

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

Report to the Ad-Hoc Liaison Committee
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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 programs; and publicly available sources. Before the paper was released, it was discussed with the parties.

The reporting period is from February 2021 through October 2021, 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>.

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Introduction: From crisis to crisis

After a difficult 2020, our last report to the AHLC, published in February 2021, noted some grounds for guarded optimism. We urged the parties and their international partners to seize the modest window of opportunity to strengthen the institutions of the Palestinian Authority (PA), improve the day-to-day lives of Palestinians, and reinvigorate a moribund peace process.

Instead, despite some welcome steps toward Palestinian and Israeli re-engagement, the overall situation has moved from crisis to crisis.

The economic and fiscal situation in the Occupied Palestinian Territory (OPT) remains dire. A sharp decline in GDP per capita in 2020 followed years of economic stagnation in the West Bank.¹ In the Gaza Strip, the economy continues its multi-decade decline and there is persistently high unemployment, particularly among women.² Poverty rates in Gaza are now approximately 60 percent.³ Moreover, while foreign trade has recovered from its COVID-19-related decline in mid-2020, Palestinian trade imbalances have not abated and the economy remains very dependent on imports.⁴ Economic growth for 2021 is forecasted to be modestly positive in the West Bank and flat in the Gaza Strip.⁵

The fiscal condition of the Palestinian Authority remains extremely precarious. From January to August 2021, the PA collected approximately US\$1.73 billion in clearance revenues and US\$998 million in domestic revenues. Over half of PA expenditures since January 2021 have gone directly to salaries; other operating costs make up the bulk of the remaining expenditures. As noted by the World Bank, the PA's deficit is expected to reach some US\$1.36 billion in 2021, even after accounting for advances by Israel on the PA's clearance revenues and after donor financing.⁶

Along with other longstanding fiscal leakages that are contributing to the crisis, Israel continues to deduct and hold a portion of the clearance revenues that Israel states is equivalent to the amount paid by the Palestinians to Palestinian prisoners, their families, or the families of those killed or injured in the context of attacks. These factors together make it increasingly difficult for the PA to cover its minimum recurrent expenditures, let alone address outstanding arrears and make critical investments in the economy and the Palestinian people. As of this writing, it is unclear whether the PA will be able to cover its upcoming salaries payments. The PA Ministry of Social Development was unable to deliver its most recent social protection payments to needy households. Furthermore, the scope of the private banking sector to lend to the PA is at its limit.

Israel's recent loan of NIS500 million against future Palestinian revenues was critical, but only delays temporarily the looming crisis and does not address the structural impediments imposed on the Palestinian economy. Significant reforms and policy changes—by both Israelis and Palestinians—must be implemented to address the structural challenges. Such reforms could and should be met with increased support from the international donor community.

Alongside these economic challenges, political and security developments have also negatively impacted relations between the Palestinian grassroots and the PA. On 30 April, Palestinian President

¹ See Appendix Figure 1

² See Appendix Figures 3 and 4

³ World Bank. 17 November 2021. Economic Monitoring Report to the Ad Hoc Liaison Committee. Page 4.

⁴ See Appendix Figure 2

⁵ World Bank. 17 November 2021. Economic Monitoring Report to the Ad Hoc Liaison Committee. Page 4.

⁶ Ibid.

Mahmoud Abbas announced that he was indefinitely postponing Palestinian Legislative Council, presidential, and Palestinian National Council elections, until the participation of Palestinians in occupied East Jerusalem was guaranteed by Israel. Preparations for Palestinian Legislative Council elections, scheduled for 22 May, were well advanced when this postponement was announced.⁷

Shortly after the announced postponement and following weeks of mounting tensions in and around Jerusalem, the most significant escalation in years between Israel and Palestinian armed groups in Gaza took place between 10 and 21 May. As a result, in Gaza 260 Palestinians were killed alongside significant destruction of homes, businesses and infrastructure, further damaging the economy and degrading public services; and in Israel 12 people were killed, including three foreign nationals. The impact exacerbated an already dire humanitarian and development situation in the Strip that is the culmination of various conflicts since the mid-2000s, more than a decade of Hamas rule, significant Israeli restrictions on the entry and exit of people and goods, the COVID-19 pandemic, and internal Palestinian divisions.

Meanwhile, there were few signals to restore hope in the peace process. Although steps have been taken to de-escalate tensions in East Jerusalem and maintain the cessation of hostilities in Gaza, settlement activity and settler-related violence, demolitions and evictions, and Israeli security operations in Area A continue to undermine Palestinian institutions and prospects for a two-State solution.

At the same time, stepped up engagement between some senior Israeli and Palestinian officials have been more promising. There appears to be willingness on both the Israeli and Palestinian sides for addressing some longstanding issues that would strengthen the Palestinian Authority and the Palestinian economy. The stated policy of the Government of Israel is to promote civil and economic steps to improve the economic, financial, and welfare situation of the Palestinians. In recent weeks, the Israeli health and environmental protection ministers have met with their Palestinian counterparts and working groups have been established. Notably, 4,000 Palestinian families received PA identity cards, and the Government of Israel has approved increasing the number of work permits for West Bank Palestinians by 16,000. Recent steps by the Israelis to increase the water supply in Gaza, and to facilitate the entry of building materials for the water desalination plant and other international projects, are highly welcome. Israel has also progressively eased the heightened restrictions on trade into and out of Gaza that were imposed in the context of the May conflict, and, starting in August 2021, workers and traders have crossed from Gaza into Israel and the West Bank for the first time since the start of the pandemic and now at greater numbers than in years.

There has also been progress on the Palestinian side. For example, in the water and energy sectors, the PA has taken steps to improve governance and service provision, including through the operation of PETL, and Israel has energized four additional substations in the West Bank by powering them through the Israeli grid, improving efficiency and transparency for the PA. Discussions between Israel and the PA on the e-VAT program have also progressed, but a final agreement has not been reached. Progress on such technical and operational issues is incremental and slow, but should be encouraged to expand.

Nevertheless, a piecemeal approach to addressing these challenges, along with a lack of progress on the broader political issues, risks perpetuating a continuous cycle of crisis management. Rather, to

⁷ Some 93 per cent of eligible voters had registered to participate, more than 40 per cent would have been first-time voters. Thirty-six candidate lists had been cleared to participate by the Central Elections Commission, and the campaign period was set to begin on 1 May.

stabilize the economic and security situation in the West Bank, including East Jerusalem, and in and around Gaza, and to strengthen the fiscal situation of the PA and its institutions, a broader framework of engagement—including parallel steps by all parties—needs to be re-established between the Government of Israel, the Palestinian Authority and the international community. This will allow for moving beyond the current impasse and refocusing on building an independent, democratic, contiguous, viable, and sovereign Palestinian State living side-by-side with Israel in peace and security.

The present report to the Ad-Hoc Liaison Committee charts out a framework for stabilizing the economic and security situation, undertaking reforms, and promoting development. We propose a three-track approach focusing on initiatives to 1) address the immediate economic and fiscal situation facing the PA and strengthen PA institutions and basic service delivery, 2) solidify the cessation of hostilities and support economic development in Gaza, and 3) generate longer-term economic growth and sustainable livelihoods across the OPT. Some of these initiatives are already underway, but other initiatives need urgent donor support or policy changes from the parties.

Meaningful progress, however, will be impossible without resolving the broader context: a grim reality of military occupation, violence, internal Palestinian divisions, illegal settlement expansion, demolitions, displacement, settler-related violence, and the ever-present threat of escalation, including rocket attacks by armed groups, in the Gaza Strip. The continued deterioration on the ground threatens not only Palestinian development and the enjoyment of human rights, but also makes building a Palestinian state and achieving a lasting peace more difficult. 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, including situation reports on the COVID-19 emergency and the situation in Gaza, are made available by the Office for the Coordination of Humanitarian Affairs (OCHA) ([found here](#)).

Escalating tensions, the May 2021 conflict, and their consequences

Tensions were heightened in the occupied West Bank, including East Jerusalem, throughout the reporting period. In April and early May, rising tensions in Jerusalem were exacerbated by the planned eviction by Israeli authorities of four Palestinian families from their homes in Sheikh Jarrah and clashes between Israeli Security Forces (ISF) and Palestinians in and around the Old City and Holy Sites in Jerusalem. While Israeli authorities took some steps to reduce tensions, the violence and heavy security presence continued within the Old City, including the use of stun grenades and firing rubber coated bullets by the ISF within the Al Aqsa Mosque compound.

Against this backdrop of tensions in Jerusalem, violence erupted between Israel and Palestinian armed groups based in the Gaza Strip, leading to the worst escalation of armed hostilities since 2014. On 10 May, following an ultimatum linked to events in Jerusalem, Palestinian armed groups indiscriminately fired 191 rockets and mortars towards Israel, including some aimed at Jerusalem, to which the Israel Defense Forces responded with 60 missiles and shells, hitting Gaza.

Between 10 and 21 May, the conflict between Israel and Hamas and other armed groups in the Gaza Strip escalated with more than 4,300 rockets fired indiscriminately from Gaza, including from highly populated civilian neighborhoods, towards cities and towns across southern and central Israel, and Israeli forces carrying out over 1,500 strikes directed at what it said were targets containing militant installations. Throughout this period, the United Nations and key partners, including Egypt, were

engaged in intensive mediation efforts to halt the conflict. On 20 May 2021, Israel and Hamas and other militant groups in Gaza agreed to a cessation of hostilities.

Casualties were recorded on both sides, including around 260 dead in Gaza according to the Palestinian Authority (PA) and the Office of the UN High Commissioner for Human Rights (OHCHR), including 67 children and 41 women. OHCHR confirmed 128 of the Palestinians fatalities as civilians. In Israel, nine Israelis, including one soldier, three foreign workers, and one child were killed, according to the Israeli Ministry of Foreign Affairs. In Gaza, the conflict damaged residential and commercial building and infrastructure, particularly hospitals and health centers, water and sanitation facilities, and transport, energy and communications networks. Exacerbated by previous trauma, this renewed round of violence had a particularly serious impact on children's mental health.

Beyond the human tragedy, the economic impact of these 11 days of conflict has severely weakened an economy already reduced to a fraction of its potential. For nearly 15 years, the movement of people and goods into and out of Gaza has been under restrictions imposed by the Government of Israel due to security concerns. This isolation, in addition to multiple episodes of conflict and a damaging internal political divide and Hamas rule, has created a severe humanitarian situation in Gaza that was exacerbated by the recent hostilities. Around 80 percent of the people in Gaza were already receiving some form of international assistance prior to the May conflict.

In response, the international community is providing humanitarian support and extending assistance consistent with the immediate needs of the people of Gaza. To help provide immediate relief and help de-escalate the situation, the United Nations resumed regular delivery of fuel to the Gaza Power Plant through UNOPS and launched a program of cash assistance to some 95,000 needy and vulnerable families in Gaza, both supported by the State of Qatar and planned to continue to the end of the year.

The [Humanitarian Flash Appeal](#) issued on 27 May 2021 by the UN Humanitarian Coordinator identified US\$95 million in critical assistance needs for shelter, water and sanitation, health, education, protection, and other key areas. As of September 2021, the humanitarian community has mobilized US\$66.7 million against the Flash Appeal directly, to support 1.1 million Palestinians in response to the May conflict, and an additional US\$16 million in support of humanitarian response following the escalation.

On 6 July 2021, the World Bank, the United Nations, and the European Union released the [Gaza Rapid Damage and Needs Assessment](#) (RDNA). According to this assessment, damages in Gaza are estimated at between US\$290 to 380 million, while economic losses may reach nearly US\$200 million. The social sector was hit hardest, significantly weakening the safety net of the most vulnerable. The immediate and short-term recovery and reconstruction needs are estimated between US\$345 to 485 million.

The UN has launched reconstruction efforts for severely damaged housing units. Preparations for additional reconstruction have begun with assistance from Qatar and after the lifting of some restrictions on the entry of construction materials by Israeli authorities. Up to 1,800 of the more than 2,000 destroyed or severely damaged homes will be rebuilt in the first phase. In addition, Egypt began repairing one of Gaza's main coastal roads in late September. During the month of September, nearly 7,000 truckloads of goods entered Gaza through the Israeli-controlled Kerem Shalom crossing, some 80 per cent of the pre-escalation monthly average. Moreover, about 2,000 truckloads entered through the Egyptian-controlled Rafah Crossing, marking one of the highest recorded volumes of entering goods since at least 2007.

Additional financial support to cover the immediate and short-term recovery and reconstruction in Gaza is urgently required. However, humanitarian and development steps alone will not solve Gaza's

immense challenges. Despite years of Israeli closures, Hamas' control of the Gaza Strip has further consolidated, and its military activities expanded. A 'parallel' economy has emerged in Gaza and Hamas now directs a public administration that collects revenues, decides on expenditures, issues permits, and controls the Gaza side of the Rafah and Salah Ad Din crossings.

Recent steps taken by Israeli authorities to lift some restrictions on trade and movement into and out of Gaza are welcome, but a further lifting of restrictions is required to generate vital economic activity. More can be done to recognize and enhance the PA's existing support to the people of Gaza—for which the PA budgets substantial payments for utilities, salaries, pensions, and some limited development spending—as well as to support steps to expand the PA's legitimate authority in the Strip. The international financial institutions and donors must also gain greater, independent visibility into the mechanisms of PA budgetary support to Gaza. Continued support to the Gaza Reconstruction Mechanism (GRM) remains crucial for reconstruction, recovery, and growth and for maintaining a key link between the Palestinian Authority and Gaza.

At their core, Gaza's problems are political and require political solutions. Palestinian leaders must take concrete steps to ensure that Gaza and the West Bank are reunited under a single governance structure. Only by fully lifting the debilitating closures, in line with Security Council resolution 1860 (2009), can the humanitarian crisis be resolved and future escalations of violence avoided. Hamas and other militant groups must end the militant build-up, including the construction of tunnels into Israel, and cease the indiscriminate launching of rockets and mortars towards Israeli civilian population centers, which is prohibited under international humanitarian law.

The COVID-19 pandemic and the response

In parallel to these economic and security crises, the circulation of the Delta variant is fueling a surge in COVID-19 cases and deaths, with infections mostly being reported among people who have yet to be vaccinated. While distribution of the vaccine to the West Bank and Gaza Strip has improved over the year, the vaccination rate among Palestinians remains relatively low. In total, as of 7 October 2021, 1,457,312 people have received one or more doses of the vaccine in the West Bank (not including East Jerusalem) and the Gaza Strip. These figures represent around 47.76 percent of the target Palestinian population (16 years and above).

The United Nations Country Team and Humanitarian Country Team have continued to provide critical support to Palestinians throughout this crisis. WHO and UNICEF are working closely to support the Ministry of Health's efforts to respond to the COVID-19 outbreak. WHO continues to provide technical support to local authorities and has procured and delivered essential equipment and medications to health facilities. UNICEF is one of the key international agencies alongside WHO, CEPI, and Gavi responsible for facilitating the procurement and distributions of vaccines through the COVAX mechanism. From March 2021 through October 2021, the Occupied Palestinian Territory has received six rounds of allocations from the global COVAX mechanism, and significant numbers of additional vaccines from Israel, Russia, and the United Arab Emirates.

Israel's vaccination of more than 100,000 Palestinian workers as well as maintaining access to the labor market in Israel for Palestinian workers from the West Bank, despite COVID-19 restrictions, has played an important role in sustaining the economy in the West Bank during the pandemic. As of October, these workers will now need to receive a third dose to access the Israeli labor market.

The [2021 Humanitarian Response Plan](#) has fully mainstreamed the COVID-19 response into its humanitarian programming and funding appeal. The UNCT also continues to implement its [strategy of socioeconomic](#) support to the pandemic.

As noted in our previous report, it is vital to roll out the COVID-19 vaccine as rapidly and as safely possible, while continuing to strengthen the Palestinian public health system. In addition to its public health benefits, minimizing the transmission of the virus will avoid protracted lockdowns, allow in-person education to continue uninterrupted, and ensure the regular delivery of public services.

A framework for stabilization, reform, and development

Given the severity of the crises endured so far in 2021, the Government of Israel, the Palestinian Authority, and the international community should work in concert on an integrated response in the coming months. In the following sections, we sketch out a framework for such a response to support three key objectives. First, address the immediate economic and fiscal situation facing the PA and strengthen the institutions of the PA, with a near-term focus on delivering public services. Second, solidify the cessation of hostilities that began on 21 May 2021 between Israel and militant groups in Gaza and support economic development in the Strip. Third, to promote a sustainable and inclusive economic recovery that improves livelihoods of all Palestinians, including women, the poor, young people, refugees, and other vulnerable groups.

With these objectives in mind, the proposed framework takes a three-track approach, each of which is intended to move in parallel. Short-term fixes, focused on stabilizing and managing recent crises are necessary, but not sufficient. For progress on each of these tracks to be sustainable and to move forward on key political questions, policy changes from the parties are needed and governance and socioeconomic reforms should be undertaken. Action can help unlock international donor support and new sources of public and private finance. Unilateral moves that exacerbate flashpoints or drive the conflict would risk jeopardizing any progress toward improving the situation in the OPT and further deterring stepped-up donor support.

Track I: Address the PA fiscal situation and strengthen PA institutions

The objective of Track I is to strengthen the fiscal health and capacity of the Palestinian Authority and its institutions, including in the Gaza Strip. Ensuring PA institutions have the capacity to deliver basic services to the population is key, with a particular focus on the health sector. The responsibility for these initiatives lies primarily with both the Israeli Government and the PA itself, but will require support from regional and international actors. In addition to policy changes from Israel, urgent and deep reforms are also needed within the PA. In some cases, the de facto authorities in the Gaza Strip must also acquiesce to reforms.

Support health services and health systems. As the health services sector accounts for a significant budgetary expenditure, particularly the cost of medical referrals, enhancing services and reducing costs by enhancing capacity in the local health system would have a positive impact well beyond the health sector. Necessary reforms to reduce health expenditures will take time, but, to address the near-term challenges facing the provision of health services in the OPT, reducing East Jerusalem hospital debts would have an immediate impact. Increasing resources for medical suppliers and improving the supply of medical equipment and materials, including to Gaza, could reduce direct costs and those associated to expensive medical referrals.

Resolve fiscal leakages files. Israel should promptly implement measures on the outstanding fiscal leakages files, in line with proposals from international partners and called for during successive meetings of the Ad-Hoc Liaison Committee. Initial steps on the excise-tax exemptions for fuel purchases, a resolution on the Allenby Bridge crossing exit fees, and eliminating the high 3-percent handling fee are long overdue. Subsequent steps should include establishing an electronic system for the clearance of VAT (e-VAT), accelerating the transfer of deductions made from the salaries of

Palestinian workers in Israel, and giving the PA greater authorities over customs policies and collection. Recent months have seen some progress on the e-VAT initiatives, with inter-governmental meetings taking place. Such measures would help to address illicit trade and improve PA customs revenue.

Enhance domestic revenue administration and domestic resource mobilization. Stabilized and enhanced revenues are a necessary condition for Palestinian socioeconomic development and institution building, allowing the Palestinians to finance their own investments in human capital, public health, infrastructure, and the provision of services for citizens and the private sector. Over the past months, the Palestinian government presented several reforms to the tax code that would enhance the Palestinian fiscal picture. International technical assistance can help the PA balance goals such as increased revenue mobilization, sustainable growth, reduced compliance costs, and fairness and equity. To this end, it is essential to increase the role of the International Monetary Fund in monitoring and reporting on the fiscal situation in Ramallah.

Resolve clearance revenue deductions. The Palestinian Authority is weighing options for resolving the so-called “prisoners payments” issue. From January through June 2021, based on 2018 legislation, Israel was deducting and holding NIS50 million per month from the transfer of clearance revenues delivered to the Palestinian Authority in response to the “prisoners payments.” Starting in July, the monthly deductions were increased to NIS100 million. These monthly deductions represent a significant strain on the Palestinian fiscal situation. The payments made to Palestinian prisoners, their families, or the families of those killed or injured in the context of attacks also greatly complicate Palestinian relations with Israel and key donors. International technical assistance could help the Palestinian Authority instead strengthen its existing cash transfer program that targets the most vulnerable Palestinian households.

Resolve correspondent banking issues. The so-called “prisoners payments” also contribute non-market risks to the Palestinian financial sector. More generally, the Palestinians have made commitments to improve their anti-money-laundering and counter-terror-financing (AML/CTF) standards, but some of the necessary steps have been delayed, such as an external evaluation of the Palestinian banking system and a national risk assessment of AML/CTF regulations. Discussions between Israeli and Palestinian financial authorities continue, but urgent action is needed to prevent a severing of the linkages of the Palestinian financial sector from the international financial system.

Reinforce PA institutions in Gaza. The Palestinian Authority still provides significant support to the people in Gaza, particularly through salaries, pensions and social support payments and basic services. In February, Prime Minister Shtayyeh announced that the PA would pay the full salaries of the 25,000 PA officials in the Gaza Strip and would again pay the pensions of PA retirees in Gaza. The PA also maintains a role in Gaza’s public utilities sector, which is in urgent need of governance reforms that improve transparency, capacity, efficiency, and service delivery. In the water and electricity sectors, dozens of public and private authorities are responsible for delivering these critical services in the Gaza Strip. While modernizing infrastructure and increasing the supply of electricity and clean water are essential, such steps must also be accompanied by governance reforms. Rationalizing PA expenditures in Gaza will not be possible without addressing issues related to the wage bill and net lending, among others, that put significant fiscal pressure on the PA. International expertise can be brought to bear on this issue.

A reinvigorated Gaza Reconstruction Mechanism would also secure the PA’s role in facilitating the entry of goods into Gaza. International efforts can support, reform, and strengthen the mechanism to facilitate and accelerate the import of goods and materials necessary for the reconstruction of Gaza’s

economic infrastructure and business sector and to contribute to economic recovery and growth. All such materials entering Gaza must be used for the benefit of the population.

Track II: Solidify the cessation of hostilities and support the economy in Gaza

The objective of Track II is to prevent the further deterioration of the humanitarian situation and to ease the drivers of recurrent conflict and underdevelopment in Gaza. Track II focuses on immediate policy measures, rapid investments, and institutional reforms to address urgent needs of Palestinians in Gaza and of the Gaza economy, stabilize the security situation, and enhance the role of the PA in providing services and support to Palestinians in Gaza. Ongoing UN interventions, such as fuel to the Gaza Power Plant and support to vulnerable families, sustained through donor support from the State of Qatar, play absolutely critical roles in reducing tension and lowering conflict risk in the Gaza Strip. While temporary in nature, these interventions should be continued in the near-term. All the following initiatives would be accelerated by resolving at least some of the political and security impediments in Gaza.

Continue the humanitarian response. As noted above, the Humanitarian Flash Appeal issued on 27 May 2021 by the Humanitarian Coordinator identifies US\$95 million in critical assistance needs for shelter, water and sanitation, health, education, protection, and other key areas. As of September 2021, the humanitarian community has raised US\$66.7 million against the Flash Appeal. The humanitarian response to the May conflict is now running in parallel to the [annual humanitarian response plan](#).

Improve the electricity supply. The United Nations resumed delivery of fuel to the Gaza Power Plant through UNOPS with the support of the State of Qatar of US\$10 million per month. Israel halted Qatar-funded fuel shipments into Gaza in the immediate aftermath of the May escalation, and the electricity supply fell to about four hours per day in late May. With the resumption of these fuel shipments, the electricity supply returned to about 13 to 14 hours per day—a level still woefully inadequate for a functioning economy. UNSCO is working with the parties and donors on a more permanent solution to the electricity crisis.

Support the social sector. Partners and donors such as the United Nations, including UNRWA and WFP, along with the European Union and the State of Qatar provide substantial support to the people of Gaza. Beginning in September, the United Nations began providing cash assistance to some 95,000 needy and vulnerable families financed by a contribution of US\$40 million from the State of Qatar over four months. Due to funding constraints and a technical delay in the European Union's regular budget support, the Palestinian Authority has been unable to deliver its most recent social protection payments to over 115,000 of the most vulnerable households across the OPT, including about 79,000 households in Gaza. The PA's highly effective program of social assistance is vital and financing sources must be identified to restart these payments. Addressing UNRWA's immediate financial needs to meet costs, including salaries in Gaza, to the end of the year and ensuring sustainable financing to UNRWA are also critical to ensuring social support and basic services, which left unaddressed would undermine stability in Gaza.

Increase the entry and exit of goods. In the aftermath of the May escalation, Israel sharply restricted movement and access into and out of the Gaza Strip. For weeks, the entry of goods through Kerem Shalom crossing was severely limited, slowing the response and recovery efforts. Israel has progressively and significantly eased these restrictions, which have now roughly returned to their pre-escalation levels, and expanded the fishing zone to 15 nautical miles. During the period of Israeli

closures, the Rafah crossing with Egypt was opened to goods, mostly for construction materials and heavy equipment. Importantly, since September, Israel permits the entry of rebar through Kerem Shalom outside of the Gaza Reconstruction Mechanism. The resumption of basic services and the reconstruction of Gaza cannot progress without the regular entry of a broad range of materials and supplies, including equipment, spare parts, operational and maintenance materials, and construction materials necessary to support those repairs and humanitarian activities. Firms in Gaza must be able to export their products.

- In the coming months, Israel, the Palestinian Authority, and the de facto authorities in Gaza must continue to increase the flow of critical materials and other goods into and out of the Gaza Strip.
- At the same time, Israel and the PA parties should work with the United Nations on the Gaza Reconstruction Mechanism to speed its operation and examine further measures to increase the volume of so-called “dual-use” materials allowed into Gaza, while preventing diversions.

Increase permits for workers from Gaza. For the first time in 18 months, Israel has authorized permits for up to 10,000 Palestinian traders and businesspeople who have been vaccinated to cross from Gaza into Israel and the West Bank. These crossings will directly improve livelihoods and help stimulate the Gaza economy. Israel should rapidly scale up this initiative. Our office has advocated that, in the short term, daily crossings of workers, traders, and businesspeople from Gaza should reach between 10,000 and 20,000 per day, which would contribute somewhere between US\$18 million and US\$36 million to the Gaza economy per month.

Address reconstruction and recovery needs from the May 2021 conflict. The Gaza Rapid Damage and Needs Assessment and other UN assessments identify critical recovery and reconstruction initiatives in response to the May escalation. [Readers are directed to that report for further details.](#) In short, in addition to the steps above, the top priority in Gaza should be to rapidly provide relief and undertake reconstruction and repair for the damages caused by the May 2021 conflict so that homes can be reconstructed, business infrastructure repaired, and all essential public services disrupted by the conflict restored. This requires substantial financial support by donors, as well as cooperation by Israel and other parties to expedite access to construction materials intended for civilian purposes, with appropriate and proportionate safeguards in place to prevent any diversions. With respect to physical damages, the focus should be on “building back better” a range of critical infrastructure for water and sanitation, health, and energy networks, public services and agriculture, and education.

Support the private sector. In partnership with donors, the United Nations can increase its support to small- and medium-sized enterprises in the near term. Donor support to the fishing sector, accompanied by the necessary steps by Israel to allow for certain dual use materials such as fiberglass, GPS devices, and engines, offers an opportunity to take advantage of the recent expansion of the fishing zone by Israel and enhance job creation and trade for Gazans.

Expand cash for work programs. Cash-for-work programs can provide economic stimulus to the local economy, generating sustainable growth even with temporary employment opportunities. Contingent on donor support, the United Nations can scale up its ongoing job creation programs, particularly in the Gaza Strip where cash-for-work programs could provide jobs for 20,000 to 30,000 workers for 12 months, with equitable distribution among male, female, youth, high-skill, and low-skill workers.

Track III: Develop a sustainable and inclusive economy across the OPT

The objective of Track III is to promote sustainable and inclusive economic growth, reaching all vulnerable populations. Taking a slightly longer-term view, but where investment and work can begin

now, initiatives in Track III include investments in critical infrastructure; support to micro-, small-, and medium-sized enterprises; facilitating increases in domestic commerce and international trade; and modernizing elements of the framework that governs the Israeli and Palestinian economic and administrative relationships. The UN program of assistance should be complementary to and sustain the Palestinian Authority's own efforts.

Continue the public health and socioeconomic response to COVID-19. The United Nations and partners will continue critical support to health, education, and basic services to Palestinians in the West Bank, including East Jerusalem, and the Gaza Strip, particularly with the COVID-19 vaccine. The United Nations will also work closely with the PA to support its socioeconomic response to COVID-19, including on fundraising, technical assistance, and implementation.

Update elements of the Paris Protocol. UNSCO has consistently argued that the Israelis and Palestinians must re-envision their economic and administrative relationships going forward. The working relationships of the past few years are simply not delivering results for the Palestinian Authority or for the Palestinian people. A fully re-engaged and meaningful peace process is the best vehicle for such discussions; however, the United Nations is ready to support and facilitate such discussions even in the absence of formal settlement talks—at the Track I level, the Track II level, or both. Establishing more functional and mutually-beneficial economic and administrative relationships would depend on amending and updating aspects of the “Paris Protocol” where appropriate.

Improve market integration. Economic relationships among individuals and firms the West Bank and Gaza Strip have suffered from years of political, legal, and logistical impediments. Reintegrating these markets and repairing supply chains will quickly generate economies of scale, employment opportunities, and sustainable livelihoods. Among other things, full market reintegration would include bringing the import and export sectors, banking and financial sectors, under the same supervisory and regulatory mechanisms throughout the West Bank and Gaza Strip.

Build greater linkages between labor markets in high-skill sectors. Israel has recently increased the number of permits for residents of Gaza to enter Israel (discussed above) and the number of permits for workers from the West Bank to enter Israel. In early 2021, Israel implemented its 2016 reform of the permit system, which should help dismantle the unnecessary and expensive system of middle-men and broker fees that cost Palestinian workers hundreds of thousands of NIS per year. Stepped up enforcement of this reform by both parties is needed. These are important steps for improving livelihoods across the OPT, especially for workers in the construction and hospitality sectors, which constitute the bulk of the Palestinian commuters. An important future avenue for skill formation and knowledge transfer would be to provide permits and learning opportunities for Palestinian youths, particularly those interested in working in high-tech sectors in Israel and in East Jerusalem. According to the Israeli MFA, discussions on such initiatives are commencing.

Support the private sector. In addition to shorter-term efforts to promote job creation in Gaza, the UN, with donor support, can increase support small- and medium- enterprises more broadly and accelerate plans to refurbish and improve services at the Kerem Shalom crossing, the Gaza Industrial Estate, and industrial estates in the West Bank. These efforts should be supported by both the Israeli and Palestinian governments to increase the volume of trade between the Gaza Strip and the West Bank, including by removing impediments to private sector activities and creating a more growth-promoting regulatory environment.

Facilitate joint work on climate issues. Climate change is expected to have severe impacts on many sectors in the OPT, including agriculture, health, water, and ecosystems. The Secretary-General

describes the recent IPCC report as “code red for humankind,” noting that the Middle East is already among the world’s most water-stressed and climate-vulnerable regions in the world. He added “climate adaptation and peacebuilding can—and should—reinforce one another.” In this context, both parties attended the COP-26 in Glasgow and are showing increased focus on efforts to adapt to climate change, including through regional cooperation. Such efforts are welcome.

Financing for stabilization, reform, and development

Globally, the donor climate is increasingly constrained, and mobilizing resources to support stabilization, reform, and sustainable development remains a key challenge for the Palestinian Authority and its partners (see Figure 5). As a result, actors must consider all types of finance—public, private, domestic, international—and improve alignment and coherence of different types of financing sources. In addition to urgent, emergency measures needed to shore up the fiscal situation of the PA, positive steps by the parties, particularly along the tracks proposed above, should be met with concrete commitments from donors, the private sector, and financial institutions.

In 2022, the United Nations system in the Occupied Palestinian Territory will produce a new Sustainable Development Cooperation Framework. Among other things, this process will entail formulating, with the Palestinian Authority, an [integrated national financing framework](#) that can guide national efforts to mobilize public and private resources for national development priorities. Given the realities of Palestinian economic dependence on international assistance, salaries from Palestinians working in Israel and the settlements, and PA salaries, we believe this upcoming planning exercise can generate new ideas, for example, for mobilizing domestic financial resources, attracting foreign direct investments, and expanding blended (public-private) financing mechanisms. Improving the development financing of Palestinians will necessitate the close coordination of stakeholders, regional actors, Israel, and the entire donor community.

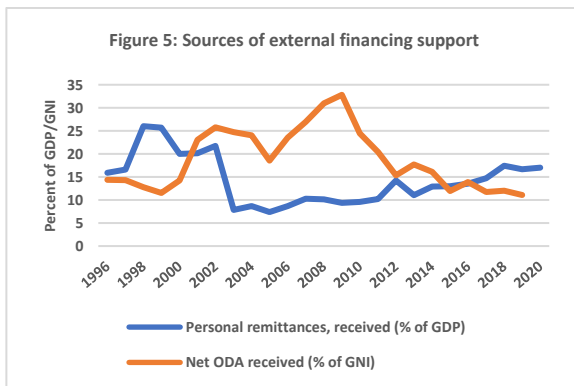
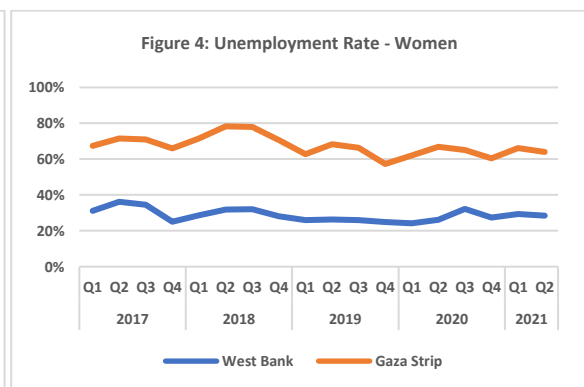
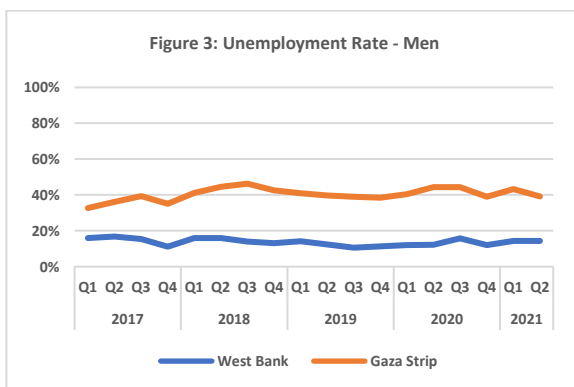
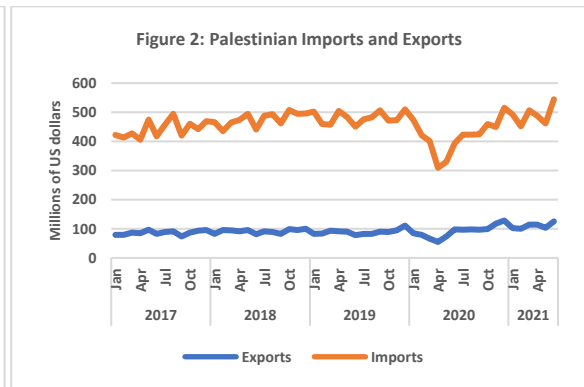
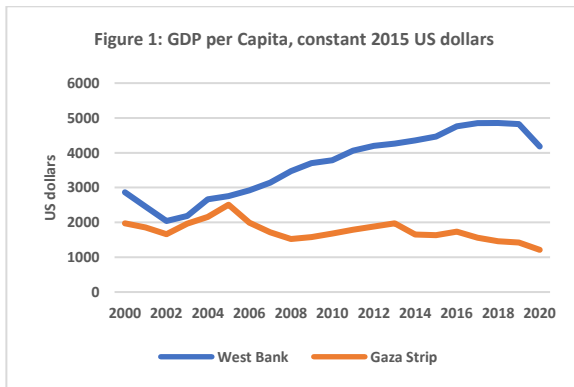
Next steps

As we contend with one urgent crisis after another, the overarching goal remains supporting Palestinians and Israelis to resolve the conflict, end the occupation, and achieve 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. Despite the significant challenges, achieving this outcome remains possible and there are still opportunities that should not be missed to build momentum toward a just and lasting solution to the conflict.

It is important to recognize the international community’s support in the aftermath of the May escalation, especially in maintaining the cessation of hostilities and delivering necessary assistance to Palestinians affected by the conflict, including by Egypt, Jordan, the State of Qatar and other countries in the region, and the major donors, United Nations and its partners and agencies, and the World Bank, among others.

As always, we stand ready to assist the PA with its own ambitious reform and development agenda, as articulated at successive donor meetings and in the renewed National Development Plan. In support of these efforts, the UN will continue consulting with our international partners and with the Palestinian Authority to implement an integrated response strategy to the ongoing crises, such as the framework proposed above.

Appendix



Sources:

- Figures 1 to 4 are generated from data from the Palestinian Central Bureau of Statistics
- Figure 5 is generated from data from the World Bank's World Development Indicators Database