



House of Commons
International Development
Committee

**Development
Assistance and the
Occupied Palestinian
Territories:
Government Response
to the Committee's
Fourth Report of
Session 2006–07**

Fifth Special Report of Session 2006–07

*Ordered by The House of Commons
to be printed 27 March 2007*

HC 430
Published on 29 March 2007
by authority of the House of Commons
London: The Stationery Office Limited
£6.00

International Development Committee

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Development and its associated public bodies.

Current membership

Malcolm Bruce MP (*Liberal Democrat, Gordon*) (Chairman)
John Barrett MP (*Liberal Democrat, Edinburgh West*)
John Battle MP (*Labour, Leeds West*)
Hugh Bayley MP (*Labour, City of York*)
John Bercow MP (*Conservative, Buckingham*)
Richard Burden MP (*Labour, Birmingham Northfield*)
Mr Quentin Davies MP (*Conservative, Grantham and Stamford*)
James Duddridge MP (*Conservative, Rochford and Southend East*)
Ann McKechin MP (*Labour, Glasgow North*)
Joan Ruddock MP (*Labour, Lewisham Deptford*)
Mr Marsha Singh MP (*Labour, Bradford West*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/indcom

Committee staff

The staff of the Committee are Carol Oxborough (Clerk), Matthew Hedges (Second Clerk), Anna Dickson (Committee Specialist), Chlöe Challender (Committee Specialist), Katie Phelan (Committee Assistant), Jennifer Steele (Secretary), Alex Paterson (Media Officer) and James Bowman (Senior Office Clerk).

Contacts

All correspondence should be addressed to the Clerk of the International Development Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1223; the Committee's email address is indcom@parliament.uk.

Fifth Special Report

On 31 January 2007 the International Development Committee published its Fourth Report of Session 2006–07, *Development Assistance and the Occupied Palestinian Territories*, HC 114–I. On 21 March 2007 we received the Government’s response to the Report. It is reproduced as an Appendix to this Special Report.

In the Government Response, the Committee’s conclusions and recommendations are in bold text. The Government’s response is in plain text.

Appendix: Government response

[Paragraph 10] We do not in any way condone the firing of qassam rockets from Gaza into Israel. Such actions need to stop. The question of a proportionate response nevertheless arises. The Israeli Defence Force’s response has killed and injured many more people than the actions of the Palestinian militants. Many civilians, including women and children, have been killed in Gaza. We accept that in situations of conflict, there will be mistakes and even excesses but proportionate response must be an integral part of any state’s security policy. The actions of neither the Palestinian militants nor the IDF in and around Gaza enhance the prospects for a peaceful settlement.

We agree with the Committee’s recommendations. All parties should exercise restraint and take only proportionate measures that are in accordance with international law. We have made our concerns about the effect of Israeli military operations on the Palestinian population clear to the Israeli Government and will continue to do so. It is in the interest of all parties to end the violence and seek a peaceful solution to the Israeli/Palestinian conflict.

[Paragraph 17] We believe that the international community is right to place pressure on Hamas to change those policies which militate against a peace process. However, this would best be achieved through dialogue and engagement rather than isolation. The danger of the current approach is that it might push Hamas into a corner which encourages violence rather than negotiation. The international community must also ensure it is not bolstering one faction against the other and thereby increasing the risk of internal strife.

The peace process cannot move forward whilst one party refuses to recognise the right of the other to exist. The Quartet principles ask no more of the Hamas-led Government than they did of its predecessors: renunciation of violence, recognition of Israel’s right to exist, and acceptance of previous agreements and obligations, including the Roadmap.

We welcome the successful outcome of Saudi Arabia’s efforts to broker a National Unity Government, and support President Abbas’s efforts for intra-Palestinian reconciliation. Following the formation of the National Unity Government, we will be reviewing its implications for the Temporary International Mechanism. We hope that this represents the beginning of change within Hamas and the start of them facing up to their

responsibilities in government. We will continue our policy of judging any new government by its actions.

[Paragraph 21] We agree with the British Prime Minister that until the Israeli-Palestinian conflict is solved there will be no peace in the region. 2006 has been a year of crisis for the OPTs; much of the progress made in the past has been eroded. We hope the Prime Minister's comments will revive interest in a peaceful settlement for the Israeli- Palestinian conflict which has continued for several decades.

As the Prime Minister has made clear, progress in the Middle East Peace Process remains at the core of the UK's strategy for the Middle East. We continue to work closely with Palestinians, Israelis and international partners to re-invigorate the peace process. We welcomed the meeting on 19 February between Secretary of State Rice, Prime Minister Olmert and President Abbas. Together with the Quartet's meeting on 21 February, this makes clear the continued engagement of the international community, and helps to maintain momentum.

ECONOMIC GROWTH AND PRIVATE SECTOR DEVELOPMENT

[Paragraph 35] The environment in the Occupied Palestinian Territories is not conducive to the growth of the private sector. On the contrary, current measures imposed by the Government of Israel, on security grounds, provide significant disincentives for local and foreign investment in the OPTs. This worrying trend threatens the viability of a future Palestinian state. Donors can play a role in encouraging the creation of an enabling investment climate but a reliable and predictable environment requires a peace settlement. Nevertheless, more pro-active steps can be taken, even prior to the attainment of a peace settlement. The easing of occupation could dramatically improve the prospects for business development and this in turn could improve the prospects for a durable peace. There is particular potential to encourage the development of small business and the third sector. We recommended in our report on private sector development that DFID should develop a strategy for private sector development in conflict-prone and conflict-affected states. The OPTs are an obvious example of where this would be valuable.

We agree that current restrictions on movement and access imposed by the Government of Israel, on security grounds, threaten the viability of a future Palestinian State. Only a peace settlement can provide a reliable and predictable investment climate. Most recently, the World Bank's Investment Climate Assessment, funded by DFID, concluded that shrinking market access and lack of free movement are the main constraints to growth in the Occupied Palestinian Territories. The Investment Climate Assessment makes recommendations for donor intervention in three areas: i) re-establishing movement and access, while maintaining Israeli security; ii) improving the investment climate; and iii) developing the capacity of enterprises.

In September 2005, the Chancellor commissioned Ed Balls, Economic Secretary to the Treasury, and Jon Cunliffe, Second Permanent Secretary to the Treasury to write a report on the opportunities to support economic development in the Occupied Palestinian Territories to accompany and enhance the peace process. The Treasury is continuing its work on this report, *The Economic Aspects of Peace in the Middle East*, and plans to publish

it in the spring. The report will build on analysis from the World Bank and consultation with key domestic and international stakeholders. It will look at all aspects of the Palestinian economy, propose concrete and credible ways in which the international community can, under the right circumstances, act in support of the Palestinian economy, and foster a self-reinforcing cycle of an improving political, security and economic environment.

TRADE

[Paragraph 37] Current restrictions, including those on movement and access, make Palestinian trade uncompetitive and the interim Association Agreement with the EU inoperable. The viability of a future Palestinian economy will depend significantly on its trading opportunities. The EU must ensure that Palestinian products are not being unfairly treated by Israel and measures need to be put in place to make the Association Agreement effective.

We strongly agree that, without secure and predictable access to both domestic and international markets, the private sector cannot invest and the economy cannot grow. On paper, the Occupied Palestinian Territories enjoy a liberal internal market and external trade regime. However, in practice both internal economic activity and external trade are seriously impeded by restrictions imposed by Israel. Neither short-term economic recovery nor sustained long-term growth will be possible until restrictions are removed or substantially relaxed.

The UK is pressing Israel to remove restrictions that have no clear security justification and urges both sides to implement their obligations under the November 2005 Agreement on Movement and Access. The UK government is working with the US and others to improve the operation of the Karni crossing-point. DFID has funded a World Bank analysis of the viability of the crossing between Gaza and Egypt at Rafah as a trade corridor. This has shown that the Rafah crossing can potentially provide high returns for Palestinian exports. DFID is now discussing with the European Commission and other donors how best to take forward these findings.

[Paragraph 38] There is an incongruity in allowing Israel to continue to benefit from a type of agreement from which Israel prevents Palestinians benefiting. Continued dialogue with Israel is certainly necessary but the Association Agreement appears to give tacit assent to the restrictions on movement and access which Israel imposes on the Palestinians. The UK should urge the EU to use the Association Agreement with Israel as a lever for change and to consider suspending the Agreement until there are further improvements in access arrangements.

The EU and Israel discuss what measures Israel has taken, and will need to take, in order to comply with its human rights obligations at the EU-Israel Human Rights Working Group. The UK Government, along with our EU partners, believes that the best way to make progress on human rights is through regular discussion. However, we do not believe that suspension of the EU-Israel Association Agreement is the best way forward.

[Paragraph 39] The regulation requiring detailed postcodes for settlement products is a recent and welcome development. It is important that the EU is not indirectly supporting and giving benefit to unlawful settlements on Palestinian land. However, to be effective, information about the postcodes needs to be widely understood in the EU and member states should ensure that robust, cost-effective arrangements are put in place to monitor goods being imported from Israel. The UK Government should press for the EU to take practical action to achieve these things.

The EU does not recognise settlements as part of Israel and does not accept goods from settlements as coming under the EU-Israel trade agreement. The UK has strongly supported efforts to prevent settlement products being passed off as Israeli in order to benefit from trade preferences under this agreement. We support the postcode regulation as the latest stage in these efforts.

[Paragraph 39] It has been reported that the Government of Israel is compensating Israeli manufacturers beyond the Green Line who export to the EU for the loss of their preference. This matter should be fully investigated by the EU to determine whether such practices undermine the basis of the Agreement.

The UK believes that settlements are illegal under international law. We therefore support the policy of ensuring that the trade preferences Israel receives under the Association Agreement are not extended to Israeli settlements in the Occupied Palestinian Territories.

The European Commission is aware of the existence of a mechanism by which the Israeli government pays compensation to Israeli manufacturers beyond the Green Line. It is in discussions with the Government of Israel and has asked for clarification on whether payments using the mechanism have been made. The European Commission is also studying the mechanism to see whether it is compatible with trade agreements that Israel has signed up to.

POVERTY

[Paragraph 49] Although the West Bank and Gaza were suffering from the impact of occupation well before 2000, developments since the outbreak of the *intifada* in that year took the socio-economic situation in the OPTs to crisis level. That crisis has intensified in 2006. In its current phase it is largely triggered by the withholding of Palestinian Authority revenues by the Government of Israel and the withdrawal of budgetary assistance by the major donors. These actions have made a bad situation worse. The PA is operating with a fraction of its normal budget and its contribution to household income has declined. The Government of Israel has been urged by the EU General Affairs Council to stop withholding the revenues, or to pay the revenues through the EU's own Temporary International Mechanism. There have been recent reports of an agreement between the Government of Israel and the Palestinian President on the repayment of some of the withheld funds. This is a matter of the highest priority. Current measures taken by the GoI and the international community are harming ordinary people. We recommend that the UK Government make specific representations to the Government of Israel to pay the remainder of the revenues due to the recognised institutions of the PA. If negotiations take place to channel the revenues through the Temporary International Mechanism or the Office of the

President, it is important that these recognize that the revenues belong to the Palestinians, not the Government of Israel, and that any such discussions expedite, rather than delay, the revenues being put to use in the OPTs.

As set out in the 1994 Paris Protocols, Israel collects the customs revenue on behalf of the Palestinians. The UK, both bilaterally and as part of the EU, has called for Israel to transfer the Palestinian customs revenue. We welcome the transfer of \$100 million and hope that this is a first step towards the full transfer of customs revenue to President Abbas. We will continue to raise this issue with the Israeli authorities.

Total bilateral UK assistance to the Palestinian people remained at the same level in 2006 as in 2005. EU aid as a whole is estimated to have increased by some 27% in 2006. While it is not currently possible to provide budgetary aid to the PA, the combined UK and EU assistance through the Temporary International Mechanism (TIM) substantially exceeds that provided previously in budget support. The TIM has paid allowances to pensioners, social hardship cases and PA workers, paid for energy supplies to essential PA services and provided supplies to enable PA clinics and hospitals to continue working. Thus, while the increased EU aid is not going through the PA, it is paying the costs of essential services that would have fallen to the PA. It is therefore not correct that the economic crisis in the Occupied Palestinian Territories, or indeed the PA's fiscal crisis, lies at the hands of donors.

HUMANITARIAN ASSISTANCE

[Paragraph 52] We agree with DFID that, while the UN can provide short-term humanitarian assistance, it cannot replace the services normally offered by the Palestinian Authority. Current high levels of humanitarian assistance may be necessary but they far exceed per capita levels provided in many poorer countries, for example in sub-Saharan Africa, and are not sustainable in the long term.

We agree that the current high levels of humanitarian assistance, provided by the UN and others, are necessary to meet urgent humanitarian needs and to prevent public services and institutions from breaking down completely. Without external support, it is likely that poverty levels would rapidly increase. The amount of aid given to the Occupied Palestinian Territories is only so great because of the exceptional political circumstances and the impact of closures and restrictions on economic activity. The formation of a viable Palestinian state able to support itself would create an environment for rapid private sector growth. As a result, aid could be substantially reduced. The current levels of aid are justified because the regional and global impact of peace, including on development, would be immense.

THE ROLE OF THE UN RELIEF AND WORKS AGENCY

[Paragraph 57] The UN Relief and Works Agency's capacity is stretched by the current crisis which has created an increased demand for its services. Even before the current crisis, UNRWA had requested more financial resources and increased management capacity to ensure a high standard of service delivery. We urge donors to bring greater predictability to UNRWA funding so that appropriate planning can take place to ensure proper provision of services for Palestinian refugees. DFID's additional funding

over a four-year period is a welcome contribution and will also benefit non-refugees in the current crisis. If the UNRWA mandate is extended in 2008 it must be made clear to donors that the current level of funding is insufficient to provide high quality services for Palestinian refugees.

DFID recognises the important support that UNRWA provides to Palestinian refugees in the Occupied Palestinian Territories and across the region. DFID's commitment of £100 million over the next five years provides the type of predictable funding UNRWA needs to help it plan to meet refugee needs. DFID continues to encourage other donors to follow the same approach, most recently at UNRWA's Advisory Commission in February 2007.

THE RESPONSIBILITIES OF THE GOVERNMENT OF ISRAEL

[Paragraph 60] While severe pressure has been placed on the Hamas-led Palestinian Authority to change its policies and accept Quartet principles, no comparable initiative has been taken with the Government of Israel to encourage it to put into practice agreements it has signed up to or to end clearly identified practices which are causing poverty and suffering in Gaza. We recommend that the UK Government urgently initiate a dialogue with the Government of Israel about those actions which are creating a humanitarian crisis in Gaza.

We continue to call on all parties to live up to their obligations. We regularly discuss Gaza with Israel, and the need to improve the humanitarian situation there, particularly by easing restrictions on movement and access. We support the role that the EU Border Assistance Mission plays at Rafah and we raise its operation regularly with the Israelis.

[Paragraph 64] The conflict between Palestinians and Israel is resulting in a high civilian death toll. There has been a marked increase in the number of Palestinian casualties in 2006. Greater pressure must be exerted on both sides to prioritise physical protection of civilians.

We support the Committee's recommendation. We continue to call on all sides to ensure that they avoid civilian casualties and that all measures are in accordance with international law. Any attempt to target civilians is unacceptable.

THE INFRASTRUCTURE OF OCCUPATION

[Paragraph 71] The proposed E1 settlement will severely impact on Palestinian territorial contiguity. The current explosive nature of the relationship between Israel and the Palestinians, and the significance which Palestinians attach to the city of Jerusalem, should be sufficient incentive to shelve plans for E1. We recommend that the UK Government initiate talks with the Government of Israel about the unacceptable nature and likely impact of E1 and identify what measures could be applied by the international community if Israel persists with the implementation of its E1 plan.

The UK remains very concerned about the proposed settlement at E1 and the expansion of the settlement of Ma'ale Adumim. Implementation of the E1 proposal would effectively split the northern and southern West Bank in two, and separate East Jerusalem from the

rest of the West Bank. We continue to raise our concerns with the Israeli authorities and will continue to monitor the situation closely.

Israel should freeze all settlement activity including the natural growth of existing settlements. It should dismantle all outposts built since March 2001. Settlement building is contrary to international law and is an obstacle to peace. This is our consistent policy.

[Paragraph 78] Israel is entitled to defend its citizens. Attacks against civilians violate international humanitarian law. However any such defence must be proportionate to the threat. The system of separate roads and road blocks is discriminatory and much of the need for such infrastructure arises from the presence of settlements. Palestinians are being treated as second-class citizens in their own country. The checkpoints are slow and the access roads are poor. The operation of the checkpoints is haphazard and arbitrary. Where humanitarian needs exist, these must, as a matter of priority, be met without delay. We are extremely disappointed that no progress has been made in this area since the previous International Development Committee's report in 2004.

The continued Israeli closure regime of roadblocks and checkpoints has a severe impact on almost every Palestinian in the Occupied Palestinian Territories. This restriction on freedom of movement cannot always be justified on security grounds. Closures restrict access for medical personnel to those who need their services, they make it difficult for children to travel to school, and hinder ordinary Palestinians when travelling to work. They also have a devastating effect on the Palestinian economy. Economic hardship and unemployment contribute to the Palestinians' sense of frustration and make a comprehensive settlement more difficult to achieve. We have expressed our concerns to the Israeli Government on political, legal and humanitarian grounds, and will continue to do so.

THE SEPARATION BARRIER

[Paragraph 87] Israel has the right to construct a barrier inside its own territories or along the Green Line. However, the barrier, as it is currently constructed and according to its projected route, destroys the viability of a Palestinian state. It divides Palestinian communities and families and it separates Palestinian farmers from their land. The barrier has been declared contrary to international law by the International Court of Justice. The UK Government shares the view that the building of the wall on Palestinian land is illegal. Building up the Palestinian economy and business environment is not possible under these conditions. The Government of Israel bears primary responsibility for ensuring public order and humanitarian conditions in the Palestinian territories. We accept that Israel's security concerns are legitimate, but it should not unlawfully seize Palestinian land or place unnecessary obstacles in the way of Palestinian economic development. The rulings against the separation barrier are clear—the barrier must be removed from Palestinian land and the UK Government should make renewed representations to the GoI about this and consider what further responses would be appropriate from the international community should Israel continue to ignore these rulings.

We agree with the Committee's recommendations. We recognise Israel's right to defend itself but have urged the Israeli Government at all levels to re-route the barrier on or

behind the Green Line. The UK's position has remained clear, ie that the barrier should be removed from all Palestinian land.

THE AGREEMENT ON MOVEMENT AND ACCESS

[Paragraph 94] We accept that the security situation deteriorated significantly in 2006 and we acknowledge the legitimate security concerns of Israel. Decisions by the Government of Israel not to put into practice procedures acceded to in the Agreement on Movement and Access are, however, causing severe damage to the Palestinian economy and in particular to Gaza. Disengagement from Gaza has no chance of success under these conditions. Putting into practice measures agreed to in the Agreement on Movement and Access would provide a significant boost to the Palestinian economy. This is an area in which progress can be made prior to the achievement of a political solution. We recommend that the UK Government accelerate its efforts to prevent the Agreement from failing.

Together with our international partners, we continue to call on both sides to implement the November 2005 Agreement on Movement and Access. We are currently working with the US Security Co-ordinator to improve access at the Karni crossing-point and continue to support the work of the EU Border Assistance Mission at the Rafah crossing-point.

[Paragraph 95] Assurances and procedures put in place by the EU Border Assistance Mission, in cooperation with Palestinian border police and customs officers, on the Rafah crossing should enable the crossing to be opened as envisaged under the Agreement on Movement and Access. The decision not to do so leads us to question the extent to which Israel is motivated by legitimate security considerations.

We continue to call on Israel to honour its obligations under the November 2005 Agreement on Movement and Access. Both bilaterally, and together with EU partners, we call on Israel to keep Rafah crossing point open as set out in the Agreement on Movement and Access.

[Paragraph 96] The back-to-back system is outdated, slow, unpredictable and costly. What we observed at the Awarta checkpoint in the middle of the West Bank leads us to question the contribution it makes to enhancing security, while it is quite clear that it is one of the measures strangling the Palestinian economy.

We continue to call on all parties to fulfil their commitment under the November 2005 Agreement on Movement and Access. We would welcome an end to the back-to-back system, but we believe the main problem is not so much the system itself, but the way it is implemented. We are working with partners to enhance the border-crossing standards and raise our concerns regularly with the Israelis.

[Paragraph 100] We believe there is a fundamental relationship between Palestinian economic viability and Israeli security. The benefits from the achievement of both would be mutual. The efforts of the US Security Co-ordinator to improve the security of the Karni crossing are a step in the right direction. The effective operation of Karni would help to ensure a predictable and efficient passage of goods between Israel and Gaza. Without this, the Palestinian economy cannot grow. A viable Palestinian economy would serve the interests of Palestinians and Israelis and both have

responsibilities to ensure the safe, predictable and secure passage of goods and people as set out in the Agreement on Movement and Access. Making the Agreement work should be a priority for both parties and for the international community.

We agree with the Committee that Palestinian economic viability can aid Israeli security. A key area for improving the Palestinian economy is the easing of restrictions on movement and access. It is precisely for this reason that we are supporting the efforts of the US Security Co-ordinator to improve movement and access. The UK Government is currently seeking Parliamentary approval for a package of support to the Karni project of over £350,000. We also support the work of the EU Border Assistance Mission in Rafah.

THE TEMPORARY INTERNATIONAL MECHANISM

[Paragraph 107] It is clear that there have been delays in getting Window I of the Temporary International Mechanism fully operational. We understand the need for caution in the procurement of supplies of drugs and accept that the European Commission would have faced the same problems as the World Bank if it had administered Window I. However these problems could have been anticipated and alternatives considered to ensure the continued supply of medicines. We believe that the TIM's objective of ensuring that essential services continue has not thus far been met in relation to the supply of essential drugs.

We agree that there were delays in getting the World Bank-managed Window I of the TIM fully operational. We considered several options for delivering essential health supplies before deciding to disburse our funds through the Bank. These included putting funds through the UN and procuring, managing and monitoring the work ourselves. As the World Bank proposed to use an existing project to deliver health supplies we judged that it would be able to deliver quickly. However, initial delays due to procurement difficulties on the part of the World Bank were compounded by limited capacity within the Palestinian Authority, in part due to the public sector strike. Window I is improving and deliveries of essential drugs have been taking place since January 2007. We are pressing for an evaluation, and for the World Bank to identify ways to further accelerate the procurement process. We have also provided technical assistance to the Office of the President, which has helped to improve delivery.

[Paragraph 108] Window II was a timely response to the bombing of the Gaza power plant. It is working well in difficult circumstances and fulfilling its objectives.

We agree that Window II, managed by the European Commission, is working well and has played a critical role in ensuring that basic services continue to be delivered to 1.3 million people in Gaza. It provided fuel for emergency generators at hospitals, for clinics and for water and sanitation facilities following the damage to Gaza Power Station in an Israeli air strike. Since the Power Station returned to service in the autumn, Window II has provided fuel to enable power supplies throughout Gaza. To date over 4.8 million litres of fuel have been delivered. The European Commission is currently considering how Window II should continue to operate over the coming months.

[Paragraph 112] Window III is making a useful, if limited, contribution to health care workers, social hardship cases, low-income cases and pensioners. It is not a substitute for, or equal in value to, salaries or normal welfare arrangements. In the current circumstances, it is helping to meet the basic needs of some groups of people. There are many public sector workers who do not receive anything through the TIM and who are worse off as a result of the fiscal crisis facing the PA. The strikes throughout the civil service demonstrate their dissatisfaction.

The main aims of support through Window III are to help meet the basic needs of the poorest public-sector workers and those people facing the most severe hardship. The TIM also provides a vital injection of cash into the Palestinian economy. The scope of TIM payments to PA workers has been progressively expanded as more funds have become available. Initially, health workers and pensioners were the only beneficiaries, but recipients now include all public-sector workers except those working in the security sector. In addition, the list of beneficiaries of social hardship payments has also been extended. In total some 150,000 people have received payments. This means that, assuming a family size of six, more than 900,000 Palestinians have benefited directly from payments under the TIM. The TIM is not a full substitute for PA salaries, but it does comprise a larger EU contribution to Palestinian welfare than previously provided through budget support.

[Paragraph 115] We recommend greater donor co-ordination to facilitate the work of the EU Co-ordinating Office for Palestinian Police Support (EU COPPS) which we believe can play an important role in developing policing skills and a non-factional approach to promoting law and order. We are also pleased that discussions are taking place between the EU and the Office of the President about the possibility of the security services being paid an allowance through the TIM. In highly inflammatory situations it is important that the civil police feel they are in a position to carry out their duties effectively and do not abuse their position because of economic hardship. However any decision to fund the civil police, or the security forces of the Office of the President, will need to take account of the rivalry between Hamas and Fatah security forces and potential misdirection of funds to international terrorism.

We agree that the EU Police Co-ordination Office for Palestinian Police Support (EU POLCOPPS) mission plays a key role in supporting the development of the Palestinian Civil Police. The UK is in favour of EU POLCOPPS re-engaging with the civil police as political conditions allow. The police continue to function as the most apolitical of the Palestinian Authority Security Forces (PASF); ensuring that they can do their jobs will help improve law and order. We welcome discussions between the EU and the Office of the President on the possible payment of an allowance to the Civil Police, and agree with the Committee's analysis of the risks and benefits of this.

We are actively supporting the development of reform plans to professionalise and, eventually, reduce the size of the PASF. In this regard we are providing technical assistance to the office of the US Security Co-ordinator, who is charged with leading the international community's response on Palestinian security, and to the Palestinian National Security Co-ordinator's team.

[Paragraph 116] A way must be found to repay the remaining revenues withheld by the Government of Israel. The TIM offers one possible mechanism.

Following a meeting between President Abbas and Prime Minister Olmert on 23 December, Israel agreed to release \$100 million of Palestinian clearance revenues to President Abbas. Under the Paris Protocol, Israel has an obligation to transfer all clearance revenues to the Palestinians. The EU has offered the TIM as a vehicle to transfer the revenues. However, so far neither Israel nor the Office of the Palestinian President have agreed to this.

[Paragraph 117] The European Commission recognises that the TIM is, and can only be, an inadequate response to the present financial crisis in the OPTs. We agree that it is a means of helping the poorest and alleviating the suffering of the Palestinian people in the short run. The problems we have identified, including the delays in getting Window I off the ground, as well as the limited number of civil servants who receive payments, will need to be addressed when the TIM is extended. In the absence of a solution to the current fiscal crisis we support the continuation of the TIM. However we insist that it must be temporary and if it persists beyond the current year there is very real risk that the Palestinian Authority may be fatally undermined. This would set back not only the realisation of Palestinian rights to govern themselves in the West Bank and Gaza but also the prospects for peace.

At present the TIM offers the best available way of supporting Palestinian basic needs and addressing the financial crisis. To date, it has provided direct support to over 140,000 Palestinians and vital assistance to ensure that basic services continue throughout the West Bank and Gaza. Donor funding through the TIM and other mechanisms has played an essential role in slowing the economic decline in the Occupied Palestinian Territories. This is now estimated at -9% during 2006, rather than -27% as was predicted at the start of last year.

We welcome the Committee's support for the continuation of the TIM. The TIM is due to end on 31 March 2007, but is likely to be extended further if necessary. Window I is now operational and deliveries of essential drugs have been taking place since January 2007. The EU recently removed the wage threshold in Window III, which enabled an additional 10,000 public sector workers to benefit. Discussions are also taking place on the possible inclusion of the Palestinian Civil Police within the TIM, which would benefit around a further 17,000 recipients. We are assisting the EC and World Bank to take forward an impact assessment of the TIM. This will help to further improve the TIM's performance.

We agree that in its current form the TIM is not suitable for long-term use. However, a modified TIM could usefully become a bridging mechanism for donor support to a Palestinian Authority Government that met the Quartet principles until budget support could be re-established. In addition, we are working with EU partners on priorities for support to the institutions of a viable Palestinian state—both immediately and once we are able to engage directly with the Palestinian Authority.

THE HEALTH SECTOR

[Paragraph 129] The UK Government and other donors in the international community have indicated that if a Palestinian Authority, led by or including Hamas, agreed to accept the Quartet principles, normal funding mechanisms would be resumed. We hope the Government of Israel would take a similar view. In the meantime, however, we believe there are humanitarian reasons to exempt the health sector from the financial boycott of the Palestinian Authority, especially given the difficulties which restrictions on movement and access continue to cause for this sector. We recommend that the UK Government investigate the possibility of achieving such an exemption. Using existing health provision structures would be more effective and efficient than the creation of alternative funding mechanisms such as the Temporary International Mechanism.

The UK has consistently stated that it stands ready to work with a government that accepts the principles set out by the Quartet. Until that acceptance is demonstrated through policy statements or actions, we cannot support the routing of funds through the Hamas-led Palestinian Government. For now, the TIM provides the best alternative. It was because of the importance of the PA as the major health service provider that PA health workers were the first to receive allowances under the TIM and that the UK focused its first £3 million of funding on health supplies. The TIM is directly supporting the same health workers and providing supplies to the same clinics and hospitals that previously received UK funds through budget support to the Palestinian Authority. The TIM is also funding a number of NGOs providing health care, to offset the cost of referrals from PA clinics.

DEVELOPMENT ASSISTANCE UNDER CONDITIONS OF OCCUPATION

[Paragraph 130] We agree that under the current circumstances donors should not disengage from the OPTs.

We welcome the Committee's recommendation. Without external support, it is likely that poverty levels in the Occupied Palestinian Territories would rapidly increase. Until there is a viable Palestinian state able to support itself, and without substantial improvements in movement and access, there will be a need for ongoing donor engagement.

[Paragraph 132] We agree that there is an urgent need for a political solution, and an end to occupation, but consider that there are interim actions which can and should be taken by the international community to work towards one. For example DFID has contributed to the building up of the Palestinian Authority and other institutions, and has supported the Negotiations Support Unit, with a view to eventual self-government. Such initiatives provide opportunities for increased levels of independence and Palestinian-led development. These are welcome initiatives. Unfortunately, as we have noted, the current policy of not funding PA institutions threatens to undo much of the progress which DFID has helped achieve and increases the risk of collapse of the PA as anticipated by DFID in its Country Assistance Plan of 2004.

We believe that a viable Palestinian state can only be achieved through strong public institutions. This is why building the capacity of Palestinian institutions is a key objective of our programme. However, we cannot provide assistance to a government that is

committed to violence and the destruction of Israel. Since Hamas took control of the Palestinian Authority we have attempted to prevent the decay of PA institutions by working through the TIM. This provides non-salary assistance to PA front-line services such as clinics and hospitals and provides allowances for PA workers. We also continue to work with institutions which do not report to the Hamas government, such as the Office of the President, the Negotiations Affairs Department and the Palestinian Monetary Authority. We are working with the World Bank to monitor the impact of the current fiscal crisis on PA institutions and are working to enhance civil society capacity to monitor and evaluate government performance and advocate and lobby for reform.

[Paragraph 133] It has been reported that the Government of Israel has released \$100 million of the withheld revenues to the Palestinian President. This is a welcome development. However there is no legitimacy to the withholding of any of the revenues and the decision to release only a small part of these will have limited effect on the crisis facing the Palestinian economy. Pressure must be placed on the GoI by the UK and the Quartet to release the full amount due as soon as possible.

The UK, both bilaterally and as part of the EU, has called for Israel to transfer fully the Palestinian customs revenue. We welcome the transfer of \$100 million of this revenue and hope that this is a first step towards the full transfer to President Abbas. As set out in the 1994 Paris Protocols, the customs revenue is collected by Israel on behalf of the Palestinians.

[Paragraph 137] The existence of the settlements and the requirement to protect and secure them has created a complex system of separation under which Palestinians must live. The current system of closure if taken to its logical conclusion will make a future Palestinian state unviable. This must not be allowed to happen. The future of the West Bank and East Jerusalem settlements should be a matter of priority for the international community. The constructive engagement approach has not placed it sufficiently high on the agenda. The UK and the international community need to reconsider their approach towards the Government of Israel.

The continuing process of establishing settlements risks encircling East Jerusalem and breaking up Palestinian territorial contiguity throughout the West Bank. These practices fuel Palestinian anger, threaten to cut East Jerusalem off from the West Bank and make it more difficult for there to be a viable Palestinian state. We continue to call on Israel to meet its commitments on settlements, as detailed in the Roadmap.

LOOKING FORWARD: THE CURRENT CEASEFIRE

[Paragraph 140] At present there is a stand-off between a Palestinian government that will not recognise Israel and the international community which insists on this as a precondition for even exploratory dialogue on humanitarian affairs, let alone formal peace talks. Ways must be found to foster a dialogue—incentives should be offered as well as penalties threatened or imposed if progress is to be made on the peace settlement.

The UK and EU have made clear that we stand ready to engage with a Palestinian government that reflects the Quartet principles. If such a government is formed, the

international community should engage. However, we are clear that the peace process cannot move forward whilst one of the parties refuses to recognise the right of the other to exist.

[Paragraph 141] Humanitarian assistance must be integrated with long-term development planning which seeks to relieve developmental constraints. To this end the UK must work with the Palestinian Authority and other relevant bodies to consider how to rebuild Palestinian institutions and how to restore lost livelihoods which have resulted from events in 2006 and, importantly, how to re-establish confidence in the democratic process out of which Hamas was elected.

We agree on the importance of building the institutions of a viable Palestinian state within a long-term development framework. That is why the UK was at the forefront of efforts to support the PA's Medium Term Development Plan during 2005. More recently, we have been working through the Governance Strategy Group led by the EC to define an agenda for reform which we can take forward when there is a Palestinian government we can work with. The immediate challenge will be to revitalise systems and processes which have fallen into disuse over the past year, such as the Budget process and the Single Treasury Account, whilst also building Palestinian capacity and consensus around a long-term governance agenda. We will continue to address the humanitarian needs of the Palestinian population through our support to the Temporary International Mechanism and UNRWA as long as is necessary. However, sustained improvements in Palestinian livelihoods can only come about through enhanced movement and access and a relaxation of the current Israeli closure policy, as noted elsewhere in the Committee's report.

[Paragraph 142] In other situations, ways have been found of UK representatives talking to those with whom we have profound and justifiable disagreements because we talk to them in their capacity as elected representatives, not in their capacity as representatives of a particular party or faction. Finding ways of achieving this in this case need not mean a dilution of the international community's insistence that Israel has the unqualified right to recognition and security within legitimate borders any more than our talking to the Government of Israel means endorsing its continued occupation of East Jerusalem, the West Bank and Gaza.

The international community is asking no more of the Hamas-led Government than it has of its predecessors namely: renounce violence, recognise Israel, and accept previous agreements and obligations, including the Roadmap. The UK is ready to engage with any government that is prepared to reflect these three principles in its policies.

[Paragraph 143] Although we are clear that practical action needs to be taken now to relieve the immediate crisis in the Occupied Territories, we are also clear that the Palestinians have as equal a right to self-determination in a viable and contiguous state as the Israelis have to peace and security in their own internationally recognised state. Neither the international community nor the Government of Israel should underestimate the strength of commitment amongst Palestinians to such a state. That message came out strongly during our visit.

We agree with the Committee's assessment.

[Paragraph 144] Palestinian resistance to occupation has taken many forms over the years. Whilst rejecting violence as a means of achieving their aims we support the creation of an independent Palestinian state alongside Israel. The commitment to a two-state solution is set out in UN Resolutions and in the performance-based Roadmap drawn up in 2003. The Roadmap was endorsed by the Quartet and the partners in the Quartet should work more proactively to achieve it, through talks between the parties involved and through measurable and internationally monitored steps to achieve it.

We agree with the Committee's assessment.

Department for International Development
21 March 2007