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Report to the Ad Hoc Liaison Committee

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## 1 Introduction

As the Ad Hoc Liaison Committee (AHLC) marks the 30-year anniversary of the Oslo Accords, it is incumbent upon the parties, the Government of Israel (GoI), the Palestinian Authority (PA) and members of the International Community who have supported the Oslo process and the Palestinian state-building agenda over the last decades, to take stock and reflect on the road travelled since Oslo and where we are now.

In 2011, nearly twenty years after Oslo, the IMF, World Bank, and the United Nations declared the PA ready for statehood, and the AHLC hailed Palestinian state-building efforts as “a remarkable international success story.”<sup>1</sup> That legacy is now at grave risk.

Key ‘permanent status’ issues in the Oslo Accords remain unresolved and prospects for a negotiated solution remain elusive. The Palestinian state-building project, which has rallied members of the AHLC around a common objective and for which significant political and financial capital has been invested over three decades, faces significant challenges. Escalating violence and attacks in the Occupied Palestinian Territory (OPT), particularly the West Bank, and in Israel, recurrent escalations in the Gaza Strip, ongoing unilateral steps, including settlement advancement on an unprecedented scale, the deepening physical fragmentation of the OPT resulting from settlement advancement, the Palestinian divide, access and movement restrictions and restrictions on land use by Palestinians, particularly in Area C, and ever-shrinking fiscal space for the PA to meet the needs of Palestinians, are contributing to a downward spiral on the ground, undermining efforts to restore a political horizon. Low levels budget support to the PA and the funding and liquidity crises facing UN humanitarian programmes, such as UNRWA and the World Food Programme, are additional destabilizing factors.

More fundamentally, these shifting facts on the ground are presenting a serious challenge to the future viability of the internationally agreed principles for ending the occupation and resolving the conflict. At the same time, the Oslo-era mechanisms and institutional frameworks that could enable the parties to address these and other important issues have atrophied or disappeared.

Over the last year and half, UNSCO has sought in its successive reports to the AHLC to document these shifts and propose a way forward. In May 2022, UNSCO described the growing inter-connectedness of the Palestinian and Israeli economies and the need for the parties to update the Paris Protocol and engage one another in establishing a regulatory framework on both sides capable of managing this economic relationship. Our September 2022 report took as a point of departure the 2011 declaration of “ready for statehood” and described the widening gap between, on the one hand, the stalled political track and the negative trajectory on the ground and, on the other hand, the progress in Palestinian state-building achieved since the PA’s founding in 1994. It also described the implications of continuing the

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<sup>1</sup> Chair’s Summary of the Meeting of the Ad Hoc Liaison Committee. 18 September 2011

current trajectory with respect to access and movement restrictions that limit Palestinian access to land and resources and a fast-growing Palestinian population. Most recently, in May this year, UNSCO outlined how many of these developments have weakened and undermined Palestinian institutions and the consequences for basic service provision to the Palestinian population. This report aims to put these findings in context and chart a way forward.

## 2 Thirty years of Oslo

In 1993 the parties signed the Declaration of Principles (DoP) on Interim Self-Government Arrangements (Oslo I Accord), which outlined principles for further negotiations and laid the foundation for a Palestinian interim self-government in the West Bank and Gaza for a transitional period of five years. The agreement stipulated measures for the transfer of authority from the Israeli military government and its Civil Administration to the “authorized Palestinians” and set the basis for permanent status talks based on Security Council Resolutions 242 and 338. Between 1993 and 1995, key agreements were signed in line with the DoP, establishing the main institutions and frameworks for implementation of the agreements, and the international community mobilized in support. Among these agreements and institutions was the Joint Liaison Committee (JLC) established by the DoP to ensure high-level political coordination, the Ad-Hoc Liaison Committee (AHLC), established in 1993 to coordinate international support to DoP implementation, and the setting up of the Local Aid Coordination Committee (LACC) and its sector working groups in 1994, as well as the Paris Protocol (1994) regulating economic relations between the two sides and the establishment of the Joint Economic Committee. These institutions were critical to not only underpinning and implementing subsequent agreements, such as the Gaza-Jericho agreement (1994), Oslo II (1995) and the Wye River Agreement (1998), but to supporting Palestinian state-building and mobilizing international support as part of these agreements.

Regrettably, since the Camp David Summit closed without an agreement in 2000, and with the onset of the second intifada, the early momentum in support of implementation of the Oslo Accords and the supporting institutional frameworks were stymied. They were further set back by the political turmoil in the wake of the 2006 Hamas victory in Palestinian legislative elections and eventual violent take-over of Gaza by Hamas in June 2007. Following the appointment of Salam Fayyad as Palestinian Prime Minister shortly thereafter, significant efforts were undertaken to articulate an ambitious development plan and to re-establish many of the coordination mechanisms, including the reinvigoration of the JLC as the Local Development Forum (LDF) and setting up the Office of the Quartet, as well as to mobilize international support behind an ambitious reform and development program at the Paris conference. However, many of the coordination mechanisms and supporting institutions have since eroded or ceased to function, precipitously so in recent years.

The Oslo Accords provided for cooperation in various fields: water and water resource management; electricity production; the joint exploitation of energy resources; finance;

transport and communications; trade; industry and industrial development; labour relations and human resource development; environmental protection; and communications and media. Development plans were established for these various sectors, as well as coordination bodies, including, but not limited to, the Joint Economic Committee, Joint Water Committee and Higher Planning Committee. While the AHLC continues to meet biannually, the local development forum no longer convenes, nor does the Joint Economic Committee (JEC), despite very recent efforts to reinvigorate it, nor do most other technical committees set up under the Paris Protocol.

This lack of progress in implementation of existing agreements and coordination, has been inextricably linked with inconclusive rounds of official final status talks—in 2000-2001 (Clinton Taba Summit), 2007-2008 (Olmert-Abbas talks), and 2013-2014 (Kerry Initiative); recurring episodes of significant violence; Hamas control of the Gaza Strip and Israeli closure of the Gaza Strip, cementing the Palestinian split in 2007; and negative trends on the ground, including Israeli settlement expansion and Palestinian militant activity. It has also contributed to and been driven by declining international donor support and mounting humanitarian needs, leading to a shift in the balance of resource allocation from development aid to humanitarian assistance.

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

## 2.1 International Assistance since Oslo

Since the creation of the Palestinian Authority, the international community and the United Nations have delivered billions of US dollars in assistance to accelerate Palestinian social and economic development and strengthen Palestinian institutions, in support of the Middle East Peace Process and to help prepare the Palestinians for statehood.

Since 1994, based on OECD estimates, at least 44 billion USD of official development assistance (ODA) has been reported as provided by the international community to the OPT, 35 percent of which has consisted of external budget support for the PA, 43 percent for grants and loans for development projects through non-PA providers, and 21 percent for humanitarian assistance.

The volume and structure of international assistance to the Palestinians has varied over the past 30 years. From 1994 to 1999, there was a dramatic increase in development funding to support the creation of the PA and the conditions for a strong domestic economic base, with most

assistance supporting infrastructure.<sup>2</sup> International assistance shifted between 2000 and 2006, increasingly focused on providing basic services, employment generation, and humanitarian assistance in the context of the second intifada, the violent takeover of Gaza by Hamas and its subsequent control of the Strip, and strict restrictions on movement and access by GoI.

In 2007, more than 7.4 billion USD of assistance was pledged by international donors to “assist in the development of the Palestinian economy, to maximise the resources available to the Palestinian Authority, and to contribute to the Palestinian institution-building programme in preparation for statehood.”<sup>3</sup> While the Paris Conference resulted in a period of significantly increased official development assistance to the OPT, limited progress on structural economic and administrative issues raised at the AHLC, the impacts of which are discussed in detail below, meant that most of the increased international assistance to the West Bank during this period were not able to focus on productive sectors of the economy and, instead, focused on PA institution building, particularly the security sector and local infrastructure, service delivery, and employment generation.<sup>4</sup> Nevertheless, enough institutional reforms and building and investments had been made overall to support the findings of the 2011 reports of the IMF, World Bank and UNSCO declaring the PA ready for statehood.

Beginning in 2013, budget support to the PA started to decline and, increasingly, international assistance to the West Bank was provided in the form of humanitarian assistance, project funding, and development lending. In the Gaza Strip, recurrent conflicts, militant control, and a continuation of the closure measures by the GoI resulted in an ongoing focus on basic service delivery and humanitarian assistance. By 2021, only 9 percent of international assistance went to budget support – the lowest level since 2000, compared to 36 percent to humanitarian assistance, and 56 percent to grants and lending for development projects.<sup>5</sup> Since 2021, development financing to the private sector, security sector assistance, and humanitarian assistance have been increasing as a share of overall assistance received.

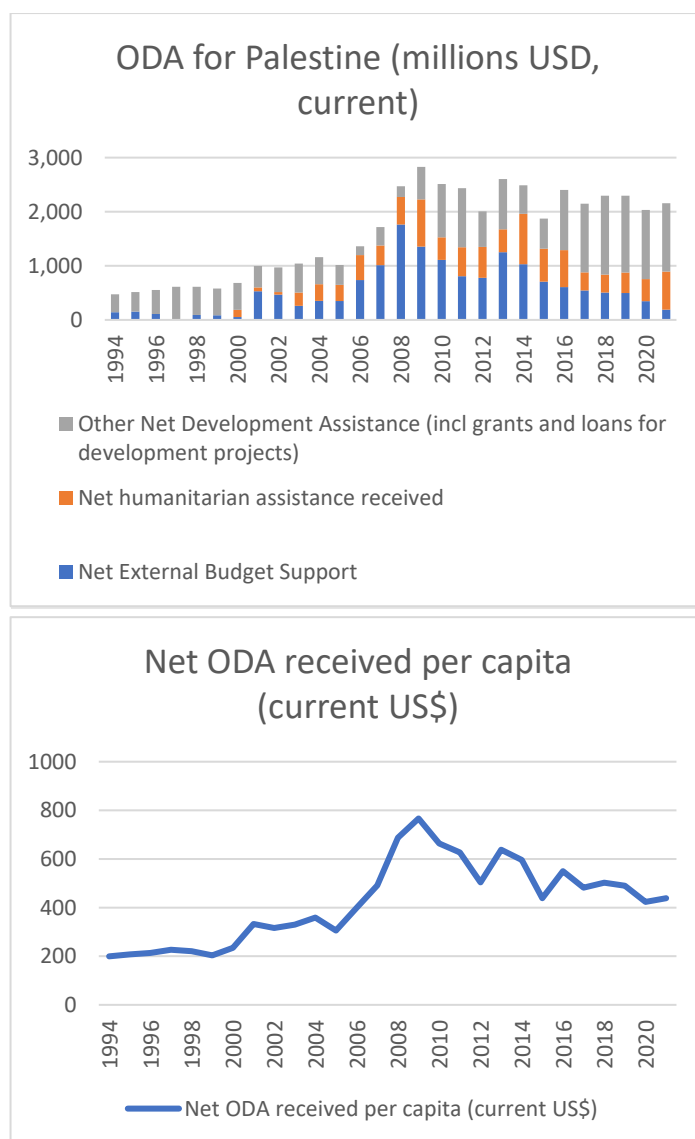
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<sup>2</sup> The remarkable scale of accomplishments during this period was presented in UNSCO and World Bank Reports to the AHLC in 1999.

<sup>3</sup> Final Statement by Chair and co-Chairs, International donor’s Conference for the Palestinian State, Paris – 17 December 2007.

<sup>4</sup> Palestinian Ministry of Finance and Planning, expenditure report, 2009.

<sup>5</sup> Compiled from Palestinian Monetary Authority data, OECD ODA Reporting (accessed July 2023), Humanitarian Financial Tracking System (FTS) (accessed July 2023), and annual reporting from UN agencies and donor records.



### 3 State of Play – 30 Years on

Examining the state of play through the lens of the AHLC, there have been some remarkable successes in the face of immense obstacles over the past 30 years. With support from the international community, the Palestinian economy has experienced strong sustained growth and Palestinians have built remarkably resilient state institutions, institutions which are now under threat of eroding.

The international community's investment has been significant. In addition to the billions of dollars provided annually in assistance, on multiple occasions the international community has mobilized very significant resources and support for the Palestinian people and institutions, notably at the 2007 Paris Conference. This investment and the resiliency of Palestinian institutions has led to some successes in socio-economic outcomes, particularly in education

and health, where Palestinians continues to outperform regional comparators across key indicators. Although, these successes have started to reverse in the current context.

There have also been serious obstacles along the way, in addition to the effects of a stalled peace process, violence and negative steps on the ground. Palestinian elections are long overdue and the Palestinian divide persists, severely impacting economic development and governance. Furthermore, while increasing integration of the Palestinian and Israeli economies represents a number of opportunities, including significant inflows for the Palestinian economy from wages of Palestinian workers in Israel, the imbalance of the economic relationship and the absence of state-to-state mechanisms to address the resulting disparities pose a serious challenge to the Palestinian economy. The extremely limited and irregular interactions between Palestinian and Israeli institutions exists now across nearly every sector, leading to increasingly imbalanced interactions when they occur and increasingly concentrated within the GOI's Coordination of Government Activities in the Territories (COGAT).

The next section offers an overview of (1) the Palestinian economy, including major trends in trade, investment and private sector employment; (2) the state of Palestinian institutions for basic service delivery, including education, health, social support and water; and (3) aid coordination today.

### 3.1 The Palestinian Economy

Since 1994, the Palestinian economy has nearly tripled in size, to 15.6 billion USD in 2022, with 30 per cent GDP growth per capita, to 3,087 USD in 2022.<sup>6</sup> While the economy has grown, persistent structural weaknesses, much needed reforms, and imbalanced economic relationships arising from the Paris Protocols that have been identified in numerous AHLC reports over the past 30 years remain. These result in a multitude of challenges that distort and constrain the Palestinian economy, among which are weak domestic employment capacity, uneven sectoral growth, a lack of a coordinated investment framework for public and/or private sector investments and severe trade bottlenecks. The overall impact is a Palestinian economy that is highly susceptible to external shocks, with significant income losses, persistently high unemployment and poverty rates, as well as chronic internal and external imbalances, leading to greater economic vulnerability in the Palestinian population.<sup>7</sup>

Most recently, the Palestinian economy has been gradually recovering from a serious set-back in economic growth due to the COVID-19 pandemic. In 2020, GDP declined for the first time since 2005 and per capita GDP contracted 13 percent in the West Bank, and 15 percent in the Gaza Strip. While 2020 was a shock, coinciding with the decline in donor assistance to the PA, annual economic growth rates were already slowing since 2016 with a plummet in growth in the West Bank economy from 9 percent in 2016 to 2 percent in 2018, alongside GDP

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<sup>6</sup> Palestinian Central Bureau of Statistics and Palestinian Monetary Authority data, in 2015 USD. Nominal GDP in 2022 was 19.1 billion USD (World Bank, <https://data.worldbank.org>)

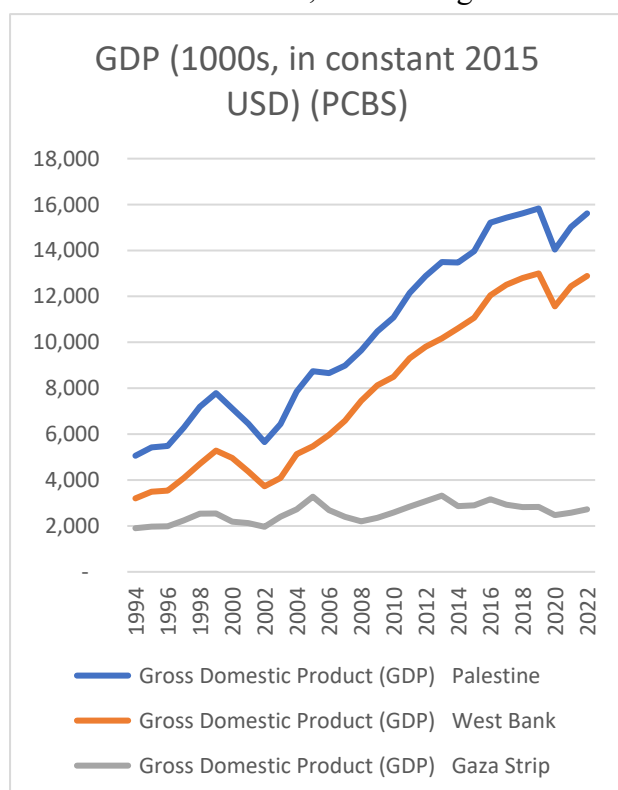
<sup>7</sup> United Nations Conference of Trade and Development (UNCTAD), "Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory 2021".



contraction in the Gaza Strip. In addition, the PA has faced mounting revenue losses amid declining levels of international assistance and increased GOI deduction from PA clearance revenues of an amount equivalent to what it says the PA pays to Palestinian prisoners, their families, or the families of those killed or injured in the context of attacks against Israelis according to a 2018 Israeli law.<sup>8</sup>

The fiscal situation for the PA has not improved since the last AHLC Report. Both parties have made some limited progress in implementing the reforms and actions to strengthen the PA presented during the AHLC meetings in May 2022 and updated in September 2022 and May 2023.<sup>9</sup>

In the first half of 2023, economic growth and improved tax collection increased domestic tax



revenue by 13 percent as compared with the first half of 2022, increasing the PA's non-clearance revenue. During the same period, gross clearance revenues increased by 6 percent, reflecting increased tax collection and the impact of measures such as the partial adoption of the eVAT system and, to a lesser extent, Israel's reduction in the fuel handling fee. However, after deductions, including the withholding of clearance revenues by Israel, total clearance revenues received by the PA decreased by approximately 3 percent.

According to the World Bank September 2023 AHLC report, at the start of 2023, the PA projected a deficit of approximately 493 million USD after deductions and

assistance.<sup>10</sup> However increased expenditures resulting from agreements with Palestinian labour unions to end strikes from the first half of the year and increased deductions of the clearance revenue by Israel referenced above, are projected to increase the deficit to more than 533 million USD after assistance. As noted by the World Bank, IMF, OQ, and UNSCO in their May 2023 AHLC reports, achievements made and further progress on PA reforms are at risk in the absence of additional budgetary support to the PA, restoration of full clearance revenue

<sup>8</sup> These deductions were suspended for six months in 2021 to support the PA during COVID. The deductions were doubled for six months in 2023 to account for the suspended period.

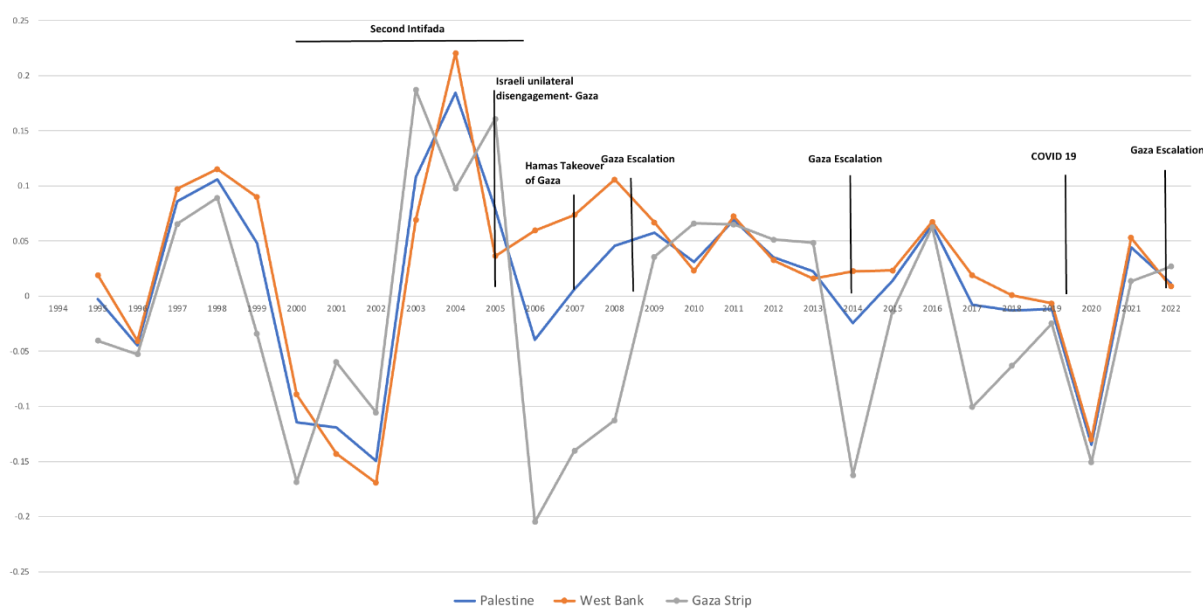
<sup>9</sup> "Civil Economic Plan to Strengthen the PA" as presented to the AHLC in May 2022 and September 2022 by Government of Israel. And "State of Palestine: Reform Agenda" as presented to the AHLC during the May 2022 by the Palestinian Authority

<sup>10</sup> World Bank. 2023. Racing Against Time: World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee, September 2023.

transfers by Israel to the PA, and significant relaxation on Israeli constraints on the Palestinian economy.

Closely reflecting the political and security context, the Palestinian economy has gone through three major phases, characterised by wide variations in GDP growth rate, divergence of the economy in the Gaza Strip and West Bank, and sustained periods of economic growth without employment gains. Since 2013, PA expenditures and international assistance have increasingly focused on maintaining expenditures and services, including humanitarian assistance, over investments in development projects and infrastructure.

Volatility in GDP per capita per Region



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Since Hamas' violent takeover of the Gaza Strip in 2007, the economy in the Gaza Strip exists increasingly in parallel to the Palestinian economy in the West Bank, with much of its economic activity and governance outside of official supervision or recognized channels. Militant control, the absence of most PA institutions and strict Israeli restrictions on the movement of people and goods into and out of the Strip have driven this divide further. The dynamic was accelerated with the opening of the Salah Ad-Din Gate for commercial traffic with Egypt in February 2018, through which, as of 2023, some 36 percent of total imports come to the Gaza Strip.

This severely impacts available revenue collection for the PA and challenges its legitimacy and capacity, while breaking the hierarchical linkages between the line ministries and civil servants in the Gaza Strip and compromising the accountable delivery of public services. According to the Palestinian Ministry of Finance, 30 percent of PA expenditures are directed towards the Gaza Strip, while it collects only 1 percent of revenue from the Gaza Strip. One area of progress has been the easing of some restrictions on access and movement by Israel, which UNSCO has

<sup>11</sup> Chart is extracted from World Bank AHLC Report, Fall 2016 and expanded using data provided by the Palestinian Monetary Authority and Palestinian Central Bureau of Statistics.

sought to build on in an effort to enhance economic linkages between the Gaza Strip and the West Bank. Work is ongoing in this area, including through the Gaza Reconstruction Mechanism.<sup>12</sup>

### 3.1.1 Trade, Investment and Private Sector Employment

Palestinian trade, investment and private sector employment are significantly shaped by movement and access restrictions imposed by Israel including on Palestinian investment in Area C, uneven implementation of the Paris Protocol and bilateral agreements, and weaknesses in the PA regulatory framework and its application. While overall GDP growth since the Oslo Accords has been relatively successful, albeit constrained, trade, investment, and employment have all lagged behind.

The Palestinian trade balance continues to suffer a sharp decline due to steadily increasing imports fuelled by an import consumption economy. Notably, the trendlines for both imports and exports have improved significantly after a sharp COVID-related decline, reaching their highest levels in thirty years, well-exceeding pre-COVID figures<sup>13</sup>. Since opening to commercial traffic in 2018, the Salah Ad-Din Gate crossing between the Gaza Strip and Egypt has steadily increased imports into the Gaza strip. In 2022/2023, more than half of construction material, a quarter of its food and some 40 percent of non-food items entered the Gaza Strip through Salah Ad-Din Gate crossing.

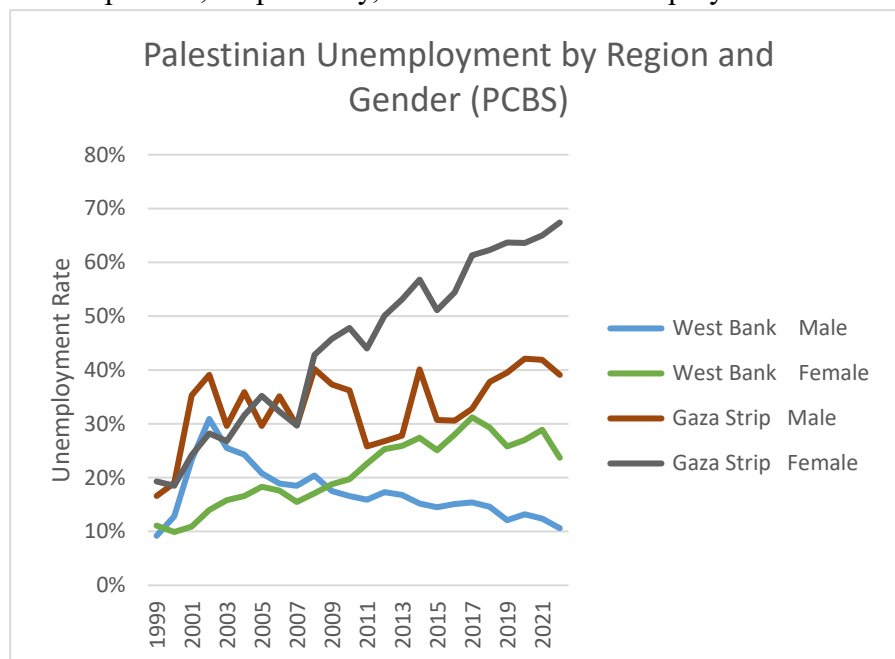
Foreign direct investment into the OPT reached a peak of approximately 5% of GDP between the period of 1995-2000, before declining to almost zero from 2000 to 2007. Since 2007, however, FDI has remained largely flat, averaging between 1 and 2 percent of GDP each year and largely limited to the financial, services, and property sectors, reflecting a lack of investor confidence and weak productivity and high risks in the Palestinian manufacturing and agricultural sectors.

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<sup>12</sup> It is important to note that, at the present time, donor funding for implementation of the Gaza Reconstruction Mechanism does not extend beyond 31 October 2023.

<sup>13</sup> Note that goods transfers to the West Bank and exports to Israel and regional and international markets from the Gaza Strip have declined steadily since the start of 2023.

Labour force participation and unemployment in the OPT have remained largely stagnant since 2007, as a period of sustained economic growth was unable to keep pace with population growth. Unemployment is particularly high in the Gaza Strip at 47 percent in Q2/2023, and at 13 percent in the West Bank. Unemployment among women and youth across the OPT remains persistently high at 40 and 42 percent, respectively, in 2022. Youth unemployment in Gaza reached 69 per cent in 2022, and 28 per cent in the West Bank. These trends are particularly worrying when considering population growth. The PA estimates that, by 2030 the Palestinian economy will need to create 630,000 jobs just to maintain current employment levels.



The PA has undertaken some efforts to address unemployment through its first Palestinian National Employment Strategy (2021-2025), adopted in November 2020 by the Palestinian Cabinet, which focuses on promoting sound labour market governance and enhancing active labour market policies; aligning education with labour market needs; and promoting a resilient private sector and youth entrepreneurship. Nevertheless, challenges remain.<sup>14</sup>

Across the OPT, over 60 percent of workers are employed in the private sector, while the rest are split nearly evenly between the public sector (19 percent) and work in Israel and Israeli settlements (17 percent) (PCBS, 2022). Overall, annual wages earned in the private sector and by workers in Israel and settlements are increasing, whereas earned wages in the public sector have decreased, most notably since 2018, when the PA began partial payment of wages in the Gaza Strip, and since 2021 in the West Bank. Reflecting the profound economic divide between the West Bank and the Gaza Strip, private sector wages in Gaza are nearly half those in the West Bank, and the gap is widening. Among other factors, Israeli restrictions, including on trade, development of industrial parks and access to telecommunications technology, significantly impede employment growth in key sectors such as industry and information and

<sup>14</sup> Please refer to IMF Selected Issues Paper from the May 2023 AHLC. <https://www.imf.org/-/media/Files/Publications/CR/2023/English/1WBGEA2023002.ashx>

communications technology (ICT), which combined represent nearly fifteen per cent of GDP.<sup>15</sup> Access for the 164,000 Palestinians working in the Israeli labour market in Q2 2023, particularly the increase to some 22,000 permits for Gaza workers and traders that has been gradually rolled out since 2021, has brought vital income to the OPT.

As outlined in UNSCO's May 2022 report to the AHLC, steps are needed to better regulate this part of the labour market, to ensure the health and safety of laborers, end

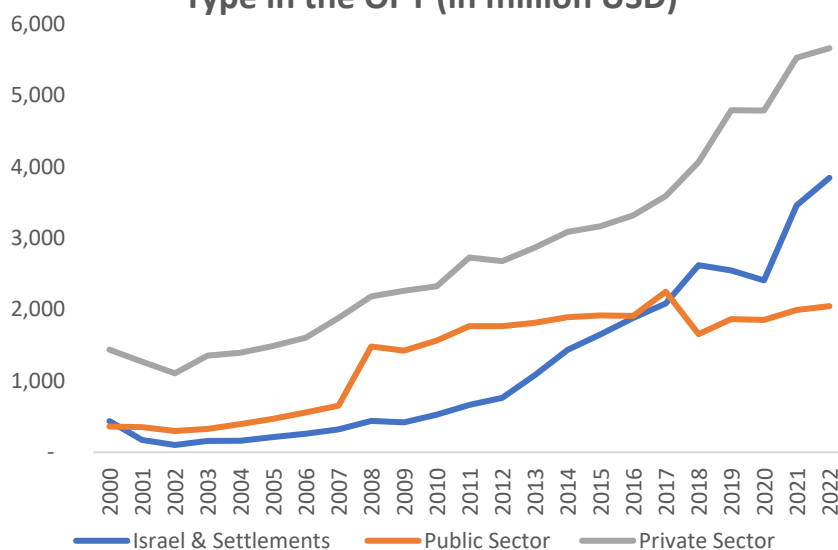
abusive broker practices and mitigate against economic imbalances arriving from labour displacement.<sup>16</sup> While both parties have taken some steps to mitigate against abuses in the broker system and improve transparency, most notably the electronic payment of wages, much more should be done.

### 3.2 Palestinian institutions and service delivery

UNSCO's report to the AHLC last September issued a stark warning that the significant investments and achievements in Palestinian institution-building since Oslo were at risk. Our follow-up report in May of this year highlighted in particular the risks to maintaining basic service delivery to a growing Palestinian population amid dwindling resources.

While the declaration in 2011 that Palestine was "ready for statehood" accurately reflected the nearly twenty-years of state-building efforts by Palestinians and the international community, even then, this declaration of readiness came with a warning about its fragility, absent progress on a political track. The resilience of Palestinian institutions in maintaining their functions and key development outcomes whilst facing numerous fiscal, economic, and political challenges, against the backdrop of the Israeli occupation and persistent conflict, underscores the success of these early investments. Regrettably, however, negative trends affecting Palestinian state institutions have largely persisted.<sup>17</sup>

**Total Wages Received by Employment Type in the OPT (in million USD)**



<sup>15</sup> Based on UNSCO analysis using PCBS and PMA data.

<sup>16</sup> Both the GOI and PA have taken measures to address these issues. Including improved enforcement of permit brokers and, as of January 2023, requiring the electronic payment of salaries. The GoI has stepped up financial audits of employers and addressing illegal employment practices.

<sup>17</sup> The World Bank identified a decline in six main governance dimensions – voice and accountability, political stability and absence of violence / terrorism, government effectiveness, regulatory quality, rule of law, and control on corruption. With the exception of regulatory quality, where the PA ranks at the median 50 percent of all

Palestinian presidential and legislative elections are long-overdue, the Palestinian divide remains unresolved, and the Palestinian population – particularly youth – is increasingly disaffected with the PA and its leadership.<sup>18</sup> More than half of the eligible Palestinian electorate has not had a chance to participate in national elections. This frustration compounds the mounting hopelessness in a peace process, and sense of abandonment by the international community, exacerbated by declining donor support.

At the same time, negative dynamics in the conflict and unilateral steps, including settlement expansion and demolitions, have continued or worsened. Violence has reached yet another high, including an increase in Palestinian militant activity, in Israeli operations in the West Bank, including in PA-controlled areas, and in settler-related violence, with the highest number of fatalities of Palestinians in the West Bank and Israelis since the UN began collecting data in 2005.

The combined effect is immense pressure on the PA and Palestinian institutions to deliver in an increasingly challenging environment with fewer resources, shrinking space – politically and geographically – and more people to serve. While this dynamic was more fully outlined in UNSCO's last two reports, this section provides additional context and updates in the areas of education, health, social assistance, and water.

### 3.2.1 Education

Thirty years after Oslo, Palestinians have reached one of the highest basic education enrolment rates in the region and almost attained universal access to basic education, with a Net Enrolment Rate (NER) and Gross Enrolment Rate (GER) target for 2023 by the Ministry of Education of 99.1 percent and 102.8 percent, respectively.<sup>19</sup> Adult literacy, meanwhile, stands at 97.4 percent. While universal access to basic education has mostly been attained, the same cannot be said for pre-primary and secondary levels.<sup>20</sup> Additionally, significant gaps are widening with respect to the quality of education, and large disparities between wealth quintiles, geographic location (particularly Gaza and Area C), and gender.<sup>21</sup>

Education expenditures are prioritised by the PA. A joint financing agreement between international partners and the PA to support the Ministry of Education's development budget

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countries, and political stability and absence of violence, where the PA ranks amongst the worst, in most indicators the PA ranks between the bottom 20-30 percent of all countries. Clearly evident is the dramatic declines in government effectiveness and control of corruption since 2017.

<sup>18</sup><https://pcpsr.org/en/node/912>

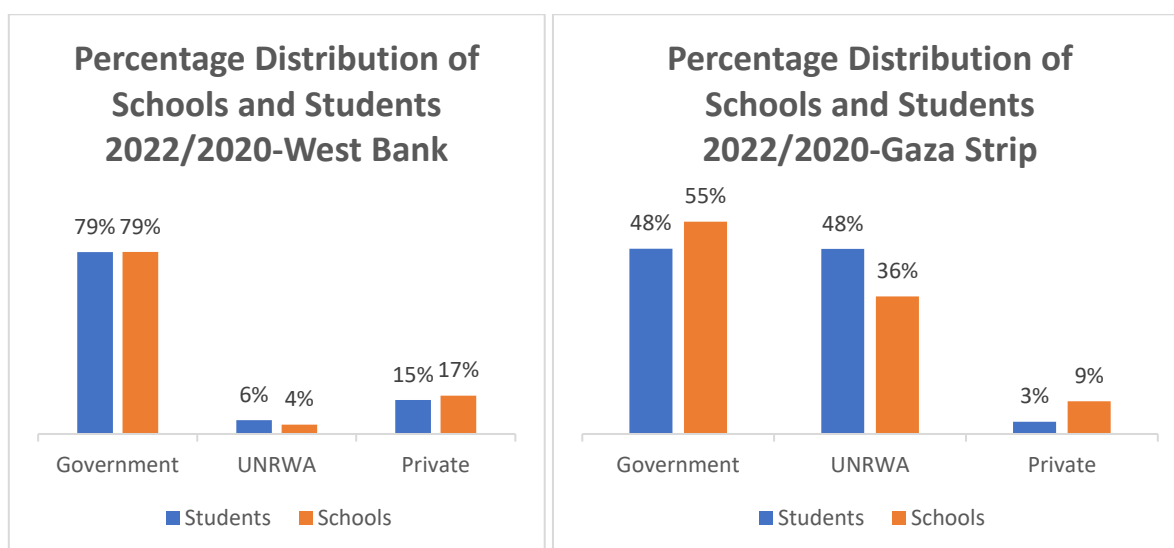
<sup>19</sup> According to Results-based monitoring report of the Ministry of Education. "A high GER generally indicates a high degree of participation, whether the pupils belong to the official age group or not. A GER value approaching or exceeding 100% indicates that a country is, in principle, able to accommodate all its school-age population, but it does not indicate the proportion already enrolled. The achievement of a GER of 100% is therefore a necessary but not sufficient condition for enrolling all eligible children in school. When the GER exceeds 90% for a particular level of education, the aggregate number of places for students is approaching the number required for universal access of the official age group. However, this is a meaningful interpretation only if one can expect the under-aged and over-aged enrolment to decline in the future to free places for pupils from the expected age group." UNESCO. Institute of Statistics. Glossary: "Gross enrolment ratio." Accessed May 2023.

<sup>20</sup> For more details, see UN Common Country Analysis, p. 44

<sup>21</sup> Ibid.

and local fees for education has largely protected education expenditures from the PA fiscal crisis. Although education expenditures as percentage of overall public expenditures were at 21 percent in 2022, an increase in share of two percent over the prior year, the steady decline in operational expenditures since 2017 has led to a greater cost for households.<sup>22</sup>

Public schools account for 73 percent of total schools serving 66 percent of all students in the OPT (79 percent in the West Bank and 55 percent in the Gaza Strip). UNRWA operates 12 percent of the schools in the OPT, serving 25 percent of all students (4 percent of schools for 6 percent of the students in the West Bank and 36 percent of the schools for 48 percent of the students in the Gaza Strip). The private sector operates 15 percent of the schools in the OPT (17 percent in the West Bank and 9 percent in Gaza Strip). Overall, the private education sector is growing across Palestine, with disparities in student and school distributions between the public, UNRWA, and private sectors.



### 3.2.2 Health

Palestinian health indicators have improved significantly over time, in large part due to successful public health and primary care. Immunization and maternal and child health programs have been bolstered, while the number of maternal and child health clinics has increased. However, challenges remain; increasing non-communicable disease (NCD) rates are now amongst the highest in the region. A growing population that is publicly insured and an underfunded health system means that health spending is a considerable fiscal burden on the PA and cost-burden for individuals.

The Palestinian health sector is comprised of a mix of private, public, UNRWA, and NGO health providers. The PA operates 64 percent of primary health centres, while NGOs make up 25 percent, UNRWA has 9 percent, and private providers 2 percent of the remaining providers.

<sup>22</sup> Palestinian Ministry of Finance expenditure reports.

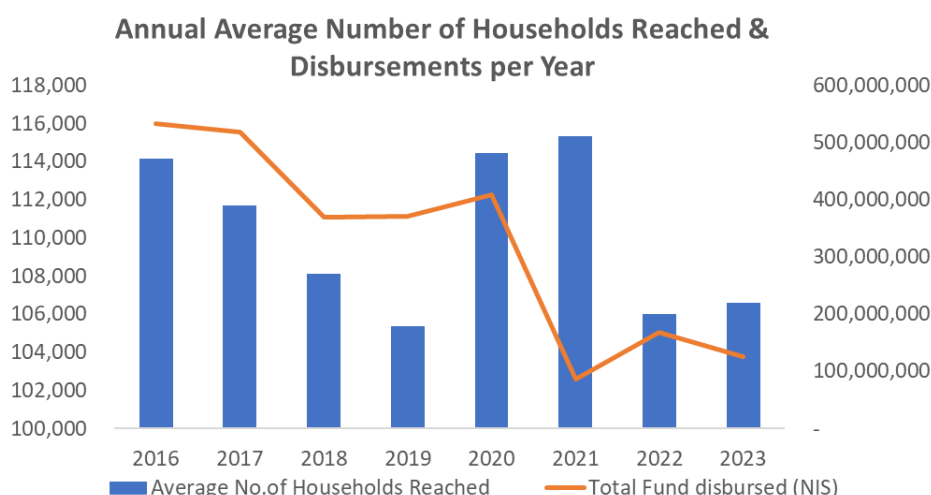
Overall health spending accounts for 14 percent of total PA health expenditures, with referrals to private, NGO, and Israeli service providers accounting for 38 percent of total health expenditure.<sup>23</sup>

As of 2022, the PA had accumulated arrears in the health sector of 593 million USD with 353 million USD due to referrals and 206 million USD due to medication purchases.<sup>24</sup> Meanwhile, the availability of services in the public sector has been declining owing to persistent shortages in essential medications (60 percent availability in Gaza and 80 percent availability in WB) and equipment. Out of pocket health expenditure is at 633 million USD (118 USD per capita) or 33.5 percent of current health expenditure.

### 3.2.3 Social Protection

Poverty rates have increased in the OPT since 2011. Projections by the World Bank for Palestine suggest that the poverty rate sharply increased due to COVID19 in 2020, estimated at 24 percent in 2022, and projected to remain at the same level until 2025.<sup>25</sup> In Gaza, poverty rates have been typically significantly higher than in the West Bank.

The National Cash Transfer Programme (NCTP) is the main social assistance programme for the poorest Palestinians. It is designed to support approximately 115,000 people with four quarterly cash payments that meets approximately 15 to 30 percent of their minimum household needs. The NCTP has not been fully disbursed since 2017 and is currently operating at 30-40 percent of planned. Payment amounts and coverage has widely fluctuated since 2017, resulting in a lack of predictability. The financing gap for 2022 was estimated at around 100 million USD (364 million NIS).

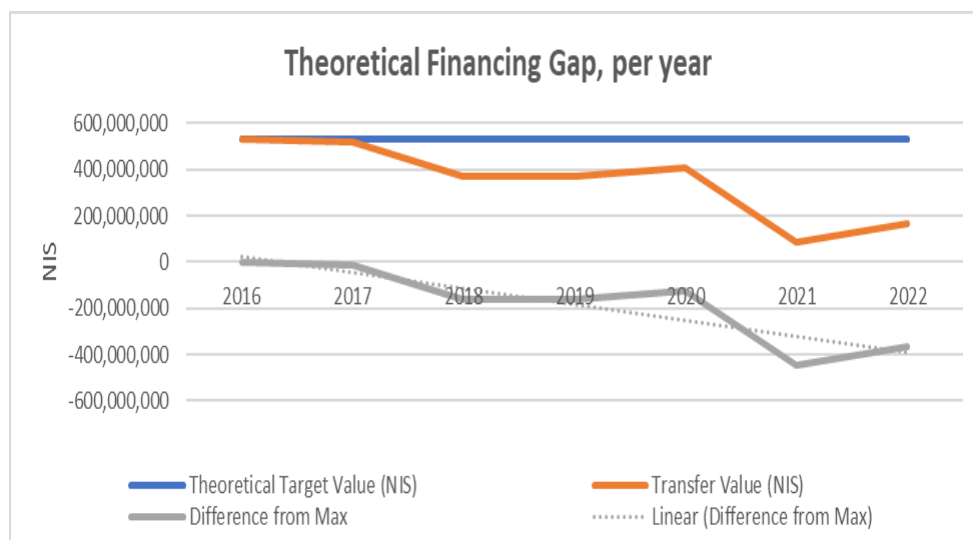


<sup>23</sup> Palestinian Ministry of Health provided data.

<sup>24</sup> Palestinian Ministry of Health provided data, WHO analysis.

<sup>25</sup> World Bank. 2023. Racing Against Time: World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee, September 2023





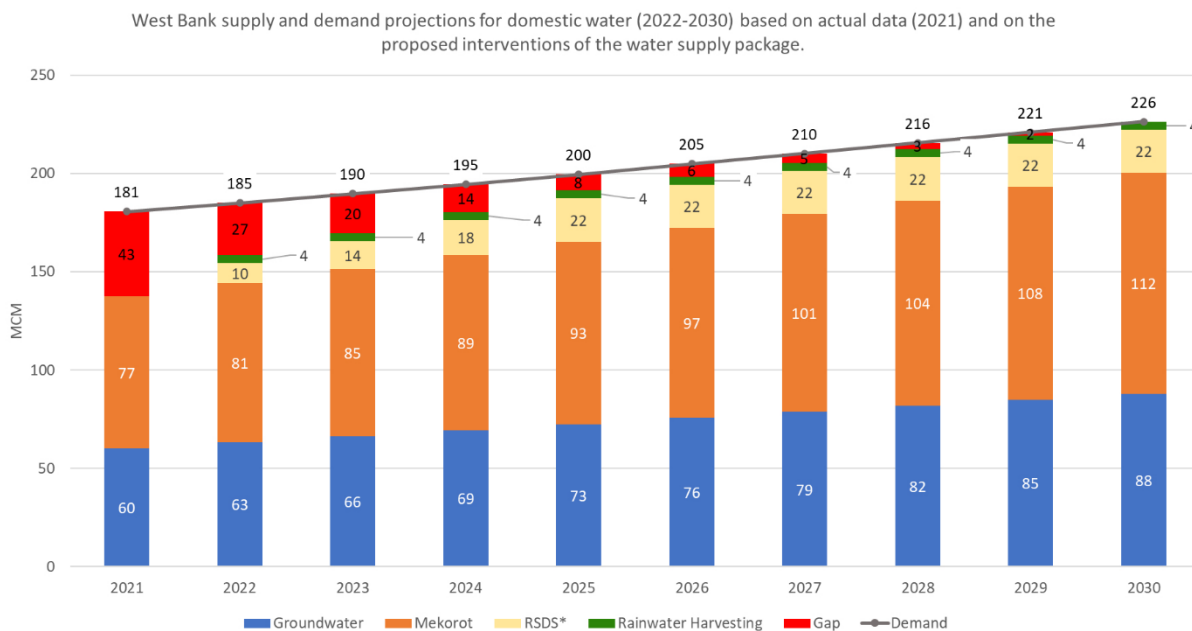
UNRWA and the WFP are the two other main providers of social assistance in the OPT. Funding shortages for WFP have already resulted in the suspension of food and cash assistance for 200,000 Palestinians, most of whom live in Gaza, with another 150,000 Palestinians at risk of having their assistance suspended in October 2023. In the Gaza Strip, 1.2 million Palestine refugees are at at-risk of having their food and cash assistance suspended from UNRWA as of November 2023.

### 3.2.4 Water

In 1995, the Oslo Accords set the quantity of internal renewable water resources that the PA could develop and extract in the West Bank, but did not sufficiently consider the environmental, political, and socioeconomic developments that have affected water supply and demand in the region since that time. Reaching agreement on the drilling of new wells into the West Bank aquifer requires both approvals by the Israeli Water Authority and Palestinian Water Authority through the Joint Water Committee (JWC), and in the case of infrastructure and wells in Area C, approval from the Israeli Civil Administration (ICA). In accordance with article 40 of the environmental provisions in the Oslo Accords, approximately 80 percent of the waters pumped from the aquifers in the West Bank were allocated for Israeli use, and the remaining 20 percent for Palestinian use. However, due to the non-approval of permits for the construction of Palestinian wells, the Palestinian Authority has not been able to extract the full amount of water as allocated by the Oslo Accords in some aquifers. Instead, the PA is required to purchase water from the Israeli water provider, Mekerot, at a high cost. Water consumption and the treatment of transboundary wastewater are a significant portion of the monthly clearance revenue deductions made by Israel.

There are also significant challenges with Palestinian water governance, including maintenance and operational capacities, and sustainability, particularly high costs and low fee collection rates. The PA has nonetheless developed national regulations for the conservation and protection of water resources – including the use of treated wastewater for agriculture, and

undertaken infrastructure development works to increase the capacity of sea water desalination plants in the Gaza Strip. The construction of three new wastewater treatment plants in Gaza has also reduced pollution of both the sea and the Gaza coastal aquifer, but additional water and wastewater infrastructure, including desalination, is needed to keep pace with demographic growth and urbanization. As a result, the PA is projected to increase dependence on purchased water from Mekerot resulting in increased costs (below figure).<sup>26</sup>



### 3.3 Aid coordination

Policy dialogue and coordination between the PA and donors is critical to ensure support can be given by development partners in reaching Palestinian national development priorities. Both are a precursor to financial support and supporting the implementation of AHLC commitments made by both parties. The Local Aid Coordination structure remains in place; however, the focus has shifted towards sector-specific coordination, monitoring, and reporting rather than the forum for strategic aid coordination discussions and prioritization for which it was originally created.

The aid coordination architecture, derived from the AHLC, is currently comprised of several policy and technical level bodies including 20 sector working groups. Although the sector working groups are intended to bring together relevant PA line ministries, donors and technical agencies (UN or IFIs) to foster policy dialogue and coordination, they each function with a different level of consistency. The architecture, now under the leadership and coordination of the Prime Minister's Office, is supported by the Local Aid Coordination Secretariat (LACS), funded by Norway, the UN and the World Bank.

<sup>26</sup> The Office of the Quartet with data provided by the Palestinian Water Authority.

The aid coordination system for OPT has been relatively effective in ensuring alignment between donor support and PA national development priorities, and in facilitating information exchange and technical discussions on some priority sectors. Nevertheless, with the disappearance of a number of coordination structures noted in the first section of this report, making clear linkages to AHLC deliberations and more strategic commitments has been more difficult. Structured policy discussions around those commitments and Palestinian development priorities are infrequent and under supported. This has generated frustration and mistrust on the part of both PA and of development partners, compounding the declining development support to the PA and its fiscal challenges. Following introduction of the PA reform package in September 2022, reform of this aid coordination architecture is underway, in consultation with the donor community and the UN.

## 4 Conclusion and Way Forward

The first section of this report situates our observations about the current situation in the report's second and third sections, in the context of the Oslo Accords and subsequent agreements, and in the context of a stalled peace process and increasingly negative dynamics on the ground. This context is vital for our understanding of what is needed in the way forward. In successive rounds of final status talks, until the last serious round in Annapolis (2013-14), the well-known and internationally agreed principles formed the basis of discussions.<sup>27</sup> That was nearly fifteen years ago and much has changed on the ground, including in ways that directly challenge these final status issues.

Continued Israeli settlement expansion, along with demolitions, has also created an enormous challenge to resolving a key final status issue. The number of Israeli settlers residing in the occupied West Bank, including East Jerusalem, has reached over 700,000 from some 300,000 shortly after the signing of Oslo I.<sup>28</sup> The expansion of settlements deep into the occupied West Bank threatens the territorial contiguity of a future Palestinian state and increases violent friction points between Israeli settlers and Palestinians. The recent regularization of Israeli outposts, which were illegal also under Israeli law, and the far-reaching geographical placement of settlements has also increased the presence and configuration of Israeli security forces in the West Bank, again leading to increased confrontations with Palestinians and creating barriers to Palestinian access and movement. The economic impact of this development is staggering, constraining Palestinian economic development and access to land and resources, particularly in Area C.<sup>29</sup> This threatens the viability of internationally endorsed principles related to economy, land and security.

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<sup>27</sup> The "Peace to Prosperity" plan put forward by the U.S. under the Trump administration in 2020 was a notable deviation and there were no direct talks between the parties as a result.

<sup>28</sup> The Israeli Central Bureau of Statistics (IBS) identified 331,000 Israeli settlers that lived inside the West Bank, including East Jerusalem, and the Gaza Strip in 1997. By 2022, there were an estimated 741,080 Israeli settlers inside the West Bank, including East Jerusalem,

<sup>29</sup> UNSCO's September 2022 report provides further details on access for Palestinians to land and resources in Area C and East Jerusalem.

The unresolved Palestinian split and Hamas control of the Gaza Strip pose another significant challenge. There have been repeat escalations between militant groups in Gaza and Israeli forces, leading to repeated rounds of reconstruction efforts and, along with the strict Israeli closure regime, a serious reallocation of international aid from development to addressing humanitarian needs in the Strip. The divide has also had a negative impact on the Palestinian polity and its functioning, with delayed elections, diverted resources and government revenues from the PA to Hamas, and an undermining of PA security control. More recently the increased activity by militant groups and armed actors in the West Bank has had a further destabilizing effect on the ground. Each of these developments impact significantly on the implementation of various agreements related to economy, security and movement and access.

Looking ahead, population growth is an additional shift that significantly impacts the situation on the ground. Projections suggest that the Palestinian population will grow by 1 million and 35 percent will be below the age of 15 by the end of 2030.<sup>30</sup> In the same seven-year period, estimates anticipate there will be an additional 630,000 Palestinian workers and an increase of more than 600,000 students. As noted in previous UNSCO AHLC reports, the Palestinian demographic transition represents a significant opportunity to fuel economic growth and prosperity for Palestinians, while at the same requiring commensurate growth in basic services and jobs. Keeping pace with this growth requires immediate investment in Palestinian infrastructure and services, the provision of which is nearly impossible under current fiscal conditions, even with needed reforms. Moreover, this phenomenon is combined with the constraints on Palestinian access to land and resources described above, particularly in Area C, resulting in even greater spatial and economic pressures. With a projected 30 percent increase to 2.7 million people by 2030 in the Gaza Strip, the picture is more dire in the context of the Gaza Strip's humanitarian and basic service needs.

To cope with these challenges – and preserve prospects for the most viable final status parameters for a two-State solution – the current trajectory is unsustainable. Moreover, with the perspective of thirty years of Oslo, the negative effect of a stalled peace process on the Palestinian state-building project and socio-economic well-being of the Palestinian people is evident. A consolidated international effort is needed to end the occupation and to address and resolve the Israeli-Palestinian conflict and challenges in the realities on the ground.

This will also require the parties to address their own challenges to engage constructively. The Palestinian divide should be addressed with a view to ending militant rule and uniting the West Bank and Gaza under a single, democratic, national government. Holding Palestinian legislative elections could pave the way to important reforms. On the other side, the current Israeli Government's policies and practices related to final status issues, including settlement advancement and other unilateral steps should be reversed.

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<sup>30</sup> PA estimates presented at the 2023 National Palestinian Population Conference.

## 4.1 Way forward

The four strategic elements of a policy package to reverse the negative trajectory put forward by UNSCO in its September 2022 report to the AHLC remain urgent and largely unimplemented – (i) addressing the continuing drivers of conflict and instability; (ii) strengthening Palestinian institutions and addressing the challenge of Palestinian governance; (iii) improving access, movement, and trade, including in Gaza and Area C; and (iv) better aligning the framework of economic and administrative relationships, including updating the Paris protocol.<sup>31</sup>

In Gaza, the easing of movement and access restrictions should be significantly expanded, with a view to lifting them altogether, in line with UNSCR 1860. The significant package of assistance underpinning the 2021 ceasefire should be renewed. This alone, however, would not be enough and a more decisive and coordinated approach between the GoI, the PA, regional and international partners is needed.

## 4.2 Immediate Steps

- Serious political talks, supported by the international community, should begin to address key territorial and security issues, including those related to settlements and violence.
- Mechanisms that facilitate more regular and sustained contacts between both sides need to be restored. As envisioned in the Oslo accords, these contacts need to take place at both the strategic and technical levels, and these levels must be linked. Returning to a model of institutional engagement between the PA and GOI would be a step toward resetting and re-balancing the relationship, reconvening the Joint Economic Committee (JEC) would be an opportunity for the parties to address pressing issues related to revenue transfers to the PA and trade facilitation in particular.
- With rapidly growing humanitarian needs and increasing instability in the West Bank, a coordinated package of short-term investments is urgently needed to (i) restore basic services in education, health, and social assistance; (ii) create employment opportunities for youth and women; (iii) improve basic infrastructure; and (iv) strengthen the fiscal stability of the PA, by increasing PA revenues and alleviating some demand for services, thereby unlocking resources for reforms.
- Greater strategic coordination among the international community and with the PA is necessary to prioritize, coordinate and deliver such assistance. Revitalizing the strategic role of the AHLC and its links to concrete actions, alongside strengthening the structures for aid coordination is needed.
- Near-term bridge financing to the PA for a timebound and transitional period will be vital in the current environment, not only to sustain and preserve the investments in Palestinian state-building, but to facilitate the implementation of reforms that are critical to improving the PA's fiscal stability.

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<sup>31</sup> UNSCO report to the Ad Hoc Liaison Committee, September 2022. [https://unsco.unmissions.org/sites/default/files/unsco\\_report\\_to\\_the\\_ahlc\\_-\\_22\\_september\\_2022.pdf](https://unsco.unmissions.org/sites/default/files/unsco_report_to_the_ahlc_-_22_september_2022.pdf)

The urgency of the moment and as we approach a point of potential irreversibility in the move away from some key final status issues calls for renewed commitment and stepped-up action. Collectively and with better coordination there must be both immediate, short-term stopgap measures and greater attention to addressing the fundamental political issues that would preserve the internationally agreed principles and unlock a return to meaningful negotiations.

Thirty years since Oslo, the overarching goal of the United Nations remains supporting Palestinians and Israelis to resolve the conflict and end the occupation in line with relevant United Nations resolutions, international law, and bilateral agreements in pursuit of achieving the vision of two States—Israel and an independent, democratic, contiguous, viable, and sovereign Palestinian State—living side by side in peace and security within secure and recognized borders, on the basis of the pre-1967 lines, with Jerusalem as the capital of both States.