



House of Commons
International Development
Committee

**UK's Development
Work in the Occupied
Palestinian Territories:
Government Response
to the Committee's
Third Report of Session
2014–15**

**Fourth Special Report of Session
2014–15**

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The International Development Committee

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The current staff of the Committee are Dr David Harrison (Clerk), Chloe Challender (Senior Committee Specialist), Louise Whitley (Committee Specialist), Richard Ratcliffe (Committee Specialist), Zac Mead (Senior Committee Assistant), Paul Hampson (Committee Support Assistant) and Hannah Pearce (Media Officer).

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Fourth Special Report

On 6 August 2014 the International Development Committee published its Third Report of Session 2014–15, *The UK's Development Work in the Occupied Palestinian Territories*, HC 756. On 16 October the Committee received a memorandum from the Secretary of State for International Development which contains a response to the Report. The memorandum is published as an appendix to this Report.

Government response

Introduction

The UK Government welcomes this opportunity to respond to the International Development Committee's report on the UK's development work in the Occupied Palestinian Territories (OPTs). We acknowledge that the prospects for peace between Israelis and Palestinians might appear difficult, but we welcome the Committee's conclusion that the UK should continue to support peace talks, keep hopes of the two state solution alive and provide funding to support the Palestinian people and development of a Palestinian State.

Resolving the Israeli-Palestinian conflict remains a foreign policy priority for the UK. Our position is clear: we want to see a negotiated settlement leading to a safe and secure Israel living alongside a viable and sovereign Palestinian state; based on 1967 borders with agreed land swaps, Jerusalem as the shared capital of both states, and a just, fair and agreed settlement for refugees. The events in Gaza this summer have only confirmed the urgent need to reach a peaceful solution for both Israel and Palestinians.

The political horizon remains uncertain. The situation on the ground, however, is deteriorating.

According to the IMF, the Palestinian economy has been slowing in recent years, especially in Gaza. Growth in the OPTs decelerated from 6.3% in 2012 to 1.9% in 2013 and continued to decline in the first quarter of 2014.¹ Israeli movement and access restrictions are the main impediment to economic growth. In addition, the latest escalation of violence means that real GDP in Gaza is expected to contract by 15% in 2014 and economic growth in the OPTs as a whole will decline by 4%.² Without economic growth, unemployment will rise further. Even before the latest violence, over a quarter of Palestinians were unemployed (18% West Bank, 41% Gaza).³ Rates for young people, women and refugees are even higher.

¹ IMF, Report to the Ad Hoc Liaison Committee, 12 September 2014.

² IMF, Report to the Ad Hoc Liaison Committee, 12 September 2014.

³ Q2 2014 labour force statistics, Palestinian Central Bureau of Statistics.

The situation in Area C remains fragile. We are gravely concerned by the continuing demolitions of Palestinian properties: between January and September 2014, a total of 399 Palestinian owned structures have been demolished in all of the West Bank, including East Jerusalem, resulting in the displacement of 823 people. Plans to move Bedouin communities from the land east of Jerusalem to a township near Jericho could, according to the UN, amount to forcible transfer. Combined with the increase in Israeli settlement building – amounting to an increase of 123% in building starts in the West Bank in 2013⁴ – and continued difficulties in obtaining planning permission for Palestinian development, the viability of Palestinian life and livelihoods in Area C is increasingly precarious.

The events in Gaza this summer came on top of an already chronic situation: 57% of the population were food insecure, 80% were reliant on aid and only a quarter of households received running water on a daily basis.⁵ The humanitarian impact of the conflict was severe: there were more than 2,100 Palestinian fatalities, more than a quarter of the population were internally displaced, and the damage to key infrastructure including water and power has been substantial. In response to the unprecedented needs, the UK has been one of the biggest donors, providing more than £17million in emergency assistance. This support is saving lives, but a political solution is needed to break the cycle of violence. It is vital that the parties engage in negotiations to reach a sustainable and durable agreement which addresses the underlying causes of the conflict. For children aged six or over living in Gaza, the conflict this summer was the third they have experienced in their short lives – this must not happen again.

In this context of political stasis combined with growing human suffering, the Committee's endorsement of the UK's commitment to build the institutions of a future Palestinian state, to support economic growth, and to provide assistance to the most vulnerable is welcome. It is easy to understand why, in some cases, the Committee would like to see the UK do even more to improve the lives of Palestinians, but tough choices need to be made. Aid is not the solution in the OPTs. We know that political will is required to unlock what by now are very familiar problems. Ultimately, it is the leaders of the parties involved who must find the political will to take the bold steps necessary for peace. The UK and other members of the international community stand ready to support the parties to move forward in the weeks and months ahead.

⁴ Peace Now, March 2014, using figures from Israeli Central Bureau of Statistics.

⁵ OCHA, The Gaza Strip: The Humanitarian Impact of Movement Restrictions on People and Goods, July 2013.

DFID Response to the Conclusions and Recommendations

The OPTs: the background

Recommendation 1: We regret the recent suspension of peace talks between the Government of Israel and the Palestinian Authority. We note with sadness the terrible crimes recently committed by both Palestinian and Israeli extremists. We understand the revulsion which many Israelis feel for Hamas, whose charter calls for the destruction of the Israeli state. We condemn the continuous rocket attacks on Israel from the Hamas-controlled Gaza Strip, which show the seriousness of Israel's security concerns. Nevertheless, in the long run there has to be agreement between Fatah and Hamas which should result in peace talks between such a unified Palestinian government and Israel. All parties to these peace talks, including Hamas, must accept the Quartet's principles if there is to be a two-state solution. Moreover, we believe that the reconciliation increases the likelihood that Hamas will one day accept Israel's right to exist. US Secretary of State John Kerry had shown extraordinary leadership in bringing the parties to the table, and despite the murders of late June and July we remain hopeful that the current suspension will be temporary rather than permanent. (Paragraph 17)

Agree.

The UK Government remains fully committed to supporting efforts for peace. We have been deeply saddened by the violence in the region this summer. These events reinforce the need for progress towards lasting peace. We continue to believe that only a negotiated two-state solution will resolve the Israeli-Palestinian conflict once and for all. The UK stands ready to do all it can to support this goal.

For this to happen, it will be necessary to end the separation between Gaza and the West Bank and reunite them under a Palestinian Authority fully committed to peace with Israel. We have made it consistently clear that we will engage any Palestinian government that shows through both their words and actions that they are committed to the principles set out by President Abbas in Cairo in May 2011. This means that the Palestinian Authority must continue to uphold the principle of non-violence, and remain committed to a negotiated peaceful settlement of the Israeli-Palestinian conflict, accepting previous agreements and obligations, including Israel's legitimate right to exist. The UK's ongoing engagement with a new Palestinian government - including through the provision of direct financial support - will be based on its adherence to these principles and commitments.

In the days ahead, the PA, under the political leadership of President Abbas, must show the necessary leadership and vision to recommit itself to dialogue with Israel and make progress on governance and security for Palestinians across the whole of the OPTs.

Hamas faces a fundamental decision about whether it is prepared to accept the Quartet principles and join efforts for peace, or whether it will continue to use violence and terror with all the associated consequences for the people of Gaza.

Israel will need to commit to a return to dialogue and to avoid all actions which undermine the prospects for peace, including settlement activity which does so much to undermine confidence in negotiations.

Recommendation 2: The suspension of the peace process should not lead to the suspension of discussions to lift restrictions on economic development in the OPTs. These cannot await a peace agreement; there has not been a final peace settlement in over 40 years and there may not be one for many years. The stalling of the peace process should not prevent the UK from encouraging economic development in the OPTs and encouraging the removal of those restrictions which are not justified on security grounds. Indeed, we see it as in everyone's interest to increase prosperity in the OPTs. (Paragraph 18)

Agree.

We remain deeply concerned about Israeli restrictions on the movement of people and goods in the OPTs. These restrictions do tremendous damage to the Palestinian economy and are the main impediment to sustainable economic growth. In close coordination with the Quartet and EU partners, we continue to lobby the appropriate Israeli authorities on the issue of improving movement and access.

Helping to build Palestinian institutions, promoting economic growth and supporting the most vulnerable will remain important objectives regardless of progress or otherwise in the peace talks. Economic progress can never be a substitute for a political settlement, but it is vital that Palestinians see tangible improvements in their daily lives.

In addition, we agree with the Committee that increased prosperity in the OPTs is firmly in Israel's long-term interests.

Economic development in the OPTs

Recommendations 3 & 4: If the OPTs are to enjoy a better future, promoting economic development will be of the utmost importance. We strongly support DFID's recently-launched Palestinian Market Development Programme (PMDP), but we also believe that it could do more in this area.

We recommend that DFID launch a Private Sector Grant Facility (PSGF) and Development Impact Bonds (DIBs) in the OPTs, as the Portland Trust recommended. (Paragraph 22)

Partially agree.

We agree with the conclusion that economic growth is vital for Palestinian development, and we welcome the Committee's support for the Palestinian Market Development Programme (PMDP). This programme is helping to make Palestinian businesses more competitive: over the next five years, it will enable 570 companies to develop new products and enter new markets. Additional funding announced by the Prime Minister during his visit to Israel and the OPTs in March 2014 will also help to create a Delivery Unit in the PA Deputy Prime Minister's office to deliver a plan for reconstruction in Gaza alongside a broader plan for rapid, sustained and equitable growth in the West Bank and Gaza Strip.

DFID has been discussing the Private Sector Grant Facility with the Portland Trust for some time. We have not yet been convinced that the concept is developmentally sound. Although large infrastructure projects can create jobs and provide a boost to the economy, providing direct subsidies to reduce the costs to large investors is not necessarily the best approach for donors to adopt. We assess that a more sustainable approach is to provide incentives, technical assistance, loan guarantees and political risk insurance.

As the Committee rightly notes, Development Impact Bonds are a relatively new concept bringing together private investors, non-profit and private sector service delivery organizations, governments and donors to deliver results that society values. DFID's Private Sector Department has been exploring the concept in some detail, but the option will require further scoping in the OPTs, in part because of the very high risk environment for investors.

Nevertheless, we continue to engage closely with the Portland Trust and a number of other organisations on possible further support for private sector development.

Recommendation 5: We note the huge benefits which greater access to Area C would bring to the Palestinian economy. (Paragraph 25)

Agree.

Area C makes up more than 60% of the West Bank and is largely off-limits for Palestinian use. It includes much of the agricultural land in the West Bank, access to the Dead Sea, and valuable natural resources in the Jordan Valley. Improved access to Area C is key to future Palestinian economic growth: the World Bank estimates the total potential value added from alleviating today's restrictions on access to, and activity and production in, Area C is likely to amount to some USD 3.4 billion - or 35 percent of Palestinian GDP in 2011.⁶ Development of Area C would also increase the PA's tax base.

Recommendations 6 & 7: While there are disagreements about the extent of the difficulties faced by Palestinians in obtaining construction permits, it is clear that

⁶ World Bank, Area C and the Future of the Palestinian Economy, October 2013.

the difficulties have a major negative impact on the Palestinian economy, for example on businesses seeking to expand.

We recommend that the UK press the Israeli authorities to grant significantly more construction permits than they have thus far been willing to do. (Paragraph 34)

Agree.

The restrictive planning regulations in Area C continue to make it very difficult for Palestinians to obtain the required permits to build legally. Less than 1% of Area C is currently planned for Palestinian development.⁷ Building without a permit leaves properties at risk of demolition by the Israeli authorities. This severely restricts Palestinian communities and businesses from expanding and developing to meet their needs.

Enabling Palestinians to stay in their homes on the land in Area C is also vital for the contiguity of a future Palestinian state.

We raise this issue regularly with the Israeli authorities, urging Israel to ease restrictions on Palestinian construction and to transfer responsibility for planning in Area C to the Palestinian Authority. We will continue to do so at the highest levels.

Recommendations 8 & 9: The demolition of many Palestinian structures is contrary to international law. *We recommend that the UK seek to persuade the Israeli authorities to refrain from such demolitions where the UK believes such structures are justified. UK representatives should engage with Israeli officials as soon as demolition orders are issued where the UK believes these structures are justified. We also recommend that DFID scale up the important work it is already doing to help Palestinians to contest demolition orders in the courts. (Paragraph 35)*

Partially agree.

We are gravely concerned by demolitions and displacement. Demolitions cause unnecessary suffering to ordinary Palestinians; are harmful to the peace process; and, in all but the most limited circumstances, are contrary to International Humanitarian Law (IHL). We have repeatedly made clear to the Israeli authorities our serious concern at demolitions of Palestinian properties, and will continue to do so at the highest levels.

DFID is currently supporting the Norwegian Refugee Council (NRC) to provide legal aid to vulnerable households at risk of losing their homes to demolition. This approach is successful: demolition orders are suspended in 95% of cases in Area C and East Jerusalem that receive legal aid through NRC. This support will continue to be

⁷ OCHA, Area C of the West Bank: Key Humanitarian Concerns, January 2013.

important as long as the Israeli planning and permitting regime in Area C does not allow Palestinian communities to build legally.

However, enabling Palestinians to stay in their homes on the land will ultimately require a more comprehensive approach. Through the Conflict Pool, the UK has supported the International Peace and Cooperation Centre (IPCC), to work with Palestinian communities on long-term planning in East Jerusalem and Area C. IPCC report that no demolitions have taken place in any of the 32 areas where they have prepared UK-funded plans. In addition, DFID's £6.2million programme of support in Area C will help to restore agricultural wells serving nearly 1,000 farming families, thus enabling them to work more productively. We will also provide further technical assistance to help Palestinian communities to deliver high quality Outline Plans for submission to the Israeli planning system.

We will keep our funding to NRC under review but, rather than automatically scaling up this work as the Committee suggest, we will consider the value of doing so against further planning activity and supporting the building of infrastructure in planned areas.

Recommendation 10: Israelis have justifiable concerns about the nature and objectives of Hamas and its role in the PA government, but this should not prevent the Government of Israel from taking forward actions that remove obstacles to the development of Palestinian communities in Area C; specifically the process of developing "Master Plans" for communities in Area C should not be frozen as part of the suspension of Israel's peace negotiations with the Palestinians. (Paragraph 36)

Agree.

We agree with the Committee that political disagreement should not prevent progress on the development of Palestinian communities in Area C.

We note the UN's appeal to the Israeli Civil Administration in September 2014 to approve 90 Palestinian community-owned outline plans as a "welcome first step towards addressing planning needs for all Palestinian communities."⁸ Our approach to development in Area C, in close cooperation with the UN, has been to engage constructively with the Israeli authorities to help Palestinian communities to plan for their future. We now need to see urgent movement on this issue.

We welcomed the Israeli decision to approve two UK-funded Palestinian-owned masterplans (covering three communities) earlier this year. Many more, however, are awaiting approval. We raise this issue regularly with the Israeli authorities and will continue to do so.

⁸ Office of the United Nations Special Coordinator for the Middle East Peace Process, Report to the Ad Hoc Liaison Committee, 22 September 2014.

Recommendations 11 & 12: Israeli settlements in the OPTs are illegal under international law, and we consider them to be unacceptable. The presence of the settlements, and the consequent inability of Palestinians in Area C to control their own resources, severely restrict the Palestinian economy. We are extremely concerned about the potential for further settlement expansion, especially around Jerusalem. Palestinians and some Israelis and Israeli organisations we met believe that the international community could exert its influence to restrict the expansion of settlements if it were to take firmer measures to show its condemnation of the settlements.

The UK should in concert with other European countries stress to the Israeli authorities the unacceptability of the present situation. DFID should also support the World Bank programme which is helping the Palestinian Authority with land registration. (Paragraph 45)

Partially agree.

We have repeatedly condemned Israel's settlement activity. We have made clear to Israel that settlements are illegal under international law, an obstacle to peace, and undermine those working for a sustainable peace. We raise the issue of settlements on a regular basis with the Israeli authorities, including through Ministerial statements, demarches and Ambassadorial summons as appropriate. We are also clear that Israeli outposts in the West Bank and East Jerusalem, illegal under international law and Israeli law, should be removed entirely.

Most recently, in response to the expropriation of nearly 1,000 acres of West Bank land by Israel, the Prime Minister and Foreign Secretary said the decision was "deplorable", and urged the Israeli government to reverse it. The Foreign Secretary also "deplored" the Israeli government's decision to advance plans for 2610 settlement units in Givat Hamatos. We will, in close coordination with our EU partners, continue to stress the unacceptability of the current situation to Israel in the strongest terms.

This stance is complemented by a concerted effort to increase the information available on settlement activity. Through the Conflict Pool, the UK has funded a number of projects to monitor and report on settlement expansion in East Jerusalem and the West Bank and to protect vulnerable Palestinian communities from the effects of settlement expansion. In 2013/14, the Conflict Pool supported two NGOs - Terrestrial Jerusalem and Peace Now's Settlement Watch – to work on these issues.

DFID officials have engaged with the World Bank and the UK Land Registry in recent months on land registration in the OPTs. Responding to the Gaza crisis has, however, placed increased pressure on our resources and necessitated a shift in our portfolio to include more humanitarian and early recovery work. Although all programme options will continue to be kept under review, we cannot at this point commit to supporting this specific programme.

Recommendation 13: We welcome the UK's decision to introduce labelling guidelines calling for products made in Israeli settlements to be labelled as such: this allows consumers to make an informed decision as to whether they wish to purchase such products. We continue to support strong economic ties between the UK and Israel. However, we consider that it is very important to find out whether the introduction of labelling guidelines for products made in Israeli settlements has been effective, including whether they have been implemented by major retailers and what effect they have had on the sales of products from the settlements in the UK. We strongly recommend that the UK Government undertake a review of the implementation and impact of the introduction of labelling guidelines. We also recommend a review of the initial impact of the introduction of the 2013 EU guidelines on the territorial application of EU funding. (Paragraph 46)

Partially agree.

We welcome the Committee's acknowledgement of the leading role the UK played in developing the voluntary labelling guidelines. We have since shared our experience of implementing this scheme with other interested countries. We understand that multiple British retailers who have stocked settlement produce have adopted the labelling policy recommended in Defra's voluntary guidance. Defra is currently reviewing the impact of its guidelines with retailers.

In addition to voluntary labelling guidelines, we welcomed the commitment by Baroness Ashton to engage on the issue of EU-wide guidelines on the labelling of settlement produce. The UK has also placed advice on the UKTI-FCO Overseas Business Risk website to raise awareness of the risks British businesses may face when operating abroad, including in Israel and the OPTs, and guidance on potential risks associated with operating in the settlements. A number of other EU governments have adopted a similar policy in the time since.

The UK supported the EU guidelines which were published in July 2013 and came into effect on 1 January 2014 to distinguish between Israel and Israeli settlements in EU agreements and funding programmes. As these guidelines formalise long-standing UK and EU policy on settlements, they have not had an impact on EU funding allocations. However, reporting from Posts and in the Israeli media suggest that these guidelines had a significant political impact locally on the Israeli debate around settlements.

Recommendations 14 & 15: We were shocked by what we saw during our visit to Hebron especially the impact of settlements, which are illegal under international law, on the daily lives of Palestinians. The restrictions on Palestinians have an entirely unacceptable impact on their livelihoods, economic development and security.

We recommend that the Government put pressure on the Israeli authorities to lift these restrictions as a matter of urgency. (Paragraph 48)

Agree.

Hebron is the largest city in the West Bank. It has the potential to be a hub for Palestinian industry and commerce given the natural resources in local marble quarries. Instead, its Palestinian population live an extremely difficult existence, as the Committee saw for themselves.

We have raised concerns about Hebron, including on settlements and the conduct of the Israeli Defence Force, with the Israeli authorities, and will continue to do so where appropriate.

Recommendations 16 & 17: We are concerned that *Breaking the Silence* no longer receives Conflict Pool funding. It is a unique and credible voice which speaks to Israelis about what is done in their name.

We recommend that the Government reinstate funding for Breaking the Silence.
(Paragraph 49)

Disagree.

The British Government supported Breaking the Silence's public education programmes in 2009-11 through the Conflict Pool. Our support totalled £38,233 in 2009-10 and £74,434 in 2010-11 for their 'Hebron Educational' and 'Educating for Change' projects.

The decision not to continue funding when these programmes finished was taken because it was judged that there were other projects which could more effectively deliver our Conflict Pool objectives in Israel and the OPTs.

We keep all projects supported by the Conflict Pool under review on a regular basis and will continue to do so under the new Conflict Stability and Security Fund (CSSF). We would consider any future application from Breaking the Silence fairly and in line with the principles for our support.

Recommendations 18 & 19: While we note the comments of the Israeli Embassy, we are deeply concerned about the continuing validity of the restrictions on Palestinians' access to water in Area C under the interim Oslo II agreement.

The UK should use its influence to encourage Israel and Palestine to reach a more satisfactory agreement about water resources, allowing Palestinians equitable access to the water resources in the West Bank. (Paragraph 50)

Agree.

Water resources are limited and must be shared fairly. At the moment, this is not the case: Israel retains almost exclusive control of all underground and surface water resources in the West Bank, the construction of new wells and cisterns, and the

upgrading of existing wells and other water infrastructure. Water and sewage issues were agreed on an interim basis at Oslo more than twenty years ago and, although Israel provides more water than was mandated at Oslo, this is not sufficient to address the needs of the Palestinian population today. In fact, around 200,000 Palestinians in the West Bank have no access to water network connections⁹ and in remote communities water consumption can be as low as 20 litres per person per day – one fifth of the World Health Organisation’s recommendation.¹⁰ In contrast, the UN estimates that Israeli settlers in the West Bank consume approximately six times the water consumed by Palestinians.¹¹

Meanwhile, in Gaza, the UN has estimated that by 2020 unless action is taken “there will be virtually no reliable access to sources of safe drinking water.”¹² The destruction of water, sanitation and energy infrastructure during the violence this summer has made the situation even worse: 450,000 people in Gaza are currently unable to access water due to damage and/or low pressure.¹³ This situation is not sustainable.

Water is one of the eight sectors in the Office of the Quartet Representative (OQR)’s Initiative for the Palestinian Economy (IPE) – a plan to boost private sector-led economic growth in the OPTs. Their plans include improving water and waste water management and extracting additional water from available sources, including desalination. The UK supports the work of the OQR through seconding two DFID advisers to the organisation. The success of the IPE, however, as with other private sector activities, will ultimately depend on enabling actions from Israel.

We will continue to raise concerns regarding water resources and restrictions on movement and access more generally with the Israeli authorities with the aim of reaching a more sustainable and fair arrangement.

Recommendation 20: *Despite the Fatah-Hamas reconciliation, we recommend that the UK encourage both sides to resume discussions in the Joint Technology Committee (JTC), with a view to enabling users with Palestinian SIM cards to access 3G services and to undertake to reach rapid agreement on 4G services when they are technically available. (Paragraph 51)*

Agree.

Strong telecommunications are vital for any modern economy - the restrictions on access to the full mobile spectrum for Palestinian operators in the West Bank make economic growth more difficult to achieve and sustain. We agree with the Committee that progress on this should not be held hostage to political difficulties.

⁹ Emergency Water Sanitation and Hygiene in the Occupied Palestinian Territory, www.ewash.org

¹⁰ OCHA, Area C of the West Bank: Key Humanitarian Concerns, August 2014.

¹¹ OCHA, Fragmented Lives: Humanitarian Overview 2012, May 2013.

¹² UN Country Team, Gaza in 2020: A liveable place?, August 2012.

¹³ OCHA, Gaza Strip: Humanitarian Dashboard, September 2014.

Officials in Tel Aviv have raised the issue of 3G access for Palestinians with the Israeli authorities. Telecommunications is also a key sector in the OQR's Initiative for the Palestinian Economy, which seeks to create a level playing field with Israeli operators, including the deployment of 3G and 4G services.

Recommendation 21: We fully appreciate Israel's legitimate security concerns in respect of the Gaza strip, especially in the light of recent events, including rocket attacks on Israel from Gaza. However, we do not believe that all the present arrangements, notably those which affect travel and trade are proportionate. Some are contrary to Israel's obligations under international law and also run the risk of making the security situation worse. (Paragraph 60)

Agree

We agree that Israel has legitimate security concerns. The events of this summer showed very clearly the threat to Israeli citizens from indiscriminate militant rocket fire, for example.

Israeli restrictions on the movement of goods and people, however, do very serious damage to the economy and living standards of ordinary people in Gaza. Restrictions are estimated to cost the Palestinian economy in excess of £1.3billion a year.¹⁴ Stifling the economy of Gaza is counterproductive: an improved economy is not only essential for the people of Gaza, but firmly in Israel's security interests. We judge that Israeli restrictions on Gaza serve to strengthen Hamas. In addition, as the Occupying power, Israel is obliged under international law to provide for the safety and welfare of civilians living in the Gaza Strip.

In the aftermath of the conflict this summer, it is vital that the parties engage in negotiations to reach a sustainable and durable agreement which tackles the underlying causes of the conflict in Gaza. It is only this which will put a stop to the cycle of violence. This agreement should ensure that Israel progressively lifts restrictions in order to ease the suffering of ordinary Palestinians, and allow the Gazan economy to grow. It should also ensure that Hamas and other militant groups permanently end rocket fire and other attacks against Israel; and that the Palestinian Authority resumes control of Gaza and restores effective and accountable governance. The UK stands ready to support such an agreement.

Recommendation 22: *Given the current situation in the Gaza Strip, it is understandable that the Government of Israel is unwilling to engage in discussions, but, nevertheless, we recommend that the UK encourage the Israeli authorities to lift those restrictions which are not justified by security needs. The UK should also seek to persuade Israel to consider what steps it might take to improve the availability of water and electricity in Gaza.* (Paragraph 60)

¹⁴ Ministry of National Economy, 2011.

Agree.

In close co-ordination with our EU partners and the OQR, we continue to press the Israeli Government at ministerial and official level to ease the restrictions on Gaza, and to take actions which will improve the chronic energy and water shortages and to promote exports from Gaza to Israel and transfers to the West Bank. For example, during the recent Gaza crisis, we engaged with Israel on the need to repair electricity feeder lines and water pipes into Gaza to help meet the urgent humanitarian needs.

Even before the crisis, Gaza's electricity supply only met 46% of demand and there were rolling power outages of up to 12 hours per day.¹⁵ Replacing the medium-voltage feeder lines in Gaza with a 161kv high-voltage electricity transmission line from Israel would increase electricity supply in Gaza by 30 MW per day – a 25% increase on the 120MW currently provided by Israel.

This would have major benefits for the local population, including helping to increase Gaza's agricultural and industrial output and enabling hospitals to function more effectively. It would also help address the treatment of sewage which affects both Palestinians and Israelis: up to 90 million litres of partially treated sewage are discharged into the Mediterranean Sea every day.

We continue to raise this issue with the Israeli authorities.

Recommendation 23: *We recommend that DFID scale up its work supporting exports from Gaza. DFID should also support the implementation of existing plans to open Gaza's port, and work to facilitate travel between Gaza and the West Bank, possibly by developing plans for a travel corridor. (Paragraph 61)*

Partially agree.

We agree with the principle of the Committee's recommendation: we are clear that improved movement of goods and people is vital for sustainable economic development in Gaza. We want to see the ban on Gazan exports to Israel and transfers to the West Bank – Gaza's natural markets - lifted. Without a substantial export market, measures to increase agricultural and industrial output will not be able to grow the economy.

We would need to see this change before any further work in this area could have a lasting development impact. In the past, DFID has provided targeted support to facilitate textile exports to the UK. The impact of such support will always be limited, however, unless the underlying issues are addressed.

Similarly, the development of Gaza's port can only ever be a secondary consideration which would make little to no impact on economic growth unless trade restrictions are lifted. The free flow of goods in and out of Gaza needs to happen first before a port could function effectively and make a transformative impact.

¹⁵ OCHA, The Humanitarian Impact of Gaza's Electricity and Fuel Crisis, March 2014.

We will continue to urge Israel to lift the ban on Gazan exports to Israel and transfers to the West Bank and to ease restrictions on the movement of people between the two. We will keep this situation under close review as the ceasefire negotiations over Gaza evolve.

Recommendation 24: Israel is a democracy with a strong entrepreneurial culture. We saw in the OPTs similar dynamism and enterprise, which we wish to see encouraged. So much could be achieved if Palestinians and Israelis could work together to foster economic development. We fully understand and appreciate Israeli security concerns, especially in view of the recent murder of three Israeli teenagers outside Hebron and the continuing rockets attacks on Israel from the Gaza Strip. Some of the evidence we were given on our visit are difficult to reconcile with that subsequently provided by the Israeli Embassy, but we were shocked by what we saw in the OPTs. We saw a country whose people have known immense suffering now imposing conditions on their Palestinian neighbours which cause a different but very real suffering and often without real security justification. We saw Israel taking a range of actions that hinder Palestinian economic development and must, at the very least, cause deep resentment on the Palestinian side, even amongst the most moderate and pragmatic people, and so will actually worsen Israel's own security. (Paragraph 62)

Agree.

We agree with the Committee that the impact of Israeli restrictions on the Palestinian economy is extremely serious. We agree that Israel has legitimate security concerns, but we do not believe that extremists on either side should be allowed to derail wider progress on either development or political issues.

We continue to believe that increased prosperity in the OPTs is firmly in Israel's interests. DFID is helping to build strong and accountable government institutions and an effective economy so that a future Palestinian state will be stable, prosperous and a partner for peace with Israel. We judge that both populations would be better off if political and economic relations were improved between the two.

We continue to urge Israel to ease those restrictions in order to facilitate this development.

OPTs: DFID's programme

Recommendations 25 & 26: DFID's support is helping to prepare the PA for the assumption of governmental functions in a future Palestinian state. DFID's financial support is critical to the PA's operation, especially giving its ongoing financial crisis.

UK policy remains to support a two-state solution and DFID should continue to provide funding to the Palestinian Authority. (Paragraph 67)

Agree

The PA is essential to a two-state solution – it represents the nucleus of a future Palestinian state and demonstrates the ability of the moderate Palestinian leadership to govern by the rule of law and deliver results. Delivering basic services including security and safety in the areas under its direct control and paying the salaries of public sector workers is vital to maintaining stability and reducing poverty.

Restrictions on movement and access and on-going conflict mean that the PA suffers from a chronic budget deficit and relies on donor support. Two-thirds of domestically-sourced revenue is outside of the PA's control and the Palestinian economy is artificially stifled by Israel's movement and access restrictions. Despite efforts to increase revenues and reform spending, aid still forms around 40% of the PA budget. Until movement and access restrictions are lifted, it will be difficult for the PA to significantly increase revenues from taxes paid by Palestinian businesses.

Nevertheless, the PA has made important progress on state-building, which has been repeatedly recognised by the World Bank and IMF. The UK is one of the principal supporters of Palestinian state building efforts, assisting the Palestinians to tackle poverty, build institutions and boost their economy under Occupation-related movement and access restrictions.

The State building pillar of our bilateral programme, totalling £151million from 2011-2015, is helping the PA to build strong institutions and deliver improved public services. In the last year, this has included:

- Support for 6000 children in primary education;
- 550 pregnant women attending antenatal care in the West Bank; and
- Over 8000 poor individuals receiving cash transfers.

DFID has also helped to achieve savings worth at least \$100m to the PA from the implementation of reform measures agreed with the World Bank, and has improved public financial management through technical assistance and strengthened anti-corruption controls.

We are also working to support measures to make the PA more accountable. We are supporting citizens to undertake social accountability activities to enhance responsiveness and accountability of the key state institutions and improve service delivery within their local communities. This includes helping to make the security and justice sector more responsive and accountable, and supporting women victims of violence.

Recommendations 27 & 28: We are nevertheless concerned that DFID is not taking adequate measures to prevent its funds from being misused. Given the

scale of the operation, with 85,000 civil servants being paid with UK money, there is a serious risk of abuse. We do not regard a six-monthly audit as an adequate protection to secure the integrity of UK aid funds.

We recommend that DFID impose more stringent checks to ensure that the money it provides to the PA is not being misused while pursuing a constructive dialogue with the PA on the end-use of funds. (Paragraph 68)

Disagree.

UK funding to the Palestinian Authority is used to pay civil servant salaries only. The funds are channelled through a trust fund administered by the World Bank and only named and vetted civil servants from a pre-approved list are eligible. The list of beneficiaries is checked against international (including Israeli) and ad hoc sanctions lists.

Payments are made in quarterly tranches. Before the release of each tranche, DFID Ministers are consulted on the decision. Information on the PA's fiscal need, performance against pre-determined indicators, and any political risks are carefully considered.

A full audit is conducted for every second payment: this independent audit evidence has confirmed that DFID funds have been disbursed as intended.

As a result, we are confident that we have stringent processes in place to ensure the integrity of UK funds. In short, we know exactly where and how our money is being spent.

Recommendations 29 & 30: We are also extremely concerned about the PA's policy of paying salaries to the families of Palestinian prisoners in Israeli jails. While appreciating it is a sensitive issue, issuing payments to families based on the length of jail terms, rather than need, is a political and not a welfare decision and thus unacceptable. In addition, while the British Government maintains that no UK money supports this activity, UK aid payments fund the payment of PA civil servants. It could therefore be said with some justification that this payment of UK funds enables the PA to release alternative funds which allow these payments to continue and which might alternatively be used more effectively to cover other needs. The Palestinian Finance Minister confirmed that the payments were a serious burden on the PA's finances.

We urge the UK to help the Palestinian Authority stop these payments and to replace them with welfare payments to prisoners' families based on poverty levels and need. (Paragraph 69)

Partially agree.

As the Committee has noted, prisoners are a very sensitive political issue on both sides of the Israeli-Palestinian conflict. The release or exchange of prisoners is frequently an important political act as part of MEPP negotiations. It is also something that affects a great many Palestinians: around 70% of Palestinian families have had one or more members detained.

In this context, PA Ministers have made clear both in public and to UK Government officials that payments to families are intended to sustain those whose primary breadwinner has been imprisoned. Indeed providing support, care, protection and rehabilitation to detainees, ex-detainees and their families is a key objective in the Ministry of Social Affairs' strategy for 2014-16. This strategy was developed through a consultative process and is aimed at reducing poverty, food insecurity and unemployment and promoting social justice.

President Abbas has recently authorised the establishment of a commission under the PLO to manage these payments. The implementing mechanism and exact role of the PA are still being considered. Nevertheless, until now, the burden these payments places on the PA has been serious, and may continue to be so under the new system. We will continue to urge the PA to ensure that any involvement is based on efforts to make these payments transparent, needs-based and part of an affordable welfare system.

We have robust accounting procedures in place which mean we are confident that we are not funding these payments. In addition, like the rest of the international community (including Israel which collects and transfers 70% of the PA budget through clearance revenues) we think it is of paramount importance to support the PA in maintaining economic and social stability in the West Bank.

Recommendations 31 & 32: UNRWA is a key provider of public services in the Palestinian territories, and it is only able to fulfil this role thanks to the contributions made by donors such as DFID. Donor funding to UNRWA plays a crucial role in preventing great hardship in the OPTs.

We recommend that DFID continue to provide funding to UNRWA. While there are weaknesses in UNRWA's work, it has made improvements, but DFID must maintain pressure on the organisation to make further efficiencies. (Paragraph 73)

Agree.

We welcome the Committee's recognition of the important role that UNRWA plays as a service provider for Palestinian refugees. In fact, UNRWA provides essential support to nearly 5 million registered Palestinian refugees across the region, not just in the OPTs. Their work has come under increased pressure recently following events in Syria and, more recently, in Gaza. There were 540,000 registered Palestinian refugees in Syria at the start of the crisis. Almost all have been affected. In Gaza this summer, nearly 300,000

internally displaced people sheltered in UNRWA schools, and relied on the agency to provide vital emergency assistance.

We already play an influential and constructive role with other donors on supporting reform in UNRWA, with £31.5m out of our £106.5m contribution to the General Fund linked to progress on results and reform. We will continue to support this through our influential role on the Sub Committee and Advisory Commission as the third largest donor to UNRWA's General Fund.

We are working closely with UNRWA to plan for and implement their Medium Term Strategy (2016-21) which will help them to make the tough decisions needed in the coming years to maintain core education, health and social relief service delivery in the context of a recurrent budget deficit. This will involve work to manage its cost base, especially staff salaries which are the major driver, and to define what UNRWA should focus on, what UNRWA should stop doing and what services the agency should only provide in exceptional circumstances. We also continue to urge UNRWA to focus on resource mobilisation and diversify its donor base, including through greater contributions from Arab donors.

Recommendations 33 & 34: The health sector in Gaza is in a situation of grave crisis. Failure to address this crisis as a matter of urgency will have severe consequences.

Together with other donors, DFID should provide funding for urgent medical supplies in Gaza. DFID should also reinstate the health sector as a key priority within its Palestinian programme, as it is clear that the circumstances which led to its de-prioritisation no longer apply. (Paragraph 77)

Partially agree

We agree that the latest outbreak of hostilities in Gaza this summer put serious pressure on health infrastructure and services. The UN report that 62 hospitals and clinics were damaged during Operation Protective Edge. This is in fact not a new problem: drug shortages have been a problem in Gaza since 2007 and a growing population combined with structural damage to health infrastructure is putting an increasing strain on services.

DFID, however, is already supporting work in the health sector, including getting medical supplies into Gaza. We are the third largest donor to UNRWA which provides medical services to the 70% of the population in Gaza who are Palestinian refugees. Our support enabled UNRWA to continue providing basic health services during the latest conflict through 13 of its 21 clinics. Our support to the PA, meanwhile, enables them to deliver essential services such as health and education. We are also providing £10m to the International Committee of the Red Cross between 2013 and 2015 to deliver emergency medical services and rehabilitate hospitals in Gaza. Last year nearly 195,000 patients were treated at 8 ICRC-supported medical facilities in Gaza. Finally, we support

the UN Access Coordination Unit (£1.1million 2011-15) to work with the World Health Organisation, Israel, the Palestinian Authority and aid agencies to facilitate the transfer of medical equipment and supplies and patient referrals in and out of Gaza.

In addition, in response to the crisis this summer, the UK deployed a world class team of UK medical staff directly to the region to assess the need for specialised medical assistance from the UK and to see if there were patients who would benefit from transfer to the UK for treatment. We also provided an additional £3million to the World Food Programme who provided emergency food rations to more than 2,000 patients and staff. Our support delivered through NGOs from the Rapid Response Facility helped to ensure more than 480,000 people received immediate healthcare and that hospitals received essential drugs and emergency medicine kits.

We judge that our support for continued basic service delivery, including healthcare, through the PA and UNRWA should remain at the heart of our programme. Should another crisis situation arise, we will be ready to respond.

Recommendations 35 & 36: If a two-state solution is to be achieved, it will require genuine support and buy-in from ordinary people on both sides. This cannot and should not be taken for granted. On the contrary, concrete steps should be taken to strengthen the appetite for peace on both sides of the divide.

We recommend that the UK fund a significant number of people-to-people projects in Israel and the OPTs, either through DFID, the Conflict Pool or the new Conflict, Stability and Security Fund. As part of this, it should fund organisations, which can bring together people of all faiths. We met a number of individuals from organisations which appeared well equipped to do this, including Cherish, the Bethlehem Bible College and other Palestinian Christian organisations, which we met at the college. (Paragraph 85)

Partially agree.

The new Conflict, Stability and Security Fund will look to continue some of the UK's work on working with NGOs in Israel and the OPTs to build constituencies for peace.

There has however been mixed experience of joint Israeli-Palestinian people-to-people projects in the past amongst the donor community, particularly in terms of weak results, scalability and demonstrable strategic impact. The high transaction costs of running multiple small projects can also be a binding constraint. Nevertheless, DFID is open to considering strong joint projects that would deliver positive impact in line with our Operational Plan objectives, where they would represent value for money, and where they are in line with requirements for how DFID funds may be used.

Recommendation 37: The progress on peace talks has been frustrating and difficult, but failure to reach an agreement eventually would have devastating consequences on both Israelis and Palestinians. In view of this, we believe that it

is essential that the UK continues to support the talks, keep hopes of peace and the two state solution alive and to provide funding to support the Palestinians, especially in view of the UK's role in the history of the area. (Paragraph 87)

Agree.

Resolution of the Israeli-Palestinian conflict remains a UK foreign policy priority. We will continue to do all we can to support the realisation of the two state solution, encourage the parties to a return to talks and to support Palestinian state-building in close cooperation with our international partners. Ultimately though, a negotiated two-state solution will require bold leadership to make the goal of two states living side by side in peace and security a reality.