

OFFICE OF THE UNITED NATIONS SPECIAL COORDINATOR  
FOR THE MIDDLE EAST PEACE PROCESS

Paper to the Ad-Hoc Liaison Committee  
2 June 2020

## Disclaimer

This paper of the Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO) provides some early lessons from the COVID-19 pandemic and assesses the uneven progress toward sustainable development and institution building in the Occupied Palestinian Territory (OPT).

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

The reporting period is from 1 September 2019 to 15 May 2020, unless otherwise noted. Many references fall outside this period to illustrate relevant trends.

The United Nations Special Coordinator wishes to thank the Chair of the Ad-Hoc Liaison Committee (AHLC) for organizing this event despite the challenging circumstances.

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>.

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## Introduction

In addition to the public health implications of the COVID-19 pandemic, the crisis has brought to the forefront the implications of the prolonged deterioration in Israeli-Palestinian relations. None of the issues is new—indeed they are all longstanding—but the COVID-19 pandemic has shed a harsh light on the inadequacies of the status quo, including the framework governing the economic relationship between the two sides.

The last quarter-century of engagement by the members of the AHLC was never intended to support the Palestinian Authority (PA) in perpetuity and in the absence of political negotiations. Rather, the engagement of the AHLC was meant to create the economic and governance conditions necessary for Palestinian statehood in parallel to a peace process that was heading toward a final status agreement. In recent years, however, these collective efforts have not helped to facilitate any advancements in the peace process. Instead they have been channeled to halting the continued erosion of Palestinian institutions, to reduce violent conflict and humanitarian devastation in Gaza, and to prevent the Israel-Palestinian relationship from unravelling fully. While the worst has perhaps been avoided due to vigorous international support, including from the members of the AHLC, the COVID-19 emergency makes clear the unsustainability of the current political and economic trajectories. If present trends continue, the donor environment will deteriorate further, the achievements of the Palestinian Government over the last quarter century will fade, the peace and security situation will worsen, and a hardened and more extremist politics on both sides will inevitably result.

In Israel, proposals to annex parts of the West Bank were prominent in the recently completed election campaign and in the agreement to form a coalition government. On 17 May, a Government was formed which stipulates that the Prime Minister can bring a proposal for annexing part the West Bank, in agreement with the United States, to a cabinet or Knesset discussion starting from 1 July. In response, on 19 May, Palestinian President Abbas announced that the Palestinian leadership considered itself “absolved of all the agreements and understandings” with the United States and Israeli governments, considering Israeli plans for annexation. President Abbas also called on Israel to assume its obligations as the occupying power. Threats of unilateral action by both parties risk destabilizing the situation and upending progress attained after years of negotiations and efforts to build Palestinian institutions.

It remains to be seen, however, how and whether these stated intentions will be implemented. We can state unequivocally that any move by Israel to annex parts of the occupied West Bank or any Palestinian withdrawal from bilateral agreements would dramatically shift local dynamics and most likely trigger conflict and instability in the occupied West Bank and Gaza Strip. Israeli annexation of parts of the West Bank would also undermine the prospects for a two-state solution and contravene international law. On a more practical but still serious level, the continued delivery of humanitarian and development assistance to the Palestinians by the UN and other organizations could be greatly complicated. UN Secretary-General Antonio Guterres has consistently spoken out against any unilateral action.

In the period leading up to the COVID-19 pandemic, the situation on the ground was increasingly characterized by unilateralism, recrimination, and violence. Policies associated with Israel’s military occupation continued, including demolitions of Palestinian structures, illegal settlement construction, and restrictions on the movement of Palestinians throughout the OPT. Over the same period, Palestinians did not advance toward reconciliation and Hamas remains the *de facto* power in the Strip. Long-overdue Palestinian elections, announced in September 2019, have yet to take place. Gaza’s population continues to suffer from an inadequate water and energy supply, a health system on the

verge of collapse and a staggering unemployment rate of 45 percent at the end of 2019. The effects of Israel's closure regime complicate any meaningful economic recovery. Hamas rule and the continued internal Palestinian division also contribute vastly to the sense of isolation felt by most Palestinians in Gaza. At the same time militant activity from Gaza forces Israeli communities to live in fear of the next rocket attack. No amount of humanitarian or economic support on its own will resolve either the situation in Gaza or the broader conflict.

Under normal circumstances, our report to the AHLC would provide details on the various political, human rights, protection, and humanitarian developments since our last report in September 2019. Given the global COVID-19 emergency and the urgency of addressing its local impacts to the Committee, this report limits its coverage on these topics and instead directs the Committee to other recurring publications and briefings by the UN. 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, including situation reports on the COVID-19 emergency, are made available by the Office for the Coordination of Humanitarian Affairs (OCHA) ([found here](#)). Recent reporting reveals the continued deterioration of the situation across several dimensions throughout the period. Despite the call of Secretary-General Guterres for a global ceasefire, the pandemic has not interrupted the conflict between the parties or halted the regular violation of international humanitarian and human rights laws.

Drawing some early lessons, this report provides an assessment of uneven progress toward sustainable development and institution building in the OPT. It identifies some of the sources of risks to peace, development, and institution building, and urges the parties and the international community to work collectively to mitigate and resolve these issues.

## COVID-19: Emergency and Response

The first confirmed case of COVID-19 in Israel was on 21 February 2020. The first case of COVID-19 in the West Bank was confirmed on 5 March 2020, followed by the first confirmed cases in the Gaza Strip on 21 March 2020. By all accounts, the Israeli and Palestinian Governments responded decisively to limit the spread of the disease. As in other countries, the governments closed schools and businesses, asked most workers and families to restrict their movement, and mobilized the public health infrastructure. These interventions were evidently successful: as of 17 May 2020, the World Health Organization (WHO) reports 16,589 confirmed cases and 266 deaths in Israel and 554 confirmed cases and 4 deaths in the OPT, including East Jerusalem. On a per capita basis, these figures are lower than in many comparison countries in the region and globally.

Nonetheless, the pandemic and necessary actions to address it have created a negative shock to the Israeli and Palestinian economies and will have profound implications for public welfare, employment, social cohesion, financial and fiscal stability, and institutional survival. In Israel, unemployment in the labor force is estimated around 25 percent, while revised growth forecasts for 2020 suggest the largest recession in Israeli history. The Palestinians likely face an even worse economic crisis. Depending on how deeply and how long public health restrictions are in place, the Palestinian economy will likely decline 7.6 percent in 2020 and perhaps up to 11 percent in the case of a slower recovery or further restrictions due to another outbreak. This would represent an annual contraction among the largest since record keeping began in 1994, similar in scale to the contraction at the beginning of the Second Intifada.

Economic contraction and public health restrictions are also having devastating effects on the fiscal stability of the Palestinian Government. The Government's monthly revenues have declined to their

lowest levels in at least two decades. The Palestinian Ministry of Finance estimates that, due to the lack of domestic economic activity and external trade, revenues collected in Areas A and B will fall by about 75 to 85 percent, while clearance revenues will fall by between 50 and 70 percent. At the same time, additional outlays are needed for the public health response to the pandemic, as well as to help the poor and vulnerable segments of the population.

Under Israel's continued military occupation, the agreements governing the Israeli-Palestinian economic relationship do not permit the Government of Palestine to grasp the conventional monetary and fiscal tools that countries ordinarily use in times of economic distress—they cannot influence interest rates, print money, devalue its currency, or access international capital markets to finance deficit spending. The latter constraint means that the Palestinian Government cannot implement far-reaching, emergency stimulus measures—such as public works projects—without substantial donor support.

Without recourse to international borrowing or significant additional budget support from donors, the Palestinian Government will be forced to adopt severe austerity measures. Several expert assessments put the financing gap (the deficit after grant assistance) somewhere between US\$1 billion and US\$1.5 billion for 2020, with variation based on the extent of additional spending on social assistance and small and medium-sized enterprises support by the PA. For its part, the Office of the Prime Minister has requested between US\$1.8 billion to US\$2.4 billion in direct support from international donors to cover the fiscal deficit for 2020.<sup>1</sup> The data underlying these forecasts are changing daily and of course the future is deeply uncertain: a second wave of the pandemic, or renewed conflict, or regional instability would greatly amplify these economic and fiscal shocks.

The relatively successful prevention efforts in the OPT have thus far ensured that the limited capacity of the health system has not been overwhelmed. However, there remain considerable concerns regarding the ability of the Palestinian health sector to cope with a surge in cases, especially in Gaza. There are continuing shortages of critical supplies including in testing materials, personal protective equipment, ventilators, and other equipment required for intensive care units, due to funding gaps and a shortage in global supply.

### United Nations Response

The UN response to COVID-19 in the OPT, aimed at supporting the Palestinian Government's efforts, has been swift and thorough. The UN Resident Coordinator and Humanitarian Coordinator (RC/HC) convened the first interagency COVID-19 task force meeting as the first cases were confirmed in the West Bank, and he assigned clear roles to task force members. Since 5 March 2020, in addition to weekly meetings of the interagency COVID-19 task force, the RC/HC has chaired dozens of meetings of the members of the UN Country Team, the Humanitarian Country Team, and ad hoc groups of donors. UNSCO has also maintained regular contact with the relevant entities in the PA and Israel to coordinate assistance. With regards to Gaza, the UN worked closely with the Ministry of Health and the *de facto* authorities in support of prevention and containment. These efforts focused on support to quarantine facilities and improving capacity in hospitals to address a larger outbreak. Israel has also facilitated the delivery of assistance to the West Bank and Gaza, in particular COVID-19 testing materials. Finally, the UN, through its broader coordination efforts, has maintained continuous contact with the European Union, World Bank, and other large donors working closely with the PA.

The RC/HC launched the initial emergency response plan on 14 March 2020, less than ten days after the first cases were confirmed. This first version focused the public health response and prioritized

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<sup>1</sup> <http://www.palgov.ps/en/article/210/Palestine's-COVID-19-Response-Plan>

actions to support the Palestinian Ministry of Health and broader government efforts led by the Prime Minister's office over 60 to 90 days. The plan sought funding to secure essential medical equipment, and to set up additional health system capacity, including expanded intensive care facilities.

The initial response plan was then expanded on 27 March 2020 in recognition of the broader impact of COVID-19 beyond the health sector. On 24 April 2020, the Humanitarian Country Team launched its third and final iteration of the COVID-19 Response Plan for the OPT, seeking US\$42 million. This final update was required to further align the plan to the global COVID-19 Humanitarian Response Plan, and to include greater support to quarantine centers in Gaza and the West Bank; a multi-sectoral response to support efforts in East Jerusalem; and support to provide a safety net for the most vulnerable communities adversely impacted by COVID-19. It is expected to run through June 2020. As of 15 May 2020, the plan is 54 percent funded. The bulk of the funding has come from allocations from the locally administered humanitarian pooled fund and reprogrammed internal UN resources; large contributions have been received against the response plan from Canada, France, Germany, Kuwait, the United Kingdom, and the European Union. A sizeable in-kind donation of equipment and supplies has been received from the United Arab Emirates.

To date, UN agencies in the OPT have delivered close to 10,000 tests, advanced laboratory machines such PCR devices, more than 100,000 items of personal protective equipment (PPE), as well as oxygen concentrators and other oxygen therapy machines. UN agencies have also begun procurement for dozens of ventilators and other materials for some 100 additional Intensive Care Unit beds. In addition to increasing the availability of equipment and supplies for the health sector, the UN has supported several quarantine facilities in Gaza with non-food items; bolstered risk communication efforts; and supported capacity building relating to infection prevention and control for health professionals.

Since the onset of COVID-19, the UN Resident Coordinator's Office has been monitoring the economic impact and liaising with the PA, the World Bank, and the Government of Israel on mitigating measures for the Palestinian economy. The UN Special Coordinator has delivered economic impact analysis and recommendations in his monthly briefings to the Security Council, and he has engaged with Israeli and Palestinian interlocutors, including the respective Ministers of Finance.

The UN Country Team is also in the advanced stages of preparing its COVID-19 Development System Response Plan. The document proposes a framework for organizing the UN Country Team's development work over the next 12 to 18 months to respond to the COVID-19 pandemic, with a view of the long-term socioeconomic impact of the crisis and its multidimensional effects. The UN is working closely with the Prime Minister's Office to ensure the UN development response is fully aligned with the priorities of the Government of Palestine. Though still being finalized, the framework proposes five sectors of targeted interventions for UN agencies to undertake in response to the COVID-19 emergency: health, education, social protection, basic services and governance, and economy and labor. Reflecting our common international commitments and the specific Palestinian context, the plan identifies human rights, gender, and youth as critical priorities that cut across all five sectors. The strategy is centered on people—the most vulnerable—and addressing their needs by strengthening and modernizing Palestinian systems of service delivery, ensuring the equitable and continued delivery of services to the most vulnerable, providing technical support and analytical services, and, in some sectors, providing direct support from the UN to affected Palestinians. In addition to the Government of Palestine, the work will be carried out in cooperation with development partners, Palestinian civil society, the private sector, and international agencies.

The humanitarian and development responses will play an important supporting role. But different and bolder action is required to avert economic collapse; all actors—Israel, the Palestinian

Government, international donors, the private sector, and others—must mobilize and deploy vast resources to address the COVID-19 emergency. These resources must support efficient and targeted policy interventions by the Government. In turn, the Government must economize and reorient its regular expenditures to the most urgent priority areas and reduce or suspend other expenditures during the emergency.

## COVID-19 in Context: the Israeli-Palestinian Economic Relationship

The COVID-19 pandemic arrived at a low point in the Israeli-Palestinian economic relationship and the disease has only served to highlight several unsustainable aspects of the status quo. Across 2019 and into early 2020, the parties took several unilateral actions that damaged their economic relationship and weakened the PA.

As elsewhere around the world, the social and economic impacts of COVID-19 on Palestinians have been immense. Tens of thousands of Palestinians have lost their jobs, small and medium enterprises are unable to operate, children cannot attend school in person, and violence against women and children has increased. As always, the most vulnerable are at the greatest risk of suffering. Recent gains in Gaza on water, sanitation, electricity, and livelihoods are at extreme risk of being fully reversed. The Palestinian people are experiencing the same shock and uncertainty as the rest of humanity; what is different for the Palestinian Government is that they are unable to respond to the humanitarian crisis and the socioeconomic impact of the pandemic with the same agency since it does not control a sovereign and independent state.

### Fiscal Matters

The Oslo II Accords established procedures for Israeli collection of clearance revenues (customs, VAT, and excise taxes) on behalf of the PA and the subsequent transfer of these revenues the following month to the PA. Depending on the year, around 65 percent to 75 percent of the PA's total revenues come from clearance revenues transferred by Israel. Both parties have used these clearance revenues as an instrument in wider disputes between them. The most recent such dispute was in 2019, when Israel implemented a law requiring the withholding of clearance revenues equal to the amount paid by Palestinian authorities to prisoners and detainees convicted or accused of security offenses against Israelis, to their families, as well as to families of Palestinians killed or injured in attacks against Israelis. In response, the PA refused to accept any clearance revenue less than the full amount owed to it. This dispute created an unprecedented fiscal crisis and the Palestinian Government adopted emergency measures to cope with the loss of 65 percent of revenues, equal to some 15 percent of gross domestic product (GDP). In August 2019, following months of consultations, Israel and the PA agreed for the Palestinian Government to receive approximately US\$568 million in reimbursed taxes levied by Israel on fuel. This measure temporarily relieved the liquidity crisis, but the underlying disagreement on the withholding of revenues remains unresolved.

This dispute has complicated efforts to maintain the fiscal stability of the PA in the face of the collapse of its regular revenues during the COVID-19 pandemic. Since the impact on government revenues became evident, the Israeli and Palestinian Ministries of Finance have been engaged in productive negotiations for a soft loan to the Palestinian Authority of NIS 800 million for a period of four months, against future Palestinian clearance revenues. The loan will provide a critical fiscal lifeline for the Palestinian government for the coming four months, easing its monthly deficit due to the impact of COVID-19 on its revenue collection.

However, recent events have entangled efforts to ease the Palestinian fiscal crisis. On 24 April 2020, the Jerusalem District Court issued a decision ordering the temporary confiscation of US\$128 million



from the PA as compensation to families of victims of 17 attacks against Israelis during the Second Intifada. The Court ruled that the sum would be collected from the from Palestinian clearance revenues already withheld by Israel. Additional amounts, per the Court's decision, should be deducted in monthly installments.

In early May, another complicating factor surfaced by way of a new Israeli military order implicating the Palestinian banking sector. This order would purportedly hold Palestinian commercial banks liable for processing payments from the PA to the accounts of Palestinian security prisoners or families of "martyrs." This order injects a great deal of uncertainty into the Palestinian financial system at a time when both the PA and ordinary Palestinian households and businesses are accessing funds to stay afloat during a major public health emergency.

## Trade

In late 2019 and early 2020, the trade relationship between Israel and the PA also deteriorated sharply, with a series of import and export bans imposed by each side. While the precise origin of the trade dispute is contested by the parties, the broader context is important. In April 2019, Prime Minister Shtayyeh announced a focus on economic self-sufficiency, through a combination of austerity measures and an increase in intra-Palestinian trade. This policy was in part a response to the dispute over Israeli deductions of Palestinian clearance revenues, but also in response to Israeli trade practices that the Palestinians have long felt were unfair. In September 2019, the PA took the unliteral and politically-significant step of prohibiting the import of Israeli calves. The sudden Palestinian ban prompted Israeli countermeasures, but the parties negotiated a pause to this incipient "trade war" in December 2019.

In mid-January, the PA re-imposed its import ban on calves from Israel, leading again to Israeli countermeasures. Agricultural and commercial trade was periodically halted by both sides over subsequent weeks. The steps taken by both sides appeared to contravene the Paris Protocol that governs their economic relationship.

In March 2020, just as the COVID-19 pandemic began accelerating locally, the sides resolved this trade dispute through an agreement to re-start the calf trade and to grant new licenses to Palestinian traders to import foreign cattle. Fortunately, the direct economic impact of this dispute was limited; however, Palestinian traders operating in global markets have expressed grave concern about the operational and reputation risks of repetitive trade disputes and amid overall political uncertainty.

The COVID-19 pandemic has also highlighted the vulnerability of bilateral trade to political considerations, both within and between the two sides. While the commercial crossings between the West Bank and Israel have remained mostly open, trade into Gaza has been halted sporadically by various authorities. Across the OPT, sectors depending on import and export markets cannot anticipate with any degree of certainty when crossings will be open; and significant bottlenecks to trade exist even when the commercial crossings are officially open.

## Labor

The precarious situation of Palestinian workers in Israel and the settlements is also deeply problematic. Prior to the COVID-19 pandemic, perhaps 110,000 Palestinians legally commuted to work in Israel, mostly in construction, agriculture, and other low-skilled jobs. Another 23,000 or so worked in the Israeli settlements in the West Bank, despite a prohibition on such activity by the PA. Workers commuting from Gaza into Israel are far smaller in number, on average in the high hundreds or low thousands per month, though just prior to the COVID-19 pandemic Israel increased the number of permits to around 7,000. Palestinians working formally in Israel—with work permits—still face

practical challenges to sending their wages home and some uncertainty about the portability of their benefits and pensions. Beyond the 133,000 regular Palestinian commuters, who together account for over 10 percent of the total Palestinian workforce, informal workers in Israel and the settlements—that is, Palestinians using irregular crossings and lacking work permits—are typically paid in cash under the table, with no health insurance, unemployment insurance, workers compensation, or pensions. In practical terms, the overall labor market is large: wages from Palestinians working in Israel and the settlements drive a significant part of the overall economy of the West Bank, accounting to perhaps one-third of all consumer demand due to their higher wages.

Like workers within the West Bank and Gaza Strip, Palestinian commuters to Israel have been negatively impacted by movement restrictions due to COVID-19. Israel classified many of these employees as “essential” workers and granted an estimated 40,000 permits to remain in Israel until the end of Ramadan. On 4 May 2020, Israel approved new regulations and enforcement guidelines obliging employers in Israel to provide medical insurance and appropriate accommodation for these Palestinian workers during their stay.

Concerns remain regarding the return of the laborers to the West Bank, due to the limited capacity of the Palestinian authorities to register and monitor those returning. The unregulated movement of workers back and forth also reportedly continues on a significant scale. Notwithstanding recent Israeli changes to labor regulations, the authorities on both sides have engaged in political disputes over who is ultimately responsible for paying for COVID-19 testing and treatment for these workers.

### Gaza in 2020

In 2012, the UN Country Team in the OPT published the report [Gaza in 2020: A Livable Place?](#) As the title suggests, the report explored whether the Gaza Strip would provide adequate living conditions for the roughly 2 million inhabitants expected to live in the territory by that year, irrespective of possible political developments. The conclusions of that report were grim: without considerable investment in basic infrastructure and services, in the face of uninterrupted demographic growth and its isolation and division from the West Bank, the Gaza Strip by 2020 would lack sufficient schools, hospital beds, electricity, water and sanitation, employment opportunities, and food supplies to provide even a minimally acceptable standard of living.

In the following years, the Gaza Strip experienced a devastating round of hostilities in 2014, Hamas tightened its control of the territory and the population’s isolation continued. Over the past years, the PA decided to reduce its spending on Gaza. In 2017, the UN Country Team reported that the humanitarian and development environment in Gaza had deteriorated since 2012: Gaza remained on a de-development trajectory, on track to become “unlivable” by 2020.

Having reached 2020, the situation in the Gaza Strip remains precarious as the risk of a major escalation persists and the immense suffering of the population continues. Palestinians in Gaza are vulnerable to several destabilizing factors including Israeli closures, Hamas’ continued hold over the territory and its militant activity and the lack of progress on intra-Palestinian unity. There is a constant threat of indiscriminate launching of rockets and mortars towards civilian population centers in Israel and retaliatory Israeli airstrikes in Gaza. The UN and Egypt have brokered understandings to maintain a fragile calm and continue efforts on the ground to uphold and strengthen these arrangements.

Gaza’s badly deteriorated security, humanitarian and development situations are now compounded by the COVID-19 pandemic, despite the present low case load. However, some critical progress was made during 2019, especially on the implementation of the package of Urgent Humanitarian and Economic Interventions for Gaza, endorsed by the AHLC in September 2018. Following the appeal of

the AHLC, fuel supplies, funded by the State of Qatar, for the Gaza Power Plant increased in 2019, allowing for greater and more stable electricity supply to households and businesses in Gaza. Because of the increase in electricity supply, water supply and sanitation has dramatically improved. The employment picture was also better by the end of 2019: more than 37,000 temporary jobs had been created by the UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), the UN Development Programme (UNDP), and the World Bank. The cash-for-work programs specifically targeted women and youth, as they are underrepresented in the labor force and require specialized assistance to gain access to employment opportunities. Several thousand more jobs were expected to be created in 2020.

Trends in the Strip undermine efforts to remedy the humanitarian and development crisis there. Since Hamas' takeover of the Gaza Strip in 2007, a robust 'parallel' or 'shadow' economy has emerged that operates largely outside of official supervision or recognized channels. Over time, this parallel economy has evolved and reoriented itself in response to political circumstances and the availability (and relative expense) of official channels. The activities underpinning this parallel economy have included smuggling from border tunnels, trade through unofficial channels, black and grey market commerce, 'taxes' collected from these activities, remittances through unregulated money changers, and finally direct transfers to the *de facto* authorities in the Strip. Thriving in the absence of intra-Palestinian reconciliation, this parallel economy directly challenges the legitimacy and capacity of the Palestinian Government: it breaks the hierarchical linkages between the line ministries and civil servants in Gaza and the government in Ramallah, it diverts revenues away from the public and into private hands, it obscures public financial management, and, finally, it compromises the honest delivery of public services.

**Table 1** gives some trends in key development indicators in Gaza since 2012. Despite the welcome progress in advancing key projects noted above, Gaza in 2020 does not provide living conditions that meet international standards of human rights, including the right to development, for its roughly 2 million inhabitants. From 2012 to 2020, the population in Gaza increased by about 400,000 people, or 25 percent. Over the same period, GDP per capita declined 25 percent, and the unemployment rate increased over 15 percentage points to 46 percent. Per capita measures of classrooms, teachers, doctors, hospital beds, and nurses have all eroded. Poverty rates and food insecurity have both increased sharply, while baseline indicators for water, sanitation, and hygiene have remained roughly flat.

**Table 1: Gaza in 2020 – Key indicators**

Indicator	2012	2019/2020
Gaza Population Size <sup>1</sup>	1.64 million	2.02 million
Population Density	4483 people/KM <sup>2</sup>	5601 people/KM <sup>2</sup>
GDP Per Capita <sup>2</sup>	\$1,880	\$1,410
Unemployment Rate	30.8%	46.0%
Energy – % of Demand Met	60%	41.7%
Education – Classrooms Per 1,000 Students	26.3	25.45
Education – Teachers Per 1,000 Students	38.7	36.36
Food Insecurity	44%	62% <sup>3</sup>
Health – Doctors Per 1,000 People	1.68	1.38
Health – Hospital Beds Per 1,000 People	1.8	1.32
Health – Nurses Per 1,000 People	2.09	1.85
Poverty Rate	50%	53% <sup>4</sup>
WASH – % of Aquifer Safe for Drinking	10%	3%
WASH – Amount of untreated or partially treated waste water pumped directly into the sea	90,000 CM/day	107,000 CM/day

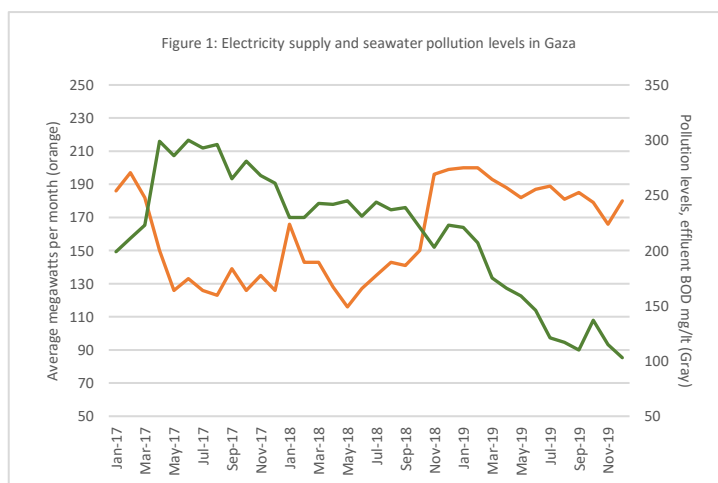
Note that 2012 figures are taken directly from the Gaza 2020 report published that year.

1. 2020 population is a straight-line projection from the Palestinian Central Bureau of Statistics (PCBS) data for 2018 and 2019.
2. GDP per capita is from PCBS, in constant 2015 dollars.
3. From the 2018 Socio Economic and Food Security (SefSec) Survey.
4. Calculated by PCBS from the 2017 Census. The figure is likely higher.

On the positive side of the ledger, energy supplies in Gaza have been significantly improved and electricity is now available for about 11 hours per day in some areas. According to the Water, Sanitation, and Hygiene (WASH) cluster, the increased electricity supply has led to a greater volume of waste water being treated, which in turn has reduced pollution levels in the sea by half from its 2018 peak. (Pollution levels are still above levels reported in 2012.) These improvements are reflected in **Figure 1**, where megawatts supplied show an inverse relationship to seawater pollution levels. Furthermore, the production volume of desalination plants in Gaza is also growing steadily (not shown).

Many of the improvements described above were made possible by focused donor engagement and the increased implementation capacity of the UN's Project Management Unit (PMU) in Gaza. Since early 2019, the PMU has worked closely with UN agencies, the international community, Israel, and the PA to facilitate the entry of materials and provide required monitoring and oversight for a variety of critical projects in Gaza. This includes a mechanism for the entry of materials for the Gaza Central Desalination Plant and potentially other large-scale projects. The PMU is also ready to enhance its engagement in support of Gaza's private sector including through the increased import of goods required for industrial production and to stimulate the agricultural and fisheries sectors. Joint decisions by Israel and the PA regarding the import and export of goods into and out of Gaza could help to revitalize the Gaza Industrial Estate and other economic hubs in the Strip. The UN continues to encourage the parties to move quickly in this direction.

The COVID-19 pandemic has put this uneven progress at risk, damaging the economy across sectors. According to recent surveys, around 35 percent of industrial firms have ceased operation completely, while the rest have reduced their operating capacity. As a result, around 13,000 industrial workers have temporarily lost their jobs. Virtually all restaurants and hotels have ceased operations, leading to the release of over 10,250 workers, while perhaps half of all employees in the Information and Communications Technology (ICT) sector have been laid off. Recent job losses come on top of an already extraordinary unemployment rate in Gaza of 45 percent at the end of 2019. The socioeconomic response to COVID-19 in the Gaza Strip will have to be well tailored to the specific conditions there.



However, humanitarian and development steps alone will not resolve Gaza's immense challenges. At their core, Gaza's problems are political and require political solutions. In the short to medium term maintaining the ceasefire arrangements and loosening movement and access restrictions is critical. Gaza-based militants need to stop the launching of rockets and

incendiary devices towards Israeli communities and leaders must take concrete steps to ensure that Gaza and the West Bank are reunited under a single, democratic Palestinian national authority. At the same time, Israel must significantly improve the movement and access of goods and people to and from Gaza, as a step towards the full lifting of the closures, in line with Security Council resolution 1860 (2009).

### Outdated Economic Governance Structures

Fundamentally, the COVID-19 pandemic lays bare the inadequacy of the economic and administrative relationships between Israel and the PA. Even prior to the outbreak, unilateralism, informality, and ad hoc and reactive policy-making were the inevitable consequence of an inactive peace process. The reliance on informal and ad hoc relationships between the parties makes unilateral actions more likely, increases risks of escalation, threatens economic activity, undermines Palestinian institutional development, and harms individual Palestinians. The underlying dysfunction has complicated the COVID-19 response, most notably in the planning for long-term socioeconomic recovery.

The lack of Palestinian sovereignty has sharply limited the policy options available to the Palestinian Government to respond to the pandemic and to mitigate and recover from the pandemic's social and economic effects. On the public health front, the PA does not control its border crossings, does not have the capacity to implement restrictions on internal movement and trade, depends on UNRWA to manage a large proportion of its public health infrastructure, and does not have the ability to call on international resources available to sovereign states. As noted above, with respect to the social and economic response, the PA cannot grasp the conventional monetary and fiscal tools that countries ordinarily use during times of economic distress.

The COVID-19 pandemic points to the urgency of updating the framework that governs the economic relationship between Israelis and Palestinians. The original "Protocol on Economic Relations" was signed in Paris on 29 April 1994 by the Government of Israel and the Palestinian Liberation Organization, and incorporated into the Oslo II Accord in 1995. Like the rest of the Oslo II Accord, the protocol was intended to be an interim arrangement, expiring after five years, but it has remained in effect for over 25 years. The protocol covers almost all aspects of Palestinian economic affairs, including taxation, customs, trade policy, product safety, monetary and banking arrangements, insurance, agriculture, water, and energy. A large body of research has chronicled the detrimental impact of the protocol on Palestinian economic development, and the economic, political, and administrative dependency that the agreement created in practice. Most criticism has focused on the procedures for Israeli collection of clearance revenues on behalf of the PA and the subsequent transfer of these revenues each month from Israel to the PA. However, as demonstrated above, the economic challenges associated with the Paris Protocol go far beyond just the collection and disbursement of clearance revenues. The free-trading relationship envisioned in the Oslo process remains unimplemented, and regulations governing Palestinian workers are clearly inadequate.

This status quo makes the PA almost completely dependent on Israel and, to a lesser extent, other international actors to address any emergency on the scale of the COVID-19 pandemic. From Israel's perspective, the occupation and the perpetuation of interim arrangements results in Palestinian dependency that complicates—and draws resources from—its own public health response. Far better a situation in which Israel and Palestine jointly address emergencies like the COVID-19 pandemic as equal partners and friendly neighbors, each fully responsible for and capable of protecting its citizens.

## Modernizing the Economic Framework

To overcome the unsustainable status quo, the Palestinians and Israelis both must recognize their strategic interests in a well-functioning, fully-reconciled PA. They should leverage the COVID-19 recovery process to reform their outdated economic model in a way that enhances the PA's institutional capacity and addresses the urgent humanitarian and development needs of the Palestinian people. For its part, Israel should undertake several reforms that would regularize its trading and labor relationships with Palestinians—steps that would repair confidence and build trust with its Palestinian neighbors. For their part, the Palestinians should seize the opportunity to conclude their internal reconciliation and hold long overdue elections, as they themselves announced in 2019. The PA should also demonstrate, through its COVID-19 response as a starting point, that it understands its obligations and responsibilities in Gaza.

A new relationship, even in the absence of a final status agreement, must be underpinned by a modern conception of how the two economies and societies will interact in the coming years. New economic governance structures must reflect the situation on the ground and the reality that the global economic model in the 21<sup>st</sup> century will be one of increasing interdependence—a truth further emphasized by the wide reach and diverse impact of COVID-19 on the global economy. The benefits of a revised model would not only be economic, but also political and strategic by reducing sources of tension, conflict, and grievance. Closer economic relations on a more equal footing would help build a sustainable peace.

While a fully re-engaged peace process is the best vehicle for such discussions, the parties can take immediate steps to improve the day-to-day lives of Palestinians and Israelis. For example, Israel can build on recent reforms and take further steps to reduce the precariousness of Palestinian workers in Israel by improving mechanisms for health insurance, unemployment insurance, pensions, and their portability. Israel can greatly increase the number of permitted workers from both Gaza and the West Bank, while both parties can lower barriers to the circulation of goods and capital between the Israeli and Palestinian economies and between the Palestinian economy and foreign markets. Even undertaken unilaterally, such steps can build trust and confidence.

Short of meaningful final status negotiations, the parties could also agree on crucial reforms on a narrow set of economic and governance issues. For example, the parties can negotiate a Power Purchase Agreement that allows greater Palestinian autonomy in the energy sector, or conclude an Customs Clearance Agreement that allows the PA to collect customs fees and VAT electronically. The fiscal leakages file could be finally closed. With some ambition, the parties could go further and negotiate agreements in the areas of consumer protection, health and safety regulations, and sanitary and phytosanitary requirements, to enable increased trade. They could negotiate joint markets in electricity, water, and telecommunications. With a 26-year-old framework agreement in place, there are many potential areas for revision. The Office of the Quartet is continuously advocating for a variety of such reforms, including in their report submitted to this meeting of the AHLC. Their list is an obvious starting point for discussion between the parties.

At present, the Israelis and Palestinians lack any functioning formal mechanism for discussing their existing economic relationships, let alone for developing new models of economic cooperation. The Israeli side has traditionally preferred to mobilize existing mechanisms to conduct dialogue over economic matters, and—when it does occur—it generally happens bilaterally at the level of Ministries of Finance or through the Joint Economic Committee. However, the parties have used such channels only sporadically over the past decade.

It is therefore important for the international community to create favorable conditions for Israelis and Palestinians to engage in such discussions, including, where necessary, modernizing the provisions of the Paris Protocol, without necessarily reopening or renegotiating the Protocol in its entirety. Such a process could, if requested by the parties, be supported and facilitated by the UN, working closely with our partners.

Fundamentally, however, this decision is one for the parties to make themselves, and it requires the necessary political will.

## Conclusion

The socioeconomic impact of COVID-19 on the Palestinian people is already immense, and there will be ample opportunities for donors to mobilize around the recovery. Most urgently, the PA needs increased direct budget support to, at minimum, address the public health response and provide essential services. The Humanitarian Country Team has also identified significant funding needs for the emergency response, and the UN Country Team will soon announce its development system response. We urge the donor community to mobilize in response to this unprecedented emergency.

The UN continues to support a two-state solution to the Israeli-Palestinian conflict in line with UN resolutions, international law, and prior agreements. The UN believes that the only viable path to a mutually-acceptable solution is through meaningful negotiations between the parties.

As described in the 2016 Middle East Quartet Report, continuing on the current trajectory will only push Palestinians and Israelis further apart, deepen the occupation, and imperil the future viability of the two-state solution.

The UN remains deeply committed to working with Israelis and Palestinians and with our international and regional partners to realize the objective of a lasting and just peace. As the Secretary-General has said, this goal can only be achieved through two states, Israel and Palestine, living side-by-side in peace and security. There is no other road to achieve this goal except through negotiations. There is no other framework except the one that Israelis and Palestinians together agree on.

In the meantime, in the absence of any progress towards resolving all final status issues, our preventive diplomacy efforts continue to play an integral role in helping ensure the Israeli-Palestinian conflict does not escalate further or get pulled into the latest regional escalation. Moreover, the UN and partners stand ready to help the parties enhance and modernize their relationships with the aim of reviving negotiations. Walking away from this framework undermines the ability of the international to provide this support. An Israeli annexation of parts of the West Bank would also call into the question the purpose of the AHLC and the engagement of its members in support of Palestinian institution building.

The international community must also work against the fragmentation of Palestinian society. The risk of further disintegration comes from several sources, including the lack of democratic elections, political reconciliation between the West Bank and Gaza, the physical separation of communities within the West Bank—between governorates, between north and south West Bank, between Areas A, B, and C—and growing social and economic inequality. The vulnerabilities of women, youth, and marginalized communities must be comprehensively addressed.

The UN remains committed to supporting Palestinians and Israelis as they pursue a peaceful future.