

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

Report to the Ad-Hoc Liaison Committee
23 February 2021

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 October 2020 through January 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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Grounds for guarded optimism

By every measure, 2020 was a year of setbacks for the Palestinians, their institutions, and their economy. By the end of January 2021, approximately 180,000 Palestinians had tested positive for COVID-19 and just over 2,000 had died. Since the start of the pandemic, about 70 percent of cases and 75 percent of deaths have occurred in the West Bank, including East Jerusalem, and 30 percent of cases and 25 percent of deaths have occurred in the Gaza Strip.¹ Throughout 2020, the Government of Palestine periodically imposed significant public health restrictions in response to fluctuating caseloads, and these restrictions sharply curtailed social and economic activity. The Palestinians' closest trading partner, Israel, suffered an even higher caseload in both absolute and per capita terms, and large parts of the Israeli economy were shut down for significant stretches of 2020. Consequently, Palestinian workers commuting into Israel faced both lower demand for their labor and unpredictable public health restrictions on their movement. During the first lockdown in spring 2020, around 150,000 Palestinians lost their jobs, of which 41,000 were employed in Israel and the settlements,² and we can expect to see similarly large impacts from the present lockdown. Nearly half of all Palestinians now need humanitarian aid. Palestinian systems of social protection, education, and health have come under great stress in the face of rising needs and complicated operating environments.

Regrettably, in the middle of the worst global pandemic in a century, coordination between the Israeli authorities and Palestinian authorities broke down almost completely. In Israel, proposals to annex parts of the West Bank were prominent in the lengthy election season and in the negotiations forming a coalition government in May 2020. In response to this threat of annexation, Palestinian President Abbas announced that the Palestinian leadership considered itself “absolved of all the agreements and understandings” with the United States and Israeli governments, suspended security and civilian coordination with Israel, and called on Israel to assume its obligations as the occupying power. The suspension of coordination, which lasted until 18 November 2020, significantly impeded the public health and humanitarian responses to the pandemic. Among other things, the UN temporarily assumed responsibilities for processing deliveries of humanitarian aid and related equipment and for facilitating the exit of medical patients from the Gaza Strip—coordinated actions that would have ordinarily taken place bilaterally between Israeli and Palestinian authorities. Far more serious for the economy, the halt in coordination meant that the PA refused to receive the revenues that Israel collects on its behalf. This action contributed to an 80 percent reduction in the PA's overall revenues, forced the adoption of additional austerity measures by the PA on top of a budget already cut to the bone, and greatly amplified the social and economic impact of the COVID-19 pandemic on Palestinians.

Between the COVID-19 pandemic and the collapse of coordination, the Palestinian economy contracted around 10 to 12 percent in 2020—one of the largest annual contractions since the PA was established in 1994.³ Initial studies suggest that Palestinian poverty rates and food insecurity rates are up sharply, that gender-based violence has increased, and that educational attainment was slowed. There is little doubt that the unfortunate events of 2020 will negatively shape Palestinian development trajectories for many years to come.

And yet, we begin 2021 with some guarded optimism.

Since peaking on 2 December 2020 at approximately 2,500, the new daily reported infections in the Occupied Palestinian Territory have dropped sharply, down to a daily average of 577 for the first ten

¹ The figures indicate that the West Bank was disproportionately affected by the virus. Around 60 percent of the Palestinian population lives in the West Bank, including East Jerusalem, and 40 percent lives in the Gaza Strip.

² In Q4-2019, 1,041,300 Palestinians were employed, of whom 134,900 were employed in Israel and the settlements. In Q2-2020, 886,200 Palestinians were employed, of whom 93,700 were employed in Israel and the settlements. (Data from PCBS.)

³ The best recent estimates are available from the World Bank, PCBS, and the Palestinian Monetary Authority.

days of February 2021. The Palestinian health system has performed well in its efforts to control the pandemic. Globally, several COVID-19 vaccines have been tested successfully and indeed Israel is now the worldwide leader in administering the vaccine to its citizens and residents. As of early February, vaccines have also begun arriving in the Occupied Palestinian Territory, which is one of the earliest middle-income countries to receive shipments of COVID-19 vaccines.⁴ Through the efforts of the World Health Organization and UNICEF, the UN is supporting the Palestinian government's preparedness to receive and administer vaccines, including through the global COVAX-AMC facility. Israel has supported the logistics for delivery of vaccines and transferred a small batch of doses on 1 February 2021. Large allocations of vaccines to cover priority groups are expected in the OPT in the next two months, but significant funding gaps remain.

Israel has worked closely with the UN and its partners throughout the course of the pandemic to ensure that equipment and supplies, and more recently vaccines, have been delivered throughout the occupied West Bank and the Gaza Strip.

On the economic front, the restart of coordination between Israelis and Palestinians led to the transfer of over US\$ 1 billion in Palestinian revenues that Israel collects on behalf of the Palestinian Authority. This amount has allowed the PA to compensate government employees for partially-paid salaries from May through November, repay loans to the Palestinian banking sector, and put the PA's COVID-19 response on steadier fiscal footing. The necessary coordination between the Israeli and Palestinian governments has also recommenced on humanitarian and medical imports and patient transfers from the Gaza Strip, though better and more timely coordination is needed. Specifically, with coordination restarted, it is critical that the Ministries of Finance develop good relationships and ensure the speedy and routine transfer of the clearance revenues.

On the political front, recent developments suggest a small window of opportunity to reinvigorate a moribund peace process, strengthen the institutions of the Palestinian Authority, and improve the day-to-day lives of Palestinians. Promising trends include the scheduling of Palestinian elections, an accelerating dialogue on Palestinian national unity, a moderately improving donor climate, and a new U.S. administration willing to work with both parties.

Lastly, many of the international institutions that provide critical humanitarian and development support to the Palestinian Authority and the Palestinian people are commencing their strategic planning cycles during 2021—among them, the European Union, the World Bank, and the United Nations Country Team under the leadership of the United Nations Resident Coordinator. Support to the people in Gaza remains a priority for partners and donors such as the United Nations, including UNRWA, along with the European Union and Qatar. The Palestinian Authority and the International Monetary Fund must also reestablish good working relationships. Therefore, 2021 provides these institutions and key donors with a chance to deepen and better structure relationships, discuss collective outcomes and joint programs, and ensure that support to the PA and to the Palestinians is coherent and complementary.

In 2021, the international community should seize these opportunities, however modest, to alleviate suffering, restore hope and trust, overcome the current political impasse, and continue to focus on returning the parties to meaningful negotiations with the goal of a just, lasting, and comprehensive resolution to the Israeli-Palestinian conflict.

Given the short time that has elapsed since UNSCO released [our last socioeconomic report in November 2020](#), and since the socioeconomic analysis in that paper is still current, this report to the

⁴ The roll-out of the vaccine in the OPT is discussed in greater detail below.

Ad-Hoc Liaison Committee moves swiftly to our policy prescriptions. Of course, we cannot divorce Palestinian development and institution building from the broader context: a grim reality of military occupation, violence, illegal settlements, demolitions, displacement, and the ever-present threat of escalation in the Gaza Strip. The Palestinian people remain locked in a protracted humanitarian crisis. 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, are made available by the Office for the Coordination of Humanitarian Affairs (OCHA) ([found here](#)). Despite the call of UN Secretary-General António Guterres for [a global ceasefire](#) in response to the COVID-19 pandemic, echoed in a joint statement by the five UN envoys in the Middle East, the parties have not engaged in substantive negotiations to resolve their protracted conflict nor has the pandemic halted the violations of international humanitarian and human rights law.

Two other developments deserve note. First, President Abbas issued a long-anticipated presidential decree on 15 January 2021 stating that legislative, presidential, and Palestinian National Council (PNC) elections would be held later in the year. According to the decree, legislative elections will take place on 22 May, followed by presidential elections on 31 July, and PNC elections on 31 August. The Secretary-General has welcomed the scheduling of elections and called on Palestinian authorities to facilitate, strengthen, and support the political participation of women and youth, including as voters and candidates, throughout the electoral cycle. The UN will continue its engagement with the Palestinian Central Elections Committee to support the elections process. In a separate development in Israel, on 23 December 2020, the Israeli Knesset dissolved after failing to pass a budget and general elections were scheduled for 23 March.

Second, bilateral relations between Israel and countries in the wider Arab region have continued to develop. Following formal statements signed on 13 August 2020, Bahrain, Israel, and the United Arab Emirates have concluded trade agreements. On 18 October, Israel and Bahrain established formal diplomatic relations, signing eight bilateral agreements, including a joint communiqué affirming that the two parties would “continue their efforts to achieve a just, comprehensive and enduring resolution to the Israeli-Palestinian conflict.” On 23 October, the leaders of the United States, Israel and Sudan announced that the Governments of Israel and Sudan had agreed to end the state of belligerence between their countries and normalize relations. On 10 December, Israel and Morocco announced an agreement to normalize their relations, again facilitated by the United States. The Secretary-General hopes that recent developments will encourage Palestinian and Israeli leaders to re-start meaningful negotiations, with the support of the international community, and will create opportunities for regional cooperation. The commitment to the two-State solution, in line with UN resolutions, international law and bilateral agreements, continues to be affirmed by broad regional and international consensus.

Economic interdependence

The COVID-19 emergency has emphasized that the Israeli and Palestinian economies are interdependent in ways that are unlikely to be reversed in the near- to medium-term. This interdependence—and its asymmetry—is readily apparent in the areas of public finances, trade, and labor markets.

Depending on the year, around 65 percent to 75 percent of the PA’s total revenues come from customs, VAT, and excise taxes that Israel collects on its behalf and then transfers to the PA the

following month. In both 2019 and 2020, the transfer of these “clearance revenues” became subject to political controversy and, in both years, such transfers did not take place for many months. Obviously, this arrangement, established by the Oslo II Accords, puts the Palestinian Authority in a highly vulnerable position. This vulnerability can be mitigated to some extent by strengthening trading relationships between Palestinians and the wider region and beyond, and such strategies should continue to be pursued. However, even if the transfer of clearance revenues were de-politicized or even if the Palestinian Authority assumed full control over its customs administration, the fact would remain that the fiscal stability of the Palestinian government would still depend in large part on trade passing into or through its largest trading and logistics partner, Israel. Even if the two-state solution were realized, eliminating this fiscal interdependence completely would take many years of expensive and concerted efforts to redirect trade flows through other countries or to mobilize and exploit domestic revenue sources to substitute for foreign trade-based ones.⁵ We continue to believe that the best avenue to resolve the asymmetry is direct negotiations between the parties.

The goods trade is another area where economic interdependence will not be reversed any time soon. Trade is also an area subject to frequent politicization; indeed, prior to the local appearance of COVID-19 in February and March 2020, UNSCO was engaged in quiet diplomacy to resolve an incipient trade dispute over the import of calves into the West Bank—the latest in a series of such trade disputes. Nonetheless, billions of dollars in goods are traded each year between Israelis and Palestinians, generating value to firms and consumers in both economies. While the persistent Palestinian trade deficit with Israel creates significant pressure on its national accounts and economic activity, the preferred solution to such imbalances in a globalized economy is to increase exports in higher-value-added industrial and services sectors. Such a forward-leaning development strategy would, in turn, depend on amending and updating aspects of the “Paris Protocol” where appropriate.

Finally, the Israeli and Palestinian economies will remain highly interdependent in the near- to medium-term because their labor markets overlap. Prior to the COVID-19 pandemic, perhaps 110,000 Palestinians legally commuted to work in Israel, mostly in construction, agriculture, and 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.⁶ The 133,000 regular Palestinian commuters account for perhaps 14 percent of the total Palestinian workforce, and the Israeli construction industry and the agricultural sector in the settlements are especially dependent on Palestinian labor. In addition, a large number of 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. Palestinians working formally in Israel—with work permits—still face practical challenges to sending their wages home. Wages from Palestinians working in Israel and the settlements drive a significant part of the Palestinian economy, especially in the West Bank, where such wages account for about one-third of all consumer demand. As advocated by the International Labour Organization, our collective ambition should be that Israeli and Palestinian workers—wherever they work—enjoy fundamental human rights, among them the freedom of association, the effective recognition of the right to collective bargaining, and the elimination of discrimination in respect of employment and livelihoods.

The challenges of asymmetric interdependence are best addressed in the context of final status negotiations leading to a two-State solution. But even in the absence of an active peace process, the

⁵ Resolving the so-called “fiscal leakages files” in the Palestinian’s favor would improve their revenue picture, but these leakages, while significant, are dwarfed by the overall clearance revenues and so the interdependence would remain even after addressing the “leakages.”

⁶ Workers commuting from the Gaza Strip into Israel were 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 for merchants to around 7,000. At present, no workers cross from the Gaza Strip into Israel or the West Bank.

parties can still put interdependence on more equal footing, leverage it better for the benefit of Palestinians, and root the economic activity more deeply into human rights and the rule of law. The United Nations Special Coordinator welcomes the initiatives of Prime Minister Shtayyeh to update the National Policy Agenda and the Ministries' Sector Strategies with an outlook of sustainable and resilient recovery from COVID-19; the United Nations system in the OPT stands ready to help implement these plans through our development agencies. For its part, the United Nations system in the OPT will be embarking on its own strategic planning exercise in 2021 and 2022, and we intend to work closely with the Palestinians to re-envision UN support in ways that reduce future humanitarian need, accelerate development, and build peace.

Addressing COVID-19 in 2021

Almost half of the Palestinian population now needs humanitarian aid, with the protracted crisis exacerbated by the pandemic. In the short term, the most effective way to improve the humanitarian and development situation of the Palestinians is to roll out the COVID-19 vaccine as rapidly and as safely possible, while continuing to strengthen the Palestinian public health system. Quickly minimizing the transmission of the virus will allow the careful reopening of the economy, a return to in-person education, and the regular delivery of public services.

The UN and its partners continue to support the Palestinian Government's effort to address the COVID-19 pandemic through the technical advice to the public health authorities and the delivery of critical materials and equipment. In 2020, the UN and its partners delivered more than 171,000 COVID-19 PCR tests, approximately 7 million infection protection and control items, 95 ventilators, 40 oxygen concentrators, 75 patient monitors, and 37 ICU beds and 86 other patient beds. Israel has worked closely with the UN and its partners throughout the pandemic to ensure that equipment and supplies have been delivered throughout the occupied West Bank, including East Jerusalem, and the Gaza Strip.

The United Nations welcomes the announcement of the Palestinian vaccination strategy and the initial allocation to the Palestinian Ministry of Health of 37,440 doses of vaccines by the COVAX-AMC facility, coordinated by GAVI and WHO, which are scheduled to arrive before the end of the first quarter. An additional 240,000 to 406,500 doses may also arrive in this timeframe. The Palestinian Government's tireless efforts to prepare and plan this vaccination campaign are to be commended, as is the dedication of UN agencies, in particular WHO, UNICEF, UNRWA, and their many partners, essential in ensuring the safety and efficiency of this process. In early February, Israel also delivered some 5,000 doses of vaccines to the Palestinians, alongside other donations. Coordination between Israeli and Palestinian authorities must continue and improve further. The United Nations is ready to act as a key partner for the Palestinian Government in vaccine procurement and distribution, including through WHO, UNICEF, and UNRWA.

On 15 December 2020, the Palestinian Prime Minister and the Acting Humanitarian Coordinator for the Occupied Palestinian Territory launched the [2021 Humanitarian Response Plan](#). The plan includes an appeal for US\$ 417 million, currently funded at 14.2 percent, to help 1.8 million vulnerable people over the coming year. The latest humanitarian needs assessment found that 2.5 million Palestinians—some 47 per cent of the population—currently need aid.

The United Nations development pillar continues to implement [its socioeconomic response to COVID-19 in collaboration with the Government](#). United Nations agencies intend to implement approximately US\$ 140 million in development assistance in response to COVID-19; this support largely comes from the reorientation of existing UN programming and a funding gap of approximately 33 percent remains.

The response to and recovery from the COVID-19 pandemic provides an opportunity to move closer to Sustainable Development Goal 3.8 to “achieve universal health coverage, including financial risk protection, access to quality essential health care services, and access to safe effective, quality, and affordable essential medicines and vaccines for all.” Universal health coverage is a foundational investment in Palestinian human capital and economic growth and an essential anti-poverty intervention. The WHO has identified several policy interventions and assistance programs in the UNCT COVID-19 Development System Response Plan to which international donors can contribute.

Seizing opportunities in 2021 and beyond

The international community should prepare itself to deliver a robust package of technical assistance and support that is equal to the challenges and opportunities facing Palestinians in 2021 and beyond. For example, Palestinian elections would be a significant step toward institutional consolidation and reform, and a new Palestinian government would need considerable international political, financial, and technical support to repair the damage from 15 years of internal division. Indeed, restoring national unity is not only a matter of political transition and power sharing, but also a matter of economic and administrative power sharing and a matter of civil society reengagement and the re-centering of human rights for all Palestinians. International actors must also prepare for the “day after,” when the new Palestinian government would turn its attention to practical issues like government budgets, administrative reforms, customs collections, facilitating intra-Palestinian commerce and foreign exports, generating sufficient electricity, and so forth.

In this context, reintegration of the West Bank and Gaza Strip across the greatest number of dimensions should be a priority. Administrative, commercial, and civil-social links between the two areas must be reestablished or re-enlivened; international support will be critical to ensuring the success of these efforts. Actors can support the process by supporting the Palestinian Government’s efforts to improve conditions in Gaza and by encouraging the Israelis to respond favorably with confidence- and trust-building measures that ease the humanitarian crisis, such as on the movement of people and goods.

Based on our assessment of local conditions, including in the Gaza Strip, international technical assistance and donor support should target at least the following areas:

Continuing support from the United Nations and partners

- **Support to health services and health systems:** The United Nations and partners will continue critical support to health services to Palestinians in the West Bank, including East Jerusalem, and the Gaza Strip, particularly with the COVID-19 vaccine.
- **Support to the Palestinian Authority’s (PA) Socioeconomic Response:** The United Nations will work closely with the PA to support its socioeconomic response to COVID-19, including on fundraising, technical assistance, and implementation.
- **Job creation in the OPT with a focus on the Gaza Strip:** Contingent on donor support, the United Nations can scale up ongoing job creation programs, especially in COVID-19-affected sectors like tourism and in the Gaza Strip where programs can provide around 20,000 jobs for 12 months.
- **Critical infrastructure:** The United Nations will accelerate support for critical infrastructure projects related to improving water and sanitation, health, and energy networks in the Gaza Strip, infrastructure for public services and agriculture in the West Bank, and infrastructure in support of education, like internet access. The UN will continue to facilitate the entry of goods defined as “dual-use” by Israel and required for the construction and repair of key infrastructure. In this respect, the role of the GRM in facilitating the progress to date on the Gaza Central Desalination Plant and Associated Works, remains indispensable.

- **Support to the private sector:** In partnership with donors, the United Nations will increase its support to small- and medium-sized enterprises 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. Discussions between the parties, facilitated by UNSCO, to enhance development opportunities in Gaza have made considerable progress. In this respect, the revitalization of Gaza's depressed industrial sector and increased trade with the West Bank could be realized by extending the GRM access mechanism to cover the Gaza Industrial Estate.

Proposed technical assistance and advice from the United Nations and partners

In addition to these ongoing initiatives, and based on the opportunities presented in 2021, UNSCO stands ready to mobilize development partners around an agenda of technical assistance, in close coordination with the government. Such an agenda should consider the following elements:

- **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. Restoring national unity means the reintegration of all revenue collection and management under a single administrative structure, including customs and tax collection at all crossings into the Gaza Strip. In addition, over the past months, the Palestinian government presented several reforms to the tax code that would enhance the Palestinian fiscal picture, and the long-standing fiscal leakages file must be addressed as advocated in our previous reports to the AHLC. International technical assistance can help the PA balance goals such as increased revenue mobilization, sustainable growth, reduced compliance costs, and fairness and equity.
- **Public administration reform:** Socioeconomic development depends on capable, efficient, open, inclusive, and accountable institutions. After 15 years of internal division, the public administrations in the West Bank and the Gaza Strip have relationships of varying formality and quality, bureaucrats inside these systems have broken or unclear lines of reporting, training has been uneven, and facilities and technologies in the Gaza Strip need investment. In addition, the number of government employees per capita in the Gaza Strip is 50 percent larger than the West Bank, while elements of the public administration in the Gaza Strip lack sufficient transparency.⁷ On 1 February 2021, Prime Minister Shtayyeh announced that the PA would pay the full salaries of the 25,000 PA officials in the Gaza Strip for the first time in many years, and would again pay the pensions of PA retirees in Gaza. 2021 provides an opportunity to work on "right-sizing" the public administration across the West Bank and the Gaza Strip; improve systems of monitoring, evaluation, public accounting, and auditing; and greatly accelerate the adoption of e-governance solutions.
- **Universal access to social protection:** Social protection has become a central tool for the Government of Palestine and the international community to address poverty, food insecurity, and economic stagnation. The Ministry of Social Development runs the Palestinian National Cash Transfer Programme, with the support of the World Bank and the European Union; however, this program reaches only 40 percent of the extreme poor, despite rising needs. Among Palestinians working inside the West Bank and Gaza Strip, pensions are generally only available for public

⁷ In fact, as of the third quarter of 2020, the absolute number of public sector employees in the Gaza Strip (approximately 88,000) is larger than in the West Bank (approximately 85,000).

sector workers. Members of the United Nations Country Team are supporting the MoSD in establishing a social protection floor for persons with disabilities and older persons, two of the groups furthest left behind.

The Palestinian Authority is now considering options for addressing another set of more controversial cash transfers—the so-called “prisoners and martyrs payments”—that have prevented the full and routine transfer of clearance revenues from Israel to the Palestinian Authority and that have greatly complicated Palestinian relations with Israel and key donors. International technical assistance can support the Palestinian Authority to adopt to a consolidated and more universal social protection system that provides adequate cash transfers and other social protection to the most vulnerable Palestinian households.

- **Investment and reforms in the water and electricity sectors:** Like the public administration more generally, the public utilities sectors in the Gaza Strip are in urgent need of governance reforms that improve transparency, capacity, efficiency, and service delivery. Between 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. International expertise can be brought to bear on this issue.
- **Market reintegration:** 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.
- **Telecommunications:** The telecommunications infrastructure in the Occupied Palestinian Territory is insufficient for a modern economy based on high-value-added services and globalized supply chains, no more so than in the Gaza Strip where only 2G mobile data is available. Technical assistance can identify solutions that can be quickly rolled out to support distance learning and remote work during the pandemic, while Israel and the PA work out longer-term solutions for the necessary infrastructure in the West Bank and at the perimeter of the Gaza Strip.
- **Modernizing the economic and administrative framework:** Finally, the Israelis and Palestinians must re-envision their economic and administrative relationships going forward. Among our interlocutors in Ramallah, an increasing number of voices reject a return to the *status quo ante* of late 2019. 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. These discussions are distinct from, but of course closely related to, any intra-Palestinian dialogue on its economic growth model.

Each of these workstreams would need to address the specificities in the Gaza Strip that have developed since the mid-2000s. The economy, for example, suffers from distortions generated by informal, grey-market, and black-market trading channels and the diversion of public revenues. Gaza suffers from a governance deficit owing to the internal Palestinian division and the de facto rule of Hamas since 2007. This is on top of the vast restrictions put in place by Israel on the movement of people and goods and specifically on the entry of large quantities of “dual-use” items that Israel heavily regulates on security grounds. And indeed, incendiary balloons, mortars, and rockets launched

from Gaza toward Israel continued, including during 2020, leading to retaliatory strikes and increased closures from Israel.

Public utilities in Gaza are severely degraded, including in the water and energy sectors, and there are unique needs in the agriculture and fishing sectors. The international footprint in the Gaza Strip is also far different than in the West Bank, with Gazans far more dependent on the humanitarian support delivered by UNRWA. Moreover, security issues constrain the activities of international development agencies. Qatar continues to be a critical lifeline in the Gaza Strip, including the recent announcement of a US\$ 360 million allocation for 2021. The Qatari grant will be used for salaries, financial aid to families, and fuel for electricity generation. Any reinvigorated program of technical assistance and support to the Palestinians must take into consideration the exceptional situation in the Gaza Strip and build on existing mechanisms. In this context, the role of the Gaza Reconstruction Mechanism is critical in facilitating the implementation of internationally financed development projects and supporting economic growth.

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 opportunities unique to this moment that should not be missed.

The United Nations will continue to support the Palestinian Authority and the Palestinian people through its humanitarian and development responses to COVID-19, through UNRWA, and through other mechanisms. As always, we stand ready to assist the PA in its own ambitious reform and development agenda, as articulated at the local donor meeting in December 2020 and in the National Policy Agenda. In support of these efforts, the UN will consult with our international partners and with the Government of Palestine to develop terms of reference for a robust agenda of technical assistance and support, such as the one outlined above.

Annex I: Policy recommendations to the parties and their partners

Last November, UNSCO issued a report urging the parties to adopt certain policies to mitigate and recover from the COVID-19 emergency and to restart coordination between the parties. Soon after publication of that paper, certain progress was achieved. Most notably, coordination between the Israelis and Palestinians resumed, and there was also some progress on increasing the type and scope of materials entering Gaza, labor market regulations for Palestinian workers, and Gaza's links to the West Bank. We reiterate the recommendations below, noting where progress has been made, and we again urge prompt action on the remaining elements.

For the Government of Israel

Fiscal files: The Government of Israel (GoI) should promptly implement measures on the outstanding fiscal files, in line with proposals from international partners and called for during successive meetings of the Ad-Hoc Liaison Committee. Initial steps could include excise-tax exemptions for fuel purchases, a resolution on the Allenby Bridge crossing exit fees and eliminating the 3-percent handling fee. Subsequent steps should include establishing an electronic system for the clearance of VAT, accelerating the transfer of deductions made from the salaries of Palestinian workers in Israel, and transferring customs authority to the PA.

Fiscal backstop: The GoI should ensure that the monthly transfer of revenues to the Palestinian Authority does not fall below 500 million shekels for the duration of the COVID-19 emergency, through loans on favorable terms and in line with previous agreements between the respective Ministries of Finance.

Permits: When health conditions allow, Israel should improve and enhance the crossings of Palestinian workers and traders into Israel. In the Gaza Strip, the GoI should increase the number of permitted traders and workers to 10,000. While taking the necessary security precautions, workers from the Gaza Strip should be able to remain in Israel or the West Bank, on similar protocols as workers entering Israel from the West Bank, including the regular transfer of wages by workers to families. For workers from both the West Bank and Gaza Strip, the GoI should fully implement its 2016 decision to end the practice of binding Palestinian workers to the Israeli employers that obtained their permits, which creates a wholly unnecessary and expensive system of middle-men and brokerage fees. (**SOME PROGRESS**)

Dual-use list: Short of ending the closure regime consistent with Security Council resolution 1860 (2009), Israel should build on its decision from late 2019 to remove certain types of cement from the "dual-use" import restrictions. This includes the immediate removal of restrictions on the entry of critical items to support the health, construction, and industrial sectors. Both parties should work through the Gaza Reconstruction Mechanism to examine further measures to increase the volume of "dual-use" materials allowed in Gaza. (**SOME PROGRESS**)

4G and ICT infrastructure: To support distance learning and remote work, the GoI should implement a roll-out of the necessary infrastructure in the West Bank and at the perimeter of the Gaza Strip.

Permits for development in Area C: The GoI should adopt a flexible and timely policy towards planning and building rights of Palestinians in Area C to facilitate the development of adequate housing, infrastructure, and livelihoods, acting on the commitments laid out in the 1995 interim agreements and complying with Israel's obligations under international humanitarian and human rights law as the occupying power.

For the Palestinian Government

Revenues: The Palestinian Government should resume collecting its monthly revenues from Israeli authorities, repay loans issued by the Palestinian financial sector since the start of the COVID-19 pandemic, and restore Government salaries that were only partially paid over the past several months. **(COMPLETED)**

Expenditures: The Palestinian Government should align its planning and expenditures to recommendations made by the World Bank, UNSCO, and others to directly mitigate the impact of the COVID-19 emergency on socioeconomic development, including a single income-support scheme to vulnerable households, to which international donors can increase support. All forms of social protection payments could be folded into a simplified, more universal basic income program. The PA could, for example, roll its payments into a basic income support scheme, and score all households based on vulnerability, thereby minimizing the risk exposure of the Palestinian financial sector.

Trade and Access: The Palestinian Government should accelerate trade procedures with respect to the Gaza Strip, including fully engaging in the Gaza Reconstruction Mechanism, and should take steps to increase the trade volume between the Gaza Strip and the West Bank. Import and export permits should be processed without delay, particularly for firms in employment- and income-generating sectors, such as agriculture, construction, and industry. Moreover, the Government could support initiatives to improve the linkages of Palestinian producers with global value chains, and vigorously market Palestinian exports in the global marketplace. **(SOME PROGRESS)**

For the United Nations and international donors

Support to health services: The United Nations and partners will continue critical support to health services to Palestinians in the West Bank, including East Jerusalem, and the Gaza Strip.

Support to the Palestinian Authority's (PA) Socioeconomic Response: The United Nations will work closely with the PA to support its socioeconomic response, including on fundraising, technical assistance, and implementation.

Job creation in the OPT with a focus on the Gaza Strip: Contingent on donor support, the United Nations will scale up its ongoing job creation programs, including in the Gaza Strip where it aims to provide jobs for around 20,000 workers for 12 months, with equitable distribution among male, female, youth, high-skill, and low-skill workers.

Critical infrastructure: The United Nations will accelerate support for critical infrastructure projects related to improving water and sanitation, health, and energy networks in the Gaza Strip, and infrastructure for public services and agriculture in Area C.

Support to the private sector: In partnership with donors, the United Nations will increase its support to small- and medium-sized enterprises 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.

Convening: At the request of the parties, the United Nations can convene and/or support the Ministries of Finance or other authorities to promote improved economic relations and identify additional programmatic support necessary for the COVID-19 recovery.

Resource mobilization: The United Nations and its partners commit to significant resource mobilization efforts, further reorienting existing funding, and improving donor coordination.

Annex II: Programmatic support to the Palestinians

Responding to emerging needs, addressing and recovering from COVID-19, and seizing the other opportunities in 2021 and beyond, requires critical investments in health systems, social protection, and infrastructure, at a minimum. The investments outlined below can be implemented or scaled up further with international donor support. These initiatives represent a cross-section of existing and proposed activities embodied, in greater detail, in the 2021 Humanitarian Response Plan and the UNCT's COVID-19 Development System Response Plan.

COVID-19 health projects

➤ **COVID-19 outbreak response in the West Bank | WHO, UNICEF - \$15.0 million, 12 months**

In the context of the Humanitarian Country Team's ongoing efforts to respond to the pandemic, this project aims to ensure the continuity of and build on the existing response efforts in the West Bank to date. It aims to strengthen the capacity to prevent, detect and manage confirmed COVID-19 cases. It will provide up to 1,000,000 COVID-19 tests and will provide case management support for up to 20,000 affected people, including the provision of essential equipment, drugs, disposables and MHPSS interventions.

➤ **COVID-19 outbreak response in Gaza | WHO, UNICEF - \$15.0 million, 12 months**

In the context of the Humanitarian Country Team's ongoing efforts to respond to the pandemic, this project aims to ensure the continuity of and build on the existing response efforts in Gaza to date. It aims to strengthen the capacity to prevent, detect and manage confirmed COVID-19 cases. It will provide up to 1,000,000 COVID-19 tests and will provide case management support for up to 20,000 affected people, including essential equipment, drugs, disposables and MHPSS interventions.

Social protection projects

➤ **In the West Bank, support the national social safety nets by providing food assistance to the poor and food insecure people through the local food system | WFP – \$10.0 million (scalable), 12 months**

The project will contribute to maintaining the existing national safety net program and decrease the negative impact of COVID-19 on poor people in West Bank and especially poor workers, elderly, disabled, and poor women headed households. WFP is currently facing chronic funding shortages which is threatening food security of thousands of beneficiary families.

➤ **In the Gaza Strip, support the national social safety nets by providing food assistance to the poor and food insecure people through the local food system | WFP – \$7.0 million (scalable), 6 months**

This ongoing project will contribute to sustaining the existing national safety nets program and to decrease the negative impact of COVID-19 on poor people in Gaza and especially the poor workers, elderly, disabled, and poor women headed households. It will target both the chronic poor (pre COVID-19) and the new poor. WFP is currently facing chronic funding shortages which is threatening food security of thousands of beneficiary families.

Infrastructure and economy projects

➤ **In the West Bank, support to reorienting and strengthening micro small and medium Enterprises (MSMEs) so they can adapt to the conditions created by the COVID-19 pandemic and build their resilience for future shocks | UNDP - \$8.0 million (scalable)**

The project will respond to emerging MSMEs needs by strengthening business resilience and fostering business transformation considering the COVID-19 pandemic. It will also support MSMEs through comprehensive, risk-sharing technical and financial support packages, inclusive of micro-grants, technical assistance and business development services. In addition, the project will also invest in greening solutions, digital transformation and inclusion in the digital economy for businesses, including a focus on women and youth led MSMEs.

➤ **Support to the rehabilitation and upgrading of the Gaza Industrial Estate and business development to promote economic recovery in Gaza | UNDP, UNOPS, FAO - \$20.0 million**

The aim is to match donor's contribution with investment to underpin broader efforts to support increased trade with West Bank and exports abroad. Moreover, to stimulate industrial production in line with efforts to increase the amounts of "dual-use" materials required for industrial production and revive previously dormant production sectors.

➤ **Support package for the Fishing Sector | FAO – \$4.0 million, 12 months**

The project includes provision of maintenance materials for boats (many of these are considered dual use by Israel such as fiberglass, GPS devices and engines), quality fishing nets with improved standards, in kind support (fish feed and fingerlings). This will allow the sector to take advantage of recent expansions of the allowed fishing zone by Israel. Both the Palestinian Authority and Government of Israel have in principle agreed to allow the entry of these materials through the Gaza Reconstruction Mechanism and its associated monitoring.

➤ **WASH - Support to expanding the Khan Younis Wastewater Treatment Plant solar energy system (5.7MWp), sustainable maintenance and operations of the plant, and expanding the household network to improve fee collection for financial sustainability | UNDP - \$15.0 million**

➤ **Energy - Support to solar for health energy initiatives | UNOPS and UNDP – \$15.0 million, 24 months**

With the COVID-19 outbreak, it is even more critical to meet the energy needs of healthcare facilities and hospitals across the Gaza Strip. Solar panel installations in more than 50 facilities will be implemented.