

UNITED NATIONS



NATIONS UNIES

**OFFICE OF THE UNITED NATIONS SPECIAL COORDINATOR  
FOR THE MIDDLE EAST PEACE PROCESS**

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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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**TABLE OF CONTENTS**

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LIST OF ACRONYMS .....	III
EXECUTIVE SUMMARY .....	1
I. INTRODUCTION .....	3
II. POLITICAL CONTEXT .....	3
III. PALESTINIAN STATE-BUILDING .....	4
IV. SOCIOECONOMIC TRENDS .....	8
V. THE WEST BANK .....	9
<i>West Bank – Situation on the ground</i> .....	9
<i>West Bank – Movement and access</i> .....	10
<i>West Bank – Area C</i> .....	10
<i>West Bank – East Jerusalem</i> .....	12
VI. THE GAZA STRIP.....	12
ANNEX A. GRAPHS .....	15

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## LIST OF ACRONYMS

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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

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## 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,<sup>1</sup> 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.

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