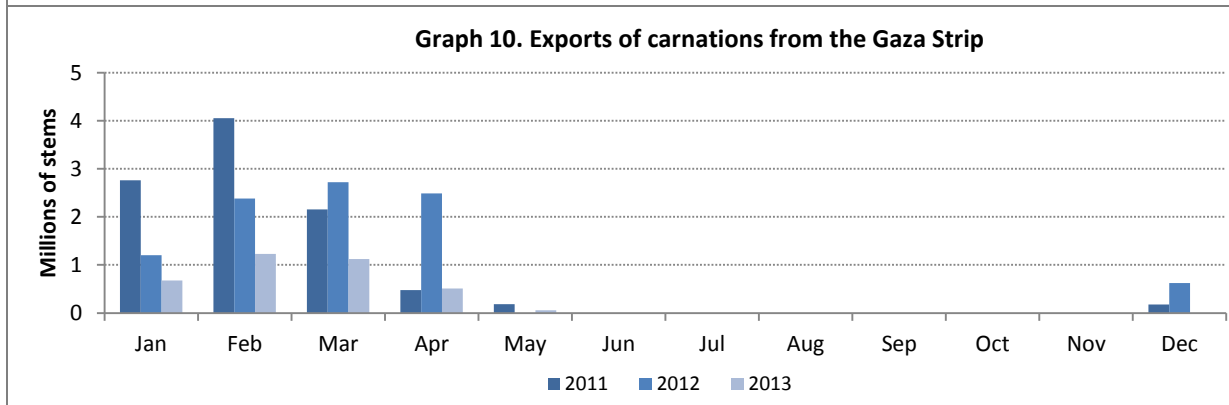
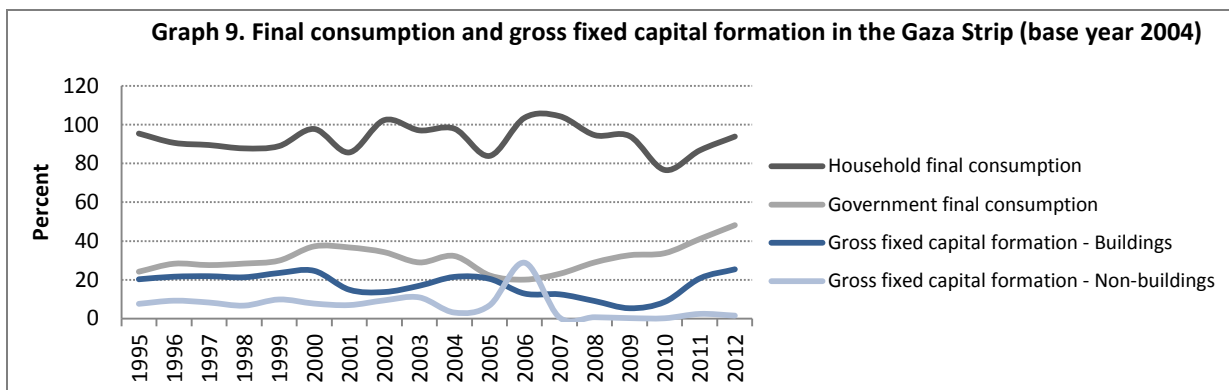


Graph 7. Percent contribution to GDP of select economic activities in the Gaza Strip



Graph 8. Final consumption and gross fixed capital formation in the West Bank (base year 2004)





Sources: Graphs 1-4 and 6-9: PCBS. Graph 5: PCBS/FAO/UNRWA/WFP. Graphs 10-12: UNSCO based on Palestinian Agricultural Relief Committees and Ministry of National Economy. Note: National accounts data for 2012 are preliminary and will be revised.

¹ On 29 November 2012, the UN General Assembly passed resolution 67/19. Pursuant to operative paragraph 2 of that resolution, the General Assembly decided to "...accord to Palestine non-member observer State status in the United Nations ...". On 12 December 2012, Palestine informed the Secretary-General that the designation "State of Palestine" should be used in all official documents, although this does not preclude the use of the term "occupied Palestinian territory". In accordance with the Secretary-General's report on the "Status of Palestine in the United Nations" (A/67/738) of 8 March 2013, the designation "State of Palestine" is now used in all documents of the United Nations, notwithstanding the use in parallel of the term used in previous reports, "occupied Palestinian territory".

² The PACC was established by presidential decree in March 2010 as the first PA body to fight corruption in line with the Anti-Corruption Law no. 1 of 2005.

³ The PACC has focused especially on mandatory provisions of chapters 2 (preventive measures), 3 (criminalisation and law enforcement), 4 (international cooperation), and 5 (asset recovery).

⁴ Following ten months of debate in the national tripartite Minimum Wage-Fixing Commission, in October 2012 the Council of Ministers adopted a monthly minimum wage of NIS1,450 (NIS65 daily and NIS8.50 hourly), taking effect on 1 January 2013. There are divergent views regarding the level of the minimum wage, but all parties involved expressed their commitment to ensuring its implementation.

⁵ The East Jerusalem Hospitals serve as the main centres for specialised care within the Palestinian health system. Patients needing services and procedures that are not available in the West Bank and Gaza are referred for treatment in the EJHN facilities by the Palestinian Ministry of Health. Over half of the EJHN workload comes from referred patients from the West Bank and the Gaza Strip. As such, the EJHN plays a critical role in providing health services to the Palestinian people.

⁶ According to the Ministry of National Economy, newly registered companies will have to conform to the 25 per cent minimum capital requirement within a year from the registration date instead of at the time of registration. On 12 March 2013 the PA Council of Ministers adopted measures to impose additional tariff duties of up to 35 per cent on the assessed value (rather than the declared import value) of final goods that are directly or indirectly imported and considered to be dumped in the Palestinian market. The new rates became valid on 1 May 2013. (USAID. May 2013. *Quarterly Briefing on the Palestinian Economy*.) Furthermore, banks were instructed by the PMA to exempt small and medium enterprises (SMEs) that are willing to restructure their defaulted loans from the upfront payment of 10 per cent of the outstanding debt, as previously required for rescheduling. The measure is aimed at helping SMEs normalise their credit status. Also, the legal reserve requirement of 2 per cent over outstanding loans previously imposed on banks was eliminated to liberate additional capital for SME lending. (The Portland Trust. May 2013. *Palestinian Economic Bulletin*.)

⁷ The national export strategy, developed on the basis of the process, methodology and technical assistance of the International Trade Centre, is the result of comprehensive, inclusive and participatory consultations.

⁸ 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*.

⁹ UNCTAD. 2013. *Report on UNCTAD assistance to the Palestinian people* (TD/B/60/3).

¹⁰ The Israeli authorities collect a number of taxes on behalf of the PA, including customs, levies, excises, purchase taxes and VAT. Israel deducts a 3 per cent administration fee before transferring this tax revenue to the PA.

¹¹ IMF. July 2013. *IMF urges the Palestinian Authority and Donors to reassess priorities*.

¹² Ministry of Finance. Various months. *Monthly reports: Fiscal Operations – Revenues, Expenditures and Financing Sources*. The figures presented in this paragraph are on a commitment basis. Total expenditure by August 2013 was 68 per cent of the budgeted amount, wages and salaries were 66 per cent. Net lending reached 159 per cent of the budget amount for the year, and tax refunds reached 121 per cent.

¹³ Total net revenue by August 2013 was 58 per cent of the budget amount and clearance revenue was 60 per cent. (Ministry of Finance. September 2013. *August monthly report: Fiscal Operations – Revenues, Expenditures and Financing Sources*.)

¹⁴ According to the Ministry of Finance, most of the budgetary aid during the year has come from the US (US\$340 million), the European Union (US\$181 million, allocated through the PEGASE mechanism), Saudi Arabia (US\$190 million), and the World Bank (US\$136 million). Ministry of Finance. September 2013. *August monthly report: Fiscal Operations – Revenues, Expenditures and Financing Sources*.

¹⁵ As suggested by the IMF and others, the following measures can help in this regard: reform, simplify and limit tax incentives; strengthen Large Taxpayer Unit; rationalize allowances for higher income public workers, freeze wages and extend hiring freeze to West Bank, followed by comprehensive civil service and pension reform; take measures to improve water and electricity bill collection; further legislative agenda to support the private sector (e.g. new companies law, moveable assets law). (See for example, IMF. July 3, 2013 *Statement at the Conclusion of an IMF Mission to the West Bank and Gaza - Press Release No. 13/244*. IMF. September 2013. *Recent Experience and Prospects of the Economy of the West Bank and Gaza*.)

¹⁶ IMF. July 3, 2013. *Statement at the Conclusion of an IMF Mission to the West Bank and Gaza, Press Release No. 13/244*. Exporting enterprises have also identified movement restrictions as the main obstacle to export. According to a recent PCBS opinion survey “88.9% of owners/managers of export enterprises in the West Bank indicated that closure of entries and border crossings had the greatest negative impact on export activities”. PCBS. July 2013. *Survey of the Perceptions of Owners/Managers of Active Industrial Enterprises Regarding the Economic Situation Second Quarter 2013 – Report on the Survey Results*.

¹⁷ UNCTAD. September 2013. *Report on UNCTAD assistance to the Palestinian people: developments in the economy of the Occupied Palestinian Territory (TD/B/60/3)*.

¹⁸ Economic data for the West Bank and the oPt in this report exclude East Jerusalem unless otherwise specified. 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.

¹⁹ See for example ILO. 2013. *The situation of workers of the occupied Arab territories*. The IMF projects GDP growth in 2013 to slow to 4.5 per cent. (IMF. 3 July 2013. *Statement at the Conclusion of an IMF Mission to the West Bank and Gaza Press Release No. 13/244*).

²⁰ PCBS. 2013. *Preliminary Estimates of Quarterly National Accounts (First Quarter 2013)*. Data for 2012 are preliminary and will be revised, and data for 2013 are flash estimates.

²¹ The West Bank contributed 74 per cent of total GDP in 2012. Data for 2012 are preliminary and will be revised.

²² GDP per capita in the Gaza Strip was US\$1,075 in 2012, whereas it was US\$1,327 in 1994. PCBS. Various years. *National Accounts*. Data for 2012 are preliminary and will be revised.

²³ Once discouraged workers are added the rate increases to 25 per cent. (PCBS. August 2013. *Press Report on the Labor Force Survey Results*.)

²⁴ The rates were 25 and 50 per cent, respectively, in the case of women.

²⁵ According to the International Labour Organization, discouraged workers are working age people without work, who are available for work but did not seek work during the reference period (and therefore could not be classified as unemployed) because they felt that no work would be available to them. Discouraged workers give a broader measure of the unutilised supply of labour. Discouraged implies a sense of “giving up”, meaning the discouraged worker has simply given up any hope of finding work for reasons such as s/he feels s/he lacks the proper qualifications, s/he does not know where or how to look for work, or s/he feels that no suitable work is available. The discouraged worker, therefore, could be said to be “involuntarily” inactive. In 2012, 7 per cent of employed persons were underemployed, and the average period of unemployment was 12 months in the second quarter of 2013. (PCBS. August 2013. *Press Report on the Labor Force Survey Results*.)

²⁶ World Bank. March 2013. *Fiscal Challenges and Long Term Economic Costs: Economic Monitoring Report to the Ad Hoc Liaison Committee*.

²⁷ Between 2004 and 2012 salaries did not keep up with inflation, as prices increased by 36 per cent but nominal wages grew by only about 20 per cent. (The Portland Trust. June 2013. *Palestinian Economic Bulletin*.)

²⁸ PCBS/FAO/UNRWA/WFP. 2013. *Socio.Economic and Food Security Survey 2012*. Pre-assistance food security rates are 38% for the oPt, 22% for the West Bank and 62% for the Gaza Strip. The SEFSec methodology is presented in detail in Annex A. It combines income, consumption, and a set of seven vulnerability variables (including trends in food and non-food expenditures) to classify households across four categories: food insecure, vulnerable to food insecurity, marginally food secure and food secure.

²⁹ Food Security Sector. 26 July 2013. *Gaza Watch*. Pre-assistance food security rates are 38% for the oPt, 22% for the West Bank and 62% for the Gaza Strip (PCBS/FAO/UNRWA/WFP. 2013. *Socio.Economic and Food Security Survey 2012*).

³⁰ Food Security Sector. 26 July 2013. *Gaza Watch*.

³¹ PCBS. August 2013. *Economic and Social Conditions Survey 2012 – Main Findings*. UNRWA has since been forced to suspend its school feeding programme for 233,000 students due to shortfalls in emergency funding.

³² OECD. 2013. *Fragile states 2013: Resource flows and trends in a shifting world*.

³³ According to the OECD study, the oPt economy was ranked 12th most aid dependent in 2005 and 6th in 2010.

³⁴ The average for all fragile economies was US\$129 in 2010. In 2010 the oPt received a total of 5 per cent of ODA to fragile states and 4 per cent of humanitarian aid to fragile states.

³⁵ PCBS. 2013. *Preliminary Estimates of Quarterly National Accounts (First Quarter 2013)*.

³⁶ Over the course of the reporting period (March-August) the UN recorded 168 attacks perpetrated by Israeli settlers that resulted in either injury of Palestinians or damage to their property, compared to 183 attacks a year earlier. During the reporting period the UN recorded the uprooting or damaging of 5,729 trees, including saplings, compared to 6,764 in the same period in 2012.

³⁷ During the reporting period the UN recorded 25 attacks perpetrated by Palestinians that resulted in casualties (including one fatality) or property damage among Israeli settlers, compared to 23 in the same period in 2012.

³⁸ According to the Government of Israel, a special police unit was established to deal with 'price tag' attacks. The unit, to be composed of 80 policemen, has recruited 30 already. Data presented to the interior committee of the Knesset by the Israeli police state that since the beginning of 2013, 76 suspects were arrested in connection with 'price tag' attacks, and 31 indictments were made.

³⁹ Israeli Central Bureau of Statistics. Several quarters. *Time Series Data Bank: Construction, construction begun, dwellings by district and initiator*. The number of building starts in the first quarter of 2012 was 607.

⁴⁰ See for example United Nations Security Council resolution 465 (1980).

⁴¹ The term "Barrier" is used in this document in recognition of the fact that it consists of a complex series concrete walls, fences, ditches, razor wire, groomed sand paths, an electronic monitoring system, patrol roads, and a buffer zone. The ICJ opinion cited throughout the document refers to the Barrier as the "Wall". The Barrier's total length of approximately 710 kilometres is more than twice the length of the Green Line (OCHA. July 2013. *The Humanitarian Impact of the Barrier*.)

⁴² B'tselem. October 2012. *Arrested Development: The Long Term Impact of Israel's Separation Barrier in the West Bank*. The full advisory opinion can be found on www.icj-cij.org/docket/files/131/1671.pdf. 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.

⁴³ UNRWA. January 2013. *Impact of the West Bank Barrier*.

⁴⁴ Physical obstacles to movement include checkpoints, road gates, earthmounds, and the Barrier. According to the Coordination of Government Activities in the Territories (CoGAT), the number of checkpoints was reduced from 42 in July 2008 to 12 in May 2013. (CoGAT. *Access and Movement in the West Bank*. www.cogat.idf.il) In addition, a pilot program has been introduced at the Tarquimiyah crossing, which allows Palestinian businessmen to exchange trailers between trucks at the crossing, without the need to physically transfer between separate trailers, thereby allowing the more efficient transfer of cargo at the crossing. It is hope that this pilot can be expanded.

⁴⁵ Coordination of Government Activities in the Territories. 8 August 2013. *Opening the inner crossing- South Hebron*. www.cogat.idf.il/901-11023-en/Cogat.aspx

⁴⁶ The Israeli authorities had blocked this road citing the security needs of the nearby Beit Haggai settlement of approximately 550 persons.

⁴⁷ During the month, women and girls of all ages, men above 40 and boys below 12 were allowed to pass through the checkpoints on Friday without permits, while those above 60 and under 12 were also allowed during the rest of the week, except on Saturdays. West Bank ID holders not included in these age categories were eligible for special permits to attend the Friday prayers or for family visits. (Coordination of Government Activities in the Territories. 2013. *The Month of Ramadan in the West Bank*.) Palestinians from the Gaza Strip continued to be denied access.

⁴⁸ Area C accounts for more than 60 per cent of the West Bank's land mass, including the overwhelming majority of its natural resources, and it links the otherwise fragmented enclaves of Areas A and B. Virtually all public land (also known as 'state land') in Area C, 70 per cent of Area C, has either been placed within the jurisdictional boundaries of Israeli settlements (local and regional councils) or marked as military area, making it unavailable for Palestinian use and development. Furthermore, Palestinian construction is heavily restricted in another 29 per cent of Area C, while less than 1 per cent has been designated for Palestinian development by the ICA.

⁴⁹ Palestinian ministries and the private sector are currently in the process of mapping out the unrealised economic potential of Area C, but it is evident that the outstanding agricultural and stone quarrying potential alone could make considerable contributions to the Palestinian economy.

⁵⁰ Data provided by OCHA. Each demolished structure is counted as a separate structure. The methodology used by OCHA for counting may differ from those used by others, including the Gol. 'Residential structures' refers to any structure that serves as a home or housing for people and includes temporary and fixed structures. 'Livelihood related structures' includes commercial structures, animal shelters, pens or sheds, greenhouses, mosques, warehouses, etc. 'Infrastructure' demolished includes water cisterns and tanks, power or electricity lines, fences, walls and roads.

⁵¹ OCHA. January 2013. *Area C of the West Bank: Key Humanitarian Concerns*.

⁵² "Around 2,300 Palestinians, two thirds of them children, reside in about 20 small herding communities in the hills east of Jerusalem, in Area C. Over 80% of the residents are refugees, a status they acquired following their eviction from their place of residence in southern Israel in the early 1950's. The communities have gradually lost access to much of their grazing land due to settlement expansion. Most of the families have pending demolition orders against their homes, none of the communities have been connected to the electricity network and only half are connected to the water network." (OCHA. June 2013. *Communities in the Jerusalem Periphery at Risk of Forced Displacement*.)

⁵³ The limited availability of grazing land at the proposed two sites is a serious concern as it could undermine the traditional livelihoods and culture of the communities, as was the case for 150 families who were relocated from this area in the late 1990s. One of the sites is also located next to a refuse dump site, raising serious health concerns. (OCHA. June 2013. *Communities in the Jerusalem Periphery at Risk of Forced Displacement*.)

⁵⁴ UNCTAD. 2013. *The Palestinian Economy in East Jerusalem: Enduring Annexation, Isolation and Disintegration*.

⁵⁵ The UN continues to call for the reopening of Palestinian institutions in East Jerusalem.

⁵⁶ A recent EU-funded study by ACE International Consultants lists a number of initiatives with the potential to boost economic activity in East Jerusalem. According to this study: "The aim of developing an ICT [information and communication technology] Park in East Jerusalem is to act as a dynamic force for the economy, by developing appropriate infrastructure, services and mobility that could empower new investment to be part of the ICT Park. In addition, the Park will enhance and develop new and existing economic activities and will generate new job opportunities in Jerusalem. It is reported that preliminary agreements have been obtained and that a 10 ha site has been identified to accommodate the Technology Park on East Jerusalem territory. It is hoped that this technology Park would act as a hub to link together promising IT and other technology advanced businesses from all origins. Al-Quds Holding is the promoter of this project." On the tourism sector, the study points out that: "The most present need is to increase the number and quality of the hospitality professionals. This could be achieved through the reinforcement of the Notre Dame Hotel Management and Travel Training Centre in East Jerusalem, eventually in partnership with international hotel training institutes. For example the Accord group from France have hospitality training schools the world over. One could even think of supporting the creation of an "excellency" hospitality pole in East Jerusalem targeting the training of Arab speaking students from the region." (ACE International Consultants. December 2012. *Private Sector and Economic Development in East Jerusalem*.)

⁵⁷ ACRI and Ir Amin report that: "According to MANHI [Jerusalem Education Administration] figures, last September the total dropout rate in East Jerusalem reached 13% of all students... Most of the attrition occurs in high school (grades 10-12), with the trend starting as early as middle school (grades 7-9). According to MANHI data for the school year 2012- 2013, 10% of Palestinian children of 8th or 9th grade school age were not enrolled in any educational institution. For 10th grade, this figure doubled to 20% and by 11th grade, 30% of the students did not attend school. The cumulative dropout rate results in 36% of children in East Jerusalem failing to complete a full 12 years of school." (Ir Amin and ACRI. August 2013. *Annual Status Report: The Failing East Jerusalem Education System*.)

⁵⁸ This includes 720 new classrooms needed to replace those in substandard buildings and 400 new classrooms for children enrolled in schools outside of the system. (Ir Amin and ACRI. 2012. *Failed Grade*.) In 2013, Ir Amin and ACRI report that 332 classrooms are some stage of planning or construction. (Ir Amin and ACRI. August 2013. *Annual Status Report: The Failing East Jerusalem Education System*.) According to the Government of Israel, 121 new classrooms were ready for the start of the 2013-2014 school year.

⁵⁹ Teachers and students from areas cut off from the city by the Barrier, which fall under the jurisdiction of the Jerusalem Municipality, need to cross a Barrier checkpoint to access work or the education services to which they are entitled as Jerusalem 'permanent residents', often resulting in delays. The risk of revocation of permanent residency status forces children to attend schools in East Jerusalem and deprives them of the choice of attending alternative facilities in other areas of the West Bank; conversely, the actual revocation of this status corresponds to a ban on attending school in East Jerusalem.

⁶⁰ Data provided by OCHA.

⁶¹ 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.

⁶² CoGAT. Various periods. *Gaza Crossing – Weekly Report*.

⁶³ Before the closure such trade played a key role in supporting economic activity, with 76 per cent of manufactured furniture products, 90 per cent of garments and 20 per cent of food products marketed for destinations outside the Gaza Strip. (OCHA. April 2013. *Humanitarian Monitor Monthly Report*)

⁶⁴ By comparison, exports from the West Bank represent about 20 per cent of GDP, and only 25 per cent of them are in the form of services. (PCBS. Various quarters. *Preliminary Estimates of Quarterly National Accounts*). According to PCBS, some of the main service exports from the Gaza Strip include communications, construction and travel services.

⁶⁵ Agricultural produce, furniture and textiles are currently allowed to be traded outside the Gaza Strip. (Gisha. July 2013. *The Gaza Cheat Sheet*.) Herb exports were introduced in October 2012. Thus far in 2013, export levels for flowers, fruits and vegetables have been lower than in 2012. Furniture exports have taken place occasionally since the beginning of 2012, and two shipments of clothing were exported to the United Kingdom in 2012. (UNSCO. Various periods. *Socioeconomic Report*.)

⁶⁶ Agricultural products are destined mainly to Europe, with the exception of some exports of potatoes and tomatoes to Jordan and Saudi Arabia, and herbs destined to the United States starting in June 2013. The few furniture exports have been destined to Egypt, Tunisia and Jordan.

⁶⁷ Partly due to proximity and economic integration, these are the Gaza Strip's natural markets. These markets absorbed 85 per cent of the products sold outside the Gaza Strip before the closure. (Gisha. July 2013. *The Gaza Cheat Sheet*.) Difficulties in exploring new markets and high transaction and transportation costs associated with other destinations cripple the competitiveness of Gazan producers, who already struggle with high production costs.

⁶⁸ The UN has continued and stepped up efforts to address these challenges. For example, UN agencies have constructed 11 new schools during the reporting period, which reduce the number of schools that have to run double-shifts, as well as the number of students per school. The construction and renovation of buildings and other infrastructure for healthcare, university education, roads, solid waste management, water and electricity supply is underway. Projects to construct more schools, health centres and other infrastructure have been submitted to the Israeli authorities. The UN has provided medicine, medical supplies, technical advice and support to Gaza's health services, including for maternity hospitals, mental health, the prevention and management of non-communicable diseases, HIV/AIDS and tuberculosis. UN agencies have repaired water and sewerage networks, and provided chlorine and water purification chemicals, from which Gaza's entire population of 1.7 million people benefited. Many activities focus especially on children and youth – half of Gaza's population – such as psychosocial services for almost 150,000 children, hearing screening for first-graders, youth centres, a 'special children – special needs' initiative with more than 5,000 new participants, summer learning for 44,000 children and 'summer fun weeks' for almost 150,000 children. These activities help ease the pressure on basic services, including for the half of Gazans that are under the age of 18. The UN's development and humanitarian assistance in Gaza is summarised in United Nations Country Team in the occupied Palestinian territory. June 2013. "The UN's Work in Gaza." www.gaza2020.info.

⁶⁹ While the Gaza Strip's overall demand for electricity currently stands at 350 megawatts (MW), electricity supply is only 208 MW. Due to ongoing shortages of fuel, the power station is unable to reach its already limited production capacity, a situation compounded by difficulties in importing spare parts. It sometimes takes more than a year from the time an order is placed to get Israel's approval for bringing in the required parts. (Gisha. 2013. *Gaza 2013: Snapshot*. www.gisha.org.)

⁷⁰ The situation that could get much worse over the next years if over-abstraction from the aquifer, the main water source, continues. (UN Country Team in the occupied Palestinian territory. 2012. *Gaza in 2020: A Liveable Place?*)

⁷¹ WHO. December 2012. *Initial Health Assessment Report Gaza Strip*.

⁷² Explosive hazards in the form of rockets and munitions that were fired during Israeli offensives or misfired by militants in the Gaza Strip and failed to detonate were found to have been stored in an unsafe manner in populated areas, posing a risk of great harm due to unintended explosion.

⁷³ Protection Cluster – Occupied Palestinian territory. June 2013. *Protection Cluster Monthly Update*.

⁷⁴ According to the Israeli authorities, the access restrictions to farming land along the fence separating the Gaza Strip from Israel have been imposed to prevent Palestinian armed groups from firing projectiles at Israel from these areas. OCHA. June 2013. *Humanitarian Monitor Monthly Report*.

⁷⁵ Restrictions on the entry of vehicles and equipment necessary to make the land usable have limited the potential impact of this relaxation. It is estimated that prior to November 2012, access restrictions resulted in the foregone production of approximately 75,000 metric tonnes of agricultural produce, valued at US\$50.2 million, per year.

⁷⁶ The sardine season extends from April to June), so the extension to 6 NM on 21 May allowed fishers to access sardine shoals in deeper waters for only part of the season. The total fish catch in May 2013 was an estimated 475 tons, 76 per cent higher than in May 2012 (269 tons), when the limit was set at 3 NM. However, the May 2013 total catch was only 73 per cent of the average catch (655 tons) during periods when fishers were able to consistently access 6 NM (from 2006 to 2009). OCHA. May 2013. *Humanitarian Monitor Monthly Report*.

⁷⁷ According to the UN Food and Agricultural Organization, the majority of high value fish are found from eight to twelve nautical miles from shore.

⁷⁸ The number of registered fishermen has declined from about 10,000 in 2000, to only 3,500 in 2013, about 95 per cent of which receive international aid. The foregone fish catch resulting from access restrictions between 2000 and 2012 is estimated at approximately 1,300 metric tonnes on average per year. (OCHA. July 2013. *Access Restricted Areas in the Gaza Strip*. And OCHA. July 2013. *Case Study: Gaza's Fishermen*.)

⁷⁹ See Protection Cluster – Occupied Palestinian territory. June 2013. *Protection Cluster Monthly Update*.

⁸⁰ See Maan News Agency. 31 August 2013. *Egyptian forces shoot at Palestinian fishermen*.

⁸¹ The figure US\$450 was calculated at the time of approval. However, as projects progressed and savings were realised, or as costs changed (a result of the lag in works suspended in 2007) the cost of the same projects, once implemented, has dropped. As a result, the figure once implemented dropped to US\$41.9 million.

⁸¹ Including completed, ongoing and approved projects that have not yet started.