



**OFFICE OF THE QUARTET REPRESENTATIVE  
(OQR)**

**Report for the Meeting of the Ad Hoc Liaison Committee**

**Summary of OQR Development Agenda to Support  
Palestinian Economic Sustainability and Institution-Building**

21 March 2012, Brussels

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## AHLC REPORT: MARCH 2012

This report provides an update on the work of the Quartet Representative (QR), Tony Blair, the Office of the Quartet Representative (OQR) and other partners in support of promoting Palestinian economic sustainability and institution-building since the previous Ad Hoc Liaison Committee (AHLC) meeting in September 2011.

### **Introductory Message from Quartet Representative Tony Blair**

“This AHLC meeting in Brussels comes at a profoundly important time for the Palestinian Authority (PA). Amid a steep fiscal crisis, slowing economic trends and continuing political uncertainty, policy reforms and institution-building plans implemented by Prime Minister Salam Fayyad are coming under increasing financial strain. While efforts continue to resume Israeli-Palestinian peace talks, it is important in the coming period to redouble our efforts to shore up the fiscal position of the Palestinian Authority and to re-energize the Palestinian economy. Sustaining economic growth and job creation in the West Bank and the Gaza Strip will require new actions by various parties. These actions should aim at boosting investor confidence and further unlock the immense potential of the Palestinian private sector.

Overcoming the current economic challenges will require three sets of policy responses: a continued push by the Palestinian Authority under the leadership of Prime Minister Fayyad to consolidate its fiscal position in 2012 and to enhance the overall business environment in the West Bank and the Gaza Strip; immediate and generous flows of direct budget support from donors, particularly from those in the region; and expanded measures by the Government of Israel (GOI) to enhance Palestinian clearance revenues and to facilitate infrastructure and private sector development particularly in the area of trade facilitation.

Even under the pressures of the current political environment, economic progress and Palestinian-Israeli economic cooperation are continuing in both the public and private sectors. In the area of tourism, for example, the number of overnight tourist stays in the PA actually increased by seven per cent in 2011 compared to 2010 – a remarkable development in light of the events of the Arab Spring and the negative tourism trends in most Arab countries. In the area of energy cooperation, a recent contract was signed between the PA and the Israel Electric Corporation (IEC) to construct four new electrical sub-stations in the West Bank to upgrade the quality of the transmission network – a large-scale project financed by the European Investment Bank (EIB). In the area of trade facilitation, recent agreements were signed by the Dutch, Palestinian and Israeli governments to install a new cargo scanner at the Allenby Bridge crossing between the West Bank and Jordan. This scanner will be donated by the Government of the Netherlands and is expected to expand Palestinian trade flows. A second one has also been offered for use at the Kerem Shalom/Keram Abu Salem crossing between Gaza and Israel.

My development agenda in 2012 focuses on seven thematic areas related to the economic growth and institution-building, specifically: private sector development; promoting movement, access and trade facilitation; Area C development; reconstructing and opening up Gaza economically; improving living and business conditions in East Jerusalem; improving the rule of law covering the judicial and security sectors; and strengthening the PA fiscal position. The goal of this development agenda, again, is to catalyse significant economic change on the ground to give greater oxygen to the political negotiation process. So the ‘ground-up’ economic agenda will continue to provide critical support to the ‘top-down’ political process.

In 2012, my key priorities within this development agenda focus on four areas: working with the PA to resolve the short-term and medium-term energy problems in Gaza; promoting greater Palestinian trade flows between Gaza, the West Bank, and international markets; promoting Area C development through agreed fast-tracking mechanisms and the active participation of local Palestinian communities; and pressing for greater direct budget support from regional and international donors to help the PA overcome its acute fiscal crisis.

I also recognize the challenges and difficulties that the Israeli occupation of the West Bank poses to the freedom of movement, economic conditions and living standards of Palestinians. As part of my ongoing agenda, I continue to press for the extension of PA security presence, for greater economic development in Area C and for the necessary changes that allow the Palestinian economy to grow.

Finally, I would also like to extend my gratitude to the Government of Norway for its continued and strong commitment to support the Palestinian Authority through the AHLC process; and to the European Union and the United States for co-sponsoring this important donor meeting.”

### **Key OQR Activities since September 2011**

The work program of the OQR since our last report in September 2011 has consisted of a wide range of efforts to support the Palestinian economy, the PA fiscal situation and the institution-building plan of Prime Minister Salam Fayyad. From this work program (detailed below), there are five OQR activities worth highlighting:

**Supporting the Continued Transfer of Clearance Revenues and the Agenda to Expand Revenue Collection:** The QR and the OQR pressed at all levels for the immediate transfer of clearance revenues from the GOI to the PA following their delay in autumn 2011. In recent weeks, we also advocated successfully the resumption of meetings between the PA and GOI Ministries of Finance to continue the joint agenda to reduce leakages in the clearance-revenue system.

**Facilitating the Containerization of Trade at the Allenby/King Hussein Crossing:** The OQR worked closely with the PA, the GOI, the Government of Jordan (GOJ), and the Government of the Netherlands (GON) to facilitate the donation by the Dutch Government in recent weeks of a modern cargo scanner for operation at the Allenby/King Hussein commercial crossing. The cargo scanner, once installed, is expected to expand Palestinian trade flows significantly.

**Working with the GOI to Finalize an Agreement to Construct New Electrical Sub-Stations in the West Bank:** The OQR consulted closely in recent months with the Israeli Ministry for Regional Cooperation on ways to close the agreement between the PA and the Israel Electric Corporation (IEC). The agreement was finally signed on February 27, 2012, and backed by EUR 44.5 million of financing from the European Investment Bank (EIB).

**Responding to the Unmet Needs of Palestinian Communities in Area C:** As part of the package it negotiated with the GOI in February 2011, the OQR followed up with the Office of the US Special Envoy for Middle East Peace and the UN Special Coordinator's Office on the issuance of fast-tracked permits for nineteen schools and clinics in Area C. The remaining permits for the nineteen projects were issued in the last month and are pending implementation as soon as the pledged funding is disbursed.

**Securing an Additional 5,000 Permits for Palestinian Workers:** The OQR worked closely with the GOI on increasing the number of Palestinian workers in Israel given the high rates of adult joblessness in the West Bank. In the last two weeks, the GOI has agreed to provide an additional 5,000 permits (above and beyond the commitment to 5,250 new permits in February 2011) for Palestinian workers to work in Israel.

### **OQR Work Program: Activities and Looking Ahead**

#### **PART A: Private Sector Development, Freedom of Movement and Trade Facilitation**

##### **1) Private Sector Development**

With the slowing of economic growth in the Palestinian economy in 2011, particularly in the West Bank, accelerating private sector development is of paramount importance. Growth in the West Bank in 2011 was 5.7 per cent, while it averaged around 10 per cent during 2008-2010. In Gaza, by contrast, growth was around 20 per cent in 2011. This high growth rate, however, is expected in economies emerging from conflict and closure, and has been fuelled by a mix of international donor projects and the expanded entry of imported goods. A broader economic recovery in Gaza will require full access of Gazan products and services to West Bank, Israeli and other markets.

In the area of private-sector development (PSD), the OQR has focused on four components: (i) promoting sectors underpinning private sector enterprise, including telecommunications, transport, energy, water and banking; (ii) catalysing change in the Palestinian business, trade, labor and investment environment as well as promoting exports; (iii) promoting competitive business clusters including tourism, stone and marble, information and communications technology (ICT) and agriculture; and (iv) supporting the implementation of iconic economic projects in the areas of industry and housing.

Since September 2011, OQR PSD activities and milestones have consisted of the following:

**Supporting the Construction of Four New Electrical Sub-Stations in the West Bank:** The PA, with support from the World Bank and other donors, developed an energy sector reform strategy in 2007 that included a component related to the construction of four new electrical sub-stations in the West Bank (in the areas of Nablus, Ramallah, Jenin and Hebron). The objective of this component was to upgrade the quality of the electricity transmission network in the West Bank, and the EIB agreed to provide EUR 44.5 million for the construction of these sub-stations. Over the last year, the PA and the IEC have attempted to agree the exact terms of implementation. From September 2011, the OQR, the Israeli Ministry of Regional Cooperation and others coordinated closely with the PA and IEC to help finalize the agreement. This agreement was signed between both sides on February 27, 2012.

**Investment Climate Promotion:** Together with the United States Government, the OQR conducted numerous technical discussions with GOI representatives on the importance of easing significantly the authorizing environment governing the issuance of entry permits and visas for investors seeking to visit the Palestinian Authority. These discussions culminated in the online publication of new rules in English by the Israeli Coordinator for Government Activities in the Territories (COGAT) on March 14, 2012. These new rules are an improvement over previous regulations in terms of transparency and flexibility (i.e. they are available online and

in English for the first time and explicitly provide for multiple-entry permits and visas), yet more time is required to assess their true impact in practice. The OQR also supported the development of new commercial legislation, in coordination with others, to prepare the PA for eventual accession to the World Trade Organization (WTO).

**Palestinian Work Permits:** As part of its efforts to support the Palestinian labor market, the OQR conducted high-level discussions with the GOI on increasing the number of permits for Palestinians to work in Israel. The GOI is in the process of implementing its decision of February 2011 to issue an additional 5,250 work permits for Palestinian workers; three quarters of which have already been issued. The GOI committed in March 2012 to issue an additional 5,000 permits, bringing the total number of work permits for Palestinian workers to approximately 44,500 (from a baseline of 34,300 in 2010).

**Strategic Business Clusters:** The OQR continued to work closely with key stakeholders on supporting the Palestinian stone and marble industry, and the tourism industry. The work on stone and marble focused on: (i) Area C permitting for quarries, regulatory issues governing quarries, and addressing the quarries in the Beit Fajjar area in the West Bank in particular; (ii) creating a new export consortium consisting of the eight leading Palestinian companies and organizing a trade mission to Italy to identify potential partners; and (iii) surveying the adjacent aggregates industry – an exercise that highlighted the difficulty of exporting gravel to Israel due to the existing back-to-back regulations at commercial crossings. The work on tourism focused on improving tourism access between Bethlehem and Jerusalem (opening up all Bethlehem area checkpoints to Jerusalem for tourists) and on easing the movement of tourists through the Jalameh Crossing to visit the West Bank along the “Nativity Route”. Working with USAID, the OQR has also supported the implementation of the PA-led Bethlehem Masterplan. The objective of this public-private masterplan is to significantly upgrade the quality of the tourism experience in Bethlehem.

**Industrial Parks:** The OQR continued to work closely with the PA and donors to promote the industrial park projects in the West Bank (in Jenin, Jericho and Nablus) through the setting up of a donor-coordination forum. The forum is designed to assist the Palestinian Industrial and Free Zone Authority (PIFZA) in identifying additional funding for the implementation of the projects and consists of members from the French, Japanese, and Turkish Governments, as well as from the OQR.

#### **Next Steps**

The OQR will focus on several key projects and activities in the area of private-sector development along with tracking the implementation of recently concluded activities (i.e. construction of the electrical sub-stations, implementation of the new permit and visa rules for outside investors, issuance of the new worker permits for Palestinian workers from the West Bank).

These new projects and activities include: (i) working on resolving outstanding issues between the PA and the GOI in the telecom sector related to the use of 3G technology by Palestinian mobile companies; (ii) examining the feasibility, together with the Palestinian private sector, of establishing an executive management business program in the West Bank; (iii) supporting the PA in developing its pro-business and pro-trade legislation in preparation for WTO accession; (iv) working on formally launching the Palestinian Stone Export Consortium; (v) unblocking broader Israeli-Palestinian cooperation in the tourism sector by obtaining approval for additional Israeli permits for licensed West bank guides to work in East Jerusalem; and (vi) participating remotely in a conference organized by the World Tourism Organization scheduled for late April 2012 in Egypt to help showcase the Palestinian tourism sector.

### **2) Movement, Access and Trade Facilitation**

The area of movement, access and trade facilitation intersects with many other work agendas of the OQR particularly those related to private sector development and the Gaza Strip. The focus of efforts in this area is to expand freedom of movement for Palestinian products, services, workers and individuals: within the West Bank; between the West Bank and Gaza; between the West Bank, Gaza and Israel; and between the West Bank, Gaza and the rest of the world. The movement and access agenda focuses on commercial activity between areas of the PA and Israel, while trade facilitation refers to commercial activities with overseas markets.

Since September 2011, key OQR activities and milestones include:

**Agreements to Containerize Trade at the Allenby/King Hussein Bridge Crossing between the West Bank and Jordan:** The OQR coordinated closely with the PA, the GOI, the Government of Jordan (GOJ) and the Government of the Netherlands (GON) on agreements to allow for the containerization of the commercial crossing at the Allenby/King Hussein Bridge between the West Bank and Jordan. In January 2012, the GON decided to donate funds for the purchase of a modern cargo scanner and formal memoranda of understanding were signed with the GOI and the PA, respectively. The installation of this modern scanner in 6 to 9 months is expected to enhance Palestinian trade flows with countries of the Arab World and Asia.

**Promoting Gazan Exports of Garments and Vegetables to Foreign Markets:** The OQR worked with DFID in recent months to facilitate an order of Gazan garments by a large retail company in the United Kingdom, and also on the export of Gazan vegetables to Jordan. The export of the garments is still being pilot-tested and carries enormous potential for this industry. Scaling up Gazan exports to new third markets, away from the traditional ones in the West Bank and Israel, is still difficult given the absence of reliable business contacts and the low competitiveness of Gazan products in overseas markets.

**Working on Improving Palestinian Food Safety Standard to allow for Greater Trade:** The OQR worked with the Palestinian and Israeli Agriculture Ministries, technical UN agencies, donors and implementing bodies to improve the regulatory and technical capacity of the PA to ensure adequate standards of food safety. This capacity-building process to upgrade food safety standards will enhance the competitiveness of Palestinian food products in Israeli and overseas markets.

**Identifying Barriers to the Movement of Tourists into and within the West Bank:** The OQR continued to work on identifying the main barriers to the movement of tourist buses into the West Bank from Israel and on roads out of the Jordan Valley. Improving the movement of tourist vehicles between Israel and the West Bank and within the West Bank is critical to improving the tourism experience in the PA.

#### **Next Steps**

In the next few months, the OQR will work on a mixture of continuing and new activities including related to the movement for individuals.

In the area of external trade, the OQR will work with the PA, the GOI, the GON and the GOJ to track the successful containerization of trade at the Allenby/King Hussein Bridge following the recent GON donation of a cargo scanner. The installation of this scanner is expected toward the fourth quarter of 2012. The OQR will also work on improving the passenger crossing at the Allenby/King Hussein Bridge in cooperation with all three authorities (PA, GOI, GOJ) responsible for its operation. Integration in basic services such as baggage handling and the arrangements for shuttle buses could save passengers hours of transit time and reduce costs for the agencies operating the terminals at the crossing.

With respect to linking Gazan products to overseas markets, the OQR will continue to help mobilize efforts to improve the capacity of Gazan businesses to design, produce and package for new unfamiliar markets. The OQR will also work on improving the infrastructural and procedural processes for goods to leave Gaza through the formal crossings. While Gazan producers are prevented from selling to traditional markets in the West Bank and Israel, economic recovery in Gaza will remain slow and sporadic. The OQR will work with the GOI towards a future re-opening of these markets.

As for the movement of individuals in and out of Gaza, access at the Erez crossing is limited to humanitarian cases and businesspeople who make significant purchases in Israel. The OQR will work to increase the categories of businesspeople who are allowed to cross at Erez. These categories will include small to medium business-owners who need access to new markets and training, technicians in industry and health who need further skills training, and professionals and executives from different economic sectors.

The OQR will continue to work with various stakeholders to improve Palestinian food safety standards and systems for approving food items for export. The main objective of these efforts is to develop a blueprint for the improvement of the current system in all aspects (i.e. legislation, regulation, skills training, testing of food products).

### **PART B: Geographic Focus Areas**

#### **3) Area C Development**

During the last six months, the OQR has continued to promote the development of an effective planning and permitting framework for Palestinian communities in Area C. The OQR sought to improve clarity in infrastructure development and the issuance of permits. Effective master-planning will enable residential and commercial development in Palestinian populated areas of Area C.

Since September 2011, the OQR has focused primarily on the following areas:

**Support for Basic Service Infrastructure:** In February 2011, the OQR negotiated an agreement with the GOI on fast-tracking permits for 19 priority projects in Area C. In partnership with SEMEP and UNSCO, the OQR helped secure the permits for these 19 priority projects identified by the PA, with some permits being issued within the four month period initially envisaged by the fast-tracking process. This process included permits for six schools and five clinics, of which four have already been built and six are being completed. Permits for the expansion of seven schools were secured during the completion of this report. These social-infrastructure projects range from basic rehabilitation of a primary school in Al-Minya to the reconstruction of a major UNRWA school outside the Jalazoun camp

serving a student population of over 1,200. This fast-tracking process has enabled the PA and the donor community to respond to unmet needs of Palestinian communities in Area C.

**Support for Planning Initiatives:** The OQR continued to work with key partners to render the current planning framework more responsive to the developmental needs of local Palestinian communities. The OQR worked on this goal through supporting the efforts of these communities to draw up masterplans to meet local development needs. The process for developing masterplans at this level is inclusive and participatory; as the local population participates in determining how best to use community lands and determines its need for additional social and economic infrastructure.

**Support for Private Sector Development:** As many sectors in the Palestinian economy rely on access to resources in Area C, the OQR has continued to support economic initiatives in Area C. These efforts include securing individual permits for project-specific infrastructure and work on developing an effective permitting regime for Palestinian quarrying activities in Area C. There are around 100 Palestinian quarries in the West Bank and most are at risk of business disruption because of the absence of a responsive permitting system.

#### **Next Steps**

In the coming months, the OQR will follow up on the implementation of outstanding social-infrastructure projects (schools and clinics) in Area C as per the agreement with the GOI in February 2011. The OQR will also work more broadly on making the permitting system more predictable, transparent, efficient and affordable for all basic service and economic projects.

As for planning efforts, the OQR will continue to press for fast-track approval of community-driven masterplans (twenty-one masterplans are still pending approval) and for continued community participation in the development of future masterplans. Working with different partners, the OQR will continue to promote the development of key resources in Area C, such as the stone and aggregates quarries. The OQR will also continue to press the GOI for an effective moratorium on demolitions.

#### **4) The Gaza Strip**

The OQR agenda focuses on the reconstruction and economic recovery of the Gaza Strip including the lifting of the remaining elements of the economic closure regime (i.e. approval for the formal entry of construction materials into Gaza and re-linking Gazan businesses to West Bank and Israeli markets). The three main components of this agenda are infrastructure development, improving the crossings and private sector development.

Since September 2011, the OQR has focused on:

**Supporting Large-Scale Infrastructure Projects:** The OQR worked on facilitating the entry of building materials and equipment for large-scale infrastructure projects in the water, sanitation and energy sectors (e.g. the North Gaza Emergency Sanitation Project, Gaza power plant). The OQR also supported preparatory work related to the planned Gaza regional desalination project, which is expected to address the medium to longer-term water problems in Gaza.

**Expanding the Operation of the Commercial Crossing between Gaza and Israel:** The OQR and the Government of the Netherlands (GON) discussed the donation of a second modern cargo scanner (in addition to the one donated for use at the Allenby/King Hussein Bridge Crossing) to expand the commercial flow of goods in and out of Gaza. The GON has indicated its approval for such a donation pending final agreement with the GOI and the PA. Installing a new scanner at the Kerem Shalom/Kerem Abu Salem crossing is expected to enhance both the range and volume of goods that can be safely brought out of Gaza. These efforts will be complemented by on-going improvements in the infrastructure at the crossing carried out by GOI and the PA with financial assistance from the PA.

**Supporting Gazan Fishermen:** The OQR facilitated the entry of equipment to rehabilitate an ice factory belonging to the Gazan Fishermen's Association. The new equipment was financed through a donation by the Japanese Government and will allow the Gazan fisherman to preserve and transport larger quantities of fish.

**Supporting the Entry of Building Materials for the Private Sector:** The OQR facilitated the entry of building materials into Gaza as a pilot project to rehabilitate ten factories destroyed during Operation Cast Lead. The expectation of the OQR following the completion of this pilot is to expand the entry of materials for a wider number of damaged factories. The feasibility of this second phase is currently being reassessed given the large quantities of building materials entering Gaza through the tunnels. This development undermines the effectiveness of the Israeli restrictions on construction materials.

#### **Next Steps**

In the coming period, the OQR will focus on the following activities:

**Energy Infrastructure:** The Gaza Strip continues to face a crippling energy deficit of up to 65 per cent of current demand. Short-term problems with fuel supplies for the local power plant in Gaza has caused the plant to shut down, adversely affecting households, businesses and the provision of basic services to the local population. The OQR is consulting closely with the PA, the GOI and the Government of Egypt on ways to reach a sustainable solution to the on-going electricity shortage.

**Improving the Movement of Goods in and out of Gaza:** The OQR will continue to work with the GOI to facilitate the export of agricultural produce, furniture products, textiles and garment products to overseas markets. The OQR will continue to advocate the approved transfer of goods to the West Bank and to Israel, which are natural markets for Gazan products. The OQR will continue to press for efficiency gains at the official crossing, to reduce costs and promote larger volumes of trade.

**Revising the Dual-Use List for Gaza:** Constraints on the import of items designated as 'dual-use' by the GOI are hampering economic activities in the Gaza Strip. Construction machinery, specialized equipment and other inputs are also impeding the already-approved reconstruction projects implemented by the international community. In the coming months, the OQR will continue to consult the GOI and others on the need to revise the dual-use list of commercial items.

**Change of Address for Gazans:** The OQR will continue to track the change of addresses for Gazans with long-term West Bank residency, as agreed with the GOI in February 2011. Up till now, 2,700 Gazans living in the West Bank have had their addresses changed and the OQR will continue to work on increasing this number.

**Increased Freedom of Movement for Individuals:** Currently the only Gazans allowed to cross at Erez are mainly large traders, patients and those escorting patients. The OQR will work on improving access for business people from small to medium enterprises and those individuals requiring technical or business training. Efforts will also be focused on facilitating the movement of individuals working in the banking and insurance sectors.

**Movement of Cash and the Resumption of Banking Correspondent Relations:** The OQR will continue to press for the regularized entry and exit of cash to and from Gaza. Israeli approval was given in autumn 2011 for the replacement of spoiled notes but not for the entry of additional shekel notes. The current liquidity shortage in Israeli shekels is severely undermining the effective operation of the legitimate banking sector in the Gaza Strip. The OQR will also work for the resumption of correspondent relations between the Palestinian bank branches in Gaza and Israeli banks.

**Expanding the Gazan Sea Fishing Limit:** The OQR will continue to press the GOI on extending the fishing limit for Gazan fishermen from three to eight nautical miles. The fishing sector is a vital part of the economy in Gaza and supports over 3,500 families who are solely dependent on the sea for their livelihood. The expansion of the fishing limit to eight nautical miles (under the Oslo Accord, the fishing limit was set at 20 nautical miles) has the potential to boost the income of the fishermen by an average of 60 per cent as a result of greater quantities, sizes and varieties of fish.

#### **5) East Jerusalem**

Overall socio-economic conditions in East Jerusalem continue to be very difficult for the approximately 280,000 Palestinians living and working in the city. Over two-thirds of this population subsist under the Israeli poverty line and many Palestinian neighbourhoods exhibit increased urban and economic decay. There is also a continuing severe crisis in both the housing and education sectors.

Since September 2011, the OQR has focused on the following activities:

**Scaling Up Housing Opportunities:** The OQR continued to work with the banking sector and donors to make mortgage financing available to East Jerusalemite households. Such access would allow Palestinians living in East Jerusalem to purchase existing housing units on the market and would also promote the development of larger housing projects. The OQR also promoted the efforts of local NGOs to re-zone and plan existing neighborhoods in East Jerusalem.

**Private Sector Development:** The OQR has been in active dialogue with private sector representatives on ways to improve the business environment in the tourism, real estate, service and ICT sectors in East Jerusalem. The OQR is also supporting the establishment of a private equity fund to support small to medium businesses in East Jerusalem. Another dimension of this work is promoting large scale economic projects in coordination with the private sector. One such large-scale investment project - the Addar Commercial Complex - was launched in the heart of East Jerusalem in autumn 2011.

**Expanding the Number of Classrooms:** The OQR continued to work on its agenda to expand the number of classrooms for Palestinian children in East Jerusalem, to help improve the acute shortage of schools for Palestinian students in the city. The OQR, together with a local NGO, has prepared a package of school expansion projects. The implementation of these construction projects will require outside funding.

#### **Next Steps**

The OQR will work to alleviate the housing burden on East Jerusalem families by supporting communal planning efforts and by pressing the banking sector and concerned parties to finally provide mortgage financing to Palestinians residing in East Jerusalem. Similarly, the OQR will also continue interacting with the private

sector and work on mobilizing funds for investing in SME activity in the city. In light of the acute crisis in education, OQR will scale up its efforts with local partners to expand the number of classrooms in East Jerusalem.

### **Part C: Institution-Building**

#### **6) Rule of Law**

Consolidation of institutional reforms and professionalization of the Palestinian justice and security sectors continued during the recent period, despite the fiscal challenges of the PA and Israeli restrictions on PA law-enforcement operations. The magistrates' courts and courts of first instance, which together receive the overwhelming majority of cases, achieved an impressive case-clearance rate of 99 per cent for the year 2011, continuing the trend of the previous two years and placing the Palestinian courts among the most efficient court systems worldwide. At the same time, the backlog in judgements pending for execution grew by 34 per cent in 2011.

In the reporting period, the OQR focused on the following activities:

**Study on Israeli Restrictions on PA Criminal Justice Operations:** The OQR partnered with PA justice-sector officials and UNDP to develop terms of reference for a study to assess the impact of Israeli restrictions on PA criminal justice sector operations. After the study was commissioned by UNDP, the OQR provided advisory services and worked with the lead researcher and a range of PA justice-sector officials to ensure effective execution of the study.

**Palestinian-Israeli Legal Cooperation:** The OQR continued to work with the PA and the GOI to strengthen cooperation in the justice sector. This activity included efforts to assist the work of the Joint Legal Committee and new steps to advance mutual cooperation in criminal cases.

**Mapping Current Police Presence and Operations in Area B, and Supporting its Expansion:** The OQR, working with US Security Coordinator, continued to pursue GOI approval for construction of a new PA community police station in Taybeh, and with other international partners, including the Dutch government and EUPOL COPPS, the establishment of additional stations in Area B in areas requested by the PA. The OQR continued its work to map PA police presence and access in the West Bank, in cooperation with EUPOL COPPS, and to examine obstacles to the development of greater operational presence and effectiveness in Area B.

**Other Security Sector and Related Entities:** The OQR continued to work with the PA and donor governments to resolve hurdles facing the deployment of the long-awaited PA Judicial Police, and also continued to monitor and advise on reforms to the PA military justice system. The OQR began to examine the current operations of the PA Civil Defense services, and assess constraints on their ability to carry out their functions effectively throughout areas under PA jurisdiction.

**Movement Cards:** The OQR worked with both Palestinian and Israeli officials to facilitate the issuance of movement and access cards for nearly two-thirds of Palestinian judges and prosecutors, and continues to follow up with respect to the processing of requests for the remaining judges and prosecutors.

#### **Next Steps**

The OQR will continue to work with all parties to expand PA law enforcement access and operations within and between areas currently under PA jurisdiction, particularly with respect to policing, criminal investigations, transport of detainees and evidence, and to facilitate the issuance of movement and access cards to all PA judges and prosecutors. Furthermore, the OQR's mapping tool for police presence and access in the West Bank is currently being developed and will support PA law enforcement planning and operational needs.

The OQR will work closely with all PA justice sector partners to further strengthen the rule of law, including the long awaited implementation of the PA decision to activate the Judicial Police. The OQR will also advise on ways to improve the system for execution of court judgments. Furthermore, the OQR will assist all relevant parties in carrying out the research study on the impact of Israeli restrictions on the effective functioning of the PA's justice system, which will for the first time provide empirical data and analysis for use in discussions, notably in the Joint Legal Committee.

The OQR will continue to monitor, advise and follow up, on: (i) implementation of the decision transferring civilian cases from the military courts to the exclusive jurisdiction of the civilian criminal justice system; (ii) efforts to reform the current legal framework of the military justice system and develop the capacity needed to carry out its functions; and (iii) tools to measure progress in the criminal justice system, such as the collection and dissemination of crime rates in a transparent manner.

More generally, the OQR will continue to support Israeli-Palestinian cooperation in the security and justice sectors, including, in particular, by facilitating the work of the Joint Legal Committee. The OQR will assist efforts to expand the capacity of the relevant PA justice-sector institutions to engage more effectively in this process. It will also encourage expanded cooperation by Palestinian and Israeli authorities in the investigation and prosecution of crimes that cross their areas of operation.

#### **7) PA Fiscal Support**

The PA is confronting an acute fiscal crisis in 2012 due to shortfalls in donor financing in 2011 and lower-than-anticipated budgetary revenues from a slowing Palestinian economy. The stock of arrears accumulation is extremely high and the local PA debt exceeds USD 1 billion. This combination of factors has obliged the PA to adopt an austerity plan and provides it with little room for manoeuvre short of an immediate and substantial infusion of direct budgetary assistance from international and regional donors.

Since September 2011, the QR and the OQR have worked on four different levels to help shore up the fiscal position of the PA under the leadership of Prime Minister Salam Fayyad: (i) intervening repeatedly with the Israeli leadership over the resumption of the transfer of clearance revenues following their disruption in September 2011; (ii) meeting US Government representatives and members of the US Congress to advocate the continuation of US assistance to the PA; (iii) engaging regional donors on a continual basis about the importance of extending immediate budgetary assistance to the PA; and (iv) helping to persuade the Israeli leadership to reconvene the joint Ministry of Finance (MOF) meetings related to revenue capture over the last two weeks in support of the PA.

#### **Next Steps**

With respect to PA fiscal support, the QR and the OQR will focus their efforts on two critical areas: (i) securing early budget support from regional donors to give the PA more fiscal space; and (ii) ensuring the continuation of the transfer of Palestinian clearance revenues and the joint GOI-PA consultations on ways to enhance these revenues. An achievement in the first area will enable the PA to reduce its arrears accumulation and pay down its sizable stock of local debt.

#### **Conclusion**

This OQR report provides a summary update of key OQR work program activities and milestones since September 2011 and a preview of the OQR priorities for the remaining part of 2012. The report also includes an introductory message from the Quartet Representative, Mr Tony Blair, in which he reemphasizes the importance of catalysing positive economic change on the ground in the West Bank and Gaza Strip while continuing the pursuit of credible political negotiations between Palestinians and Israelis. This OQR agenda is all the more important in light of the severe fiscal crisis gripping the PA, which stands to undermine the policy reform process and state-building agenda of Prime Minister Salam Fayyad.

In view the fiscal crisis and ongoing constraints affecting private sector growth (energy crisis in Gaza, limited development of Area C, hampered trade flows in the absence of modern scanning facilities), the OQR will focus its agenda on four main priorities: (i) working to solve the short- and medium-term energy problems of the Gaza Strip in coordination with the PA, the GOI and the Government of Egypt; (ii) enhancing Palestinian overseas trade flows with the Arab world and Asian countries by containerizing the commercial crossing at the Allenby Bridge/King Hussein Crossing;

(iii) promoting the development of Area C through integrated community-driven masterplanning; and (iv) working to shore up the fiscal situation of the PA by helping to mobilize direct donor assistance and tracking the progress of the joint MOF-MOF meetings to enhance clearance revenues for the PA.

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