

OFFICE OF THE SPECIAL ENVOY FOR DISENGAGEMENT

**Periodic Report
17 October 2005**

The Special Envoy most recently visited the region from 7-12 October 2005 to try and conclude the "six plus three" agenda outlined in his letter to the two Prime Ministers on June 20th and to the international community in his office's periodic reports. The Special Envoy was disappointed that none of the key movement issues has been resolved. Without a dramatic improvement in Palestinian movement and access within appropriate security arrangements for Israel, the economic revival essential to a resolution of the conflict will not be possible.

The Six "Joint Issues"

1. Border Crossings and Trade Corridors

a) The Crossings between Egypt and Gaza---Rafah

The IDF's early departure on 12 September from the Philadelphi corridor between Gaza and Egypt led to spontaneous Palestinian celebrations, the breaking down of parts of the wall along the corridor, and visits by thousands into Egypt for the first time in years. The Egyptians closed the Rafah crossing on 17 September when Palestinians fired rockets into Israel and the IDF responded. Since then, the Rafah crossing has only been fully open for 3 days or intermittently for humanitarian cases and for those trapped on either side.

With the benefit of discussions with Israeli, Palestinian and Egyptian leaders on this issue, Mr. Wolfensohn chaired two trilateral meetings on Rafah. Agreement was reached on a large number of issues. He concluded that the sides were not that far apart on the remaining issues and that, assuming both sides were serious about a resolution, an agreement should be achievable in a short period of time. On the unresolved points the Palestinians urged him to propose a solution, but the Israelis, on a number of points, suggested further study by subordinate committees. Many of these committees will not meet for another two weeks due to Jewish holidays. Approximately 75% of the issues have been resolved with the remaining 25% of the issues to be resolved in the next one or two meetings.

Despite both sides' agreement to a third party presence along the Egyptian border, the Israelis have not yet received Cabinet approval to accept the EU's generous offer. Mr. Wolfensohn urged the Israeli side to begin discussions with the Europeans to determine the role, missions and operational details of this third party as soon as possible. Palestinian and Israelis did agree that a third party would have to be deployed immediately after a decision was reached on Rafah and agreed in part on the role of that third party: i) meet high professional standards, ii) strengthen Palestinian capacity in customs and security operation, iii) would 'not do the job' for the Palestinians but rather monitor actively compliance with security and customs requirements, and iv) would intervene in accordance with established principles to be worked out between the two parties and the third party.

b) Crossings between Israel and Gaza and the West Bank

While Rafah is of immediate practical political and social importance, its economic significance is dwarfed by the need to improve investment and trade flows between Israel and Gaza/the West Bank and the outside world.

After two months of intensive but inconclusive trilateral discussions, Israel has declined to continue meeting with the PA following a tense session on 5 September. The parties are, however, close to a workable agreement on i) a management system that would replace today's antiquated and restrictive approach, ii) the proper use of the new technology which USAID would like to procure, and iii) ways to assure the export of agricultural products. In the past several weeks, the situation on the ground has deteriorated significantly. In the months leading to disengagement, the daily number of Palestinian workers entering Israel from Gaza averaged about 6,500; this number dropped to 100 for September and virtually to zero in October. Truckloads of exports from Gaza in the same period have declined from about 35 per day to a handful, with many days of closure at Karni. With the agricultural season approaching in November, a daily throughput of 150 + trucks will be needed to cater to economic demand.

In the West Bank, GOI has recently announced the uniform introduction of the back to back trade system at the passages on the border and along the separation barrier inside the West Bank. The Barrier represents a "hard" economic border, and its proposed completion in 2006 can be expected to lead to a compression in exports unless the new systems being negotiated are promptly put into place. There is a need to balance security with economic activity and a new and constructive dialogue is needed urgently.

2. Connecting Gaza with the West Bank

As planned, the World Bank and Office of the Special Envoy distributed a paper at the end of September on a system of convoys for the passage of both people and goods between Gaza and the West Bank which recommends a three phased approach, starting immediately with the movement of passengers on buses, to be followed by movement on Palestinian cargo trucks and then movement of passenger vehicles. GOI indicated to the Special Envoy in June that it would introduce convoys, and maintains this position. It has not, however, entered into any bilateral or trilateral discussions on the subject and such discussions should commence immediately leading to a decision on operations within 30 days.

Paving the way to a more permanent solution, USAID and the Bank launched an Options Review which was intended to compare the costs and benefits of a road link with a railway (GOI policy having shifted from support in principle for a road in 2001 to support for a railway in 2004). The work was slated for completion early next year, and was to have been used to help spark bilateral discussion on the creation of a safe, permanent connection between the two parts of the Palestinian Territory. Israel, however, has now demanded that work on this study cease. It is hoped that discussions on this matter can recommence as soon as possible.

3. Movement in the West Bank

The Special Envoy team and OCHA continue to work with the IDF and CoGAT to identify mechanisms by which movement along key transport corridors---north-south, east-west, and between cities and villages could be facilitated. In the past several months, the number of checkpoints has declined significantly, in part because the separation barrier has rendered them obsolete. It is anticipated that an agreed total of some 350 obstacles will be arrived at in due course. Movement in the West Bank, however, also remains hampered by a large number of "flying" checkpoints, the use of internal permits for people and goods, and the back to back platforms outside various towns. Taken together, this system constitutes a formidable barrier to

economic efficiency. The discussions need quickly to focus on concrete steps to reduce these barriers. Once again there is a need for a creative balance between security and development.

4. Gaza Air and Sea Ports

Discussions on the construction and reopening of both these ports have stalled pending resolution of Rafah. Both are important for the long-term viability of the Palestinian economy as they offer another avenue for trade and tourism. The future of this airport and the timing for reconstruction and operations should be discussed in the near future. It is anticipated that the security protocols to be applied at the airport and seaport will be discussed and following resolution of the arrangements for passage between Egypt and Gaza.

The location of the seaport has been reconfirmed, and the European Commission is about to launch a rapid update of the existing pre-feasibility study including, *inter alia*, the optimal phasing of the investment, certain technical and managerial aspects, and hinterland connections.

5. The Settlement Houses

UNDP has been asked by the Government of Israel to remove the rubble left after the houses in the settlements were destroyed by the IDF with the consent of the PA. UNDP is ready to begin work upon receipt of an MOU, funds and results of the environmental audit from the Government of Israel. The Jewish holidays appear to have delayed the GOI work on the MOU.

UNDP is also prepared to manage the removal of any unusable material from the Gaza Strip. However, despite original assurances given to the United States by the Government of Egypt that the unusable material could be buried in the Sinai via the private sector, those assurances do not now seem secure in view of further information and further consideration by the Egyptians. The United States Government will work with the Government of Egypt to determine a way forward.

6. The Greenhouses in the Settlements

Despite some initial looting, most of the settlement greenhouse assets have been secured, work for some 3,000 Palestinian farmers has been assured, and a revenue stream estimated at over 50 million dollars per year can now be expected once the greenhouses are restored and functioning. Commercial success for the greenhouses and for Gazan agriculture in general will depend to a significant extent on adequate export arrangements at the border crossings (see above) as well as on stable supplies of water and energy. Israeli closure of the Karni crossing for two weeks has jeopardized the planting of the fall crop. Pesticides, fertilizers and two million strawberry seedlings were waiting to enter Gaza through Karni, the only cargo entry (and exit) crossing – but at last report, they had been delivered to the agricultural sites. .

The Three Palestinian Issues

1) The PA's Fiscal Crisis

In 2005, donors have been providing budget support at a monthly average rate of US\$25 million; in pure salary terms, this is equivalent to supporting about 45,000 PA jobs. Despite this assistance and impressive revenue performance, the PA has not managed to maintain budget discipline and faces an unfinanced deficit likely to exceed US\$250 million this year. The Cabinet, facing political pressure from different groups of public employees to raise their salaries, recently decided to implement earlier decisions to increase wages in accordance with the Civil Service Law and Security Services Law. The decision will compromise the PA's Wage Bill Containment Plan, developed with IMF assistance and a cornerstone of the World Bank-managed, multi-donor financed Reform Fund. Unless offset by retirements and retrenchments in

excess of 10,000 in the very near future, disbursements from the Reform Fund may need to be suspended. Although this immediate fiscal impact of this will not be decisive, the failure to adhere to the Wage Bill Containment Plan raises concern that the PA may not be able to carry through the more stringent measures needed over the coming years to rebalance the budget.

2) *The Three-Year Plan for Palestinian Development*

DFID, the World Bank and the Office of the Special Envoy continue to work with the Ministries of Planning, Finance and Economy to produce the Medium Term Development Plan 2006-08. This Plan will feature closer integration between the capital and recurrent budget frameworks than previously. It should be ready by mid-December, making it available for the donor pledging conference planned in 2006 following the Palestinian Legislative Council (PLC) elections.

3) *A Package of Quick-Impact Economic Programs*

Donors are eager to develop new programs in support of disengagement, and an early estimate suggests that donor disbursements in 2005 will reach US\$1.1-1.3 billion, an increase of 25-35% over the annual average for the last four years and consistent with the World Bank's estimates from December 2004. .

Many of the programmes and projects will take time to be seen on the ground. Preliminary work - feasibility studies, tenders and bids - is necessary before jobs are created and construction started. Recent setbacks in security (violence and acts of kidnapping), a dramatic decline in traffic in and out of the Gaza Strip and the PA's increasing lack of capacity have so far not been conducive to donor activities in the immediate aftermath of disengagement. However, despite these setbacks, there is much ongoing activity with donors anxious to move ahead. At the end of September, President Abbas held a ground breaking ceremony with Japan and UNDP to mark the rehabilitation of the Salah-Eddin road, the main trunk road in Gaza. Construction on 600 new housing units has already started and much more construction is scheduled to take place over the next 14 months. Five hundred households are being connected to drinking water with the installation of 90.5 km water pipes by the World Bank, 85 km of new pipeline will be laid in North Gaza by the United States, and the electrical supply network is being rehabilitated by the Government of Norway. Construction and rehabilitation of 40 schools and 460 classrooms is ongoing right now. These and other reconstruction projects, including projects funded by the European Commission's newly established infrastructure facility, will lead to significant employment creation over the next 12 months and beyond. In December, entrepreneurs can expect new loan guarantee schemes to be in place for their small and medium enterprises, funded by the United States and Germany. Attached is a list of other major projects which are currently underway or will begin before the end of 2005.

In this context of increased aid flows, there is now a good meeting of minds between the major donors and the Ministry of Planning over new local donor coordination arrangements and the steps required to put them in place quickly. It is vital that donors and the PA continue to work closely to develop more efficient, accountable, and transparent aid management systems.

Next Steps

Several of the issues mentioned above—movement across borders, internal movement in the West Bank, fiscal stabilization, rapid injections of money into the economy—are critical to Palestinian economic health. Currently, the combination of violence, closure and weak internal governance is undermining the chances for any substantive economic recovery. The onus for reversing this situation falls squarely on the two parties; absent serious change in bilateral relations and the ambient policy environment, no amount of donor money will bring about economic recovery.

All of the "six plus three" issues require more work, and a letter will be sent by the Special Envoy to both parties outlining specific steps that need to be taken to resolve issue.

An AHLC Meeting is being planned for December in the EU which is expected to pave the way for a pledging conference after the PLC elections early next year. The purpose of such a meeting would be for donors to pledge much larger sums over a longer timeframe in line with the indications given by the G8 at Gleneagles in July of this year. Much work is needed, however, before such a meeting takes place including visits by the Special Envoy to potential donors in the Middle East whose support at a much higher level is essential.

In the meantime, the Office of the Special Envoy and donors will be assisting the PA to produce quarterly reports on donor activity.

Just as the Special Envoy has supported both parties to find solutions to movement issues, he will begin a more concerted effort in the coming months to support the PA and the donors on, among other things, building PA capacity, particularly in the area of aid management, reforming the justice system, and combating corruption.

With the ultimate goal of a two state solution, the "six plus three" agenda is only a beginning—but it is a vital beginning. Failure at this stage will compromise economic recovery and will diminish the chances of progress towards addressing the core Final Status issues.

It is time to move from the "six plus three" issues to actual economic activity on the ground. This must include investment in industrial zones, improved movement of goods and people while maintaining security for Israelis and Palestinians alike. Economic activity and hope will be the greatest guarantors of peace. Time is short. Courage is needed and understanding and trust must be restored. The future of both Israelis and Palestinians requires new forms of cooperation. The future will either be one of peace and development or one of conflict. Both sides must work together for peace, and if they do, they can be assured that the donors and investors will help.

**POST-DISENGAGEMENT PROGRAMME
PROJECT STATUS REPORT (MAJOR PROJECTS ONLY)
17 October 2005**

Highlights

- Estimated \$750 million in disbursements between July and December 2005.
- Donors increasing their assistance to the Palestinians in response to disengagement action:
 - EC proposing to double aid to Palestinians to €500 million if meaningful progress in security and access policy is achieved.
 - Japan providing \$100 million in disengagement-related assistance.
 - U.S. providing \$200 million supplemental assistance in 2005, in addition to \$75 million annual budget. 2006 budget will double to \$150 million.
 - UAE providing \$100 million to build 3,000 new housing units in Gaza. Work to begin early 2006.
 - Canada doubling 2005-06 commitment to \$58 million.

PROGRESS IN MAJOR SECTORS

The list below is intended to highlight some of the key planned or ongoing projects in major sectors expected to disburse significant funds in the period to December 31, 2005. It is not exhaustive.

ROADS – \$30 million new project financing

- Rehabilitation of damaged access and internal roads in Gaza. US funded. \$10 million approved. **Due to start October.**
- Rehabilitation of Salah-Eddin road (main trunk road in Gaza). Funded by Japan. UNDP managing implementation. Will lead to creation of **up to 170,000 working days**. \$19 million approved. **Due to start November.**

HOUSING – \$130 million new project financing

- Construction of approximately **148 new housing units** and housing repairs for refugee families in West Bank and Gaza. Expected to create at least 50,000 working days employment. Various donors. UNRWA managing implementation. Project budget \$2.9 million approved in 2005. **Already started.**
- Reconstruction and rehabilitation of housing units in Gaza. US funded. \$10 million approved. **Due to start October.**

- Construction and rehabilitation of more than **980 new housing units in Gaza**. Japan funded, UNRWA and UNDP managing implementation. \$23 million approved. **Due to start December**.

WATER – \$110 million new project financing

- Reconstruction of North Gaza waste water treatment plant. Will increase sewerage treated from 12k to 26k cubic metres per day, **connecting an additional 15,000 houses**. World Bank and various donors funding. \$44 million approved in 2005, \$4.5 million to be disbursed in second half of 2005. **Already started**.
- **Connection of 500 new households** to drinking water in Hebron Governorate, West Bank, a further **400 connections rehabilitated**. World Bank funded. \$12.5 million approved in 2004, \$1.5 million to be disbursed in second half of 2005. **Already started**.
- Installation of **85 km of new pipelines in Gaza**, leading to 30k cubic metres increased water capacity. US funded. \$66 million approved. **Due to start December**.
- Reconstruction of sewerage network, wastewater treatment plants, network supplies in Gaza. World Bank funded. \$20 million approved. **Due to start December**.
- Expansion of water distribution networks in northern West Bank. Japan funding. UNDP managing implementation. Expected to create **at least 35,000 working days** employment. \$4 million approved. **Due to start December**.
- Improved rainwater harvesting, Khan Younis, Gaza. US funded. \$4 million approved. **Due to start December**.

EDUCATION - \$30 million new project financing.

- Rehabilitation and construction of up to **48 schools** in West Bank and Gaza, up to **460 classrooms**, training of approximately **7,000 teachers** and vocational training for up to **6,400 students**. Various donors including EC, Norway, Germany, France and Spain. \$28 million approved 2002-05. **Already started**.
- Improving higher education management in West Bank and Gaza. World Bank funded. \$9 million approved in 2005, \$1 million to be disbursed in second half of 2005. **Already started**.
- Construction of and equipment for technical and vocational education centre in Halhoul, West Bank. EC funded. \$5.2 million approved in 2004. **Already started**.
- **Teacher training and textbook printing**, in West Bank and Gaza. Finland funding. \$7 million approved. **Due to start October**.

- School construction in the West Bank and Gaza, up to **510 classrooms**. Germany funding. \$19 million approved in 2004 and 2005. **Due to start November.**
- Schools construction in Gaza. US funded. \$3 million approved. **Due to start December.**

HEALTH - \$15 million new project financing

- Construction of **2 new health clinics in Gaza**, serving over **8,000 citizens**, and **24 clinics in West Bank serving approximately 50,000**. Various donors including EC, Ireland, Australia, US. UNDP managing implementation. \$26 million approved in 2005. **Already started.**
- Construction of new public hospital in Qalqilya, West Bank, creating approximately **55,500 working days**, and serving **5,900 citizens**. Various donors. UNDP managing implementation. \$4 million approved. **Due to start December.**

ENERGY - \$50 million new project financing

- Rehabilitation of electrical supply network and introduction of pre-paid meters in northern West Bank and Gaza. Norway funding. \$11.5 million approved in 2005. \$2.6 million to be disbursed in second half of 2005. **Already started.**
- Rehabilitation of medium and low voltage distribution network in Gaza. US funded. \$10 million approved. **Due to start December.**
- Construction of Gaza electrical transmission lines. Spain providing soft loan of \$40 million approved in 2005: \$6 million to be disbursed by the end of the year. **Due to start December.**

PRIVATE SECTOR DEVELOPMENT - \$55 million new project financing

- Agri-business development in West Bank and Gaza through fixed capital investments and technical support. US, Australia funding. Up to \$30 million approved in 2005. **Already started.**
- Purchase of **3,300 dunams of greenhouses** in Gaza and **re-hiring of 3,000 agricultural staff**. Private donors funding. \$14 million approved in 2005. **Already started.**
- Private enterprise development initiatives in West Bank and Gaza aimed at expanding access to international markets. US, Germany, Canada. \$11 million approved. **Due to start November.**
- Loan guarantee schemes for small and medium enterprises. West Bank and Gaza. Germany (\$6 million approved), US funded (\$10 million approved). **Due to start December.**

EMPLOYMENT GENERATION SCHEMES - \$30 million new funds.

- Creation of approximately **240,000 working days** employment in West Bank and **40,000** in Gaza through local infrastructure development projects. Germany funding. UNDP managing implementation. \$31 million approved 2003-2004, \$7 million to be disbursed in second half of 2005. **Already started.**
- Municipal job creation schemes in Gaza. Various donors funding including Denmark, Norway, Sweden and Canada. \$15 million approved. **Already started.**
- Employment of approximately **320 university graduates** through temporary work experience scheme. Austria funding. \$7.8 million approved in 2004, UNDP managing implementation. **Already started.**
- Creation of **320,000 working days** in Gaza and West Bank through local infrastructure development projects. Germany funding. UNDP implementing. \$24 million approved. **Due to start November.**

GOVERNANCE - \$50 million new project financing

- Strengthening performance of key PA institutions and functions (e.g. customs, civil service reform, elections, Ombudsman etc). Various donors including EC, UK, Norway. \$15 million approved in 2004-05. **Already started.**
- Technical, financial and equipment support for civil policing in West Bank and Gaza. Various EU states funding, including Denmark, Norway, Netherlands, UK, Sweden. \$7 million approved 2004-2005. **Already started.**
- Rehabilitation, construction of courthouses in West Bank and Gaza. EC funded. \$1.5 million approved in 2005. **Already started.**
- Construction of new courthouse in Jenin. Funded by Japan, UNDP managing implementation. \$1.3 million approved in 2005. **Due to start December.**