

OFFICE OF THE SPECIAL ENVOY FOR DISENGAGEMENT

Periodic Report September, 2005

The recent disengagement from the Gaza Strip and Northern West Bank was successfully managed by the Government of Israel and the Palestinian Authority. Some 9000 settlers were evacuated swiftly and with minimal incident. Remarkable professionalism was displayed by the IDF soldiers, enabling the settlers to move on in dignity and peace. The Palestinian Authority maintained calm and order during this highly emotional period, and the Palestinian security services displayed model cooperation with the IDF. Other than the settlement houses, which were dismantled by agreement between the parties the settlement assets were in large part left intact for the benefit of the Palestinians.

In short, we have all witnessed an historical event---and one that clearly signals the ability of the parties to work together.

Six Joint Issues

Since June, the Special Envoy and his team have focused most of their efforts on the "six plus three issues". The main current issue covered in intensive talks this month is the establishment of access between Gaza and Egypt.

At the time of writing, the issue of the crossing from Gaza to Egypt at Rafah is not resolved. After several days of uncontrolled flows of Palestinians to and from Egypt, the PA security forces closed the Rafah crossing temporarily. Israel is proposing a temporary crossing point at Kerem Shalom/Dahnyeh for goods and people entering and leaving the Gaza Strip. The Palestinians are seeking to reopen Rafah for people very quickly. The elements of a solution—cameras, computers and other equipment; a third party presence; goods temporarily through Kerem Shalom, people sooner or later through Rafah—are generally agreed, but the parties need to discuss and agree the timing and the details. The resolution of this issue is crucially important for the other movement and access issues, described below.

1) *Border Crossings and Trade Corridors*

For the past six weeks, assisted by the staff of the World Bank and the Special Envoy's office, the parties have been engaged in detailed technical discussions on this vital issue. It is worth pointing out that this is the first such engagement between the parties in five years. There is near agreement to a framework understanding on how the main border passages between Israel and the Palestinian Authority will operate. What is being attempted is a profound change---a shift away from a unilaterally managed system, in which Israel's security concerns predominate, to one which will be cooperatively managed and which can successfully balance *both* parties' needs. The new system will not only bring major efficiency gains to both sides of the borders, but will introduce modern scanning technologies that will result within the next 12-18 months in the replacement of today's inefficient back to back cargo handling system with one which permits the through passage of intact cargoes, either in containers or on trailers.

2) *Connecting Gaza with the West Bank*

The GoI earlier agreed to introduce a system of convoys for the passage of both people and goods between Gaza and the West Bank. The GoI has been encouraged to introduce this very welcome initiative as soon as possible. The Bank and Special Envoy's Office will table a paper on the topic for the two technical negotiating teams to consider and further develop the convoys so that a very early start can be made.

As to the more permanent solution, following a preliminary study by the European Commission, USAID and the Bank are about to launch an Options Review which will compare the costs and benefits of a road link and a railway between Gaza and the West Bank. The work is slated for completion early next year, and will be used to help spark bilateral discussion on the creation of a safe, permanent connection between the two parts of the Palestinian Territory.

3) *Movement in the West Bank*

With OCHA and the IDF coming to virtual agreement on the number of physical impediments to movement in the West Bank, our next step will be to work on freeing movement along key transport corridors---north-south, east-west, and between cities and villages. The IDF has agreed to explore such mechanisms with OCHA, and my team in the coming weeks.

4) *Gaza Air and Sea Ports*

Once the issue of the border crossing to Egypt is resolved, the questions surrounding the security protocols to be applied at the airport and seaport can be seriously addressed, and an agreement to open these facilities reached. The airport is of immediate importance for the Gaza economy, since it would be used for the export of perishable agricultural products as well as serving the planned Free Zone and the industrial estate close to the airport. The location of the port 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, hinterland and hinterland connections.

5) *The Settlement Houses*

On 23 August 2005, a Letter of Understanding was sent by the Special Envoy to Ministers Mofaz and Dahlan setting out a way forward which would ensure the houses could be dismantled, as had been agreed in principle by the parties. Both the GoI and the PA signed and returned the Letter of Understanding agreeing to its terms. In essence, the GoI will pay UNDP to remove the rubble and contractors will bid on transparent, public tenders to remove the rubble. Details are still being worked out.

6) *The Greenhouses in the Settlements*

With the PA unable to accept donor assistance to purchase greenhouses and related facilities, US\$ 14 million were raised, and financial arrangements with private donors and the sellers, negotiated and agreed to. Despite safeguards to reduce the risk of damage to the purchased assets from either departing Israelis or arriving Palestinians, the greenhouses sustained damage from looting following the IDF departure. Most of the greenhouses are structurally intact but repairs are needed to plastic, pipes, computers and associated facilities..

The PA has created the government-owned, commercially-run Palestinian Economic Development Company (PEDC), to manage the assets until decisions about their final disposition are made after one or two growing seasons. PEDC has contracted with PalTrade to organize the workforce, purchase seedlings and other inputs and identify buyers for the first crop that will begin to be harvested in November. Work for the 3000 Palestinian farmers has been assured who are now planting in the greenhouses that were not damaged and repairing those that were. Subject to adequate capacity at border crossings to allow the produce to reach the market

on time, a revenue stream estimated at over 50 million dollars per growing season can now be maintained.

The Three Palestinian Issues

1) The PA's Fiscal Crisis

Based on data for the first seven months of the year, the IMF conservatively estimates that the PA faces a recurrent budgetary shortfall (or financing gap) in 2005 of US\$250 million – largely due to constant political pressure from different groups of public employees to raise their salaries, something it cannot afford to do. Most important is adherence to the Wage Bill Containment Plan which was developed with IMF assistance and has been agreed with the donors financing the PA budget. This will require political courage as well as vigorous action to retire and retrench civilian and security services personnel. It is also essential that the Arab League members carry through on their pledges of budget support for this year---and Finance Minister Fayyad will soon visit Arab nations to urge them to carry through on their pledges of budget support. The Special Envoy will carry the same message.

Looking ahead, the PA must commit now to an aggressive program of fiscal reform that will lead to reduced donor dependency. Work on a Fiscal Stabilization Plan, which envisions a substantial reduction in the budget deficit over the coming three years, is underway with the assistance of the IMF and the Bank, and will be completed shortly. Many of the actions that need to be taken – such as reform of the pension system, and deep retrenchment – will not come without significant cost. If the PA is prepared to act decisively, the international community must also be ready to support their efforts. Budget support through the World Bank Trust Fund will also help move forward the reform process through a carefully designed set of governance related conditions.

2) The Three-Year Plan for Palestinian Development

DFID, the Bank and the Special Envoy's Office are now working with the Planning Ministry, the Finance Ministry and the Economic Ministry which will produce the Medium Term Development Plan 2006-08. This Plan will feature close integration between the capital and recurrent budget frameworks, as well as an intensive consultative process. It will be ready by mid-December, with the intention of using it as the basis for a donor pledging conference after the Palestinian elections.

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

With significant cooperation and support from the donor community and involvement of the PA, we have identified US\$750 million to be disbursed prior to the year end – this is almost double the US\$400 million disbursed in the first half of 2005.

The response by the donor community has been supportive and timely. Over the next four months, starting the day after the withdrawal, we can expect to see work beginning on:

- ♦ 2000 houses
- ♦ 100 kilometers of roads, including the Salah el Din road
- ♦ Potable water connections for 10,000 households
- ♦ Sewage treatment connections for 15000 households
- ♦ 560 new classrooms
- ♦ 6400 newly trained teachers
- ♦ 45 new health clinics; and
- ♦ 32 newly trained doctors and nurses

The Special Envoy's office will monitor the progress of these programs on a quarterly basis so that donors, the PA and the Quartet can continue to respond to emerging needs. Many donors have indicated their preparedness to provide additional funding for other quick impact projects as they are identified and in the immediate future. To that end, attached is a list of programmes and projects amounting to US\$150 million which we have established in close co-ordination with the PA and international organisations. To ensure immediate impact, the Special Envoy recommends that donors pay attention to job creation and infrastructure programmes which are most likely to bring dividends to the widest possible numbers of those in need, at the earliest possible opportunity. Existing funding mechanism such as the various World Bank Trust Funds, UNRWA, UNDP and bi-lateral arrangements with the PA should be used as they are established and ready to go.

Any increase in Palestinian wage labour opportunities in Israel will be important. In recent weeks some 5,000 daily permits were reportedly scheduled to be granted to workers from the Gaza Strip. According to OCHA on most recent days however, only a few hundred permits have been granted. The Special Envoy has written to the Israeli Government on this subject.

Of crucial importance is the role of the private sector. Two companies have been formed by PADICO with US\$ 100 million in each; one to operate in Gaza and the other to operate in Jenin. These leading Palestinian businessmen are looking for immediate funds including for housing on behalf of the Saudi Arabian interests. It is essential that Palestinian businessmen become engaged and there is every evidence that they are moving forward. In addition, the Special Envoy continues to promote loan guarantee schemes, assistance to small and medium enterprises and micro credit.

Next Steps

A large amount of detailed work is still before us to resolve the four remaining joint issues in the coming weeks but the ground work for future discussions and agreements between the parties on movement issues has been laid.

However, the work will not cease with the resolution of the four remaining joint issues. The assumption has always been that any reduction in movement restrictions and improved security are crucial. The same assumption applies to reform by the Palestinians of their governing institutions. The Rapid Action Programme distributed by the Special Envoy in June will serve as an outline for the next steps covering the issues of improving governance, improving economy & trade and the social environment. The Special Envoy and his office will work with the Palestinian Authority on important issues: capacity of the PA staff, rule of law, internal order – the recent kidnappings of internationals in Gaza and the latest spell of violence have revealed grave shortcomings. The PA must credibly fight corruption and continue to build an accountable financial system for the international community.

It is only with success in the resolution of the joint issues and reform that the international community can support the three year plan at the upcoming AHLC.

