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Disclaimer

This report of the Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO) assesses the uneven progress toward sustainable development and institution building in the Occupied Palestinian Territory (OPT).

The report draws on a variety of sources, including original research; inputs from United Nations (UN) Agencies, Funds, and Programmes; and publicly available sources. Before the paper was released, it was discussed with the parties.

The reporting period is from September 2022 through April 2023, unless otherwise noted. Many references fall outside this period to illustrate relevant trends.

The UN Special Coordinator for the Middle East Peace Process provides monthly briefings to the United Nations Security Council on the situation in the Middle East. These briefings provide greater detail on the UN's positions related to the changing political, development, and humanitarian situation. Previous UNSCO reports to the AHLC and briefings to the Security Council can be found at <https://unsco.unmissions.org/resources>.

Table of Contents

Disclaimer	1
Table of Contents	2
Executive Summary	3
Introduction	5
Addressing the continuing drivers of conflict and instability	6
Strengthening Palestinian institutions, ensuring services for Palestinians, and addressing the challenge of Palestinian governance.....	7
The Palestinian Authority’s fiscal challenge.	7
Basic service delivery under stress and a looming crisis in the future.....	9
Education	10
Health.....	11
Social Protection	12
Lifting Israeli restrictions on access, movement, and trade to create space for the Palestinian economy to grow.....	15
Better aligning the economic and administrative relationships going forward.....	17
Conclusion.....	18

Executive Summary

The Palestinian Authority (PA) faces unprecedented challenges from multiple crises – increasing instability and conflict, stagnant economic growth, high inflation, and a fiscal crisis – which require immediate and coordinated actions between the parties and support from the international community. A strategic shift by the parties and the international community is necessary to reverse the current unsustainable trajectory that is eroding the PA's institutional, economic and development gains made in the nearly three decades since the signing of the Oslo II Accords.

In September 2022, UNSCO put forward four strategic elements of a policy package that would support the Palestinian Authority (PA) in facing these unprecedented challenges and better link economic steps to a political horizon. These elements are: (i) addressing the continuing drivers of conflict and instability; (ii) strengthening Palestinian institutions and addressing the challenge of Palestinian governance; (iii) improving access, movement, and trade and thereby creating space for the Palestinian economy to grow; and (iv) better aligning the framework of economic and administrative relationships with the economic transformations of the past decades. This framework remains valid and has been made all the more urgent by continued negative trends.

The drivers of conflict are persistent or worsening by most indicators, making 2022 the deadliest year for Palestinians in the West Bank and for Israelis in years. These negative trends, alongside the absence of a peace process, not only negatively impact the Palestinian economy and contribute to a pervasive sense of pessimism regarding the prospects for meaningful negotiations to resolve the conflict, but also undermine efforts to strengthen the PA and create the space for the Palestinian economy to grow.

The fiscal situation for the PA has not improved despite some reform measures that have increased revenues while controlling for expenditure. In the context of declining donor support and global trends that have increased commodity costs, and given the current debt levels and budget deficit, further PA reforms, while still necessary, are unlikely to be sufficient to address the crisis and put the PA on more sustainable fiscal footing. Just as reforms alone are unlikely to solve the fiscal crisis, piecemeal and limited economic steps by the parties will be insufficient to meet the challenge. Ongoing Israeli restrictions on access to markets and resources continue to constrain economic growth and present an obstacle to improving revenues through growth.

The fiscal pressures highlighted above risk severely undermining service delivery for Palestinians, particularly in health, education, and social support, which is essential for livelihoods, development, and stability. Short-term austerity measures undercut investment in basic services and postpone necessary reforms, while constrained economic growth results in increased demand for these services, thereby building in longer term costs and reduced education and health outcomes for Palestinians. At the same time, declining donor support is threatening the ability of UN agencies to keep pace with growing needs, in support of the PA. Given current demographic trends, needs are expected to increase exponentially in the medium term, making immediate investment in basic service delivery necessary.

While economic growth is a key component of sustainably addressing the PA's fiscal crisis and growing Palestinian needs, greater political and geographic space is necessary for the Palestinian economy to grow. This requires improving Palestinian access for economic activity in Area C, addressing the Israeli closure of Gaza, and increasing Palestinian trade and the economic linkages between the West Bank and Gaza. While little progress has been made overall, the continued easing of some access, movement, and trade restrictions in Gaza, particularly in the labor market and the agriculture sectors, has demonstrated positive impacts on the economy and been a stabilizing factor in the Gaza Strip. These measures should be expanded, while at the same time taking concerted steps to improve Palestinian access to land and resources in Area C.

Likewise, there is space to improve Palestinian revenues and policies to promote economic growth through better engagement by the parties, including updating outdated elements of the Paris Protocol. While the partial implementation by the parties of the e-Vat system and Israel's recent commitment to lower the handling fee on fuel are steps in the right direction, they remain insufficient to meet the scale of the current fiscal crisis. Improved labor market regulation for the more than 200,000 Palestinian workers in Israel and Israeli settlements, particularly with a view to improving worker safety and insurance and increasing transparency in the more than 4 billion USD in wages entering the Palestinian economy, are areas ripe for cooperation. The dialogue between the parties should be expanded to address these and the many other and more fundamental issues facing their economic relationship, with a view to improving the Palestinian economy and strengthening the PA. Reconvening the Joint Economic Committee offers such an opportunity.

While each of these four strategic areas is important on its own, progress in one area can easily be undermined by reversals in others. Therefore, a concerted effort by the parties and the international community to make progress through a coherent package of steps to reverse negative trends and conflict drivers, strengthen the Palestinian Authority, open space for the Palestinian economy to grow, and address the relationship between the two economies, is needed. These are strategic areas of intervention that are linked to preserving the conditions for a two-State solution and can be an integral part of efforts to restoring a political horizon.

Introduction

The last report of UNSCO to the Ad Hoc Liaison Committee (AHLC) in September 2022 raised a critical alarm about the unsustainability of the current trajectory in the situation facing the Palestinian Authority (PA). The report outlined the negative impacts of the fiscal crisis and deteriorating situation on the ground, which have been compounded by barriers to economic growth, many owing to the Israeli occupation, unresolved issues in the economic and administrative relationship with Israel and declining international donor support. Developments since the last report suggest that the need for such a warning has only intensified.

The fiscal situation for the PA has not improved since the last AHLC Report. Both parties have made some progress on implementation of the reform measures and actions to strengthen the PA presented by the parties during the AHLC meetings in May 2022 and updated in September 2022.¹ Given the current debt levels and budget deficit, further PA reforms, while still necessary, are unlikely to be sufficient to put the PA on more sustainable fiscal footing. Exacerbating the situation are Israeli deductions to revenues it collects on behalf of the PA, due to the unresolved issue of so-called “prisoner payments,” alongside persistent revenue losses attributed to fiscal leakages and outdated elements of the Paris Protocol. Additionally, the PA continues to carry a significant expenditure burden providing basic services to areas from which it can collect little or no tax revenue, most notably to the Gaza Strip where the continued Palestinian divide severely restricts the PA’s role. In this context, overall donor funding to the PA has fallen sharply, by more than 80% over the last ten years.

Just as reforms alone are unlikely to solve the fiscal crisis, current barriers to economic growth present a serious obstacle to improving revenues through growth. Palestinian economic activity continues to be negatively impacted by the consequences of the Israeli occupation, particularly with respect to access, movement and trade, and conflict dynamics, notably the deteriorating security situation in the West Bank.² Restrictions on Palestinian access to land and resources in Area C significantly curtails economic growth. The Israeli closure of Gaza and the persistent divide between the West Bank and Gaza severely impacts the movement of people and goods across the Occupied Palestinian Territory (OPT), increasing administrative and other costs.

In parallel, there are two important shifts in economic dynamics that must be considered in charting a way forward – rapid demographic growth that is outpacing resources and services and the growing economic interdependence of the Palestinian and Israeli economies, particularly affecting the Palestinian labor market – both of which were explored in detail in UNSCO’s report to the AHLC in May 2022.

¹ “Civil Economic Plan to Strengthen the PA” as presented to the AHLC in May 2022 and September 2022 by Government of Israel. And “State of Palestine: Reform Agenda” as presented to the AHLC during the May 2022 by the Palestinian Authority.

² UN OCHA ([link](#)) for more details on access, movement, and trade and impact on socioeconomic status of Palestinians.

To address these multiple crises, in September 2022, UNSCO put forward four strategic elements of a policy package that would support the Palestinian Authority (PA) in facing these unprecedented challenges and better link economic steps to a political horizon. These elements are: (i) addressing the continuing drivers of conflict and instability; (ii) strengthening Palestinian institutions and addressing the challenge of Palestinian governance; (iii) improving access, movement, and trade and thereby creating space for the Palestinian economy to grow; and (iv) better aligning the framework of economic and administrative relationships with the economic transformations of the past decades.

Regrettably, little progress has been made toward developing and implementing such a comprehensive package. This report provides an update on developments in these areas, identifies necessary immediate steps to address challenges – with a focus on sustaining vital basic services to the Palestinian population – and reiterates the urgency of a strategic shift in approach by both Israeli and Palestinian leaderships, and the international community. Failure to act across these four strategic areas risks a serious reversal in the Palestinian state-building project, furthering institutional erosion of the PA and deepening insecurity across the OPT.

Addressing the continuing drivers of conflict and instability

Persisting drivers of conflict – including heightened violence, settlement advancement and settler-related violence, demolitions, military operations, attacks, militant activity, and incitement – damage socioeconomic progress, breed a climate of mistrust and tension between Palestinians and Israelis, and undermine political solutions and economic growth.

Tensions remained high through the end of 2022 and the first quarter of 2023, with 2022 closing as the deadliest year for Palestinians in the West Bank since 2005 and for Israelis since 2015.³ In Gaza, while relative calm prevailed for most of the period amid the pressures of continued Hamas rule and persistent Israeli closures, periodic rocket fire from Gaza into Israel and Israeli airstrikes in Gaza illustrated the persistent fragility of the situation.

Settlement expansion and settler-related violence has persisted. Notably, the Israeli Government announced in February that it had authorized nine outposts in the occupied West Bank, followed by the advancement of plans for over 7,000 settlement housing units, with approximately 4,000 located deep in the occupied West Bank and nearly 1,000 of which are in outposts in the process of legalization under Israeli law. Such expansion increases friction points and further restricts Palestinian access to land and resources in the West Bank. In addition, demolitions continued, with more than 500 demolitions or confiscations carried out since the last AHLC, of which some 130 were inhabited residences.⁴ Such demolitions undermine economic growth, deter investment, and divert funds from development to humanitarian needs.

³ UN-OCHA data

⁴ UN-OCHA data. Details on the methodology at this [link](#).

These drivers contributed to a pervasive sense of pessimism regarding the prospects for meaningful negotiations to resolve the conflict and undermine the realization of the core objectives outlined below: strengthening the PA, preserving the space needed for the Palestinian economy to grow, and consolidating mutually beneficial economic ties between Israelis and Palestinians.

Readers seeking greater detail on the various political, human rights, protection, and humanitarian concerns during the reporting period are directed to other recurring publications and briefings by the United Nations. The most up-to-date information on political, human rights, and protection issues can be found in the monthly briefings to the UN Security Council ([found here](#)). The most recent humanitarian updates are made available by the Office for the Coordination of Humanitarian Affairs (OCHA) ([found here](#)).

Strengthening Palestinian institutions, ensuring services for Palestinians, and addressing the challenge of Palestinian governance

Essential to strengthening Palestinian institutions and ensuring services for Palestinians is addressing the PA's immediate fiscal crisis and restoring the PA to more stable fiscal footing. The combination of factors undermining the PA – fiscal crisis, lack of transparency, unilateral steps by Israel, and declining donor support – are reaching a critical level and threatening service delivery and outcomes in health, education, and social support. Ensuring basic service delivery for Palestinians in the current environment is a key priority to maintain Palestinian livelihoods, address instability and help sustain prospects for a viable, independent and sovereign Palestinian state. Moreover, the gap is only widening between the capacity of the PA to provide services and the growing needs of the population. Immediate steps by Palestinian and Israeli leaderships, as well as the international donor community, are needed to address the crisis.

[The Palestinian Authority's fiscal challenge.](#)

Despite significant reforms to increase revenue and reduce spending, the PA's fiscal situation continues to worsen. The PA has a forecasted 2023 budget deficit of more than 600 million USD and accumulated debt is expected to reach some 9.9 billion USD by year end, nearly 50% of GDP.⁵ This is despite financial and administrative reforms, such as streamlining revenue collection, improving public finance transparency, and efficiency gains in service delivery, alongside restrictions on new recruitments, and austerity budget measures that have contained spending, in 2022, to below inflation. The partial pilot implementation of an e-VAT system by the parties has increased financial transparency which has contributed additional revenue for the PA. It is expected that greater gains can be realised with full implementation including regulatory mandates for compliance by Israeli and Palestinian businesses.

⁵ This deficit forecast includes projected deductions by Israel from Palestinian clearance revenues. The deficit is projected to be 360 million USD without such deductions. International Monetary Fund, *Report to the AHLC*, May 2023

The majority of PA debt is represented by arrears with the private sector, the pension fund and, since 2021, the curtailment of public sector wages at 80%. While the government debt as a percentage of GDP declined slightly from the previous year, government debt is projected to be on an increasing trend in the medium-term under unchanged policies.⁶

The PA fiscal crisis continues to be exacerbated by a number of Palestinian, Israeli, and global factors. Despite some progress on reforms by the PA, key reforms identified by the IMF and World Bank such as the wage bill, pensions, medical referrals, and net lending have yet to be implemented, and are vital to reducing expenditures and getting the PA on more firm fiscal footing. Greater accountability and transparency are needed in the budget process.

While the ongoing development of a medium-term macro-fiscal framework with the IMF is an important step, it must be accompanied by increasing revenues. Fully realizing by Israel of prior AHLC commitments on “fiscal leakages” would significantly contribute to PA revenues. The increases in PA customs revenues following the partial implementation of the e-VAT system – leading to projected PA revenues of at least 40 million USD – highlights the potential of resolving the outstanding fiscal files. Another significant source of revenue would be to resolve the so-called “prisoner payments” – the amount paid by the Palestinians to Palestinian prisoners, their families, or the families of those killed or injured in the context of attacks against Israelis – and the related deductions by the Government of Israel on the clearance revenues collected on behalf of the PA. Resolving the issue could unlock an estimated 800 million USD or more in total withheld revenues by year-end 2023. Israel’s temporary doubling of these monthly deductions to 30 million USD each month (100 million NIS) from February to June 2023, recouping deductions that were frozen in 2022, has only exacerbated the urgency of resolving the issue. Finally, greater transparency in Israeli deductions for water and electricity services Israel delivers to the OPT in line with the Paris Protocol, which total more than 80 million USD, could lead to cost-savings.⁷

The internal Palestinian political divide is another source of continued lost revenues and increasing expenditures for the PA. The PA Ministry of Finance estimates that Gaza represents nearly 30% of PA expenditures and only 1% of revenue. In addition, restrictions on the movement of goods, materials and people have contributed to fragment the economy between the Gaza Strip and the West Bank, contributing to an increase in commercial traffic between Gaza and Egypt, which has doubled since 2021, representing more than one third of total commercial traffic into the Strip. The PA generates no customs revenue from commercial traffic through Salah Ad-Din Gate between the Gaza Strip and Egypt.

As will be explored later in the report, improved access for Palestinians to land and resources in Area C could increase PA revenues by some six to nine per cent of GDP.⁸ Additionally, fully implementing reforms that would allow for greater efficiency in tax

⁶ Ibid.

⁷ UNSCO estimate based on Palestinian Ministry of Finance and Government of Israel statements.

⁸ World Bank 2016 and UNCTAD 2023

revenue collection from Palestinian workers on income earned in Israel – estimated at some 4 billion USD or more per year – could also boost PA revenues.

Another important area of declining revenues is the decline in external donor support to the PA by more than 80% since 2013. In 2013, external donor support, at nearly 1.4 billion USD accounted for a third of total PA expenditure. By 2022, it had fallen to less than 350 million USD⁹ or just under 3% of total PA expenditure and estimates for 2023 are approximately 300 million USD.

Table 1 External budget support to the PA - averages over time (source: Palestinian Monetary Authority, 2023)

Five-year period	Average support/year
2008-2012	1.16 billion USD
2013-2017	828 million USD
2018-2022	356 million USD

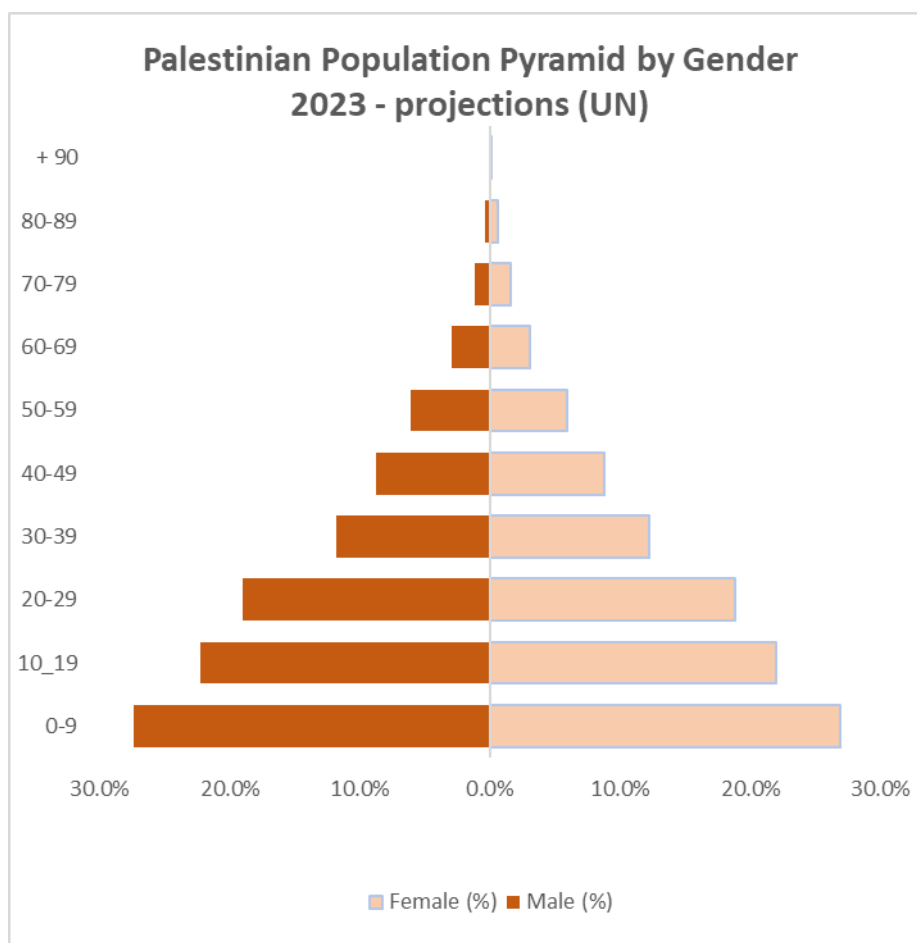
Basic service delivery under stress and a looming crisis in the future.

The PA's efforts to curb expenditure through increasing austerity measures and continued arrears on public service salaries have had an immediate, negative impact on service delivery for Palestinians. Short-term austerity measures undercut investment in basic services and postpone necessary reforms, thereby building in longer term costs and reduced outcomes for Palestinians. In addition, population growth in the OPT – now averaging 2.4% annually, with 65% of the population under 29 – and unaccompanied by the necessary economic growth, will significantly increase service needs in the relative near term.

The health and education sectors represent nearly half of the PA wage bill, thus the accumulation of arrears to public sector employees is concentrated in these service delivery sectors.¹⁰ Since the start of 2023, the strike by teachers in PA public schools had resulted in nearly 50 lost teaching days when it was suspended in late April, and the ongoing strike by staff in UNRWA schools has endured more than two months, further adding to the educational loss due to the Covid-19 pandemic.

⁹ This represents 243 million USD in budget support and 106 million USD in development financing to the PA. International Monetary Fund, *Report to the AHLC*, May 2023.

¹⁰ World Bank, 2022.



Education

Reduced resources for services have impacted key outcomes, particularly in education. Over the past five years, overall expenditure on education has decreased in real terms and education outcomes have worsened. In 2022, actual spending on education decreased as compared with previous years. The PA's total education budget in the OPT was 3.3 billion NIS, almost a 6% decrease from 2021 in real terms. This does not account for the partial payments to education employees which would indicate even lower education expenditures as wages account for more than 80% of the education budget. These shortfalls in education financing impacts the poorest households the most with education expenses representing nearly 15% of the household income for the poorest quintile of the population.¹¹

To meet population projections, and expected service levels in the education sector, the Prime Minister's Office and the UN estimate that 600 new schools need to be built between 2020 and 2025. However, since 2020, only 68 new schools have been built in the

¹¹ Estimate by the UN and the PA Ministry of Education (2018)

West Bank and Gaza Strip.¹² Similarly, the inability to recruit new teachers at a rate needed to keep pace with population growth means that the teacher to student ratios increased from 22.4 in 2020 to 22.6 in 2022. This underinvestment has resulted in declining education outcomes, though levels remain on par with regional comparators. The UN has estimated that 23% of boys over the age of 15 have left the formal education system, as compared with 6% of girls.¹³ By the end of lower secondary school, 24% of boys and 34% of girls met the minimum scores in maths.

Table 2 Projected employment, education, and health requirements to meet population growth in the OPT (source: UN and PMO, 2017)

	Projected requirements to meet population growth	Estimated Established (2022)
Employment	63,000 new jobs are needed each year (between 2020-2025)	43,000 new jobs, of which 19,000 were new Palestinian laborers in Israel or settlements.
Education	600 new schools from 2020 to 2025	68 new schools since 2020
Health	118 new Primary Healthcare Clinics (PHC) from 2020 to 2025	2 new PHCs since 2020

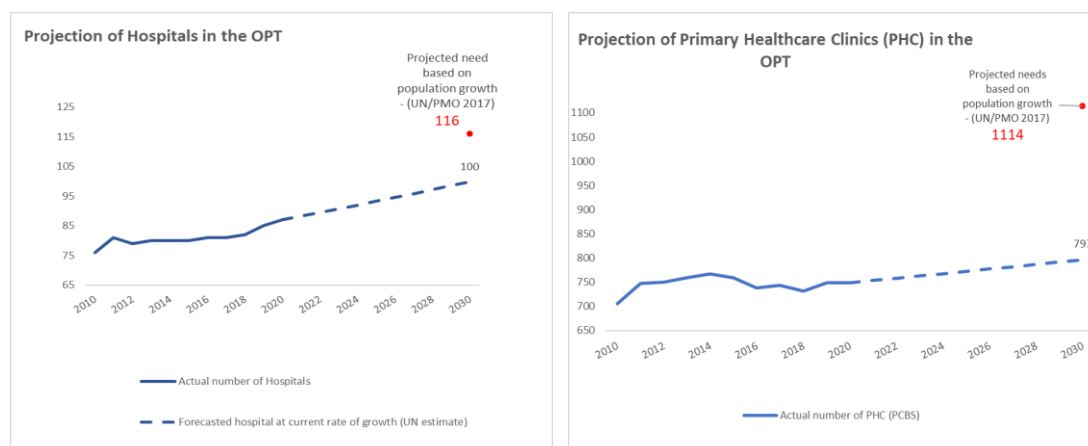
Health

Similar trends are evident in the health sector. While there has been an increase in overall public spending on health care over the past five years, outside medical referrals are driving spending increases. In 2022, while budgeted spending on health slightly increased as compared with 2021 at 15% of GDP (2.1 billion NIS), both capital and development expenses were reduced by nearly half. Outside medical referrals to private medical providers when public facilities are unable to provide the necessary care were budgeted at 500 million NIS, but actual expenses are estimated to be far greater, at nearly 800 million NIS. The lack of a universal price list means that billing for similar procedures varies widely in cost, with limited transparency. The budget for the procurement of medicines was further reduced in 2022 to a total of 341 million NIS contributing to shortages across public stores of essential medications. The Ministry of Health estimates that 40% of essential pharmaceuticals are currently unavailable at public stores in the Gaza Strip.

Given the structural challenges to the health system and successive years of underinvestment, the growth of health care expenditure per capita has outpaced growth in public health expenditure. As a result, by 2018, out-of-pocket health care expenditure represented more than 30% of overall health care expenditures. To meet population projections, the Palestinian PMO and the UN estimate that 118 new primary health clinics would need to be built between 2020 and 2025. However, since 2020, 2 new primary health clinics have been built.

¹² Projection for new schools is based on meeting PA education standards and includes public, private, and UNRWA schools. The full report can be accessed at this [link](#).

¹³ 2021 projections



Social Protection

In the area of social assistance, overall public spending has been reduced, resulting in cutbacks and delays to cash payments for the poorest Palestinians. The National Cash Transfer Programme (NCTP) is intended to provide payments to the poorest Palestinian households to alleviate poverty. As of 2023, 130,000 households were enrolled for assistance from the NCTP, which represents an increase from the 115,000 households that were enrolled in 2022. Because of its worsening fiscal situation, the PA has, since 2018, reduced the disbursements from the NCTP by 75%. As a result of delays to the payment of external donor funding to the NCTP, disbursements to the poorest households were further reduced in 2021 and 2022 to 20% and 30% of a normal programme, respectively. In 2023, the PA plans to further limit the NCTP to 75% of disbursements and the first payment to recipient households was delayed by three months for the PA to confirm its funding contribution for the first disbursement. When operating at normal levels, NCTP is expected to benefit 10% of the total Palestinian population (4% in the West Bank and 20% in the Gaza Strip) and to help alleviate poverty gap by 50%.

Table 3 National Cash Transfer Programme (NCTP) Payments (UN estimates)

Year	Number of payments	Percentage of full NCTP
2018	3 full payments	75% of full NCTP
2019	3 full payments	75% of full NCTP
2020	3 full payments	75% of full NCTP
2021	1 partial payment	20% of full NCTP
2022	1 full and 1 partial payment	30% of full NCTP
2023	3 partial payments	50-75% of full NCTP

Across these sectors, coping measures and efforts to shift the financial burden from the PA's budget are reaching capacity. Palestinian municipalities and village councils increasingly are relied upon to pay service delivery costs; however, PA fiscal transfers are insufficient to meet expenditures. In 2022, Palestinian municipalities projected that budgeted PA transfers would in some cases meet less than a quarter of total service costs.

In the health sector, debt has become unsustainable, with roughly 60% of the PA's private sector arrears owed to private and non-government health care providers, such as the East Jerusalem Hospital Network and pharmaceutical companies.¹⁴ In education, the percentage of the overall development budget paid by the PA decreased by nearly half in 2022, with local funding and external donors increasing the share they pay.¹⁵ In the context of declining donor support, the current trajectory will not allow the PA to ensure basic services for many Palestinians. A clear shift in focus by the PA and the donor community is needed toward investment in health, education, and social support.

¹⁴ PA Ministry of Finance data.

¹⁵ PA Ministry of Finance data.

Table 4 Key Figures: Occupied Palestinian Territory

	West Bank	Gaza Strip	Total
Estimated Population, 2022	3,188,387	2,166,269	5,354,656
Area (km2)	5655	365	6,020
GDP per capita, US \$	4,458.3	1,256.8	3,086.8
Poverty rate	13.9%	53%	29.2%
Men's labor force participation rate	75%	63%	71%
Women's labor force participation rate	19%	18%	19%
Youth labor force participation rate	-	-	26.2%
Men's Unemployment rate	10.6%	39.1%	20.3%
Women's Unemployment rate	23.6%	67.4%	40.3%
Youth Unemployment rate	28.6%	73.9%	48.3%
Physician per 1,000 residents	3.25	2.71	3.03
Nurse per 1,000 residents	3.61	5.64	4.43
Teachers per 1,000 residents	12.31	10.2	11.46
Population under age 29 (%)	63%	68%	65%
Refugee population (%)	26.2%	65.3%	41.5%
Annual population growth rate	2.2%	2.8%	2.4%
Food Insecure (%)	14%	63%	33%

Source: Palestinian Bureau of Statistics. West Bank population data include East Jerusalem; other data exclude East Jerusalem. Poverty data are from 2017, the most recent official statistics available; other data are from 2020, 2021 and 2022. Youth labor force participation rates are not available at the regional level.

Lifting Israeli restrictions on access, movement, and trade to create space for the Palestinian economy to grow.

Political and geographic space is necessary for the Palestinian economy to grow. This requires improving Palestinian access in Area C, addressing the Israeli closure of Gaza, and increasing Palestinian trade and the economic linkages between the West Bank and Gaza. Existing constraints and the necessary steps to achieve progress in this area were identified in UNSCO's last report to the AHLC. While little progress has been made overall, the easing of some access, movement, and trade restrictions in Gaza, particularly in the labor market, has demonstrated positive impacts on the economy and been a stabilizing factor in the Gaza Strip. These measures should be expanded, and the steps identified in UNSCO's September 2022 AHLC report should be implemented.

Israeli restrictions on Palestinian access and improvements to land and resources in Area C continue to curtail current and future Palestinian economic growth, having seen no improvements in this area since the last report.¹⁶ Since 2011, when technical discussions began between the PA and the Government of Israel on spatial planning for Palestinian land use in Area C, 106 spatial outline plans covering land use in Area C have been submitted to Israeli authorities for approval. As of March 2023, 7 had been approved, and 5 others had been submitted for public review.¹⁷ Palestinian access to and use of land and resources in Area C remains a serious barrier to Palestinian economic growth and should be improved.

Palestinian access to the Israeli labor market, however, remains a major source of income to the Palestinian economy. The estimated annual income of Palestinians working in Israel and Israeli settlements in the West Bank is 4 billion USD calculated from PCBS Labor Force Survey data, and may be as high as 7 billion USD according to other estimates, which is more than total donor financing for Palestinians through all sources, and above the monthly transfers from Israel to the PA. While largely successful in generating income for Palestinians, this dynamic is not without some risk. Ensuring rights and protections for Palestinian workers in Israel is critical.

In Gaza, the easing of some restrictions on people and goods from Gaza introduced in May 2021 has had a significant impact on the local economy. Nearly 18,000 permits have been issued for Palestinian laborers and traders from the Gaza Strip to work or conduct business in Israel. Palestinian laborers from Gaza working in Israel can earn ten times the average unskilled public sector wage in Gaza, potentially contributing approximately 400 million USD to the economy of the Strip annually.

¹⁶ UNSCO, Report to the Ad Hoc Liaison Committee, September 2022
https://unsco.unmissions.org/sites/default/files/unsco_report_to_the_ahlc_-_22_september_2022.pdf

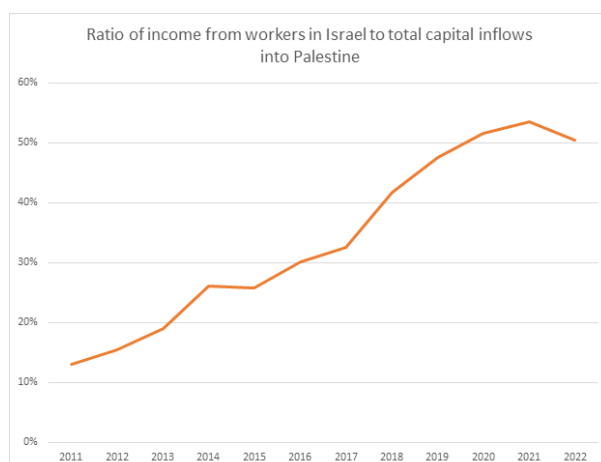
¹⁷ Bimkom <https://bimkom.org/eng/category/httpbimkom-orgengpublications/>

Commercial truck movements into and out of the Gaza Strip have increased through both the Kerem Shalom crossing between the Gaza Strip and Israel and through the Salah Ad-Din Gate crossing between the Gaza Strip and Egypt. The total volume of goods exiting the Gaza Strip through Kerem Shalom to Israel increased by 43% in 2022 from the previous year. Thus far in 2023, a monthly average of more than 11,000 commercial trucks entered and nearly 800 left the Gaza Strip via both the Kerem Shalom crossing with Israel and the Salah ad Din gate to Egypt. In addition, progress was also made with respect to the easing of restrictions on entry into the Gaza Strip of some items qualified by Israel as “dual use”, including in the health and fishing sectors. The relaxation of agricultural export restrictions by Israel – such as increases in the types of agricultural produce allowed into Israel and production quotas due to Shmita year policies – contributed significantly to this increase (*see inset*) and should be extended.

Nevertheless, economy in the Gaza Strip remains largely constrained by the Israeli closure and continued Palestinian militant control which should be ended in line with UNSCR 1890 (2009). In the interim, more can be done to expand the easing of restrictions, including with a view to addressing persistently high levels of unemployment, further opening the labor market, further easing the movement of goods into and out of the strip and addressing the high costs and inefficiencies for businesses using the Kerem Shalom crossing. Enforcement on smuggling, such as of fish, from the Gaza Strip into Israel and the West Bank should be improved.

Agricultural exports

An important factor in the increase of volume in goods exiting Gaza in 2022 was related to an easing of restrictions on agricultural products and a relaxation in agricultural export quotas due to Shmita year policies, which resulted in a 700% increase of agricultural exports from the Gaza Strip to Israel as compared with 2021, with a net economic benefit to the economy of the Gaza Strip of 56 million USD in 2022, more than double the value of agricultural exports in 2021. The Palestinian Ministry of Agriculture forecasts the agricultural labor force in the Strip grew by 25% in 2022. The relaxations in agricultural export restrictions are expected to be extended by the Government of Israel.



Better aligning the economic and administrative relationships going forward.

In light of the growing fiscal crisis, constrained opportunities for sustainable economic growth, and increasing dependence of the Palestinian economy on trade and employment in Israel, improving technical level economic coordination between the parties is increasingly important to address emerging ad hoc economic relationships that lead to informality, unregulated economic activities, and increase vulnerability and risks. UNSCO's September 2022 report to the AHLC highlighted the need for a regulatory framework for the large number of Palestinians workers in Israel and addressing imbalances in the relationship between the two economies through technical-level engagement between the parties.

Enhancing the regulatory framework to limit abuse in the permit system, ensure worker safety and protection, and provide for pension and worker compensation schemes remains a priority. The broker system remains an impediment to ensuring protections for Palestinian workers and impacts the holders of the estimated one third of all permits that are believed to be sold through brokers, many of whom charge fees of up to half of expected earnings. Further illustrating the challenge, just under 30% of the more than 210,000 Palestinians working in Israel or Israeli settlements in the West Bank are estimated to be working in accordance with their permits and therefore entitled to full worker protections and social insurance payments under Israeli law. Notably, while all Palestinian laborers in Israel have the right to access the Israeli social insurance and pension system, in 2022, only 600 Palestinian laborers were receiving pension or workers compensation payments for injury.¹⁸

Despite efforts by the PA Ministry of Labor to better protect Palestinian laborers in Israel through enforcement efforts to tackle the brokering of permits and establishment of a social insurance system, these efforts have largely been unsuccessful as the Ministry of Labor does not have an active role in the allocation or management of work permits and Palestinian laborers once they leave the West Bank. Similarly, the Government of Israel passed a reform of Palestinian worker permits in December 2020 with a goal of reducing illegal employment and to prevent the trafficking of worker permits. This has been followed by a number of policy and administrative steps by Israel to expand enforcement, public awareness and prevention of abuses and the broker system. However, the inability of the Government of Israel to enforce regulations against permit brokers in the West Bank and limited cooperation with PA enforcement agencies have undermined the effectiveness of the approach, resulting in an increase in informal labor movements and in the trading of permits. In an example of a successful reform, since 2023, all salary payments for Palestinian laborers must be made electronically, thereby creating a document trail, and providing evidence of payment and eligibility for social insurance. While increased transparency and accountability is welcome and further steps are needed to ensure compliance with the system, the reforms have had the unintended consequence

¹⁸ PA Ministry of Labor

of permit brokers requiring Palestinian laborers to pay their fees for the permit in advance, thereby increasing the vulnerability of workers to financial losses and underscoring the need for greater coordination on policy and regulations between the parties.

As the number of Palestinian workers in Israel continues to grow, the risk of negatively impacting the growth potential of the Palestinian economy over the medium-term increases. As long as the wage disparity between the Palestinian and Israeli labor markets persists, over-qualified Palestinians workers will continue to seek jobs in Israel, a particularly evident phenomenon in the construction sector, draining the Palestinian economy of highly skilled workers. The steps outlined earlier in this report aimed at increasing the space to improve growth in the Palestinian economy would help to mitigate this risk.

Conclusion

Charting developments since the last AHLC, as we have done in this report, illustrates the urgency of the situation in which the limited scope of positive measures and reforms implemented by the parties cannot keep pace with negative trends on the ground and the absence of a meaningful political process. The drivers of conflict are persistent and worsening by most indicators, particularly violence in the West Bank, negatively impacting the Palestinian economy and people, driving further despair and hopelessness, especially among youth. At the same time, the PA faces an immense fiscal crisis with few tools at its disposal to mitigate the effect on its institutions and ability to deliver services, having stretched its capacity to carry debts and amid a continued downturn in donor support. Reforms alone – while essential - will no longer suffice to reverse the crisis.

The impact of the dynamics highlighted in this report on basic service delivery to Palestinians, especially health, education, and social support, which are essential to livelihoods, development, and stability, is of serious concern. Even under most best-case scenarios, as resources decline, the service needs of a growing Palestinian population are set to outstrip the capacity of the PA to deliver those services. Moreover, declining donor support also threatens the capacity of UN agencies to meet growing needs in support of the PA. Building the capacity of the PA to provide governance and services to the Palestinian population, was a core tenet of the Oslo accords, and now risks being eroded after nearly thirty years of investment if there is not a strategic shift by the parties and the international community to resource and strengthen the PA.

In addition to providing increased external support, the pressures facing the PA and Palestinian economy in terms of Israeli restrictions on movement and access and rebalancing the economic relationship with Israel urgently need to be relieved in order to promote economic growth and strengthened governance. Israel's opening of the labor market to Palestinians and easing of restrictions on the movement of goods in and out of Gaza illustrate the impact such measures can have and they need to be expanded and better regulated to maximize their positive effect on the Palestinian economy. While the economic commitments made in Aqaba, Jordan and Sharm el Sheikh, Egypt, with the facilitation of Egypt, Jordan, and the United States, are welcome stabilizing measures, the

dialogue between the parties should be expanded to address more fundamental issues facing their economic relationship with a view to improving the Palestinian economy and strengthening the PA. Reconvening the Joint Economic Committee offers such an opportunity.

As we argued in our last AHLC report, progress in one area outlined in this report can easily be undermined by reversals in other areas. A coherent package of steps to reverse negative trends and conflict drivers, strengthen the Palestinian Authority and open space for the Palestinian economy to grow is needed, alongside and as an integral part of efforts to restore a political horizon toward achieving the vision of two States living side by side in peace and security, based on the 1967 lines, previous agreements, UN resolutions, and international law.