



OFFICE OF THE QUARTET REPRESENTATIVE (OQR)

Report for the Meeting of the Ad Hoc Liaison Committee

**Reinvigorating Palestinian Economic Growth
and Institution-Building**

23 September 2012, New York

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AHLC REPORT: September 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 Palestinian economic growth and institution-building since the previous Ad Hoc Liaison Committee (AHLC) meeting in March 2012.

Message of the Quartet Representative Tony Blair

This AHLC meeting comes at an exceptionally important time for the Palestinian National Authority (PNA) in its efforts to boost economic growth, create jobs and continue building its institutions in preparation for eventual independence and statehood. Despite impressive reforms implemented by Palestinian Prime Minister Salam Fayyad and important development progress achieved on the ground, overall trends in 2012 are intensifying the economic and political vulnerabilities of the PNA. These trends include a general economic slowdown, a rise in Palestinian joblessness, a severe fiscal crisis, an increase in social protests in the West Bank, regional instability and a stalled political track between Israel and the Palestinians on permanent-status issues.

As part of a countervailing push to address these challenges, all parties must make renewed and concerted efforts to assist the PNA in overcoming its fiscal predicament and to help reinvigorate economic growth rates in the West Bank and the Gaza Strip. The former can be addressed through immediate donor assistance from regional and international donors, while the latter can be encouraged through greater measures to ease trade and access restrictions on Palestinian products, services, labour and investment. Such a push to bolster the macro-fiscal outlook of the PNA in 2012-2013 must be accompanied by a transformed political process leading to credible permanent-status negotiations between the Israelis and the Palestinians. Without such progress on both fronts, faith in the two-state solution will diminish in the years ahead.

Going forward in 2012-2013, efforts to support PNA development priorities must focus on a range of short- and medium-term measures, including: (i) shoring up the fiscal position of the PNA; (ii) accelerating Palestinian private-sector development and enhancing labour mobility; (iii) promoting the implementation of critical infrastructure in Gaza in the energy, water and sanitation sectors; and (iv) promoting greater access to natural resources in Area C and in the Mediterranean Sea.

Apart from immediate and sustained budget support from donors, particularly those from the region, the fiscal position of the PNA would also be strengthened by internal reforms to reduce spending and the swift implementation of the recent Israeli-Palestinian arrangement to reduce leakage in fiscal revenues. A more sustainable macro-fiscal framework, in which donor reliance is reduced to a minimum, will emerge only through rapid and broader private sector development. Measures to propel the private sector forward in a sustained way should include Israeli approval of the sale of Gazan products in West Bank and Israeli markets, implementation of containerisation at the Allenby Bridge, reductions in Israeli restrictions governing 'dual-use' items important for manufacturing, facilitation of external investment in the West Bank, and the provision of greater access to Israeli markets by West Bank manufacturers and skilled labour.

In terms of critical infrastructure in Gaza and expanding access to natural resources, all efforts should be exerted to support the implementation of the energy-expansion projects, the large sanitation projects and the Palestinian initiative, backed by the Union for the Mediterranean, to establish a large desalination plant in the Gaza Strip. The desalination initiative, which is absolutely critical for providing Gaza with potable water and for saving the coastal aquifer, will require substantial international financing of approximately USD 400 million.

As for access to natural resources, development of the Palestinian gas field in the Mediterranean Sea must move forward rapidly following the Israeli decision to allow this significant energy project to proceed. Implementing this project would send a positive signal to Palestinian and overseas investors; and would have a transformative effect on PNA fiscal revenues within a few years. Similarly, improved access for economic projects in Area C in the West Bank (industrial parks, housing projects, quarries, agricultural farms), in addition to moving ahead with fast-track Area C social projects and development planning, would play a positive role in supporting the ground-up development agenda.

Looking ahead to 2013 and given the numerous uncertainties in the region, it is profoundly important to maintain momentum behind the state-building efforts of the PNA, in both economic and political terms. Continued and increased support of the ground-up agenda must be reinforced by a political process leading to serious permanent-status negotiations between Palestinians and Israelis.

Key OQR Activities since March 2012

The OQR work programme since March 2012 has focused on a wide range of efforts to support the Palestinian economy, the PNA fiscal situation and the institution-building objectives of Palestinian Prime Minister, Salam Fayyad. Within this work programme, seven OQR activities merit highlighting.

Supporting the Development of the Palestinian Gas Field, ‘Gaza Marine’, in the Mediterranean Sea - The OQR helped facilitate Israeli Government approval for the development of the Palestinian gas field, ‘Gaza Marine’. This gas field, once developed, will support the energy requirements of the PNA and will generate significant fiscal revenues for the Palestinian Ministry of Finance. The private partners are now in high-level discussions with the PNA and the Government of Israel (GOI) about development options for the gas field.

Working to Expand Trade Flows at the Allenby Crossing and the Karam Abu Salem/Kerem Shalom Crossing - The OQR continued to work closely with the Government of the Netherlands (GON), the PNA, the GOI, and the Government of Jordan (GOJ) to advance work related to the Dutch donation of modern scanners for use at the Allenby Bridge between the West Bank and Jordan and at the Karam Abu Salem/Kerem Shalom Crossing between Gaza and Israel. These scanners, once installed, are expected to boost Palestinian trade flows.

Revenue Arrangement between the PNA and the Government of Israel - The PNA and the GOI recently agreed an arrangement to help minimize fiscal leakages in the revenue-clearance system currently administered by the GOI. This arrangement covers the areas of VAT and customs valuation and collection, information exchange and the building of new infrastructure for the transfer of petroleum to the West Bank. The OQR supported this arrangement at a high level and has participated in technical discussions within the PNA.

Supporting Palestinian Communities in Area C - The OQR pursued efforts to expand Palestinian schools and clinics in Area C, in close coordination with the Office of the US Special Envoy for Middle East Peace (SEMPEP) and the UN Special Coordinator’s Office (UNSCO). A first package of schools and clinics was negotiated with the GOI in February 2011, and a second package pursued by the US SEMPEP and UNSCO, consisting of 14 schools and clinics, was given Israeli approval on August 30, 2012. Joint efforts are underway to secure the necessary funding.

Access to the Jordan Valley and into Jericho through the Northern Access Route - As part of its movement and access agenda, the OQR advocated the easing of movement and access restrictions for West Bank residents travelling to and from the Jordan Valley; and for all Palestinian residential and business traffic wanting to travel in and out of Jericho through

the northern access route. Prior to the month of Ramadan in 2012, the GOI announced that it would significantly reduce the travel restrictions regarding checkpoints leading to the Jordan Valley, and that it would unblock the Northern Jericho access route.

Expanding Export and Transfer Flows from the Gaza Strip - After the Israeli decision to allow in a broader range of imported items into the Gaza Strip in 2010, the OQR worked on inducing further change in Israeli policy toward Gaza by allowing Gazan products to be sold in external markets. Such an Israeli decision was taken in February 2011 but the West Bank and Israel were not included in the decision. Over the last year and a half, some Gazan exports have indeed travelled abroad, but in limited quantities given the traditional reliance of Gazan exporters on West Bank and Israeli markets. In the last year, the OQR advocated consistently for allowing the sale of Gazan products in their traditional markets (West Bank and Israel). The GOI recently approved a PA order for school furniture from Gaza and indicated that a more expansive policy allowing private-sector trade between the West Bank and Gaza Strip could be considered in the near future.

Expanding Palestinian Access to the Israeli Labour Market - In recent months, the OQR has pressed for greater access by Palestinian workers to the Israeli labour market. In July 2012, the GOI issued an extra 5,000 work permits (in addition to the 5,000 in February 2011) and is now also considering issuing another 5,000 work permits in September 2012. Greater access to the Israeli labour market helps alleviate the large unemployment problem, particularly among youth, in the short term and improves overall living conditions.

OQR Work Programme: Activities and Looking Ahead

PART A: Fostering Private-Sector Development, Movement and Access, Trade Facilitation and Infrastructure Development

1) Private-Sector Development

Unlocking the potential of accelerated private-sector development is essential to reverse the current slowdown in the Palestinian economy, and will be the key driver of Palestinian economic growth in the future. In the area of private-sector development (PSD), the OQR continues to focus on three main components: (i) promoting competitive business clusters, including tourism, stone and marble and information and communications technology (ICT); (ii) catalysing change in the Palestinian business, trade, labour and investment environment as well as promoting exports; and (iii) supporting the implementation of large economic projects in the areas of industry and housing.

Since March 2012, OQR PSD activities have focused on the following:

Strategic Business Clusters - The OQR worked closely with key stakeholders to support the Palestinian stone and marble industry and the tourism sector. In stone and marble, this involved obtaining Area C permits for quarries, working through regulatory issues governing environmental standards, and focusing in particular on the situation of the quarries in the Beit Fajjar area in the West Bank. The work on stone and marble was coordinated closely with the Palestinian Union of Stone and Marble (USM), the Italian Consulate and USAID, and focused on supporting the establishment of a Stone Export Consortium of eight leading Palestinian companies. In cooperation with the USM, the OQR developed options for easing the export of gravel and stone and marble products.

In the area of tourism, the OQR focused on: improving the access of tourists to the West Bank through the Jalameh Crossing along the ‘Nativity Route’; and monitoring the general ease of access to Bethlehem. The OQR is also supporting Palestinian private-sector initiatives to increase tourist overnight stays in Palestinian hotels, not only in Bethlehem and Jerusalem but also in Ramallah, Nablus, Jenin and elsewhere. The OQR continues to support the implementation of the PA-led Bethlehem Masterplan.

Labour and Investment Climate Promotion - As part of its efforts to support the Palestinian labour market, the OQR continued to work closely with the GOI, the Palestinian Ministry of Labour and the Israeli Contractors’ Union to facilitate the issuance of work permits for Palestinians in Israel. In July 2012, as mentioned above, the GOI approved the issuance of 5,000 new work permits for Palestinian labourers. It has indicated that another 5,000 work permits are under consideration. To promote the investment climate, the OQR continued to support the efforts of the PA Ministry of National Economy to develop the Palestinian National Plan for legislative and institutional reform. This work is being done in preparation for applying for observer status and eventual accession to the World Trade Organization (WTO).

Iconic Economic Projects - The OQR continued to work closely with the PA Ministry of National Economy and donors to promote the major industrial park projects in the West Bank, focusing on advancing the establishment of the Jenin Industrial Zone in cooperation with the German and Turkish governments.

Next Steps

The OQR will focus on several key ongoing PSD projects and activities and track the implementation of recently concluded activities. This work will include: (i) working to resolve outstanding issues between the PNA and the GOI in the telecom sector including

the roll-out of the second mobile operator Wataniya in Gaza and the use of 3G technology by Palestinian mobile companies; (ii) continuing to support the PNA in developing its pro-business and pro-trade legislation in preparation for WTO accession; (iii) supporting the work of the Palestinian Stone Export Consortium; (iv) 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; (v) facilitating the marketing of Palestinian goods in East Jerusalem, and the exports of Palestinian products; (vi) continuing to support the establishment of the Jenin Industrial Zone; and (vii) facilitating the issuance of larger numbers of work permits for Palestinians in Israel.

2) Movement, Access and Trade Facilitation

The ability of people to move freely and to trade in goods and services more freely is a core element of the OQR development agenda. PNA officials in the West Bank are constrained in their ability to conduct routine activities such as policing, providing services, and maintaining infrastructure. Movement and access limitations limit implementation in nearly every area of work that the OQR attempts to address. The focus of the movement and access agenda is to improve access within the West Bank; between the West Bank, Gaza and Israel; and between the West Bank, Jordan and the wider world. The movement and access agenda focuses on commercial activity between areas of the PNA and Israel, while trade facilitation refers to commercial activities with overseas markets.

Since March 2012, key OQR activities and milestones include:

Implementing Agreements to Containerize Trade at the Allenby Bridge Crossing between the West Bank and Jordan - In February 2012, the OQR worked closely with the Government of the Netherlands (GON) to see that agreements were reached between GON and the GOI as well as between the GON and the PNA to allow for the containerization of the commercial crossing at the Allenby Bridge between the West Bank and Jordan. The GOI agreed to provide infrastructure at Allenby, and the GON agreed to provide a container scanner. The OQR has been in regular contact with the Government of Jordan (GOJ), which is willing to adapt its services on the Jordanian side of Allenby to cope with containerized trade. Since February 2012, the OQR has worked with the GON toward implementation of these agreements.

Promoting Gazan Exports of Garments and Vegetables to Foreign Markets - The OQR has engaged with a variety of actors to ensure that two shipments of garments and a volume of produce have been exported to Europe. Securing demand for Gazan exports in new markets, away from the traditional ones in the West Bank and Israel, is difficult, given the absence of reliable business contacts, the wage differential with most nearby markets, and the lack of Gazan business experience in exporting to third markets.

Improvements in the Development and Application of Palestinian Food-Safety Standards - Effective food-safety standards provide the legislative and regulatory background for authorities to ensure that plants and animals used in food production, and the production process, result in food that is healthy and safe to eat. This ensures the safety of consumers and allows for food products to be accepted as exports by other countries. Since March 2012, close cooperation has continued between the OQR, relevant PNA and GOI Ministries, donors and implementing agencies, and the UN to improve the regulatory and technical capacity of the PNA in this area.

West Bank Movement - An ongoing area of work for the OQR is improving the internal movement of goods and people within the West Bank. Since March 2012, the northern Jericho roadblock has been removed and the regime at northern Jordan Valley road blocks has been reduced in severity. The consequence of the northern Jericho change has been the reopening of the former northern entrance to the city, leading to better access to and from the city, primarily for agricultural workers and goods. The change at northern Jordan Valley checkpoints means that Palestinians who are not resident in the Valley east of the checkpoints can now drive vehicles across the checkpoints. Passengers still have to get out of the vehicle and cross through a pedestrian lane, but overall there is increased access for Palestinians, primarily agricultural workers, and goods vehicles between Nablus, Jenin and Tubas and the Jordan Valley. The North Jericho change also improves access greatly for tourist buses to and from the city.

Dual-Use Lists/Israeli Standards - Several different lists of goods deemed to be capable of being turned into weapons (“dual use”) are applied by the Israeli army to the movement of goods into Palestinian territory. In addition, many goods need to meet Israeli industrial, telecommunications or health standards. The OQR has been pressing for some time to have the dual-use lists reviewed to make them more transparent and reliable, and to reduce the over-inclusiveness with which they were written. In both areas (dual-use and standards), the administrative process is slow, opaque to Palestinian importers, and unpredictable: all factors that cause significant additional expense to importers.

Next Steps

During the next 6 months, the OQR will maintain some of these priorities while establishing new activities to improve access and movement for individuals and goods. A high priority will be to improve trade from Gaza to the West Bank and Israel. Currently, the only trade between the two parts of the Palestinian territory is from the West Bank to Gaza. The reverse is not permitted, despite the West Bank market having been central to the Gazan economy in the past. The GOI has promised previously to allow certain specific shipments to go to the West Bank from Gaza, but this commitment has not yet been fulfilled. The OQR will work with GOI authorities and the PNA to ensure that all barriers to this trade are minimized and that trade is restored to close to its previous volume as soon as possible.

To expand trade from the West Bank and Gaza Strip to outside markets, the OQR will continue to work with the GON to press for urgent progress in the development of infrastructure and the installation of the Dutch-donated container scanner at the Allenby Bridge. Palestinian businesspeople are keen for this measure to be implemented, as they anticipate a significant boost to trade when it is installed and is in operation. The OQR will also continue to work with various implementers and donors to improve the preparedness of Palestinian businesses to meet the demands of new markets regionally and across the world. Once started, the OQR will track closely the containerization of trade at the Allenby Bridge to ensure that it is implemented fully and is effective. The OQR also plans to work with all three authorities (PNA, GOI, GOJ) responsible for operating the passenger section at the Allenby Bridge to promote cooperation between the authorities and integration of some services to reduce costs and improve passenger flow.

The issue of the procedures used for dual-use items and industrial standards rests with the Israeli security establishment. The OQR has, at various times, raised this issue and has received undertakings that the situation would be improved. The OQR will continue to provide feedback to the Israeli authorities on ways in which these processes cause delays and expense for Palestinian traders.

The OQR's work that has been conducted on food safety standards will continue in close liaison with the Food and Agriculture Organization (FAO), the relevant Palestinian and Israeli Ministries, donors and the private sector. A technical mission on sanitary and phytosanitary standards will be in the region in September 2012 and is expected to result in a clear programme that the PNA can carry out, with support, to move toward an internationally recognized system for food safety. This system would involve the development of effective regulatory activities in laboratories and on Palestinian farms.

In the past 18 months tourism access within the West Bank has improved, with the opening of more checkpoints to Bethlehem and, as mentioned above, of the northern Jericho roadblock. In the next months, the OQR will work with members of the Palestinian and Israeli tourism industries to conduct a survey of tourism operators' access difficulties. This survey will include a focus on measuring the improved tourist access at Jericho, as well as seeking hard data on the problems that are reported to occur elsewhere, such as at Jalameh Crossing in the northern part of the West Bank.

3) Infrastructure Development

Effective national infrastructure is critical for the delivery of public services and for spurring economic development, and this is particularly the case in the West Bank and the Gaza

Strip. Such national infrastructure includes water and energy, sanitation networks, roads, housing, and telecommunications.

Since March 2012, OQR work has focused primarily on the following areas:

Supporting Large-Scale Infrastructure Projects in Gaza - The OQR continued to work 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 (NGEST), Gaza power plant). The OQR also supported preparatory work by the Palestinian Water Authority and the Union for the Mediterranean related to the planned Gaza regional desalination project, which is expected to start operations in 2017 and will address the medium and long term water problems of Gaza.

Energy Infrastructure - The Gaza Strip continues to face a crippling energy deficit, reaching 65 per cent of current demand. Short-term problems with fuel supplies for the local power plant in Gaza have caused the plant to shut down, adversely affecting households, businesses and the provision of basic services to the local population. The OQR is consulting the PNA, the GOI and the Government of Egypt (GOE) on ways to reach a sustainable solution to the on-going electricity shortage. In the West Bank, the OQR supported the start of implementation of the agreement signed in February 2012 to construct four new electrical sub-stations between the PNA and the Israel Electric Corporation (IEC). This project will upgrade the quality of the electricity transmission network and is financed by the European Investment Bank (EIB).

Development of the Gaza Marine Gas Field - The OQR has worked closely with the GOI and the PNA to facilitate discussions between the partners on the development of the Palestinian offshore gas field, 'Gaza Marine'. This gas field, once operational, could provide the PNA with a large proportion of its energy supply and would have significant implications for the Palestinian economy and PNA fiscal revenues. In recent weeks, the GOI has reiterated its readiness in principle to support this project, and, as mentioned above, the OQR is involved in high-level discussions to move this strategic project forward.

Next Steps

In the coming months, OQR will continue its work on strategic PNA infrastructure issues. It will work with the Palestinian Water Authority and the Union for the Mediterranean to garner international and GOI support for the regional desalination project. The OQR will also continue to work on sustainable solutions for the energy situation in the West Bank and Gaza. The development of the Gaza Marine gas field remains a high priority for OQR, and it will continue to facilitate high-level decision-making and implementation as requested by the involved parties.

PART B: Promoting Accelerated Development in Geographic Focus Areas

4) Area C Development

The development of Palestinian communities in Area C continues to be confronted by various restrictions, most notably a limiting planning regime. The absence of adequate masterplans for the majority of communities in Area C is also the main challenge facing Palestinians in obtaining Israeli-issued building permits. This situation leaves many individuals with little alternative but to build without a GOI permit, leaving them at risk and vulnerable to displacement. During the last six months, the OQR has continued to engage the GOI on these matters, asking in particular that the GOI process and adopt community-based masterplans currently being discussed between the relevant community representatives and the Israeli Civil Administration (ICA). These participatory community-based masterplans are expected to enable the retroactive formalization of countless structures facing demolition orders, and to allow the vital economic and residential development of these communities.

Since March 2012, the OQR has focused primarily on the following areas:

Support for Basic Service Infrastructure - Following the OQR-SEMEMP-negotiated agreement in February 2011 with the GOI to fast-track permits for a number of PNA-identified priority health and education projects in Area C, the OQR and SEMEMP continued to support the UNDP and USAID in their efforts to secure the permits at the technical level. Eight of the fifteen the projects have already been completed, with good progress related to the remaining projects, including some near completion.

Building on this experience, the OQR is supporting the on-going efforts of the UN and SEMEMP to advance another package of identified priority social infrastructure facilities, to be implemented per the February 2011 package permitting timelines. Following a needs assessment carried out by the PNA and respective UN agencies (UNESCO and WHO), 19 schools and clinics have been identified. The GOI has now approved 14 of these facilities. The OQR encourages donors to fund these priority projects.

Support for Planning Initiatives - Together with key partners, the OQR has continued to address the current planning framework. Existing planning processes need to become more responsive to the developmental needs of local Palestinian communities. To reach this goal, the OQR has supported the efforts of these communities to draw up masterplans that reflect local development needs. Thirty-two Palestinian communities in Area C have already developed such plans and submitted them to the ICA for consideration. The OQR has worked to engage the GOI to ensure that planning activities are participatory and based on the needs of local communities in the West Bank.

Support for Private and Agricultural Sector Development - Many sectors in the Palestinian economy rely on access to resources in Area C. The OQR has therefore 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.

The OQR is also supporting UN efforts to develop and advance a series of agricultural projects, in alignment with the PNA's national agriculture strategy. Agriculture is the backbone of economic activity for most of the primarily rural Area C communities, and it has the potential to generate significant employment. Crucial to tapping this agricultural potential will be the rehabilitation of water wells and reservoirs.

Next Steps

In the coming months, the OQR will track 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 (all 32 community-based masterplans submitted since July 2011 are still awaiting 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 press the GOI for an effective moratorium on demolitions.

5) The Gaza Strip

Around forty per cent of the Palestinian population – approximately 1.7 million people – live in Gaza, in difficult living conditions. Extreme overcrowding (Gaza has one of the highest population densities in the world), poverty, unemployment, damaged infrastructure and economic restrictions are major humanitarian and development challenges. Around one-third of the population lives below the poverty-line, and less than 10 per cent of the drinking water meets World Health Organization standards. There is also a chronic shortage of electricity in Gaza, of 30 to 50 per cent of actual demand.

The OQR has continued to address these challenges in the Gaza Strip, along with partners, in an effort to improve the daily lives of Gazans. The strategic goal of the OQR is the lifting of all economic restrictions on legitimate business and trade in Gaza.

Over the past six months, the OQR has focused on the following areas:

Private Sector Development - OQR PSD work in Gaza has focused on four activities: (i) the revision of the Gaza dual-use list, which would allow the entry of building materials, raw materials and machinery needed to revive the manufacturing sector and reduce unemployment; (ii) the transfer of Gazan products and produce to their natural markets in the West Bank and Israel, which would bring about faster economic growth than building new business contacts and relationships in third countries; (iii) the regularized entry and exit of cash to and from Gaza and the resumption of correspondent relations between Gazan and Israeli banks, which would revive the effective operation of the legitimate banking sector; (iv) providing assistance to the Gazan fishing sector by facilitating the entry of vital material and equipment and lobbying for the entry of equipment needed for greater competition in the telecomms sector.

Movement and Access - The OQR views movement and access for people and goods into and out of Gaza as a major component of its work on Gaza. This work focuses on: (i) improvements in access for businesspeople from small and medium enterprises, which would create business opportunities and generate new markets; (ii) facilitating travel for individuals requiring technical or business training, which is particularly important in light of the diminishing technical expertise in Gaza as a result of the continued restrictions; (iii) enhancing the range and volume of goods moving into and out of the Gaza Strip through the Karam Abu Salem/Kerem Shalom crossing after the installation of a gantry goods scanner. These developments would reduce costs and improve trade with both natural and new, including international, markets.

Infrastructure Development - Infrastructure projects remain a challenging but essential part of the OQR Gaza agenda. In this area, the OQR has (i) continued to support the mobilization of international resources to provide financing for major infrastructure projects in Gaza, including the Gaza desalination plant; (ii) advocated for the entry of building materials, equipment and machinery for these projects; (iii) facilitated the entry of technical personnel to provide required experience in infrastructure-project planning; (iv) engaged the PNA and the GOI to try to obtain GOI agreement to provide more water to Gaza; and (v) continued to work with the PNA, the GOI and the GOE to find an adequate and long-term solution to the persistent energy shortage in Gaza.

Next Steps

The OQR will continue to focus on this agenda, particularly the large infrastructure projects in the water, waste-water and energy sectors (establishing the Gaza desalination project, advancing completion of the NGEST and Sheikh Ajleen sanitation projects, and providing

Gaza with greater supplies of energy). As mentioned above, the other major focus will be to open up the West Bank and Israeli markets to legitimate Gazan trade in all business sectors.

6) East Jerusalem

The difficult living conditions for Palestinian residents of East Jerusalem are a long-standing social and economic problem. Around two-thirds of these Palestinian residents (approximately 170,000 people) live below the Israeli poverty line and reside in fragmented neighbourhoods. There is an acute shortage of appropriate housing and a deepening crisis in the education sector. There are not enough classrooms for Palestinian children, and due to overcrowding and low-quality environments, school drop-out rates in East Jerusalem are extremely high. The separation of East Jerusalem from its natural business environs in the West Bank has also had a negative impact on economic activity.

Since March 2012, the OQR has continued to work with the private and NGO sectors on the following activities:

Expanding Housing Opportunities - The OQR followed up on high-level discussions with the banking sector and donors to improve the availability of mortgage financing to residents of East Jerusalem. The availability of this kind of financing would enable Palestinian residents to purchase existing housing units on the market and would also promote the development of larger housing projects. As another important activity, the OQR also promoted the efforts of local NGOs to re-zone and plan existing neighbourhoods in East Jerusalem. Such planning would prevent an increase in home demolitions.

Private-Sector Development - In order to promote private-sector development, the OQR has discussed with private-sector representatives ways to improve the business environment in the tourism, real estate, service and ICT sectors in East Jerusalem. These private-sector representatives are working to promote business-to-business contacts with interested investors working in those sectors. The OQR has also been supporting the establishment of a private-equity fund to help finance small and medium-sized businesses in East Jerusalem. The OQR has also promoted major economic projects in coordination with the private sector.

Next Steps

In the next six months, the OQR will continue to work towards expanding housing opportunities for East Jerusalem families by supporting communal planning efforts and working with the banking sector and other parties to extend availability of mortgage financing to Palestinian households in East Jerusalem. The OQR will also continue

discussions with the private sector and work on mobilizing funds for investing in small-to-medium business activity in the city.

PART C: Institution-Building and PNA Fiscal Support

7) Rule of Law

Consolidation of institutional reforms and professionalization of the Palestinian justice and security sectors continued during the recent period, although disputes over the respective mandates of the various justice-sector institutions, coupled with the lack of law reform (due to the absence of a legislative process), fiscal challenges, and Israeli restrictions on PNA law-enforcement operations, all continue to impede progress.

In a demonstration of confidence in the judiciary, the number of Palestinians filing civil suits in the courts continues to grow, while the courts have achieved a case-clearance rate that is among the highest in the world. At the same time, the number of cases pending at the appeals level is steadily increasing. The backlog in judgments pending for execution is growing dramatically; from the beginning of 2009 until the middle of 2012, it tripled from 25,000 to almost 76,000 cases. The Higher Judicial Council has begun to address the problem.

Since March 2012, the OQR has focused on the following activities:

Study on Israeli Restrictions on PNA Criminal-Justice Operations - The OQR partnered with PNA justice-sector officials and the UNDP to develop terms of reference for a study to assess the impact of Israeli restrictions on PNA criminal-justice-sector operations. After the study was commissioned by the UNDP, the OQR provided advisory services and worked with the lead researcher and PNA justice-sector officials to ensure effective execution of the study. The OQR is currently reviewing a preliminary draft based on the first phase of the research.

Palestinian-Israeli Legal Cooperation - The OQR continued to work with the PNA 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. It is noteworthy that the OQR worked with Palestinian and Israeli officials to implement, for the first time since the Oslo Accords, a provision of Annex IV of the agreement providing for cooperation in the arrest and transfer of criminals. Two individuals accused of murder in the PNA were apprehended in Israel and delivered to the Palestinian police for trial in Qalqilya. Led by the Palestinian and Israeli Ministries of Justice, this procedure entailed coordination on the part of the Ministries, public prosecution authorities and the courts.

Mapping Current Police Presence and Operations in Area B - The OQR, working with the USSC, sought and obtained GOI approval for the establishment of a new PNA community police station in Taybeh (Area B). Working with other international partners, including the Dutch government and EUPOL COPPS, the OQR continued to support the establishment of additional stations in Area B in locations requested by the PNA. The OQR continued its work to map PNA police presence and access in the West Bank, in cooperation with EUPOL COPPS, and to examine obstacles to the development of a greater operational presence and effectiveness in Area B. The OQR completed a database to produce an initial set of GIS-based maps of police presence and access for each city and community station.

Additional Justice-Sector Efforts - Following its own analysis, the OQR consulted the Higher Judicial Council, members of the judiciary and key stakeholders on the expanding backlog of court judgments awaiting execution, and advised on potential approaches to address the issue. The OQR also advised the British Government and EUPOL COPPS on the development of a project to address the long-term strategy and mandate of the PNA Ministry of Justice.

Other Security-Sector and Related Entities - The OQR continued to work with the PNA and donor governments to resolve hurdles facing the deployment of the long-awaited PNA Judicial Police, and also continued to monitor and advise on reforms to the PNA military-justice system.

Next Steps

The OQR will continue to work with all parties to expand PNA law-enforcement access and operations within and between areas currently under PNA jurisdiction, particularly with respect to policing, criminal investigations, transport of detainees and evidence. In addition, the OQR's mapping tool for police presence and access in the West Bank will be further refined, in cooperation with the PNA police, by incorporating data on police movement on each road in the West Bank within the GIS tool, to support PNA law-enforcement planning and operational needs and to assist PNA-GOI discussion of access issues.

The OQR will work closely with all PNA justice-sector partners to further strengthen the rule of law, including the long-awaited implementation of the PNA 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 to complete the research study on the impact of Israeli restrictions on the effective functioning of the PNA'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 and advise on: next steps in the implementation of the decision transferring civilian cases from the military courts to the exclusive jurisdiction of the civilian criminal-justice system; efforts to reform the current legal framework of the military-justice system and develop the capacity needed to carry out its functions; the work of the Anti-Corruption Court; and tools to measure progress in the criminal-justice system, such as the collection and dissemination of crime rates in a transparent manner. The OQR will also explore available options for much-needed law reform in the absence of a reconvened Palestinian Legislative Council.

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 aid efforts to expand the capacity of the relevant PNA justice-sector institutions to engage more effectively in this process. It will also assist expanded cooperation by Palestinian and Israeli authorities in the investigation and prosecution of crimes that cross their areas of operation, and in the mutual enforcement of judgments.

8) PNA Fiscal Support

The chronic and deepening fiscal crisis gripping the PNA threatens to derail the Palestinian state-building project and the two-state solution. The fiscal problems arising from a slowing Palestinian economy, shortfalls in donor financing, and liquidity constraints have prompted the PNA to adopt austerity measures in an attempt to bridge the financing gap of USD 400 million for the remainder of the year. This gap could only be filled by new pledges and disbursements by regional donors after the disbursement of expected European and American assistance.

Since March 2012, the QR and the OQR have worked in three ways to support the fiscal position of the PNA under the leadership of Prime Minister Salam Fayyad: (i) supporting the recent GOI-PNA arrangement on revenue enhancement and supporting its implementation at the technical level; (ii) supporting GOI advancing of clearance-revenue funds to the PNA to help mitigate the liquidity crisis; and (iii) engaging regional donors on a bilateral basis about extending immediate budgetary assistance to the PNA.

Next Steps

Looking ahead to the end of 2012, the QR and the OQR will focus efforts on two critical areas: (i) securing emergency funding from regional donors to allow the PNA to fulfil its recurrent financial obligations; and (ii) working with the PNA and the GOI to agree on the operational details of the revenue arrangement and to begin moving ahead with effective implementation.

Conclusion

This AHLC report notes the growing economic and political vulnerabilities of the PNA in light of the prevailing trends and emphasizes the importance to the Palestinian state-building project of reinvigorating both the ground-up agenda and credible political negotiations in 2012-2013.

Given the seriousness and overall risks associated with the current fiscal crisis and the medium-term challenges affecting private-sector development, the OQR development agenda will focus on four overall priorities during the coming period: (i) supporting the efforts of the PNA to overcome its immediate fiscal predicament in 2012-2013 and achieve higher medium-term fiscal sustainability; (ii) working to expand Palestinian access to natural resources through the development of the Gaza Marine offshore gas field and the implementation of social and economic projects in Area C; (iii) enhancing Palestinian trade flows between Gaza and the West Bank and Israel, and expanding Palestinian external trade flows with the rest of the world; and (iv) pressing ahead with the implementation of the strategic energy and water projects for in the Gaza Strip.

Contact: The OQR welcomes contact with partners and stakeholders. Please visit our website at www.quartetrep.org, or email us at info@quartetrep.org.