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FOR THE MIDDLE EAST PEACE PROCESS**

**Report to the
Ad Hoc Liaison Committee
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Table of Contents

List of Acronyms.....	iii
Executive Summary.....	1
I. Introduction	4
II. Political Context	4
III. Palestinian State-Building	6
IV. Socio-Economic Trends in the oPt.....	9
V. West Bank.....	10
V.1 West Bank – Situation on the Ground.....	10
V.2 West Bank – Movement and Access.....	11
V.3 West Bank – Area C.....	11
V.4 West Bank – East Jerusalem	13
VI. The Gaza Strip.....	14
Annex A. Gaza Strip Energy and Water – Interim Measures and Structural Solutions	19
Annex B. Indicator Tables for West Bank and Gaza Strip	24

List of Acronyms

AHLC	Ad Hoc Liaison Committee
ARG	Arab Regional Grid
CBS	Central Bureau of Statistics
COGAT	Coordination of Government Activities in the Territories
ECD	Early childhood development
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
GEDCo	Gaza Electricity Distribution Company
GPP	Gaza Power Plant
ICA	Israeli Civil Administration
IDF	Israeli Defence Forces
IEC	Israel Electric Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IPE	Initiative for the Palestinian Economy
kg	Kilogramme
km	Kilometre
kV	Kilovolt
m ²	Square metre
m ³ /d	Cubic metres per day
MCM/y	Million cubic metres per year
MW	Megawatt
MoEHE	Ministry of Education and Higher Education
MoH	Ministry of Health
NGEST	Northern Gaza Emergency Sewage Treatment Plant
NM	Nautical mile
NIS	New Israeli Shekel
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
oPt	Occupied Palestinian territory
PA	Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PLO	Palestine Liberation Organization
PMA	Palestine Monetary Authority
PNDP	Palestinian National Development Plan
PWA	Palestinian Water Authority
SRP	Strategic Response Plan
STLV	Short-term low-volume
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near E
UNSCO	Office of the Special Coordinator for the Middle East Peace Process
US	United States
WFP	World Food Programme
WHO	World Health Organization

Executive Summary

Since the Ad Hoc Liaison Committee (AHLC) meeting in September 2013, peace talks brokered by the United States (US) on a negotiated two-state solution were suspended in April 2014, tensions and violence increased in the West Bank, including East Jerusalem, and a 51-day war has taken place between Israel and Hamas and other militant factions in the Gaza Strip with devastating consequences, particularly on the civilian population of the Strip.

Today, a political horizon for an end of occupation and end of conflict is worryingly absent, and this must be addressed. Meanwhile, the Government of National Consensus (GNC) formed in June 2014 faces massive challenges in assuming its full responsibilities and overseeing reconstruction in the Gaza Strip and in bringing the West Bank and Gaza Strip together under one legitimate government.

It is now essential that all Palestinian parties support the GNC and take no actions that would undermine its efforts. The GNC must be facilitated and enabled — in particular by Israel — in this task throughout the occupied Palestinian territory (oPt), and constructively assisted by regional stakeholders and the wider international community.

In spite of the continued pressures on the Palestinians and fiscal difficulties affecting the Palestinian Authority (PA) during the past year, further progress has been made in enhancing Palestinian institutions, including advances in national planning, budget management and service delivery. However, deteriorating

socio-economic trends in the West Bank and the Gaza Strip indicate that the status quo is not sustainable and real progress must be made. Steps from all parties are required to break away from the cycle of PA deficits, which are financed through donor support that is uncertain, arrears accumulation that hurts the private sector, and expensive bank borrowing. Such steps would help lessen aid dependence and achieve the PA's medium-term fiscal sustainability.

- In the short term, the PA will continue to depend on donor aid to cover its expenditures. The donor community needs to maintain or increase budget support and improve its predictability to allow the PA to plan and manage its budget more effectively. Development funding is also needed for the 'Palestinian National Development Plan 2014-2016' and for reconstruction in the Gaza Strip. Assistance for the reconstruction of the Gaza Strip should not come at the expense of budget support or development assistance for the West Bank, both of which are at least as necessary now as before the recent escalation.
- The PA has taken commendable steps to strengthen its fiscal position and it needs to maintain fiscal discipline, with due consideration to potential wider negative economic and/or social consequences.
- Achieving longer-term fiscal sustainability requires a further and more far-reaching relaxation of Israeli restrictions that spurs sustained private sector-led growth and creates employment, providing increased tax revenue for the PA. Fundamental change that allows for socio-economic development is essential, for example through access to Area C.

In the Gaza Strip, weeks of devastating conflict brought into stark relief the need for fundamental change. Neither Israeli closure nor militant smuggling of weapons or material for tunnels nor the continued division of the Palestinians can offer anything beyond setting the stage for another, even more catastrophic war. Continued restrictions on the Strip — on exit and entry of goods and people — will fuel instability, de-development and conflict, and make the next escalation just a matter of time. Instead, we must seize this opportunity to bring about calm and transformational change which lifts the closure and allows Palestinians in the Gaza Strip to lead a normal life and ensures the full enjoyment of their basic rights, while addressing Israel's legitimate security concerns and giving donors confidence that reconstruction will be enabled and that materials will be used for intended civilian purposes. The UN is engaged with all parties to find a way forward on a mechanism that responds to these needs and enables the GNC to lead, and the private sector to carry out, the reconstruction of the Gaza Strip. It is also essential to address structural development issues such as energy and water, the provision of services, particularly health and education, and the reactivation of economic activity through external trade.

Reconstruction, recovery, governance and security in the Gaza Strip must take place in the context of the return of one legitimate Palestinian Authority to the Strip. The GNC will face major challenges in this regard, including around the integration of fiscal systems and civil services, the harmonization of legal frameworks, and the financial implications of reintegrating administrations. At the same time, reconciliation will present it with opportunities to expand state-building achievements to the Gaza Strip. To this end, the GNC will need to undertake comprehensive civil service reform in the context of institutional restructuring, including of the security sector. The PA will also have to gradually assume the effective and exclusive control of the use of force through the deployment of Palestinian Security Forces to border crossings and throughout the Gaza Strip. As needed, and in cooperation with other partners, such as the European Union, the UN will support the GNC in these tasks, taking advantage of our presence on the ground. Rapid progress on these issues is now essential.

The situation on the ground in the West Bank, although largely eclipsed by events in the Gaza Strip, deteriorated during the reporting period, with a rise in violence and several disturbing developments, including the abduction and killing of three Israeli teenagers followed by the abduction and killing of a Palestinian teenager, continued settlement expansion at an alarming rate, land expropriation, and a high number of reported confrontations between Palestinians and Israeli forces and settlers.

Area C 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. Communities in Area C are some of the most vulnerable in the West Bank in terms of humanitarian needs, yet Area C carries vast potential for the oPt and the human development of the Palestinian people. Development of Area C will also increase the PA's tax revenue. The Government of Israel is urged 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. Approval of 90 Palestinian community-driven outline 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. Similarly, the UN continues to encourage the Government of Israel to approve a package of agriculture-related works valued at approximately \$5 million, to be implemented by the UN with financial support from the British Government/Department for International Development (DFID) and the Dutch Government.

In East Jerusalem, reopening the Jerusalem Chamber of Commerce, closed by the Israeli authorities since 2001, in line with Israel's obligations under the Roadmap to reopen Palestinian institutions, would be an important first step in revitalizing the private sector, furthering economic activity and addressing the low levels of labour force participation and high levels of poverty affecting Palestinians in the city. Furthermore, due consideration by the Israeli authorities of Palestinian-led community planning initiatives is necessary to establish a development framework to meet outstanding Palestinian housing, social and economic needs, and so improve living conditions for tens of thousands of East Jerusalemites.

The devastation caused by the latest war should be a stark reminder to all that the situation in the Gaza Strip is unsustainable and that a further war would be catastrophic. We have a solemn duty to change the dynamics in the Strip, while addressing with renewed urgency the situation in the West Bank too. This is the only path that can lay the basis for a dignified civilian life and a renewed effort at Israeli-Palestinian peace.

At time of writing, the UN continues to work intensively with the parties to finalize a mechanism to kick-start shelter rehabilitation and reconstruction in the Gaza Strip. In this regard, the UN Special Coordinator for the Middle East Peace Process will brief the UN Security Council on 16 September and the AHLC on 22 September.