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

Report to the Ad-Hoc Liaison Committee
10 May 2022

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 December 2021 through April 2022, 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.

Contents

Introduction

Occurring in-person for the first time since the start of the COVID-19 pandemic, the last meeting of the Ad-Hoc Liaison Committee (AHLC) held in Oslo, Norway, on 17 November 2021, unfolded in a positive atmosphere, with the parties and their partners making several important commitments to address the fiscal crisis facing the Palestinian Authority (PA), promote calm and provide humanitarian assistance and reconstruction in Gaza, ease restrictions on movement and access, accelerate Palestinian economic growth, and improve the day-to-day lives of Palestinians. Since November, some commitments have been met and discussions on many others have continued.

Tensions were heightened across the occupied West Bank, including East Jerusalem, with daily violence and an increase in the number of Palestinians killed or injured by Israeli security forces. Inside Israel, Israelis and foreign nationals were killed by Palestinian and Arab-Israeli assailants in the deadliest series of terrorist attacks in years. In Jerusalem, although tensions in and around the Holy Sites once again were raised during the month of Ramadan and clashes took place between Palestinians and Israeli security forces, injuring many Palestinians, including on the Holy Esplanade, the period of religious holy days for Muslim, Jewish, and Christians proceeded with no further escalation. In Gaza, where the humanitarian situation remains dire, a fragile calm has continued to hold and major escalation during this period was avoided. Meanwhile, the structural drivers of conflict that fuel this violence continue and may be worsening, threatening stability, as well as the two-State solution.

Against this backdrop, the economic and fiscal situation in the Occupied Palestinian Territory (OPT) remains precarious. The economic recovery from the 2020 crises has been incomplete and partial: economic productivity has not returned to pre-pandemic levels, and unemployment and poverty are unacceptably high, particularly in the Gaza Strip. With respect to the fiscal situation, while PA revenues have improved in recent months, expenditures continue growing and adequate budget support from donors has not been forthcoming. These factors together make it increasingly difficult for the PA to meet minimum recurrent expenditures, let alone address outstanding arrears and make critical investments in the economy and the Palestinian people. The overall picture is grim, and the parties and their partners must work in concert on policy changes and reforms that move the PA onto firmer fiscal footing.

Given the PA’s fiscal crisis, United Nations assistance to the Palestinian people has taken on increasing importance. In recent years, the United Nations has delivered well over US $1 billion in annual assistance to the Palestinian people, primarily humanitarian assistance to Gaza through UNRWA. Providing UNRWA with predictable, sustained, and sufficient funding will ensure essential assistance and services to Palestinian refugees in the region. Partners must act to prevent a financial crisis of the scale of 2021 and the risk that millions of refugees are left without education, health services, and lifesaving cash and food assistance. Any reduction or disruption of services can have significant humanitarian, political, and security consequences for the region and beyond. Preserving UNRWA services is a joint responsibility of all UN Member States.

At the same time, some trends point to increasing activity and integration between the Israeli and Palestinian economies, particularly with respect to expanded access to the Israeli labor market. The number of workers and goods crossing from the West Bank into Israel are elevated compared to recent years, for example, reaching 153,000 workers from the West Bank commuting to Israel and the settlements. The number of Palestinians transiting between the Gaza Strip and Israel for work has increased to its highest level since the mid-2000s. The number of trucks exporting goods from the Gaza Strip each month recently reached its highest level in many years.

These trends are in part due to some recent Israeli economic initiatives, particularly the increase in permits for Palestinians to work in Israel and some notable efforts to facilitate access and movement. While these efforts continue to fall far short of what is needed to address the economic development challenges in the OPT, they will hopefully help to improve Palestinian livelihoods and ease tensions in the short term.

The broader impacts of these efforts to expand Palestinian access to the labor market and ease some movement and access restrictions are undermined by systemic drivers of conflict: military occupation, violence, internal Palestinian divisions, illegal settlement expansion, demolitions, displacement, settler-related violence, incitement, rocket attacks from militants in Gaza, and the threat of conflict escalation. These dynamics have put significant downward pressure on Palestinian economic growth. Restrictions on Palestinian access to land and resources, particularly in Area C, have created a shrinking space for Palestinian economic development. In Gaza, the situation remains volatile, and the humanitarian and economic situation is dire, owing to Israeli closures and more than a decade of Hamas rule, continued militant build-up, and recurrent conflict.

While essential and desperately needed, economic steps alone will not sustainably address the multiple crises facing the PA or lay the groundwork for a return to the path toward meaningful negotiations. All actors must push beyond a conflict-management paradigm to a conflict-resolution paradigm. With this perspective, there are measures that can be taken immediately to improve the situation. There is a need for a package of incremental, durable, and meaningful steps that would reflect a more coherent strategy to strengthen the Palestinian Authority and clearly chart the way toward a two-State solution. Getting there requires political leadership. UNSCO urges Israelis, Palestinians, regional States, and the broader international community to take concrete steps to encourage the parties to further engage with each other and the international community with this goal in mind.

There is no substitute for a legitimate political process that will resolve the core issues driving the conflict and return the parties to the path towards meaningful negotiations. Only an end to the occupation and the achievement of two States, living side by side in peace and security, with secure and recognized borders, based on the 1967 lines, with Jerusalem as the capital of both States, and in line with UN resolutions, international law, and previous agreements, will lead to Palestinians achieving their full socioeconomic development potential.

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).

Continuing drivers of conflict and instability

One year after the escalation of conflict between Israel and Palestinian armed groups in Gaza, a fragile cessation of hostilities continues to hold, even as tensions again escalated in the occupied West Bank, including East Jerusalem, particularly in late March and April 2022. Efforts to help stabilize the situation in Gaza have continued. Israeli measures have significantly increased the volume of goods entering and exiting the Strip and have increased permits for traders and workers from Gaza, although more can be done to ease movement and access restrictions on the Strip. Reconstruction efforts are ongoing but require further support; and humanitarian assistance has continued, including a steady supply of electricity through fuel provision to the Gaza power plant and large-scale cash assistance to needy families.

Nevertheless, the combined effects of the lack of any meaningful progress to address the unresolved core issues, heightened violence, continued settlement advancement and settler-related violence, and serious financial and fiscal pressures facing the PA and economy have led to overall mounting frustrations and tensions across the OPT. The period has been marked by daily violence and an increase in Israeli search and arrest operations in the occupied West Bank, which intensified in the first months of 2022 and resulted in 38 Palestinian deaths between 1 January 2022 and 18 April 2022.[1] A wave of terrorist attacks beginning in late March inside Israel—the deadliest in years—that killed twelve Israelis and three foreign nationals, further increased tensions, as well as Israeli security presence and operations in the West Bank.

These dynamics also set the scene for heightened tensions in Jerusalem, including in and around the Holy Sites, during April when Muslim, Jewish, and Christian holy days converged. These tensions spiked on 15 April, when clashes took place between Israeli security forces and Palestinians, including on the Holy Esplanade, injuring more than one hundred Palestinians. Despite the violence, heightened rhetoric, and tensions, and thanks to important steps by the parties and regional and international actors to restore calm, the period of religious holy days proceeded in and around the Old City without further escalation.

The underlying drivers of conflict and instability remain present. While immediate efforts must continue to maintain calm, meaningful progress on the core outstanding issues depends on addressing the broader political and security context across the OPT, referenced above. In Gaza, Hamas and other militant groups must end the militant build-up and cease the periodic and indiscriminate launching of rockets from densely populated areas of Gaza towards Israeli civilian population centers, which is prohibited under international humanitarian law. The fate of two Israeli civilians held by Hamas and the bodies of two IDF soldiers missing in Gaza also remains an important humanitarian concern. 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. Left unaddressed, these dynamics not only drive the conflict, but undermine the Palestinian Authority and further erode the prospects for peace and the realization of the two-state solution.

The challenges of Palestinian governance

As the social and economic consequences of decades of occupation and conflict compound, the economic and fiscal situation in the OPT remains dire. The economic recovery from the 2020 crises has been incomplete and partial: economic productivity has not returned to pre-pandemic levels, and unemployment and poverty are unacceptably high, particularly in the Gaza Strip. The fiscal condition of the Palestinian Authority remains precarious. While PA revenues have improved in recent months, expenditures continue growing and adequate budget support from donors has not been forthcoming. As a result, the PA has been operating on an austerity footing for several years. At present, roughly half of PA expenditures are allocated to cover to government employees' salaries, including PA employees in Gaza who are not working; other operating costs make up the bulk of the remaining expenditures. Israel's recent loans to the PA against future Palestinian revenues—totaling NIS 600 million—have helped the PA meet its immediate financial obligations. The PA faces recurrent annual budget deficits of hundreds of millions of U.S. dollars—sometimes higher—driven on the expenditure

[1] OCHA. Data on casualties. https://www.ochaopt.org/data/casualties. Accessed 30 April 2022.

side by the wage bill, pensions, medical referrals, and net lending.[2] The fiscal space for additional development expenditures and investments—including on health, education, infrastructure, social protection, training, and the private sector—are virtually non-existent.

The PA faces significant external and internal challenges to better economic governance. The OPT is fragmented physically, both between Gaza and the West Bank, and within the West Bank, owing to continued militant control over and activity in the Strip, and Israeli closures and barriers. This leads to numerous practical limitations on the control the PA can exercise within the OPT, including in Gaza, and over its access to foreign markets. The West Bank and Gaza are also separated politically due to years of Palestinian internal divisions, which remain unresolved. More than a decade of Hamas rule in Gaza, militant activity, and repeated conflict and destruction creates additional burdens by complicating the ability of the international community to provide development assistance in the Strip. Palestinian Authority institutional weaknesses and the lack of much needed reforms, including on the wage bill and system of prisoner payments, also hinder effective Palestinian economic governance. Legal reforms, such as the recently adopted companies and telecommunications laws, are welcome and should continue to be advanced.

Movement, access, and growing economic interdependence

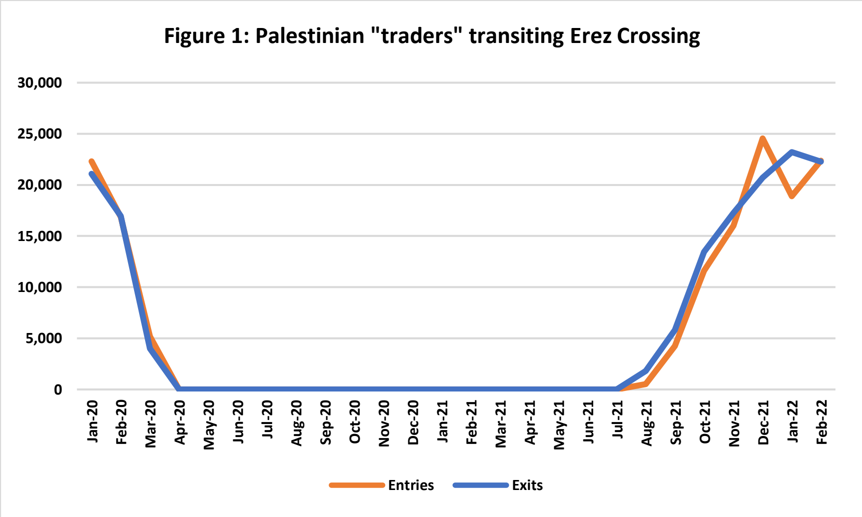
Since the May 2021 conflict, but especially since the fourth quarter of 2021, Israel has eased access and movement restrictions on Palestinian people and goods. This easing has contributed, in turn, to an increase in economic activity in the OPT, and has further increased integration between the Israeli and Palestinian economies. These recent measures and their effects reflect much longer trends toward *de facto* economic integration, even as indicators of economic growth and development for the two economies become increasingly asymmetrical. These trends are most visible in the labor markets and in trade in goods.

The labor markets

At present, Israel has approved the issuance of some 20,000 permits for Palestinians in Gaza to enter Israel, of which some 11,500 such permits have been issued.[3] Figure 1 shows the number of Palestinian economic permit-holders transiting the Erez crossing each month from January 2020 to March 2022. These crossings at Erez have now surpassed their pre-pandemic levels.

[2] “Net lending” is the term created since the establishment of the Single Treasury Account in 2002 to refer to the sums deducted by Israel on the clearance revenues to repay the debts due to Israeli companies that provide electricity and water to municipalities and Palestinian distribution companies and utilities.

[3] These permits are classified as “economic needs” permits and allow for laborers and traders to enter and work or conduct business activity in Israel.



Source: OCHA database, accessed April 2022.

Further increasing the number of permits for Palestinian workers to commute from Gaza to Israel and the West Bank is one of the simplest means to quickly stimulate the Gaza economy, support Palestinian livelihoods, and reduce the unemployment rate among Gaza-based workers.

Table 1 shows the potential impact of the 20,000 or so permits for Gaza-based workers that Israel has announced since November, combined with the impact of existing West Bank workers presented for comparison.

Table 1: Estimated potential impact of salaries of Palestinian workers in Israel and the settlements

	Commuters to Israel and the settlements	Average daily wage	Average workdays per month	Total earned per month (Est.)
West Bank[1]	153,000	₪269	20.1	₪827,255,700
Gaza Strip[2]	20,000[3]	₪269	20.1	₪108,138,000

Notes:

[1] For the West Bank, the number of workers, the average daily wage, and the average workdays per month are from Palestinian Central Bureau of Statistics. 2022. Labor Force Survey 2021, Quarter 4.

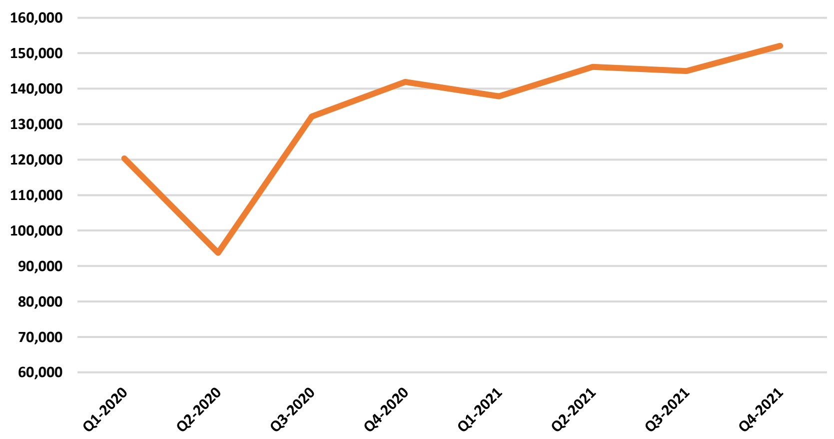
[2] For the Gaza Strip, estimates for the average daily wage and workdays per month are taken from PCBS estimates for the West Bank. True estimates will not be available until the results of the Q1-2022 Labor Force Survey are released in the coming months.

[3] The 20,000 or so permits announced are still in the process of being issued. For now, this figure is used for illustration purposes only. The total number of workers commuting from Gaza to Israel and the West Bank will be captured in the next Labor Force Survey.

Israel has also increased the number of worker permits available to Palestinians in the West Bank. The overall number of Palestinians working in Israel and the settlements—including workers from the West Bank—has also increased significantly, reaching about 153,000 workers in the fourth quarter of 2021 (Figure 2), of whom 22,400 work in the settlements. This represents some 20 percent of the employed labor force living in the West Bank. A significant proportion of Palestinian laborers working in Israel and the settlements are informal. The Palestinian Central Bureau of Statistics estimates that approximately 38,800 of these workers lack official permits; however, some estimates of informal workers reach as high as 70,000.

While wages earned in Israel are significantly higher than prevailing wages in the West Bank and Gaza, and the economic consumption afforded from these wages has been key to stabilizing the West Bank economy, particularly during the pandemic. Workers are predominantly in lower-paid and lower-skill sectors, such as construction and agriculture. The high-tech and health sectors are notable exceptions. Palestinian health workers in Israel and East Jerusalem number about 1,500 or roughly 1% of the total Palestinian commuters. Israel has recently announced hundreds of permits for Palestinian high-tech workers. Such permits should serve as a potential channel for skills-transfer to and strengthening of the Palestinian labor market, particularly if a local tech sector in the West Bank can be incubated.

Figure 2: Palestinians working in Israel and the settlements



Source: PCBS Labor Force Survey, Various Quarters.

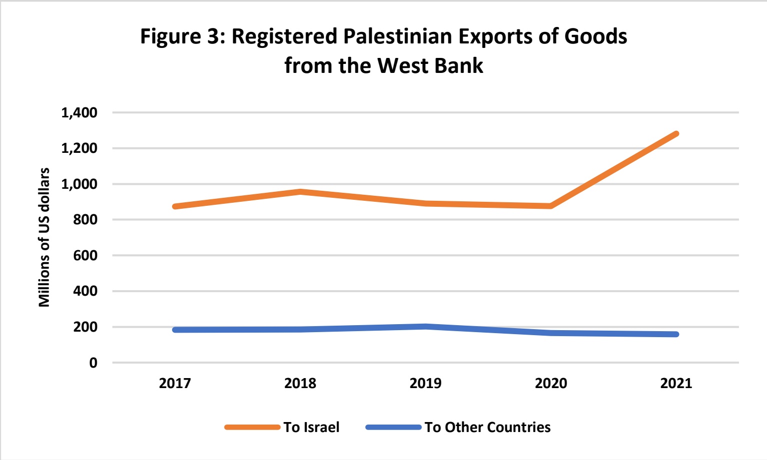
With a potential estimated inflow of some US $3 billion per year to the OPT from Palestinians working in Israel and the settlements, the overall economic contribution is substantial, particularly when compared to some US $2.78 billion in gross clearance revenues in 2021 and some US $189 million in direct budget support to the PA in 2021.[4] While expanded access for Palestinian workers to the Israeli private sector labor market is vital to the Palestinian economy, the dependence on the Israeli labor market also reflects the lack of public/private sector investments in the West Bank and Gaza, which could better drive a Palestinian labor market. Palestinian public sector financial reforms to facilitate this investment are needed.

Trade and the movement of goods

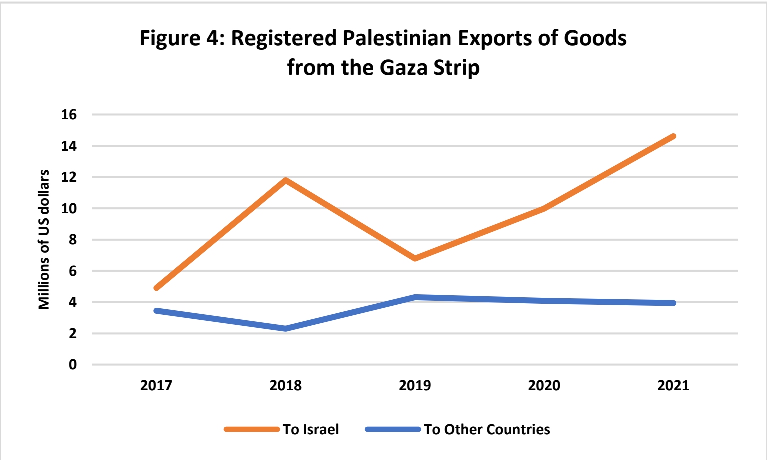
Growing economic interdependence is also seen in trade patterns. The value of goods being exported from the West Bank and Gaza Strip to Israel and other foreign markets has also increased in recent years, but particularly in recent months (see Figures 3 and 4). Note that in recent years, approximately 88 percent of the value of all Palestinian exports went from the West Bank to Israel, another 11 percent went from the West Bank to other foreign markets, and exports from the Gaza Strip to any foreign destination accounted for only 1 to 2 percent of the value of all Palestinian exports. Nonetheless, the upward tick in exports from both the West Bank and Gaza Strip is an important positive development. A pilot program for containers to cross at Allenby crossing has recently been initiated and could lead to further improvements.

[4] The Palestinian Monetary Authority estimated the amount of Palestinian employee compensation earned in Israel in 2020 at US $2.4 billion, when approximately 125,000 Palestinians commuted. Source: https://www.pma.ps/Portals/0/Users/002/02/2/Time%20Series%20Data%20New/Balance_of_Payment/3_%20balance_of_payments.xlsx.

After the closure of the Gaza Strip during and for several weeks after the May 2021 escalation to all but a very limited set of humanitarian items, there have been indications and initial positive steps by the Government of Israel to implement a new civil policy for Gaza. In addition to the increase in permits for Palestinians to exit Gaza and work in Israel, there was an increase in access for goods, particularly concrete and rebar for reconstruction; the fishing zone was extended to 15 kilometers, allowing the fishing sector to grow; and improvements were made to the exit of goods.



Source: PCBS Trade Statistics.



Source: PCBS Trade Statistics.

Following a review of Gaza access mechanisms by UNSCO in 2021 and the easing of some restrictions in wake of the above, discussions are underway to improve the entry of “dual use” materials under the GRM to benefit Gaza’s economy. In February 2021, a technical-level trilateral meeting on the GRM was held between the PA, the Government of Israel, and the UN, with steps identified to improve the mechanism. Progress is being made in improving access of materials for the fishing sector and some health items. Access of critical materials must also improve for agriculture, industry, water, sanitation, and health, among others. Israel’s recent increase in the Gaza water supply by 5 million cubic meters is welcome. Continued coordination by partners of humanitarian and development assistance is particularly important in Gaza, including ensuring that assistance is not diverted for unintended purposes. The GRM remains a key component of this effort.

Economic interdependence without adequate economic regulation

This growing economic interdependence outlined above is unfolding in an *ad hoc* manner. The measures undertaken by the Government of Israel to ease some movement and access restrictions and improve the economic situation, especially in Gaza, are moves in the right direction. Such efforts should be expanded and made more durable in a mutually-agreed regulatory framework and accompanied by political and security steps by the parties to address key conflict drivers. Moreover, a similar short-term stabilization approach cannot be applied to the rest of the OPT with the expectation of any real and sustainable progress. Given the very different political, security and socio-economic context in the occupied West Bank, existing economic and civil measures alone cannot improve the economic situation and help put the PA on stronger fiscal footing.

Over 27 years have passed since the signing of the "Protocol on Economic Relations" in 1994, also known as the Paris Protocol, which was intended to be a five-year arrangement in preparation for the conclusion of final status negotiations. The Protocol consists of 11 articles on many aspects relevant to economic, trade and taxation policies, as well as policies that regulate importing, banking, insurance, standards, specifications, agriculture, water, energy, and petroleum. The Protocol remains the general framework that governs and predominately shapes and constrains Palestinian trade relations, trade policy, macroeconomic policies, and fiscal policies—and the economic and fiscal relations between the PA and the Government of Israel. However, the realties on the ground and in the respective economies have shifted in the intervening decades, calling for updates to many of the provisions and regulations of the Protocol.

The Paris Protocol was designed as a temporary framework that would enable economic cooperation, economic growth, and Palestinian institution building—in part by delegating authority to the PA to design economic policies and programs—until the establishment of a border between the two economies. In practice, the PA continues to have a narrow space to pursue an economic policy independent of Israel, inhibited by Israeli administrative control over external trade, including tax collection, Israeli controls on the flow of goods within the OPT, the absence of an independent monetary policy, and limited space to conduct fiscal policy. The implementation of these policies by Israel have also been subject to unilateral decision-making and political pressures, such as Knesset legislation that requires the withholding of a portion of the PA's revenues equivalent to what Israeli authorities calculate the PA pays to Palestinian prisoners, their families, or the families of those killed or injured in the context of attacks against Israelis. The result is an asymmetric interdependence of the Palestinian economy on the Israeli economy.

The under-regulation of the commuter Palestinian labor sector in Israel is particularly notable as the number of permits for Palestinians working in Israel increases. The vast majority of these workers are men working in agriculture, fishing, and forestry; mining, quarrying, and manufacturing; and construction. The International Labour Organization (ILO) has found that Palestinians working in Israel and the settlements face deficits in decent working conditions.[5] These include: (i) the long wait and crowded conditions at the crossings; (ii) a permit regime in which brokers and employers have undue power over workers; (iii) a lack of comprehensive social protection, with wages paid only in cash accompanied by frequently inaccurate documentation; and (iv) often inadequate working conditions at construction sites with relatively high fatality and accident rates as a result of insufficient observance and enforcement of safety and health regulations.

Palestinian workers pay intermediaries for permits that enable them to work legally in Israel. A Bank of Israel working paper conservatively estimated profits of NIS 122 million by these intermediaries in 2019.[6] The ILO calculated the estimated annual profits at NIS 427 million.[7] Despite an Israeli Government decision in 2016 to undertake an imminent reform of the work permit regime, some first steps toward implementation were only taken in December 2020 when reforms of the construction sector were implemented. These reforms aimed at delinking the permit quotas from employers and hence opening the possibility for Palestinian workers to change jobs and employers. This is an important move towards improving conditions. However, as of early 2022, permit brokers still appear to be operating and there is anecdotal evidence that broker practices now exist with respect to the new permits for Palestinian workers to enter Israel from Gaza. These practices are likely to continue

[5] ILO. 2020. The situation of workers of the occupied Arab territories. ILC.109/DG/APP/2020.
[6] Bank of Israel. 2019. Illegal trade in work permits for Palestinian workers in Israel.
https://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/25-9-2019.aspx
[7] ILO. 2020. The situation of workers of the occupied Arab territories. ILC.109/DG/APP/2020.

unless a functioning and inexpensive job-matching facility is established for Palestinian workers and Israeli employers.

In addition, another unintended consequence of the increased number of Palestinian workers in Israel is the accumulation of Israeli shekels in Palestinian banks. The digitization of the payment of wages for Palestinian workers in Israel—which would ease this pressure on the banks and improve tax revenue collection—should be fast-tracked in implementation, helping address some of the ILO's concerns noted above. Compliance with relevant labor and tax laws needs to be enforced effectively by both Israeli authorities and the PA. A notable exception to the largely unregulated labor market and a potential model is in the health sector, where Palestinian workers and the market are better administered.

There is ample room for regulatory improvement in other areas as well, particularly in trade policy and the collection and transfer of clearance revenues. The continued roll out of the e-VAT pilot project, bonded warehouses, and improved trade facilitation at the Allenby bridge crossing with Jordan are all ripe for implementation if greater political support and an improved regulatory framework and environment are forthcoming to fully meet their potential. However, the parties must be supported to engage in these discussions in a consistent and regularized manner and on more equal footing.

Shrinking space for Palestinian economic development

In addition to rebalancing the Palestinian and Israeli economic relationship and improving the regulatory framework around it, increasing space for Palestinian economic development—particularly given current demographic trends—is essential to unlocking further growth potential in the Palestinian economy. As donor support wanes, economic growth and increasing Palestinian revenues are necessary components of stabilizing the fiscal situation facing the PA.

Demographic growth is putting significant pressure on the ability of the Palestinian Authority and UNRWA to provide basic services to Palestinians. The key social and economic figures of the OPT are shown in Table 2. Notably, the annual population growth rate is 2.2 percent in the West Bank and 2.9 percent in the Gaza Strip, implying that the number of jobs and livelihoods needs to increase at an equivalent rate each year to maintain the current level of employment; the number of teachers, doctors, nurses, and other service providers must also increase to maintain the current level of services. Moreover, population densities have sharply increased across all areas of the OPT since 2000. With an urban population growth rate of 2.85 percent in 2020, the OPT is among the top 25 percent of urbanizing societies globally. Current economic growth rates and the PA's fiscal space are insufficient to meet growing needs.

Table 2: Key Figures: The Occupied Palestinian Territory

	West Bank	Gaza Strip	Total
Population	3,154,418	2,136,507	5,290,925
Area (km^2)	5,655	365	6,020
GDP per capita, US $	4,197	1,208	2,923
Poverty rate	13.9%	53.0%	29.2%
Men's labor force participation rate	71.2%	55.2%	65.1%
Women's labor force participation rate	16.8%	15.0%	16.1%
Youth labor force participation rate	-	-	26.2%
Men's unemployment rate	13.2%	42.1%	22.5%
Women's unemployment rate	27.0%	64.0%	40.1%
Youth unemployment rate	35.6%	78.8%	54.4%
Physicians per 1,000 residents	3.25	2.71	3.03
Nurses per 1,000 residents	3.61	5.64	4.43
Teachers per 1,000 residents	12.31	10.20	11.46
Population under age 29 (%)	64%	69%	66%
Refugee population (%)	26.3%	66.1%	42.2%
Annual population growth rate	2.2%	2.9%	2.5%
Food insecure (%)	8.9%	64.4%	31.2%

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

Israeli movement and land-use restrictions, alongside continued settlement activity and expansion, as well as the lack of Israeli-issued building permits, which are nearly impossible for Palestinians to obtain, squeeze the Palestinian economy. Across the West Bank, hundreds of obstacles restrict Palestinian vehicles and pedestrian movement, including checkpoints, road gates, earth mounds, roadblocks, trenches, and earth walls. Likewise, various administrative procedures are burdensome for the economy. According to the World Bank, these physical and administrative barriers render the average trade cost per container for Palestinian firms greater than the cost for Israeli firms by a factor of 3, while the time cost is higher by a factor of 2 to 4.[8]

Israeli restrictions on land, alongside continued settlement activity, further undermine Palestinian economic potential. Settlements municipal boundaries cover approximately ten percent of the West Bank and approximately 18 percent of the West Bank has been designated as a closed military zone for training, to which Palestinian access is restricted.[9] Areas designated by Israel as state lands and nature reserves in Area C also have access restrictions for Palestinians. A new phenomenon that bears watching closely is the establishment of Israeli-controlled "herding outposts" in Area C. In an increasing number of sites, settlers have closed grazing land long used by Palestinian pastoralists and built informal structures, effectively denying Palestinian access to the lands.

Such Israeli restrictions on Palestinian access to the productive assets in Area C limits Palestinian economic potential. A 2013 World Bank report,[10] for example, estimated that that if businesses and farms were permitted to develop in Area C, Palestinian GDP would increase by as much as 35 percent,

[8] High, differential Palestinian trade costs are well documented in the economics literature. See, for example, World Bank Group. 2017. Unlocking the Trade Potential of the Palestinian Economy: Immediate Measures and a Long-Term Vision to Improve Palestinian Trade and Economic Outcomes. World Bank, Washington, DC.
[9] Humanitarian Needs Overview, OCHA, December 2021.
[10] World Bank. 2013. Area C and the Future of the Palestinian Economy. Report No. AUS2922.

or US $4.15 billion.[11] The report found the highest direct impacts on the following six sectors, in order of significance: agriculture, minerals, mining, construction, tourism, and telecommunications. Irrigating unexploited lands in Area C, as well as accessing additional range and forest land, could deliver additional value added in the agricultural sector equivalent to 7 percent of GDP. A robust new mineral extraction industry on the Dead Sea could generate benefits to the Palestinian economy up to 9 percent of GDP, almost equivalent to the size of the entire Palestinian manufacturing sector. The mining industry could double in size, increasing value added by some 2 percent of GDP. Lifting the tight restrictions on the construction of residential and commercial buildings alone (excluding infrastructure projects) could increase West Bank construction sector value added by 2 percent of GDP. Improvements in the tourism and telecommunications sectors would together add another 1.5 percent of value added to GDP.

In addition to the direct benefits to these six sectors, the World Bank also found considerable indirect and spillover effects that would increase economic activity and improve Palestinian welfare. While the 2014 analysis and these estimates needs updating, they provide a clear picture of the potential for Palestinian economic growth if access and investment for Palestinians in Area C can be improved.

Conclusion: Resolving asymmetries and fixing the policy environment

Current trends and facts on the ground demand a more coherent and strategic approach to supporting the PA and promoting Palestinian social and economic development. Reversing negative trends and addressing key asymmetries in the Israeli and Palestinian economic relationship is more urgent than ever. This imbalance is inextricably linked with the structural conflict drivers and left unaddressed is increasingly becoming a driver of conflict in itself. Recent high-level meetings between Israeli and Palestinian leaders are encouraging and many of the recent civil and economic measures implemented by the Government of Israel are welcome, if long overdue. However, *ad hoc* contacts, unilateral decision-making and piecemeal reforms cannot substitute for a functioning and regulated economic relationship between Israel and the PA. There is agreement that many provisions in the Paris Protocol need to be updated. And, despite promising signals at the AHLC meeting in Oslo in November 2021, the Joint Economic Committee has yet to meet. Thus, while Israeli and Palestinian leaders have recently expressed their willingness to work on policy changes and initiatives, the institutional framework remains in limbo.

In the meantime, serious policy reforms remain outstanding. The Palestinian Authority is still weighing options for resolving the so-called “prisoners payments” issue. These monthly deductions by Israel 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 the international donor community and resolving the issue could help improve the outlook for more donor support.

We agree with the parties that there is considerable scope for policy changes and initiatives that improve the overall public policy environment. We believe that these policy changes and initiatives should better regulate the existing economic interdependence and better leverage this interdependence for the benefit of Palestinians. What is lacking is an overarching strategy that sequences and coordinates the different initiatives, and monitors and follows up on commitments. Better coordinated discussions could address, among other things, measures for the effective implementation and expansion of trade; measures to promote two-way economic, financial, and technical relations; packages of fiscal reforms; labor and social security issues related to Palestinian

[11] Here converted to 2022 US dollars.

workers commuting into Israel; the movement of commercial vehicles and transportation of goods; joint ventures; improving economic contacts with the regional markets; aligning the health and safety standards for goods; aligning banking and financial regulations; and initiatives that address water, climate change, and environmental issues. We have repeatedly urged the Israeli and Palestinian authorities to find additional avenues for cooperation, including on updating and implementing existing agreements. We do so again here.

The fallout from the ongoing conflict Europe will impact international development assistance to the OPT, particularly from European donors. Additional strain is expected due to a spike in commodity prices, particularly for food and energy, creating another burden on both the PA budget and funding to UN projects this year. Therefore, it is all the more important to urgently implement the much-needed Palestinian financial reforms in a serious manner and resolve the structural and regulatory issues in the relationship between the Palestinian and Israeli economies.

As always, the 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. The proposed effort to better regulate the economic relations between Israelis and Palestinians—as well as giving the Palestinian economy space to develop—is an important political step to building momentum toward a just and lasting political solution to the conflict.