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**OFFICE OF THE UN SPECIAL COORDINATOR FOR THE
MIDDLE EAST PEACE PROCESS (UNSCO)**

Report to the
Ad Hoc Liaison Committee

Brussels, May 2017

This report of the Office of the UN Special Coordinator for the Middle East Peace Process (UNSCO) builds on the UN's previous reports to the Ad Hoc Liaison Committee (AHLC), which provided an assessment of the efforts of the Palestinian Government toward state-building and an update on the situation on the ground.

The report draws on a variety of sources, including inputs from UN agencies, funds and programmes, as well as published reports that are detailed in the foot/end notes. Before the report is released, it is discussed with the parties.

The reporting period is 15 September 2016 to 15 April 2017, unless otherwise noted. Many references fall outside this period to illustrate relevant trends.

The UN Special Coordinator for the Middle East Peace Process provides a monthly briefing to the UN Security Council on the situation in the Middle East. These briefings provide greater detail on the UN's positions related to the changing political situation.

Previous UNSCO reports to the AHLC and Security Council Briefs can be found at: <http://www.unsco.org>

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List of Acronyms

AMA	Agreement on Movement and Access
AHLC	Ad Hoc Liaison Committee
ARA	Access Restricted Areas
COGAT	Coordination of Government Activities in the Territories
GEDCO	Gaza Electricity Distribution Company
GPP	Gaza Power Plant
GDP	Gross Domestic Product
GRM	Gaza Reconstruction Mechanism
ICA	Israeli Civil Administration
IEC	Israeli Electricity Company
Kv	Kilovolt
MW	Megawatt
NGEST	Northern Gaza Emergency Sewage Treatment Plant
NIS	Israeli New Shekel
NM	Nautical Miles
NPA	National Policy Agenda
PA	Palestinian Authority
PENRA	Palestinian Energy and Natural Resources Authority
PLO	Palestine Liberation Organization
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSCO	Office of the UN Special Coordinator for the Middle East Peace Process
WHO	World Health Organization

Executive Summary

Despite a number of international efforts over the past six months to advance the two-state solution, the reporting period has been characterized by a continued lack of progress on the political front. Contrary to the recommendations outlined in the July 2016 report by the Middle East Quartet, the period has seen a surge in Israeli settlement-related activity and a continued high rate of demolitions in Palestinian and Bedouin communities at risk of forcible transfer in Area C of the West Bank, continuing acts of violence against civilians, signs of a deepening political rift between Gaza and the West Bank, and continued military build-up and firing of rockets by extremist groups in Gaza.

At the same time, renewed efforts to reconcile Fatah and Hamas have failed with signs that the two sides may be drifting further apart. Unable to reach agreement on the holding of municipal elections that would cover both the West Bank and Gaza, preparations are now underway for separate municipal elections in the West Bank. The disputes between the PA and Hamas have aggravated an already difficult situation in the Gaza Strip, due to intra-Palestinian disagreement over electricity, payment of salaries and other critical issues. As a result, tensions in Gaza are, once again, growing.

The increasingly difficult situation in Gaza is further compounded by continued access restrictions. The reporting period witnessed a decline in the number of Palestinians allowed to leave Gaza, including a significant drop in the Israeli approval rates for businessmen, medical patients and employees of international organizations to exit the Strip. The restrictions were further intensified during a ten-day ban by Hamas at the end of March on movement from Gaza to Israel for both Palestinians and internationals. In the West Bank, despite a slight increase in the number of movement obstacles reported in 2016, the period also witnesses a positive shift towards more flexibility in the type of movement obstacles and, significantly, an increase in work permits for Palestinians in the West Bank to work in Israel.

The humanitarian situation remains grave, especially in Gaza, where 1.2 million people need some form of humanitarian assistance in large part due to inadequate basic service delivery, poverty, high food prices, and frequent rights violations. At the same time some 40,000 people remain internally displaced in Gaza, as they wait for their homes to be rebuilt following damages sustained during the 2014 conflict. The situation is aggravated by the critical shortages in electricity, including daily power cuts of 18-20 hours, further impeding the delivery of basic services. Meanwhile, the West Bank is facing a protracted protection crisis due to the coercive environment created by a range of Israeli policies and practices, including the restrictive and discriminatory planning regime. During the reporting period, a key concern has been the risk of forcible transfers and demolition of Palestinian structures, particularly in the vulnerable Bedouin and herding communities in Area C.

The human rights situation across Palestine continues to be worrisome. Use of force by Israeli forces in response to Palestinian attacks, punitive demolitions and a general lack of accountability for past killings and injuries remains significant sources of concern that also erode trust between the parties. At the same time, both Israeli and Palestinian security forces continue the practice of administrative detentions, holding people without charge or trial for indefinite periods of time.

Socio-economic despair, underpinned by the persistent hardships of the occupation, including violations of the law of occupation and fragile democratic institutions, continued to affect stability in the West Bank and to threaten erosion of the achievements of the Palestinian state-building agenda. The institutions of Palestinian governance remain vulnerable to political instability and require affirmative steps to protect and advance state-building efforts. With the finalization of the Palestinian National Policy Agenda (NPA) for 2017-2022 in February, the Palestinian Authority took a significant step towards strengthening its institutions and improving governance, while reiterating its commitment to state-building.

This summer marks ten years since the 2007 Hamas take-over of the Gaza Strip. Over the past decade, the socio-economic and humanitarian developments in the Gaza Strip have been heavily impacted by the Hamas take-over, the Israeli closures, the Palestinian division and the recurrent conflicts. Analyzing the

impact of these developments in Gaza, it is clear that the effects are compounding each other, together causing an increasingly difficult environment for the two million people living in Gaza. Over the last decade, Gaza's infrastructure, basic services and private sector have been gradually debilitated, the Gazan economy has weakened with real GDP per capita and employment decreasing over time and the gender gap continuing to grow. This general state of decay is being further compounded by periodic escalation of hostilities. As a result, there has been a steady deterioration of living standards and an increase in the vulnerability of the Strip's population, which is also further amplified in times of crisis when hostilities have escalated. Gaza is now facing a downward spiral of de-development, while the people in Gaza are caught in a cycle of humanitarian need and perpetual aid dependency.

Amid signs of deepening separation between Gaza and the West Bank, fraying prospects to achieve Palestinian national unity increase the risk for escalation on the ground and further complicate efforts to resuscitate the stalled peace process. The international community has collectively reaffirmed its commitment to support the parties to achieve a just and sustainable peace through the two-state solution. Developments during the reporting period however, especially expansive illegal settlement activity, chronic human rights violations and violence against civilians, threaten to make the two-state solution unviable.

Introduction

To provide the context in which the Palestinian Government's institutional and economic efforts are being pursued, the first section of the report reviews the situation over the last seven months (the reporting period is 15 September 2016 to 15 April 2017 unless otherwise noted). This includes recent advances and the remaining challenges on the ground in the political, humanitarian (including access and movement) and human rights areas. In this regard, the finalization of the National Policy Agenda in February by the Palestinian Authority demonstrates a serious commitment to strengthening institutions and improving governance in the coming five-year period.

The second section of the report provides an analysis of the impact of the Hamas take-over, the Israeli closures, the Palestinian internal divide and the recurrent conflicts on the situation in Gaza during the last ten years. The section provides an overview of the closure regime and the evolution of the Palestinian divide over the last decade. It includes an in depth analysis of trends regarding human rights, access and trade, socio-economic development, basic services and infrastructure including energy, water, health and education. It also provides suggestions on ways in which the international community can work with the parties to reverse the negative trend of de-development.

Marking three years since the end of the 2014 Gaza hostilities, Annex 1 provides a snapshot of the reconstruction efforts to date. This includes an overview of areas where reconstruction gaps remain as well as the need for additional financial support. In addition and in light of the current energy crisis in Gaza, Annex 2 offers a plan for all parties to consider in order to resolve the crisis.

I. Political and Security Context

International efforts to advance the prospects for peace over the reporting period reinforced the collective commitment to the two-state solution and the readiness to support both parties in returning to direct bilateral negotiations to resolve all final status issues. The Security Council on 23 December 2016 adopted resolution 2334 (2016). The resolution, inter alia, reaffirmed that Israeli settlements in the Palestinian territory occupied since 1967 have no legal validity, constitute a major obstacle to a two-state solution, and demanded that settlement activities be ceased. It made clear that any changes to the 1967 lines would not be recognized by the international community without the negotiated agreement of the parties. It also called on the parties to take immediate steps to prevent continued acts of violence, terrorism, and incitement.

On 15 January 2017 in Paris, participants from some 70 countries also reaffirmed a negotiated two-state solution as the only way to achieve a just and enduring peace. They affirmed their readiness to contribute tangibly to establishing an environment conducive to a resumption of negotiations, in particular in the areas of political and economic incentives, the consolidation of Palestinian statehood and civil society dialogue. As a follow up to the conference, interested participants resolved to meet again before the end of 2017 to review progress and to "support both sides in advancing a two-state solution through negotiations".

Despite the practical recommendations proposed by the Middle East Quartet in July 2016 the period witnessed a surge in Israeli settlement-related activity and a continued high rate of demolitions in Palestinian and Bedouin communities at risk of forcible transfer in Area C of the West Bank, continuing acts of terror and violence against civilians, signs of a deepening political Palestinian rift between Gaza and the West Bank, and continued military build-up and firing of rockets by Hamas and extremist groups in Gaza. Overall levels of violence and casualty figures remained relatively low during the reporting period. The continued security coordination between the parties substantially contributed to the maintenance of stability in the West Bank. While Security Council resolution 2334 (2016) called upon both parties to refrain from acts of provocation, incitement, and inflammatory rhetoric, such actions continued during the reporting period.

The reporting period was marked by heightened political tensions within Israel. These centered around the court-ordered evacuation and demolition of the settlement outpost of Amona over 1-2 February 2017 and the 6 February 2017 adoption by the Knesset of a law which could enable the retroactive “legalization” of houses in settlements that were built on land privately-owned by Palestinians in the West Bank. The Attorney General criticized the law as unconstitutional and in violation of international law. Several petitions against the law rest with the High Court of Justice, and its implementation is likely to be halted until the Court rules on its legality.

In this context Israel authorized a major advancement of some 6,000 housing units in Area C settlements. Plans for some 3,000 units were advanced, and plans for over 240 units reached the final stage of approval. In addition, since the beginning of 2017, tenders for around 2,800 housing units were published. No plans were advanced and no new tenders were issued in East Jerusalem. On 30 March 2017 the Israeli authorities declared nearly 1,000 dunams as “state land” and the Government approved the establishment of a new settlement for the former Amona settlers.

During the autumn and winter, within the West Bank, frequent clashes took place in Nablus between Palestinian security forces and residents of the Balata refugee camp and the nearby Old City, causing injuries to both civilians and security personnel, one of whom was killed during an arrest operation in March 2017. These clashes occurred in the context of increased Palestinian law and order operations in-and-around the refugee camp.

Additionally, on 17 April an estimated 1,500 Palestinian prisoners and detainees began a mass open-ended hunger strike to protest their conditions in Israeli prisons, coinciding with Palestinian Prisoner's Day. Thousands of Palestinians across the West Bank protested in solidarity with the prisoners, leading to clashes with Israeli security forces resulting in injuries to over 10 Palestinians.

In Gaza, the security situation remained volatile with the potential for further escalation on the rise. Extremists launched a number of rockets towards Israel without causing injuries or damages. Israel generally responded to the rocket launchings with airstrikes and artillery fire, mainly targeting military positions of Hamas. There were incidents in which IDF fired and conducted incursions into Gaza, while the Israeli Navy continued to enforce a fishing limit, including by firing towards Palestinian boats offshore Gaza.

Municipal elections originally set for October 2016 were postponed at the beginning of October for four months after the Palestinian High Court ruled against the Government’s arrangement for conducting the elections in Gaza. In January, the Palestinian Government established a designated electoral court to resolve the issue of the “illegal” courts in Gaza, as highlighted by the High Court. Hamas rejected this decision and expressed its dissatisfaction with the Government’s failure to hold the municipal elections in 2016. As a result, preparations are underway for municipal elections that are expected to be held exclusively in the West Bank on 13 May 2017, as agreement on the mechanics of holding the elections in Gaza and Ramallah was not reached.

Meanwhile, continuing efforts to reconcile Fatah and Hamas have failed. In October 2016 President Abbas met with Hamas Politburo Chairman Meshaal in Qatar. Subsequently, representatives of PLO, Hamas and Islamic Jihad agreed in a meeting in Beirut in January on the need to start consultations to form a national unity government that would work to implement previous reconciliation deals, end the Palestinian division and prepare general elections. Also in January, Russia hosted Palestinian factions in an effort to advance reconciliation. Despite these meetings, the sides remain unable to reach agreement on achieving genuine Palestinian unity, on the basis of non-violence, democracy and the PLO Principles. In another setback to achieving unity, Hamas established the Administrative Committee, a parallel institution to run local ministries in Gaza on 16 March 2017. The Palestinian Authority (PA) was reportedly not consulted about the move and, in a statement, rejected any formula that administers Ministries in Gaza independently from

the Government of National Consensus. Disputes between the PA and Hamas over responsibilities in Gaza aggravated the electricity crisis in the Strip.

II. Protection and Humanitarian Needs

The humanitarian situation in the oPt continues to be best characterized as a protracted protection crisis. A total of 2 million people were projected to need some form of humanitarian assistance in 2017, with the 2017 Humanitarian Response Plan (HRP) amounting to US\$547 million seeking to assist 1.6 million beneficiaries (1.1 million of whom are in Gaza) with some form of humanitarian protection or relief.

Conflict-related casualties in Gaza remained lower compared to the previous reporting period. Two Palestinians, including a child, were shot and killed by Israeli forces in access-restricted areas (ARA) incidents, and another 49 people, including eight children, were injured. In the West Bank, where the violence that erupted in late 2015 continued at a reduced level, a decrease in casualties was observed of both Palestinians and Israelis compared to the previous reporting period. A total of 36 West Bank Palestinians, including 12 children, were killed in conflict-related incidents in the West Bank and Israel. Twenty-four of the killed Palestinians were perpetrators of attacks or alleged perpetrators of attacks against Israelis. The other casualties occurred during clashes between Palestinians and the ISF in the West Bank. An additional 834 Palestinians, including 229 children, were injured by Israeli forces or Israeli settlers, mostly during clashes. Seven Israelis, including five soldiers, were killed and 49 Israelis, including seven children, were injured in attacks perpetrated by Palestinians.

This year, 1.2 million people in Gaza need some form of humanitarian assistance. In addition to provision of health care, education and water/sanitation due to the inadequacies of these services, key areas of humanitarian concerns include protection, food insecurity and shelter. More than 1 million people in Gaza need some form of intervention in the area of protection. This includes some 200,000 children who require psycho-social support, as well as many others, including medical patients, impacted by restrictions on movement and other rights violations.

Although no new displacement occurred in Gaza during the reporting period, and despite significant progress in reconstruction, nearly 40,000 people still remain displaced from the 2014 Gaza hostilities. No funding has been made available thus far in 2017 for rental subsidies or the provision of temporary homes for non-refugees amongst this caseload, and less than a quarter of the required funds have been made available for refugees in this same situation. An interruption in cash assistance would increase the likelihood of debt accumulation and the adoption of negative coping mechanisms, including a return to damaged or unfinished homes and the subsequent negative impact on safety and living conditions.

Access to electricity also remains a key humanitarian challenge. Electricity power cuts of up to 20 hours per day triggered popular protests in January. While a Qatari-Turkish donation led to a short-term increase in power supply, electricity shortages, including daily power cuts of 12-18 hours across the Gaza Strip, continue to impede the delivery of basic services, especially water supply and healthcare. All 13 hospitals in Gaza, municipality facilities, as well as water and wastewater services continue to be dependent on back-up generators, for which fuel is only available until May 2017 through an emergency fuel operation coordinated by OCHA. With dwindling energy options, coping mechanisms include hospitals in Gaza postponing non-urgent and elective surgeries; increased patient referrals outside of Gaza; households becoming reliant on water trucking from private and uncontrolled suppliers; and wastewater treatment plants curtailing the treatment cycles, thereby heightening the level of partially-treated sewage routinely discharged into the sea. [A proposal to address the crisis is included in Annex 2.] On a positive note, the last known deep-buried aerial bomb left over from earlier rounds of hostilities was removed by the UN Mine Action Service during the reporting period.

In the West Bank, the key concern remains the risk of forcible transfer generated by the coercive environment created in various locations by a range of Israeli policies and practices. These practices include the demolition or threat of demolition of homes, schools and other structures; the promotion of 'relocation plans' to urban townships; restrictions on access to natural resources; the denial of access to basic services; and the lack of secure residency. These measures are often implemented in connection with the establishment or expansion or securing of Israeli settlements in the occupied West Bank.

A key component of this environment is a restrictive and discriminatory planning regime which makes it virtually impossible for Palestinians to obtain a building permit. During the period, the vast majority of demolitions and seizures were carried out on grounds of lack of building permits. Although 2016 overall witnessed the highest rate of demolition of Palestinian-owned structures on UN record since 2009, during the reporting period, there was a marked decline in the number of Palestinian structures demolished or seized compared to the previous reporting period. During the reporting period, 461 structures were demolished, 75% of which are in Area C and most of the remainder in East Jerusalem. As a result, nearly 668 Palestinians were displaced, including 371 children. Bedouin and herding communities in Area C remain the most vulnerable.

Data for 2016 suggests that approximately 91% of applications for building permits in Palestinian communities in Area C were rejected. To date, 113 community-driven outline plans for about 191,000 Palestinians in 121 communities in Area C have also been prepared. Out of the 94 submitted plans, only five have been approved by the Israeli Civil Administration (ICA), and 71 outline plans have been pending for more than 18 months. Following these approvals, the cumulative area covered by plans approved by the ICA, where Palestinians can legally build, is less than 1% of Area C. In contrast, some 16% of Area C has been allocated for settlement development (the municipal boundaries) and approximately half of that area, 8% of Area C, is covered by a plan and pre-approved for settlement construction.

Access and Movement

Restrictions on movement and access continue to infringe on Palestinian rights, impede access to services and resources, undermine livelihoods and have a serious impact on the economy generally. The number of Palestinians allowed to leave Gaza by the Israeli authorities via the Erez Crossing has been in decline over the reporting period. A 37% decline was recorded in the number of exits by Palestinians compared to the 2016 monthly average. In particular, the number of business people exiting Gaza in 2016 fell by 20% compared to 2015. In December 2016, less than 42% of permit applications for Gaza-based patients who needed access to medical care outside Gaza received Israeli permits, marking the lowest approval rate recorded by WHO since 2009.

Among the UN's Gaza-based staff, 34% of permit applications to exit Gaza were also denied during 2016 - in contrast to the average 3% of denied permits in 2015. Since September 2016, almost half of the permit applications for Gaza-based national staff working with international organizations have been denied or ignored.

At the end of March, Hamas imposed a ban for ten days on the movement from Gaza to Israel of Palestinians and internationals. During this additional closure, fishing was also prohibited, undermining the livelihoods of some 1,500 fishermen's families already affected by the six-mile access limit imposed by Israel. In addition, 111 patients were denied exit from Gaza to Israel by Hamas, and therefore had to reschedule their medical appointments and reapply for Israeli permits.

The Rafah Crossing has been open at least once every month during the reporting period. A total of 35,174 humanitarian cases, pre-registered Gaza individuals and pilgrims travelling to and from Mecca exited Gaza through the crossing during the reporting period.

The revenue from agricultural exports and transfers from Gaza nearly doubled to \$13.7 million during the reporting period and the equivalent period in 2015/2016. In March 2017, 372 truckloads of goods exited

Gaza via the Kerem Shalom Crossing. This is a 109% increase compared to the monthly average in 2016 (178), but remains 61% below the monthly average during the first half of 2007 (961).

As of the end of 2016, OCHA recorded 572 movement obstacles inside of the West Bank (excluding Hebron city and flying checkpoints). While this represents a slight increase compared to the previous year there has been a further shift towards more flexible obstacles, which can be opened or closed depending on the circumstances, including the replacement of roadblocks with road gates.

In a positive step, over the reporting period, the ICA increased the quota of work permits provided to Palestinians from the West Bank to work in Israel from 74,400 to 81,500. In the West Bank, a total of 200 business people and 260 medical practitioners were granted permission by Israeli authorities to enter Israel in their Palestinian-plated vehicles in April 2017. This measure was granted after 100 Palestinian doctors were granted permission two years ago. This measure marks the first time Palestinian business people are granted permission to drive in Israel since the second intifada in 2000.

Over the past six months, 440,000 tons of cement were imported into Gaza through the temporary Gaza Reconstruction Mechanism (GRM). This is a significant increase over the 308,000 tons imported in the previous six months period, which was characterized by the six week suspension of private cement imports and the subsequent ceiling of 90 trucks per day through the GRM. The increase is result of an agreement reached in December 2016 to increase the ceiling to 100 trucks per day. This increase was quickly absorbed by the market in Gaza, indicating that the legitimate demand for cement remains high. Meanwhile, import of ‘dual-use’ items, other than cement and re-bar, remains highly curtailed. Over the past six months, only 791 such items were approved through the GRM. This is only slightly down from 865 items in the previous months (second and third quarters of 2016), but a significant drop from the six month period before that, during which 3,718 such items were approved.

III. Human Rights Situation

Concerns remain over the use of force by Israeli forces in response to Palestinian attacks. Since September 2015, only one Israeli soldier has been indicted for the deliberate killing of an unarmed and wounded Palestinian, receiving an 18-month sentence after having been found guilty of manslaughter. The Israeli practice of penalizing persons for acts that they did not commit and for which they are not responsible – a practice contrary to international humanitarian law – continued during the reporting period. From 15 September 2016 to 15 April 2017, at least six family homes of Palestinians who carried out attacks on Israelis were demolished on punitive grounds, resulting in the forced eviction of 19 persons, including 14 children. On 8 January 2017, a Palestinian man from Jabal Mukabber carried out a ramming-attack in Jerusalem, killing four Israeli soldiers. On 26 January, eleven of his family members had their residency status in East Jerusalem revoked. In the wake of the attack, the Jerusalem Municipality further distributed warning notices related to “planning and zoning violations” against approximately 80 buildings in the Jabal Mukabber area. A preliminary assessment carried out by OCHA indicates that up to 240 households (approximately 1,200 people) living in the targeted buildings may be subjected to displacement if demolitions are carried out.

Statistics relating to detention of Palestinians – including children – detained by Israel, have not been provided by the Israeli Prison Service since May 2016. At the end of March 2017, an estimated 550 Palestinians were held in administrative detention. The practice of some detainees resorting to hunger strikes to seek an end to their administrative detention continued.

The Palestinian Independent Commission on Human Rights reported 46 orders of administrative detention by the Palestinian security services from January 2017 to Feb 2017, which constitutes more than half of the total number issued in the entire previous calendar year. No information has been available on the progress

of results in the official investigation of the reported extrajudicial killing in Nablus Prison, which took place in August 2016.

On 24 March, unidentified assailants shot and killed a commander of Hamas' Qassam Brigades. On 1 April, Hamas announced that it would take severe measures against alleged Israeli collaborators, and later that week conducted three extra-judicial executions of Palestinians convicted of "collaborating" with Israel prior to the assassination.

In the autumn, the Chief Justice of the Palestinian Authority resigned and the appointment of his successor raised concern from political and rights groups on the independence of the justice sector. In addition, the Palestinian Constitutional Court ruled that the Palestinian President has the right and authority to revoke the immunity of any PLC member in the absence of the regular meetings of the Palestinian Legislative Council (PLC). The ruling provoked strong reaction by Palestinian political and rights groups, mainly based on interpretations of the 2006 Constitutional Court Law regarding the legal procedures for Court appointments. In December 2016 the parliamentary immunity of five Fatah-bloc members in the Palestinian Legislative Council (PLC) was reportedly revoked.

The Palestinian Government has continued to demonstrate a commitment to collecting information to contribute to reporting on the seven ratified core human rights treaties. The first report on the Convention on the Elimination of all Forms of Discrimination against Women was submitted on 8 March 2017.

The fate of three Israeli civilians who disappeared in Gaza during the past two years continues to be unknown. So far, Hamas has not released any information on their status or on the remains of two Israeli soldiers who are missing in Gaza since the 2014 hostilities.

IV. Gaza: 10 years of division and closures

i. Contextual Developments

This year marks ten years since the June 2007 violent Hamas take-over of the Gaza Strip and the subsequent Israeli decision to intensify the closures on Gaza. This section of the report analyzes the impact of these developments on the socio-economic and humanitarian situation in the Gaza Strip. The fact that Gaza is controlled by Hamas and is beyond the reach of the legitimate Palestinian authorities combined with the movement and access restrictions, an internally divided civil service, circumscribed international assistance and recurrent conflicts have led to the current situation of de-development and increased vulnerability in the Gaza Strip.

Hamas is considered a terrorist group by a number of countries. Its charter is anti-semitic, calls for the destruction of Israel and condones violence. As a result, over the past decade, international humanitarian and development assistance in Gaza has been subject to a number of restrictions on aid delivery and programming. Following the take-over, some partners working in the area of humanitarian assistance shifted activities towards areas which were deemed not to be under Hamas control. Other partners shifted assistance from government-run schools and services to UNRWA schools and services. Significantly, development programmes have been especially impacted due to the nature of development work, which often requires investing in local capacity-building, locally run infrastructure and sustainable programmes in close collaboration with local communities and authorities. Similarly, no-contact policies by certain donors have also - in some cases - prevented coordination with the local de facto authorities. This coordination is often necessary at the technical level for identification of beneficiaries, training of technical ministry staff or strengthening of governance and basic service delivery – all key elements of good practice in providing development assistance.¹

As a reaction to the violent take-over of Gaza by Hamas in June 2007, stringent restrictions were imposed by Israel citing security concerns stemming from continued rocket fire, tunnel construction, terrorist attacks and smuggling. In terms of imports, only ‘basic humanitarian products’ (primarily food, fodder, medical supplies and hygiene items) were allowed in; and a complete ban on exports and transfers of goods to the West Bank led to the closure of 95% of Gaza’s industrial establishment and the loss of 120,000 jobsⁱⁱ. At the same time, Palestinian access to farming land and fishing areas was significantly reduced and restrictions, in place since 2000, on the exit of Palestinians through the Erez crossing were further limited to only include “humanitarian cases”.

The take-over by Hamas also caused a split of the Palestinian civil service, which negatively impacted the delivery of basic services such as in education and health care. Despite the establishment of the Government of National Consensus in April 2014, thousands of government workers in Gaza do not receive their salaries on a regular basis, while some continue to be paid by the PA but are no longer reporting to work. These developments have severely undermined access to health and education for Palestinians in Gaza. The division led to a near complete separation of Gaza from the Palestinian legal and judicial system and the establishment of a parallel system of justice in the Strip.

Amid increasingly difficult living conditions for the people of Gaza, living under Hamas, cut off from relatives in the West Bank, and with limited access to the outside world, the Palestinians in the Strip have also endured three rounds of military hostilities over the past decade. This has resulted in massive displacement and large-scale loss of life and injury. During the same period, Hamas and other militant groups launched 16,000 rockets from Gaza toward Israel and continued to dig tunnels for militant or attack purposes.

The first round of conflict broke out on 27 December 2008 and lasted for three weeks. During this time, nearly 1,400 Palestinians and 13 Israelis were killed and some 60,000 homes were damaged or destroyed, leaving some 20,000 people without a home. The second major escalation in hostilities began on 14 November 2012 and lasted for one week, in which 174 Palestinians and six Israelis were killed. With some 10,000 homes being partially damaged and a few hundred severely so, fewer people were displaced over the longer term following the 2012 conflict, in which 3,000 people were left homeless. The latest and most devastating round of hostilities took place during 51 days of hostilities in 2014, when 2,251 Palestinians and 71 Israelis were killed. At the height of the conflict, half a million people were estimated to be displaced, and as the hostilities subsided, 100,000 people were left without a home.

In addition to the damage and destruction of houses and the resulting displacement of the civilian population inside Gaza, recurrent conflicts have inflicted additional damage to already scarce infrastructure, disrupting services, causing physical and mental trauma. Nearly three years after the latest escalation of hostilities, despite significant progress in the physical reconstruction of damages, many services are yet to be fully restored. Damaged agricultural land – only half of which has been rehabilitated - is years away from yielding a harvest comparable to pre-conflict levels and most of the damaged businesses have been unable to fully resume operations (Annex 1 provides an update on reconstruction following the 2014 hostilities).

After each round of hostilities, donor conferences have been held where substantial pledges have been made to repair damaged homes and infrastructure and promote recovery. At the latest donor conference, held in Cairo in October 2014, US\$3.5 billion was pledged for Gaza. The earlier donor conference at Sharm El-Sheikh in March 2009 garnered \$4.5 billion in pledges.

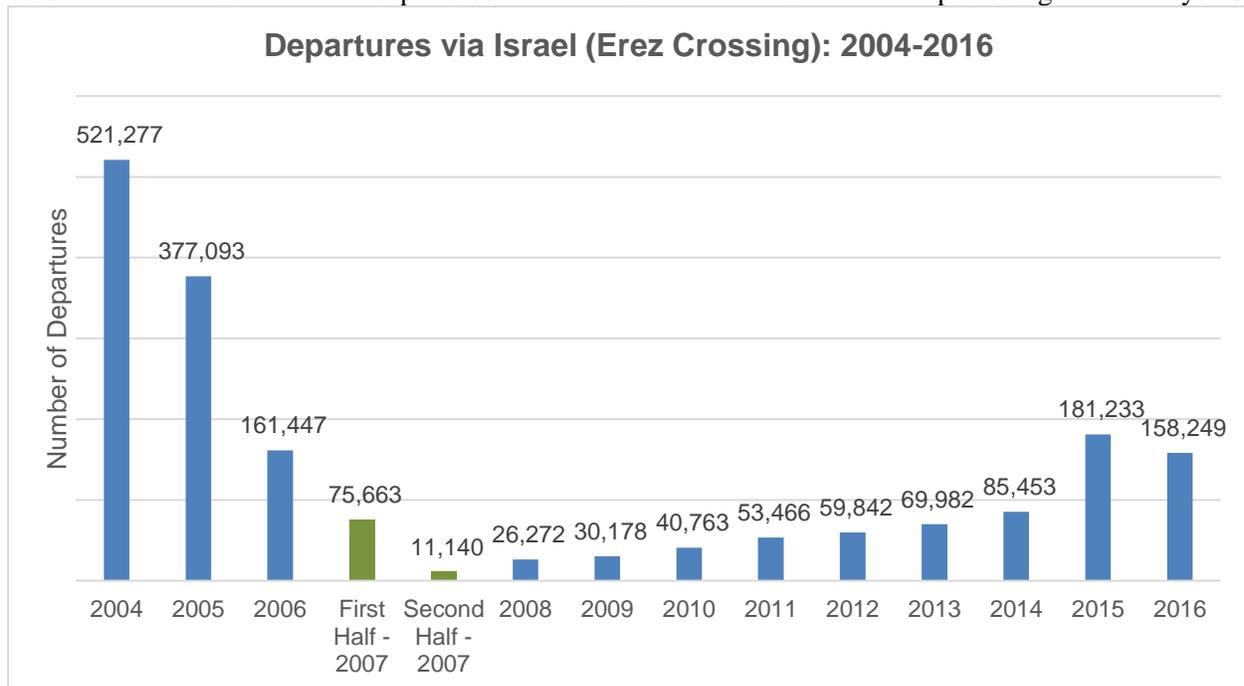
The recurrent focus on reconstruction following each round of conflict has diverted attention and financial support from the longer-term needs of reversing Gaza’s development trajectory in a sustainable manner. Due to the de facto authority of Hamas for the past decade, Gaza has also become one of the most heavily regulated and monitored areas of operation for the United Nations and our partners. As a result, all assistance is weighed carefully against any risk of diversion, service providers are carefully vetted and assistance is being closely monitored, significantly increasing the operational cost of working in Gaza.

ii. Impact on Access and Trade

While the Israeli restrictions on movement of people and goods in and out of Gaza have been gradually eased over the decade, the closures on the Strip continue to significantly impact the daily lives of Gaza's two million inhabitants and the efforts of the international community to implement humanitarian and development projects. Many materials needed for humanitarian and development projects are considered by Israel as having dual civilian and military use and subject to severe import restrictions. These include construction material such as cement and rebar, raw material for the productive sectors, including wood and pesticides, medical equipment and water pumps necessary to deal with seasonal flooding. Despite improvements, particular for cement and re-bar, through the GRM, the import of such items is often rejected or faces significant delays.

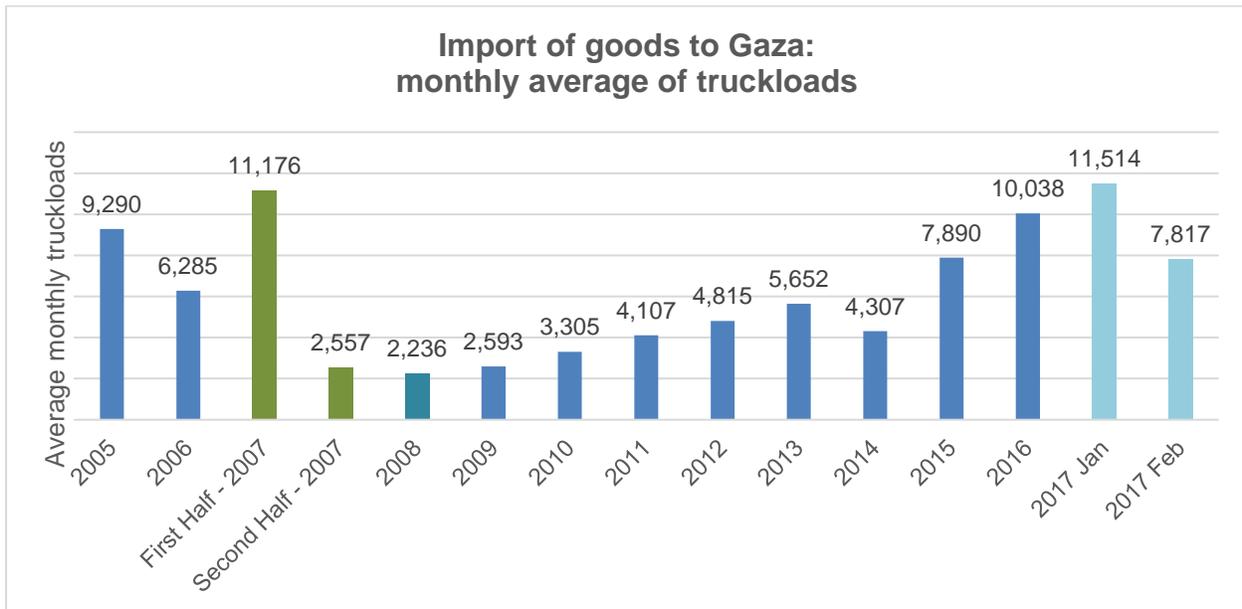
Restrictions on the movement of people and goods in and out of Gaza have a real and tangible effect on all aspects of peoples' lives. Many families are permanently split between Gaza and the West Bank or Israel. Relatives rarely meet except under specific circumstances, such as a death or grave illness. Moreover, Gaza's economy is largely dependent on the Israeli and West Bank markets, where more than 80% of all goods shipped out of Gaza were sold prior to the closure; businesspeople and traders rely on travel to establish and maintain business ties and take advantage of economic opportunities; medical patients rely on treatment only available in the West Bank, Israel or abroad, and Gaza students cannot travel to study in fields offered exclusively in West Bank universities.

Over the past decade, the annual number of departures has gradually increased. The annual average of departures from Gaza over the past two years has returned to close to the same levels as 2006 though far below the departures in the preceding years.

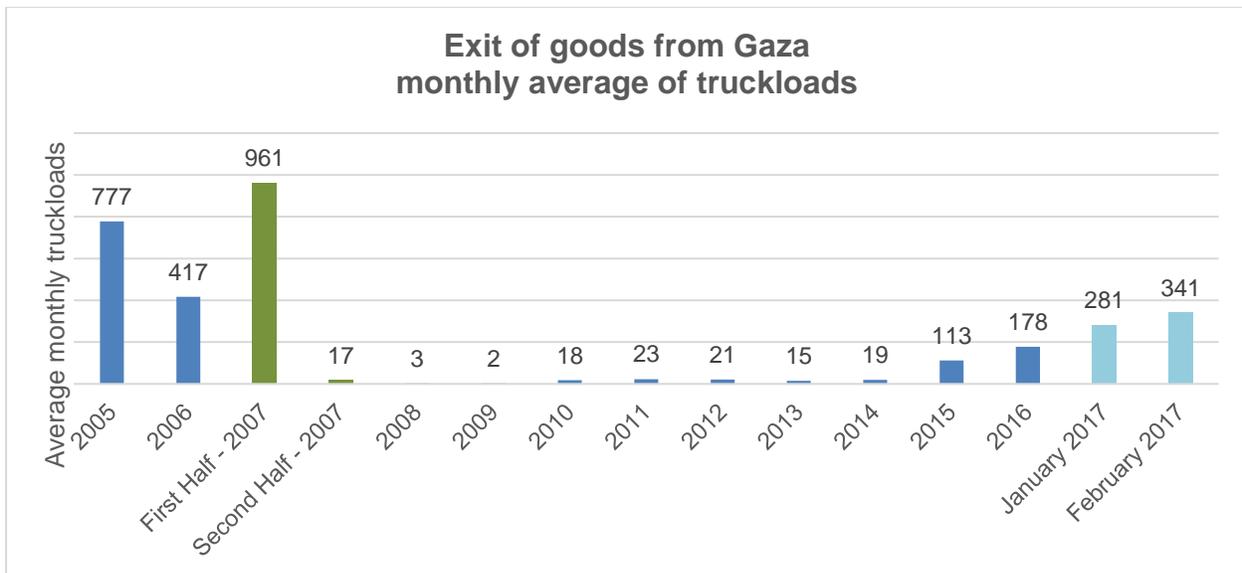


Import of goods to Gaza similarly dropped significantly with the intensification of restrictions in mid-2007. The monthly average of truckloads entering Gaza decreased by 75% from 2005 to 2008. The amount of import slowly increased as import restrictions were gradually relaxed, with the number of trucks entering in 2015 and 2016 reaching levels similar to those prior to 2007. However, it must be noted that due to the vast needs for reconstruction as well as recovery of Gaza's deteriorating infrastructure, demand for import

into Gaza was likely to be much higher in 2015/16 than it was prior to 2007. Moreover, the types of goods imported continue to be significantly curtailed with heavy restrictions on 'dual-use' items.



Exit of goods from Gaza dropped dramatically in mid-2007, and only started to recover slowly in 2015, as exporters have had to cope with the challenges of restoring production capacity and regaining markets that they have lost since 2007. As of February 2017, the average monthly number of truckloads of goods exiting Gaza remained at only 35% of what it was in the first half of 2007, despite a significant increase over recent months.



Case-study on impact of the restrictions on movement of goods on the agricultural sector:

Restrictions on exports and transfers from Gaza significantly impacted the key productive sectors in Gaza, such as the textile and furniture industries, as well as agriculture. In the agricultural sector, trade, including transfers to the West Bank and exports to Israel and other markets, has increased by 83% over the past

couple of years, from US\$2.2 million traded in 2014, to \$6.7 million traded in 2015 and \$13.3 million traded in 2016. This figure is the highest agricultural export total recorded since the closures were intensified in 2007, but is still far from achieving pre-2007 parity, with the annual average value of agriculture trade during the years 2000-2006 reaching \$18 million.

As the predictability of trade flows has improved, farmers have returned to or expanded their cultivation of export-oriented crops, which generate a much higher return than selling on the local Gazan market. Continuing to build on these gains depends on easing restrictions that affect overall agricultural production as well as specifically those which govern trade, particularly on the types of crops that can be exported to Israel.ⁱⁱⁱ

In addition to the restrictions on exit of goods, the growth of the agricultural sector has been hindered by restrictions on import of inputs. For example, nitrogen, phosphorus and potassium-based fertilizers and a range of common pesticides feature on the ‘dual-use’ list. Limited access to these has restricted Gaza’s agricultural yields, as the fertilizer concentrations currently being used are lower than those used by farmers in nearby countries, preventing farmers from maximizing their yields. Potassium permanganate which increases the shelf life of agricultural produce is also considered as ‘dual-use’. Similarly inputs necessary for even basic manufacturing like spare parts for lathes and machinery for milling, screwing or iron rolling feature are the ‘dual-use’ list.

Moreover, access restrictions are not only limited to movement in and out of Gaza. Israel has also designated Access Restricted Areas (ARAs) on both land and at sea; up to 35% of Gaza’s agricultural land and as much as 85% of its fishing waters have been affected at various points^{iv}. At sea, the allowed fishing area agreed in Oslo extended to 20 nautical miles (NM) but in practice only reached 12NM as of 1995. Since 2006, the allowed fishing zone has varied between 3 and 6NM, extending briefly to 9NM for a few weeks in 2016, during the sardine season.

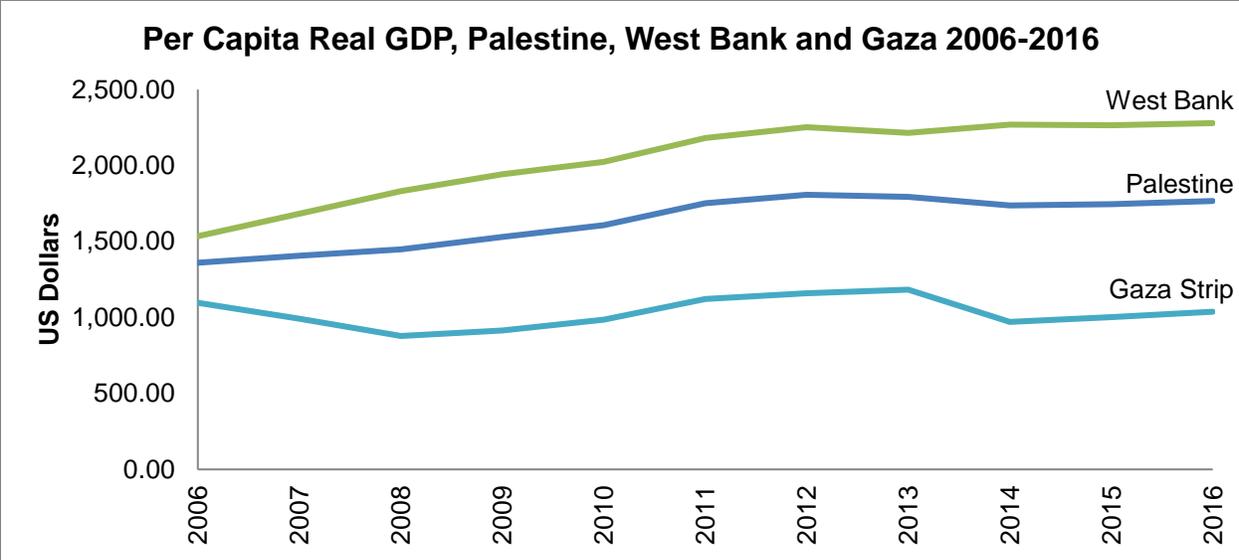
Over the past decade, an estimated 167 fishing boats have been confiscated, and 90 others damaged by the Israeli navy.^v Some of these boats were returned to Gaza, but were unrepairable due to the restrictions on the entry of some items that are necessary for the fishing industry, but categorized as ‘dual-use’ items, like fiberglass, steel cables, engines and spare parts.^{vi} Between June 2007 and June 2017, hundreds of fishermen were forced to stop fishing, and have become dependent on international aid.^{vii}

Despite the relative easing of restrictions on access and movement of people and goods in and out of Gaza over the past decade, the closures remain a significant feature of daily life in Gaza. As the ensuing analysis illustrates the restrictions continue to impede improvements in the quantity and quality of services, to delay implementation of infrastructure projects and prevent Gaza’s private sector and manufacturing industries from reaching their full productive potential.

iii. Socio-economic trends

Over the past decade, the Gaza Strip has seen a significant decline in key socio-economic indicators, reaching an estimated poverty level of about 40% and faring much worse than the West Bank.

In terms of real GDP, the ten-year average growth rate for Gaza reached only 2.8% compared to 6.9% in the West Bank, causing a growing divergence between the two areas. Critically, since Gaza’s average GDP growth rate has been lower than its population growth rate, per capital real GDP in Gaza has decreased over the last decade. Per capita real GDP in Gaza declined by 5.3% from 2006 to 2016, while it grew by 48.5% in the West Bank during the same period, increasing the gap in living standards between the two areas.^{viii}

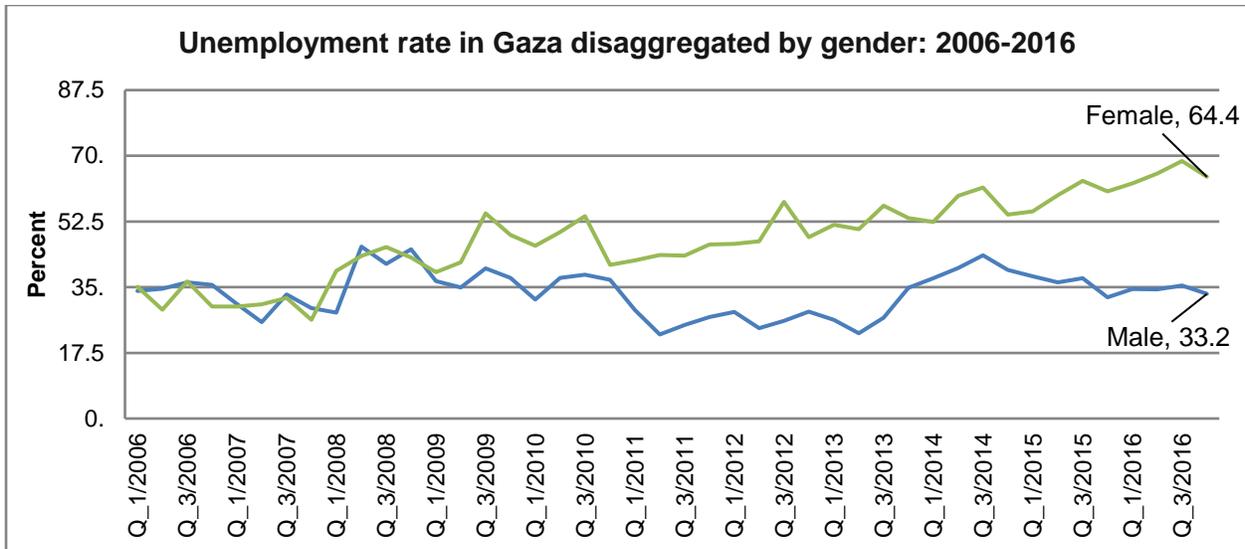


Gaza’s economic performance has been closely linked to developments in Israeli closure policies as well as tensions with Hamas and the recurrent escalation of hostilities. Real GDP of the Gaza Strip contracted in 2007, 2008 and 2014. The contraction of economic activity was particularly significant in 2014 when real GDP fell by over 15% consequent to the escalation of hostilities. Inflow of foreign aid for reconstruction after each escalation of hostilities in 2008-09, 2012 and 2014 helped boost Gaza’s growth rate temporarily.

Gaza’s productive sectors have been particularly hard hit and their share of the Strip’s GDP has been declining. Between 2006 and 2016, the share of agriculture, forestry and fishing in GDP declined from 6.1% to 4.1% and the share of mining, manufacturing, electricity and water declined from 11.9% to 8.4%. The GDP growth rate during these 10 years was driven largely by construction, wholesale and retail trade, services as well as public administration and defense. Noteworthy, public administration and defense accounted for nearly a third of Gaza’s economy in 2016.

Gaza’s unemployment rate also increased from 31.9% in the first quarter of 2006 to 40.6% in the last quarter of 2016, translating into 202,900 people unemployed at the end of 2016.^{ix} Gaza’s unemployment rate has been highly volatile over the past decade reflecting developments in closures, escalation of hostilities and reconstruction, with the unemployment rate peaking in the third quarter of 2014 – exceeding 47% at the height of the hostilities - as well as fluctuations in demand for seasonal labour in the farming and fishing sectors.

The increase in unemployment has been particularly stark among youth and women. Between the first quarter of 2006 and the last quarter of 2016, the unemployment rate for 20-24 year olds increased by nearly 10 percentage points (from 50.6% to 60.3%) while that of 25-29 year olds increased by close to 16 percentage points from (36.3% to 52.1%). In the same period, the unemployment rate for women increased from 35.1% to 64.4%, with the gap between men and women steadily increasing over the decade.



The deterioration of the economy, combined with the degradation of basic infrastructure and services and recurrent conflicts have left most of Gaza's two million inhabitants extremely vulnerable. As Gaza's real GDP per capita has continued its decline, poverty has increased. In 2004, Gaza had a poverty rate of 30%, which, following a sharp increase to more than 50% immediately after the intensification of the closures in 2007^x, in the past few years has stabilized at around 40%.^{xi&xii}

Moreover, not only has the number of people living in poverty increased, but the severity of poverty has also deteriorated.^{xiii} With increasing poverty and unemployment as well as high food prices, affordable food is now out of reach for many families in Gaza. One million Palestinians in Gaza (47% of the Strip's inhabitants) are moderately-to-severely food insecure, despite many of them already receiving food assistance or other forms of social transfers. As an example, the number of refugees requiring food assistance has been continuously increasing for the past many years. The increase started already in the early 2000s, and in the past decade the number of people relying on UNRWA food assistance has reached more than 960,000 in 2016.

Gaza's economic decline over the past decade is a strong indicator of the ongoing de-development in the Strip, while at the same time increasing the gap between Gaza and the West Bank. Not only is the Gaza Strip being left behind but people in Gaza are increasingly facing a lack of employment prospects, which is particularly stark among women and youth.

iv. Impact on basic infrastructure and services

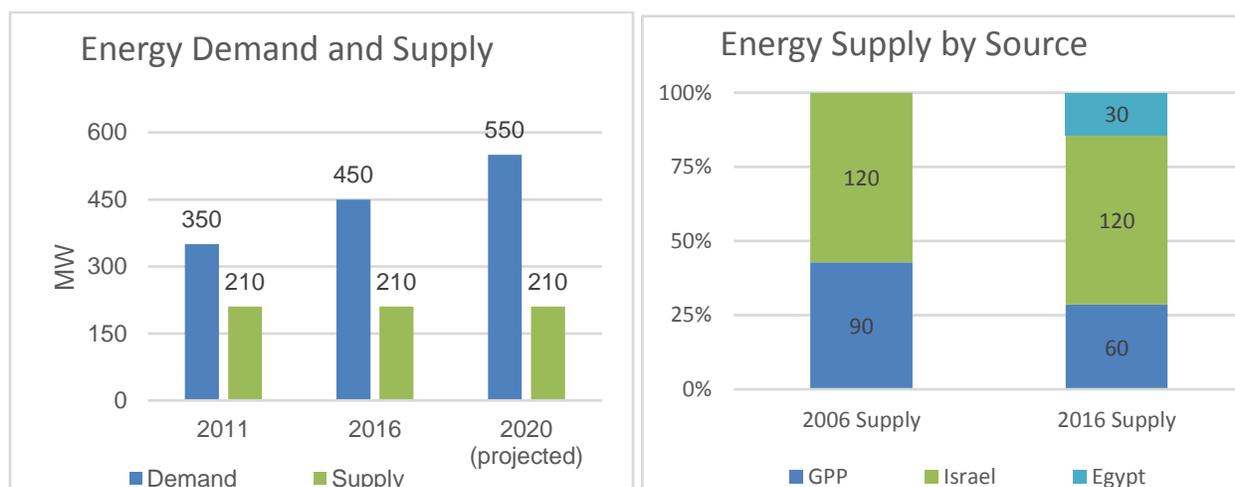
Over the decade, Gaza's infrastructure has suffered significantly from lack of investment, the recurring rounds of active hostilities and an inability to access materials for repair, affecting key areas such as water, energy and communications^{xiv}. As a result, the supply of basic services has been unable to keep up with the increasing demand caused by population growth, general decay over time, and damages inflicted during the periodic hostilities.

Energy and Water:

Gaza's chronic energy shortages continue to impact everyday life of the people in Gaza with daily power cuts of 12-18 hours, while at the same time undermining the functioning of other infrastructure and services,

such as water treatment and health care facilities. These shortages also adversely impact Gaza’s productive sectors.

The daily demand for electricity in Gaza, which was estimated at 350MW per day in 2011, is currently estimated at 450 MW, and has been projected to reach at least 550MW by 2020^{xv} though it could reach as high as 850MW, based on ‘normal’, but currently unrealized, economic activity and the operation of essential services, including water treatment and desalination plants^{xvi}. Meanwhile, the supply of energy in 2006 stood at 210MW/day^{xvii} and while the supply has fluctuated over the past decade, it has not at any time surpassed 210MW/day. In early 2006, the daily 210MW consisted of about 90MW from the Gaza Power Plant (GPP) and 120MW from the Israeli Electricity Company (IEC), paid by the PA. As the GPP production reduced following an Israeli bombardment of the Plant in 2006, Egypt began providing 17MW/day, also paid by the PA, which later increased to 20-30MW/day. Meanwhile, production from the GPP has reduced to a current level of about 60MW/day.



Thus, while the demand for electricity in Gaza has continued to grow with the increase in the population over the past ten years, supply has not kept pace largely due to restrictions and costs associated with the Israeli closures, the Palestinian divide and conflict-related damages. The GPP is the only power plant in Palestine, but has never been able to reach its maximum capacity of 140MW/day. From the outset, production at the plant has been curtailed by capacity limits of the relay network, damages during escalation of hostilities and restrictions on fuel imports. Most recently the GPP production has been limited due mainly to fuel shortages, caused in part by the ongoing disagreement between Ramallah and Gaza on fuel taxation rates, and due to restrictions on import of items needed for the repair of the plant, including repair of fuel store tanks damaged in the 2014 hostilities.

Access to an improved water supply in Gaza plummeted from 98.3% in 2000 to a mere 10.5% in 2014, as compared to almost 97% in the West Bank. With the percentage of the population using the public water network decreasing from nearly 95% to just over 10% in the same time period, reliance on water tanks, containers and bottled water rose from 1.4% to 89.6%. The additional cost on consumers, particularly the most vulnerable who do not have access to piped water, is high, while the collection rate for the government’s water bill is low, resulting in limited revenues for the provision of water services. The increasing population and unsustainable demands on Gaza’s sole water source due to systematic over-extraction of the underlying coastal aquifer has resulted in the intrusion of seawater and in 96% of the groundwater in Gaza becoming unfit for human consumption.

The interrelated crises of the water and energy sectors in Gaza have reached a critical point. Several key projects, which have been in the pipeline for years, including the installation of a 161Kv line, re-conversion of the GPP to natural gas, and the Northern Gaza Emergency Sewage Treatment Plant (NGEST), all included in UNSCO’s report to the AHLC in September 2014^{xviii}, are all still pending due

to political, technical and financial reasons. The recent opening of the Seawater Desalination Plant for the Southern Gaza Strip, providing safe drinking water to 75,000 people, is a welcome development, but is yet to become operational due to the Strip's current energy problems.

Health and Education:

Throughout most of the period, Gaza has shown remarkable resilience in primary health and basic education, in part due to services provided by UNRWA and other international partners. However, the infrastructure and service delivery in both areas have been unable to keep up with growing demand in large part due to restrictions on import of construction material and equipment, damage sustained in multiple rounds of conflict, insufficient human resources and lack of payments for staff.

Gaza's health care system has had difficulty maintaining sufficient services, with the Israeli closures and the Palestinian divisions affecting the sector's ability to ensure quality staff training, provision of medical supply and equipment, delivery of health services and maintenance of infrastructure. In addition, several hospitals and clinics have been damaged or destroyed during the three rounds of hostilities. As a result, while the population in Gaza has doubled since 2000, the number of functioning primary health care clinics in Gaza has decreased from 56 to 49, resulting in crowded conditions, decreased doctor-patient time and reduced quality of service.

At the same time, the inadequate number of health staff and the inability of the de facto authorities in Gaza to employ new staff, as well as chronic shortages in medical and pharmaceutical supplies and equipment, further challenge the sustainability of health care provisions and deter investments in new clinics. Hence, the annual number of referrals of patients for care outside of Gaza has tripled in the past ten years from 8,276 to 24,616, while at the same time the rate of approval of permits for patients to exit Gaza for medical treatment dropped from 90% to 62%.^{xix}

The Ministry of Health and UNRWA have worked well together to prevent and manage outbreaks of communicable diseases. However, prevention and treatment of non-communicable diseases and tertiary health care are lagging behind, including for mental health care, metabolic diseases, cancer treatment and trauma rehabilitation. As a result, general health indicators are starting to decline. For example, in recent years, Gaza's infant mortality has, for the first time in five decades, started to increase, which may reflect a deterioration in neo-natal care in Gaza's hospitals.^{xx} Thus, against the backdrop of a generally high level of basic primary care, and high immunization rates, the quality of services and particularly tertiary health care, are deteriorating, which could soon have a longer term impact on the general health situation.

In the education sector, Gaza also has a high level of basic educational attainment, perhaps in part due to the substantial role of UNRWA and other international organizations in the sector. Over the past decade, the literacy rate in Gaza increased from 94% in 2006 to 97% in 2016. At the same time, mean years of schooling increased from 9.17 to 10.66 years and is actually higher than in the West Bank.

Meanwhile, despite these high levels of primary education, both the infrastructure and the quality of learning have deteriorated significantly over the past ten years. To keep up with the student enrolment rate, 369 new schools *should* have been built over the past decade, however, only 137 schools were built, leaving a gap of 232 schools. In addition, many schools were damaged or destroyed during the escalations of hostilities, further increasing the pressure on education facilities. As a result, classrooms now have an average of 38.9 students in public schools and 39.3 in UNRWA schools, with an increase in the number students of nearly 4% each year. Moreover, 61.7% of government schools and 70.4% of UNRWA schools currently operate on a double shift system, limiting student's access to the classroom to only four hours per day.^{xxi} Gaza's particular challenges in accessing regular government funding also means that the Strip does not have a budget for running costs, and budget shortfalls have left many teachers unpaid for months, while the Israeli closures impede the import of books, laboratory equipment and other educational resources. As a result, there is a growing risk that the high level of educational attainments achieved cannot be sustained.

Remarkably, high levels of primary health care and primary education have been sustained for most of the decade in part due to substantial service delivery through international organizations in these sectors. However, as the population in Gaza continues to grow – and age - both international and national service providers are struggling to meet the growing and evolving demands. At the same time, infrastructure and equipment is in general decay due to ongoing restrictions on imports and lack of funding for long-term development projects, as well as damages to facilities incurred during the escalations of hostilities. Further increasing the pressure on these sectors, is the lack of regular salary payments for staff and lack of access for staff to professional training outside of Gaza. If this trajectory continues, Gaza’s basic health and education indicators are bound to decline. A less healthy and a less educated population, will make reversing Gaza’s de-development that much more difficult.

v. *Reversing the Trajectory of De-Development and Aid Dependency*

In an attempt to at least slow the de-development of Gaza, the United Nations and its partners continue to provide emergency humanitarian assistance, while trying to facilitate longer-term projects. However, the current restrictions on the operating environment mean that much of the focus remains inevitably on short-term humanitarian and reconstruction projects, while the measures needed to move towards more sustainable recovery and development are continuously postponed.

At the ten year milestone, there is a need to take stock and review the current approach to Gaza’s interrelated challenges. The international community must renew its commitment to find ways of lifting the closures on Gaza within the framework of Security Council resolution 1860 (2009), while addressing Israel’s legitimate security concerns. At the same time, it is critical that we find ways of further improving the smooth movement of people and goods into and out of the Gaza Strip. The current situation keeps Gaza in a tight hold, the import of material critical for both humanitarian and development projects, and particularly for Gaza’s private sector, is currently subject to a very unpredictable and time-consuming approval process. This has also meant that many donors have been reluctant to fund projects without prior guarantees that all necessary materials, including ‘dual-use’ items, will be allowed to enter the Strip in a timely manner. In this light, it is important to review the functioning of the GRM, to simplify and expedite the approval process, improve the low approval rates for ‘dual-use’ items other than cement and rebar, and to find new ways of facilitating large-scale development and private sector projects.

At the same time, all parties must accelerate efforts toward the goal of reuniting Gaza and the West Bank under a single, legitimate and democratic Palestinian authority on the basis of the PLO principles and the rule of law, in accordance with existing agreements. The international community must rally behind efforts that will facilitate reconciliation. This includes initiatives at the political level, as well as programmes that facilitate technical cooperation to improve basic infrastructure and service delivery, particularly in critical sectors such as energy, water, health and education, by improving transparency and accountability.

Without immediate action to address the drivers of these ten years of de-development and perpetual humanitarian vulnerabilities, Gaza’s downward spiral will persist, and the prospects for the Strip’s development trajectory catching up to the West Bank – let alone to the wider region - will continue to diminish with each missed opportunity.

Conclusion

The persistent absence of progress to resolve the Israeli-Palestinian conflict continues to significantly impede Palestine’s development. Recent international engagement on reviving the peace process has reconfirmed the consensus that the two-state solution is the only means to achieve a negotiated and lasting peace. It is critical that recent international initiatives to advance the prospects for peace translate into a legitimate process to end the occupation and achieve a final settlement to the conflict. Meanwhile, the

parties are overdue to take the necessary steps, on the ground, to create an environment conducive to peace, as recommended by the Middle East Quartet. In this respect, Israel needs to urgently cease its settlement activities and introduce significant policy changes that will increase Palestinian civil authority, support Palestinian development and preserve the viability of a two-state solution. The Palestinian Authority also needs to address the continued incitement to violence emanating from extremists which is unacceptable and undermines trust and the prospects for peace. Overcoming intra-Palestinian political division would remove a significant obstacle to creating a climate where peace can be advanced.

In the absence of a political horizon, efforts to enhance economic growth are even more critical to the realization of an independent Palestinian state. In addition, the provision of basic services, such as energy and water in the West Bank and Gaza is not only a prerequisite to economic growth but also essential for the survival of the population. The parties have reached important agreements on energy, water, telecommunications and postal services but often these agreements are only in principle and left unimplemented. One such agreement, on the operationalization of the 161Kv line for Gaza is of critical importance and should proceed without delay. In addition, efforts to ensure fiscal sustainability of the Palestinian Authority have been slow to materialize but badly needed for the viability of a future Palestinian state. The parties must reinvigorate discussions to address fiscal leakages as a matter of priority. With estimates of a US\$800 million financing gap for 2017, donor funding is essential to protect the investments made over the last twenty years as well as prevent the collapse of the Palestinian Authority.

Another critical element to enhance the Palestinian economy is the ‘unlocking’ of the potential in Area C of the West Bank. While minimal progress has been made in approving residential plans for Palestinian communities in Area C since the last meeting of the Ad Hoc Liaison Committee, the Government of Israel should redouble efforts to address planning restrictions and other challenges related to obtaining permits. Both parties must honor their commitments under previous agreements, which includes Israeli transfer of powers and responsibilities to Palestinian civil authorities in Area C.

In Gaza, the Israeli closures continue to impact the daily lives of two million people living in Gaza, undermine prospects for sustainable development, including through the private sector and impede effective delivery of humanitarian and development assistance. The international community must renew its commitment to find ways of lifting the closures which would allow Palestinians in the Gaza Strip to lead a normal life and ensure the full enjoyment of their basic rights, while addressing Israel’s legitimate security concerns. As humanitarian and development partners work to improve the lives and livelihoods of people in Gaza, it is critical not to view the current circumstances as normal or inevitable, but to continue to call for a full lifting of the closures on Gaza within the framework of Security Council resolution 1860 (2009).

In the meantime, the United Nations is committed to continue to support parties to facilitate the import of much needed material, including through the temporary Gaza Reconstruction Mechanism. However, even through the GRM, the import of ‘dual-use’ items, other than cement and rebar, remains highly restricted and unpredictable. The Government of Israel is encouraged to clarify requirements for special coordination and ensure consistent and timely processing of requests. As we near three years since the end of the latest escalation of hostilities, donors are also strongly encouraged to honour their commitments at the Cairo conference to disburse pledges before the end of 2017. Additional funding is particularly critical to complete the reconstruction of totally destroyed homes, for which \$115 million is still lacking and for repairs of partially damaged homes which face a funding gap of \$85 million.

The United Nations remains ready to work alongside the international community to assist the parties in efforts to strengthen the foundation for the realization of the two-state solution.

Annex 1: Update on Gaza Reconstruction

It has been nearly three years since the latest and most devastating escalation of hostilities in the summer of 2014, and reconstruction and recovery efforts are still ongoing to implement the Government of Palestine's \$3.9 billion framework for reconstruction and recovery^{xxii}. Significant progress has been made in the reconstruction of physical damages to buildings and infrastructure incurred during the 2014 hostilities in Gaza.^{xxiii}

The vast majority of damages to schools, hospitals, water and electricity facilities stemming from the 2014 hostilities, have been repaired. Out of 259 damaged and destroyed schools, 252 have been repaired, one has been fully rebuilt, and reconstruction has started on the remaining six schools which were totally destroyed. In the health sector, all 78 partially damaged hospitals and clinics have been repaired, one totally destroyed clinic has been rebuilt and a second will be completed shortly, while a third totally destroyed primary health care clinic was only just recently approved in the GRM. The one hospital which was totally destroyed has only been partly funded, still missing US\$13 million needed for reconstruction. However, physical reconstruction of damages in itself does not ensure recovery of services. The cumulative erosion of infrastructure, shortage of qualified staff and critical supply continue to cause sub-optimal delivery of both health care and education services in Gaza.

At the same time, nearly 40,000 people remain internally displaced inside Gaza waiting for their homes to be rebuilt. Of the 17,800 homes which were totally destroyed or severely damaged to the extent of becoming uninhabitable, due to the 2014 hostilities, 57% have been rebuilt and reconstruction is ongoing on another 14%. However, \$115 million is still lacking for the reconstruction of just over 2,800 totally destroyed homes. Of the 153,200 homes which were partially damaged in 2014, 56% have been repaired and work is ongoing to repair another 7%. However, \$85 million are still needed for the remaining repairs. Until the houses that were rendered uninhabitable have been reconstructed, the need will continue for temporary shelter cash assistance. It is estimated that without new funding for the reconstruction of houses, nearly \$25 million will be needed over the next two years for temporary shelter assistance to those who are displaced.

Gaza's productive sector is only very slowly recovering from the significant damage and losses incurred due to the 2014 hostilities. In the agricultural sector, 70% of the destroyed greenhouses, 9% of tree orchards, 55% of water wells, and 56% of vegetable fields, have been reconstructed or rehabilitated, while 95% of sheep and cattle farms have been repopulated. However, overall 50% of damaged agricultural land is yet to be rehabilitated, notwithstanding that following the replanting of destroyed orchards and plantations, it will take several years to yield a harvest.

In the non-agricultural productive sectors, 66% of businesses directly affected by the hostilities have been fully compensated for their losses. However, due to low levels of funding for the rehabilitation of Gaza's productive sector, many businesses have had to take loans to repair damaged facilities and inventory, further postponing the horizon for these businesses to regain levels of profitability. Moreover, only 58% of the damaged businesses which received compensation have been able to fully resume operations, as lack of equipment and raw materials continued. As a result, the businesses affected by the 2014 hostilities saw a 57% drop in sales and 62.3% drop in the number of employees between the first quarter of 2014 and the first quarter of 2016.^{xxiv}

Nearly three years after the end of the latest hostilities, it is critical for the parties and the international community to commit to the completion of the reconstruction task in 2017. To do so, funding must urgently be disbursed for the remaining housing reconstruction to enable people to return to their homes. Currently, only 51% of the funds pledged for Gaza at the 2014 Conference in Cairo has been disbursed. Completing the reconstruction task will allow us to look forward and to focus on more sustainable development investments to help Gaza out of the current cycle of destruction and de-development.

Annex 2: The Way Forward in Addressing Gaza's Chronic Energy Crisis

The chronic energy crisis in the Gaza Strip, characterized by a supply of 210 MW of an overall estimated demand of 450 MW, results *on average* power cuts of 12-20 hours per day and adversely impacts the delivery of basic services such as health and wastewater management, economic productivity as well as stability. Demand is projected to double by 2030.

The crisis reached a concerning level in early January 2017 wherein power outages increased to 20 hours per day and gave rise to unprecedented protests and unrest. Timely donations from international donors for the purchase of fuel for Gaza's sole power plant alleviated the situation, but only temporarily. The Gaza Power Plant (GPP) shut down in April 2017 after having exhausted the donations for fuel, again resulting in power outages of 20 hours per day. Addressing the energy deficit in Gaza requires a series of complementary measures to increase and diversify the supply in a financially sustainable manner. The measures below cover a range of time periods and require a commitment to the entire proposal due to their inter-dependency.

(1) Full tax exemption for the purchase of fuel

The high cost of diesel fuel for the power plant is the main reason cited for the low levels of production of the power plant which averages a production of 60 MW. A full tax exemption (100% subsidy) of the blue and VAT taxes imposed by the Palestinian Ministry of Finance on fuel purchases for the GPP would allow Gaza authorities to purchase more fuel, thereby allowing the GPP to produce more energy - up to 120 MW. Increased transparency, particularly on the expenditures and collections of the Ministry of Finance of the PA on financial expenditures related to Gaza is recommended to improve trust between Ramallah and Gaza authorities.

(2) Increasing Collection Rates

Fuel for the GPP is purchased by Gaza authorities from the collections from end-users which according to the Gaza Electricity Distribution Company (GEDCO) amounts to 24-27 million NIS/month, which is not nearly sufficient to purchase enough fuel. Efforts to improve the collection rate, estimated at 30-40%, is critical to increasing the electricity supply. A series of measures should be undertaken to increase collection rates, including: creating incentives for Gaza authorities to increase collection rates such as linking improved collections with tax subsidies, reforming GEDCO and the establishment of third-party or escrow accounts with a view to increase transparency in the transfer of collection revenue, removal or reduction of electricity bill exemptions for municipal buildings, and the procurement and installation of pre-paid meters.

(3) Rehabilitation and Upgrade of Gaza Power Plant and Electricity Grid

Damages sustained to the GPP and electricity grid during the escalation of hostilities continue to impact the full functioning and efficiency of energy production in Gaza. The entry of materials for the repair, rehabilitation and upgrade of the GPP and grid need to be facilitated by the Government of Israel.

As part of long-term measures, the Gaza Power Plant is to be re-converted to operate on more cost-efficient natural gas, and expanding its capacity eventually allowing for the production in Gaza to reach over 500MW, which could be completed within five years. For the supply of natural gas to the GPP, the Gas for Gaza initiative has achieved approval of the route of the gas pipeline and are currently exploring various options for gas supply.

(4) Increasing electricity from Israel

Progress on the establishment of the 161Kv line, which will provide an additional 25 MW of electricity in the short-term (8-12 months) and an additional 100 MW of electricity in the long term (3-3.5 years), requires continued support. In a positive development, in January 2017, PENRA formally informed COGAT of their interest in pursuing the establishment of the 161Kv line, however, agreements on financing the construction and the additional electricity are still pending. The Palestinian Energy and Natural Resources Authority

(PENRA) and GEDCO must agree on financing of additional electricity from Israel and address bank guarantees to the Israeli Electricity Company (IEC). Requiring a pre-payment from GEDCO to the IEC via PENRA would reduce any financial burden on PENRA-Ramallah, provide required assurances to the IEC and create incentives to improve collection rates and transfer total collections.

(5) Increasing supply from Egypt

Three Egyptian lines provide the Rafah governorate in Gaza with 20-30 MW of electricity. Due to poor infrastructure, damages to these lines are frequent and often contribute to electricity shortages. In the short-term, it is recommended that the current supply of 30 MW be stabilized while in the medium term, establishment of a 'double line' providing an additional 32 MW of electricity. Should discussions between the PA and Egypt progress to operationalize this measure, an agreement on the financing mechanism for the additional electricity supply, which is expected to cost 6 million NIS/month would be required to move this recommendation forward.

(6) Addressing fiscal leakages to support PA Ministry of Finance

The handling fees on fuel purchases by the PA from Israel is 3%, despite discussions to reduce this fee to 1%. A reduction in the fee would provide significant savings to the PA on the purchase of fuel and reduce the financing gap from the provision of services by the PA to Gaza. In addition, the parties implement the electronic VAT clearance mechanism, in particular for customs clearance of goods entering Gaza, in order for the PA to earn the revenues in accordance with the Paris Protocol.

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- ⁱ Kate Mackintosh and Patrick Duplat: Study of the Impact of Donor Counter-Terrorism Measures on Principled Humanitarian Action, July 2013: https://docs.unocha.org/sites/dms/documents/ct_study_full_report.pdf
- ⁱⁱ OCHA: Locked In: The humanitarian impact of two years of blockade on the Gaza Strip, August 2009: https://www.ochaopt.org/sites/default/files/Ocha_opt_Gaza_impact_of_two_years_of_blockade_August_2009_english.pdf
- ⁱⁱⁱ Currently, the Israeli Government allows 250 tons of tomatoes and 50 tons of eggplant to enter Israel from the Gaza Strip each month. Export of these two crop types does not always meet this ceiling, but the inability to export other crop types limits the incentives for Gaza's farmers to cultivate as the Israeli market provides a much higher return than selling on the Gazan or West Bank markets. There are currently no restrictions on the quantity or type of crops that can be sold in the West Bank.
- ^{iv} OCHA: Access Restricted Areas in the Gaza Strip, July 2013: http://reliefweb.int/sites/reliefweb.int/files/resources/ocha_opt_gaza_ara_factsheet_july_2013_english.pdf
- ^v Al-Mezan centre for Human Rights, figures communicated directly to OHCHR on 19 March 2017
- ^{vi} B'tselem. *Israel destroying Gaza's fishing sector*, http://www.btselem.org/gaza_strip/20170129_killing_the_fishing_sector
- ^{vii} Ibid.
- ^{viii} Data excludes those parts of East Jerusalem annexed by Israel in 1967
- ^{ix} Palestinian Central Bureau of Statistics: http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_13-2-2017-lb-en.pdf
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