



CHALLENGES AHEAD

Preventing Annexation:

“Annexation is an Existential Threat to the Palestinian People”

Responding to COVID-19:

Protecting the Lives and Livelihoods of the Palestinian People

The Government of Palestine's Report to the
Ad Hoc Liaison Committee

June 2nd, 2020
Virtual Meeting

CONTENTS

I. INTRODUCTION.....	1
II. PREVENTING ANNEXATION	4
III. RESPONDING TO COVID-19 IN THE STATE OF PALESTINE	8
1. Impact of COVID-19 on the State of Palestine.....	8
1.1 Protecting the safety of our people	8
1.2 Counting the cost of COVID-19.....	9
2. Planning the Recovery from COVID-19.....	10
2.1 Maintaining our robust public health response	11
2.2 Safeguarding the most vulnerable	11
2.3 Moving into economic recovery	13
3. Fiscal Challenges	15
4. The GOP’S Budget Response.....	16
IV. CONCLUSION.....	18

I. INTRODUCTION

The Government of Palestine (GoP) presents this report to the Ad Hoc Liaison Committee on the two serious threats facing its state: annexation and COVID-19. This report provides snapshots of the key implications of these two pressing issues, with more detailed reports to follow.

1. Preventing Annexation

The current Israeli government was formed based on a political agenda that sets annexation of Palestinian territory as a strategic priority, despite the widespread international condemnation.

Annexation of any area of the Palestinian territory would put an end to all agreements between the two parties and to all the international efforts over the past three decades towards the achievement of peace based on the two-state solution. Already, as a result of Israel's declaration on annexation and its historical non-compliance with the signed bilateral agreements, **the Palestinian leadership has decided that the Palestine Liberation Organization and the State of Palestine are absolved of all the agreements with Israel.**

It is obvious that, as long as the world responds with words, but not actions, Israel will continue with its planned annexation. **We call on the international community to use all measures necessary to prevent annexation**, including: **(a)** To recognize the State of Palestine on the pre-1967 borders, with East Jerusalem as its capital, if they have not yet done so; **(b)** Not to recognize any changes to the pre-1967 borders, including with regard to Jerusalem, other than those agreed by the parties through negotiations, including by ensuring that agreements with Israel do not imply recognition of Israeli sovereignty over the Palestinian and Arab territories occupied by Israel since 1967; **(c)** To distinguish, in their relevant dealings, between the territory of the State of Israel and the territories occupied since 1967; **(d)** Not to render aid or assistance to illegal colonial activities, including not to provide Israel with any assistance to be used in connection with colonies in the occupied territories, in line with Security Council resolution 465 (1980); **(e)** To respect and ensure respect for international law, adopting measures of accountability, including sanctions; and **(f)** To exert all efforts to end the Israeli occupation of all territories occupied in 1967 and to achieve, without delay, a just, comprehensive and lasting peace on the basis of the relevant United Nations resolutions, the Madrid terms of reference, including the principle of land for peace, and the Arab Peace Initiative.

The current Israeli government is not a partner for peace. Instead, this government is intent on destroying any hope for peace by moving forward on annexation. **By contrast, we remain focused on – and dedicated to – sustainable peace. Our doors remain open for credible and serious peace negotiations** based on the long-standing terms of reference, within a binding timeframe and a multi-lateral sponsorship and mediation in accordance with international law.

2. Responding to COVID-19

The GoP reacted swiftly and effectively to the outbreak of COVID-19. The State of Palestine has been recognized internationally as being one of the first countries to immediately put in place rigorous but balanced measures to prevent the outbreak of the pandemic. Those measures have been effective: to date, despite significant challenges, the GoP has largely contained the outbreak.

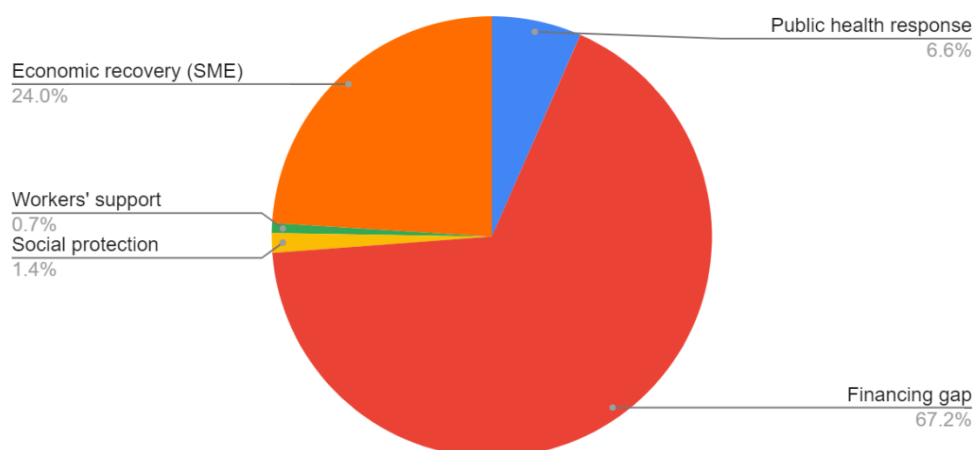
In this document, we present our actions so far and our plans going forward to protect the lives and livelihoods of the Palestinian people through the health, economic, and fiscal crises caused by COVID-19. The GoP asks the donor community to support national efforts to maintain our robust public health response, safeguard the most vulnerable, and move into economic recovery.

As a government, we have increased spending on health and social protection so that Palestinians who prioritise life over work do not go to bed hungry. We have introduced an emergency budget to make savings wherever we can.

But **the economic situation means tax revenues have fallen dramatically as needs have increased** – and Palestine does not have the same access to borrowing/control of our borders that other countries do. As a result, the overall GoP budget deficit has increased dramatically to \$2.6 billion. While the GoP has in place plans to finance around \$1.2 billion through domestic borrowing, donor aid, and robust expenditure reductions, we still have a financing gap of \$1.4 billion.

In chart 1, we present the scope of needed support for each part of our response.

Chart 1: GoP COVID-19 Response Needs



Without more generous international aid, the GoP could only fund this remaining budget deficit with a significant reduction in the role of the state to provide public services, which will affect the welfare of the Palestinian people. Indeed, not receiving the urgently needed support is likely to result in massive hardship to our people, undermine the prospects of a

rapid economic recovery, and may cause lasting damage to the institutions of the Palestinian state.

Urgent support now could save and prevent a serious - and far most costly - economic and human crisis. Therefore, **the GoP asks that donors provide an additional \$400 million of urgent budget support** to help deliver on this programme of measures to protect the lives and livelihoods of the Palestinian people – without further hurting our people, who are already reeling from the sudden and massive shock of COVID-19.

II. PREVENTING ANNEXATION

“The only way to security and stability is through adherence to international law and UN resolutions, including Security Council resolutions, the latest of which is resolution 2334, and the Arab Peace Initiative, and to set a timetable to end the occupation. We have informed all international parties that should Israel take this step (Annexation), we will be absolved of all obligations, agreements and understandings with Israel and the US Administration.”

- President Mahmoud Abbas

“Annexation is an existential threat to the Palestinian people and detrimental to the internationally endorsed two-state solution. Israel doesn’t care about statements: they care about measures. Therefore, we call on the world to take serious measures to prevent annexation.”

- Prime Minister Mohammed Shtayyeh

Annexation violates the cardinal principle of the inadmissibility of the acquisition of land by force enshrined in the UN Charter, and reaffirmed consistently in UN resolutions, including UN Security Council resolution 2334 and those preceding it, including resolution 478 (1980) in relation to Israel’s unlawful annexation of East Jerusalem. Annexation violates the 4th Geneva Convention and constitutes a crime under the Rome Statute. In addition to its devastating effects on the Palestinian people’s human rights and national aspirations and rights, Israel’s planned annexation would pose a severe threat to regional and international peace and the rules-based international order. If it goes unchallenged, then the very core and relevance of international law to global peace and security will be at risk, sending a stark message that violators of the law, even war criminals, can do so at will without any consequences.

From the onset of the 1967 Israeli occupation, Israel has pursued illegal policies and practices

“Stresses that the occupation of a territory is to be a temporary, de facto situation, whereby the occupying Power can neither claim possession nor exert its sovereignty over the territory it occupies, recalls in this regard the principle of the inadmissibility of the acquisition of land by force and therefore the illegality of the annexation of any part of the Occupied Palestinian Territory, including East Jerusalem, which constitutes a breach of international law, undermines the viability of the two-State solution and challenges the prospects for a just, lasting and comprehensive peace settlement.”

UN General Assembly resolution 74/88 of 2019 on Israeli settlements

aimed at the unlawful acquisition of land by force. The Security Council has consistently condemned all such measures that are aimed at altering the demographic composition, character, and status of the Palestinian Territory occupied since 1967, including East Jerusalem, notably the construction and expansion of colonies.

Yet, and despite continual global calls for immediate and complete cessation, these illegal policies have found their ultimate expression in the recent Israeli

government coalition agreement, which foresees the unlawful annexation of large parts of

the Palestinian Territory, in accordance with the January 2020 US plan, leaving no doubt about the illegal, colonial nature of the Israeli occupation.

Thus, this historic injustice and the dispossession, displacement and denial of rights of the Palestinian people continue across generations – marking 72 years since the onset of 1948 *Nakba*, which persists to this day, and with the Israeli occupation entering its 54th year. The conflict remains unresolved - to the detriment of both the Palestinian and Israeli peoples and regional and international peace and security.

If allowed to proceed, these unlawful, unilateral plans will further violate the Palestinian people's inalienable rights, undermine the territorial unity, contiguity, and integrity of the Palestinian Territory, deprive the Palestinian people of their right to permanent sovereignty over their natural resources, reversing decades of international investment for peace, and hastening the demise of the two-state solution on the 1967 borders, perpetuating the conflict and resulting in a one-State apartheid reality, with far-reaching consequences.

"Israeli officials have repeatedly stated their intention to annex Israeli settlements and other parts of the occupied West Bank. If implemented, such steps would not only constitute a serious violation of international law, but they would also effectively end the prospect of the two-State solution and close the door to negotiations between Israelis and Palestinians." **UN Secretary-General António Guterres (March 2020 report on Security Council resolution 2334 (2016))**

Multilateral institutions, regional, and political groupings and States around the world have unequivocally rejected Israeli annexation plans, reflecting a universal and principled commitment to international law, Palestinian rights and the objective of a just, comprehensive and lasting peace in accordance with international law and based on UN resolutions, the Madrid terms of reference and the Arab Peace Initiative. This global stance needs to be translated now into resolute action, including accountability measures and support to Palestinian sovereignty in all of the State of Palestine, including East Jerusalem.

Yet, in the absence of accountability, Israel, the occupying power, persists with its contempt for international law and the international community and in its grave breaches of international law in the State of Palestine, including East Jerusalem, and systematic violations of the rights of the Palestinian people, foremost their right to self-determination.

We call in this regard upon all States, consistent with their obligations under the Charter, international law and the relevant Security Council resolutions and to salvage the prospects of peace, inter alia: **(a)** To recognize the State of Palestine on the pre-1967 borders, with East Jerusalem as its capital, if they have not yet done so; **(b)** Not to recognize any changes to the pre-1967 borders, including with regard to Jerusalem, other than those agreed by the parties through negotiations, including by ensuring that agreements with Israel do not imply recognition of Israeli sovereignty over the Palestinian and Arab territories occupied by Israel since 1967; **(c)** To distinguish, in their relevant dealings, between the territory of the State of

Israel and the territories occupied since 1967; **(d)** Not to render aid or assistance to illegal colonial activities, including not to provide Israel with any assistance to be used in connection with colonies in the occupied territories, in line with Security Council resolution 465 (1980); **(e)** To respect and ensure respect for international law, adopting measures of accountability, including sanctions; and **(f)** To exert all efforts to end the Israeli occupation of all territories occupied in 1967 and to achieve, without delay, a just, comprehensive and lasting peace on the basis of the relevant United Nations resolutions, the Madrid terms of reference, including the principle of land for peace, and the Arab Peace Initiative.

We have reached this point because of Israeli impunity. Only accountability can change this dismal equation; only when the cost of colonial occupation outweighs the benefits can there be a real chance for peace in the Middle East. Annexation constitutes a confrontation of wills, and the international commitment to peace must vanquish Israel's colonial schemes and agenda. This is a critical test for the rules-based multilateral order, one it cannot afford to fail, and that will determine the future of the Palestinian people, the Israeli people, the prospects for peace and coexistence, and regional and international peace and security.

As planned by the new Israeli government, annexation will destroy the viability of the State of Palestine and threaten regional security. Specifically, the planned annexation will:

- **Remove the Jordan Valley from the State of Palestine.** Israel will annex parts of the Jordan Valley, which alone constitutes 28% of the area of the West Bank. Along with occupied Jerusalem, the Gaza Strip, and the rest of the Palestinian land, the Jordan Valley constitutes the geographic base for the State of Palestine. The Jordan Valley is critical to the viability of our state: it grows our food basket, provides us with rich natural resources, and – as our eastern international border – is our gateway to the world.
- **Isolate and suffocate East Jerusalem, the Palestinian capital.** Israel's planned annexation of the colonies around Jerusalem will effectively cut off the Palestinian areas of the city from the surrounding West Bank. East Jerusalem must have meaningful territorial, economic and transportation links with the rest of the West Bank and the Gaza Strip in order to ensure the viability of the city, and of Palestinian political, economic, social, cultural, and religious life. Furthermore, there must be adequate land resources within the city itself to provide for the growth and development of East Jerusalem, as the Palestinian capital.
- **Deny Palestinian control over and use of land and natural resources.** Annexation would deprive the State of Palestine of control over land that is important for the urban, industrial, and agricultural development of the state and the water, minerals, natural gas, and other resources that will also contribute to the economic development of the country.

- **Prevent efficient and free movement of people and goods** within and between the West Bank and the Gaza Strip, which is essential for the economic viability of the State of Palestine and requires preserving its territorial integrity and contiguity. Each Palestinian locality relies on its local, sub-regional, and regional centres for public services and trade, so freedom of movement on all these levels is important to the Palestinian economy. Israel's annexation plans prevent the territorial contiguity that is essential for efficient development of land and of transportation routes.

Result in increased violations of Palestinian rights. Israel will increase activities in colony construction, while Palestinians are expected to face more home demolitions, threats of expulsion and forcible transfer from areas in which Israeli sovereignty will be imposed, just as over 14,000 Palestinians living in Jerusalem have been stripped of residency rights since 1967. With Palestinian property being annexed, Palestinians will suffer violation of property rights and will not be allowed freedom of movement to their property, both of which are direct violations of human rights.

- **Destroy the two-state solution.** The challenges to the two-state solution are greater than ever. Since it was internationally endorsed at the 1991 Middle East Peace Conference in Madrid, the two-state solution has been under existential threat. Now, the new Israeli government is planning extreme policies that will destroy the two-state solution.

Annexation by Israel will signify that a negotiated agreement is being taken off the table, thus putting an end to all signed agreements that were based on a two-state solution. The international community that have supported the two-state solution have together with the UN Security Council condemned the act of annexation and emphasized the consequences that will arise, should annexation be implemented. Israel should be held accountable, and the international community should act accordingly and put an end to Israel's violations against Palestinians. Violations that today are crowned with the annexation plans. If not, Israel will continue to deny Palestinian rights and to undermine, International Law, including International Humanitarian Law, and regional and international peace and security.

III. RESPONDING TO COVID-19 IN THE STATE OF PALESTINE

Below, we describe the impact of COVID-19 on Palestine and the GoP's immediate public health response, explain how we will safeguard the most vulnerable, and present our plan to enable our economy to recover. We also outline the very real challenges that the GoP faces in delivering these actions while continuing to provide essential government services and present our request for external support for the financing gap created by the COVID-19 outbreak.

1. Impact of COVID-19 on the State of Palestine

1.1 Protecting the safety of our people

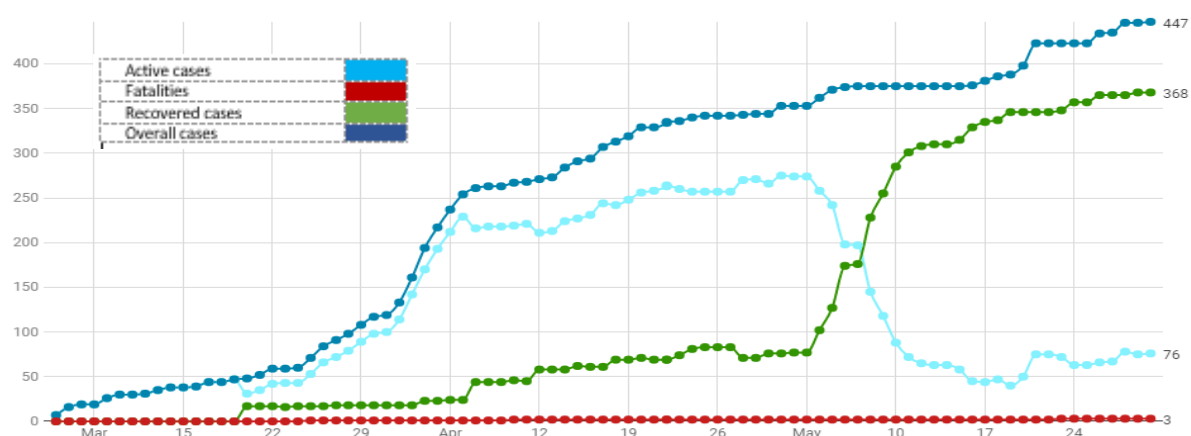
The State of Palestine was hit by the global pandemic on March 5th, when the first cases were recorded in Bethlehem. Recognizing the vulnerability of the Palestinian health care system to COVID-19, President Mahmoud Abbas declared a State of Emergency on the same day. Led by Prime Minister Mohammed Shtayyeh, the GoP immediately implemented public health response plans to prevent the spread of the virus and gave priority to strict preventive health measures.

The GoP imposed a lockdown throughout the country as the outbreak widened, including restrictions on foreign visitors and a lockdown of economic activities and closure of schools, universities, and places of worship, only allowing certain exceptions in vital sectors to ensure a maintained provision of basic needs to citizens, including food supplies and medicines.

Those measures have been effective: to date, despite significant challenges, the GoP has largely contained the outbreak, with a total of 626 cases recorded in the State of Palestine (as of May 30th, 2020). (These include 386 cases in the West Bank, 179 cases in East Jerusalem, and 61 cases in the Gaza Strip.) There are 98 active cases, 523 recovered cases, and five fatalities. The GoP has tested 57,015 people and placed 68,348 people in home quarantine as part of its public health measures.¹

¹ As of 30 May 2020.

Chart 2 – Daily incidence of COVID-19 cases in the State of Palestine² (May 30th, 2020)



On May 5th, Prime Minister Shtayyeh authorised a gradual easing of the lockdown and restarting of economic activities, with social solidarity, physical distancing and other public safety measures still in place.

The lockdown demonstrated the effectiveness of the GoP in managing this unprecedented crisis. Working with key ministries, Prime Minister Shtayyeh set clear strategies for responding to the outbreak that were implemented at the governorate and municipal levels, according to the local COVID-19 incidence. The GoP coordinated border closures and repatriation of travellers with neighbouring countries and worked closely with our national and international partners to secure priority public health supplies and equipment needed to manage the outbreak.

Challenges remained, including insufficient coordination with the Government of Israel (GoI) over providing health services and testing for Palestinians living in East Jerusalem and managing the movement and testing of Palestinian daily workers commuting to Israel, which created a significant public health risk, with 69%³ of all COVID-19 cases in the State of Palestine resulting from workers who were infected while in Israel.

Despite our success in controlling the spread within the West Bank and Gaza, we remain highly vulnerable to COVID-19, because we cannot control our borders and guarantee the safety of those of our people living under Israeli control.

1.2 Counting the cost of COVID-19

Along with governments around the world, we have had to balance public health needs and economic impact, knowing that failure to take preventive measures could lead to high health and economic costs. We have prioritised stringent health measures during the peak of the COVID-19 outbreak, easing the measures as the incidence of new cases began to decline.

² This chart does not include the cases in East Jerusalem because the GoP does not have accurate information on those cases.

³ As of May 30th, 2020: <https://corona.ps/details>

While we are grateful for the success of our public health measures, we recognise the cost that has been paid by our people, our economy, and our institutions.

The social cost of COVID-19 has been sobering. Although our people have been stalwart, there is no denying that normal life was disrupted severely, resulting in countless untold stories of hardship and stress. We note with particular concern the worrying increase of violence towards women and children, and we recognize that the social and psychological aftermath of the virus will be long-lasting.

The economic cost of COVID-19 is devastatingly high. While we were able to initiate an informed partial reopening of some economic activities, with the approval of different health organisations, after just eight weeks, our people's livelihoods and ability to care for their families are being harmed by economic impact of public health restrictions and of the global economic decline.

Whilst the exact scale of the economic devastation caused by COVID-19 will not be known for many months, the GoP's initial estimate is that GDP will be shrink by 20% (\$3.2bn) in 2020. This is broadly in line with estimates from many international and local organisations. The studies make different estimates of the likely length of the lockdown and speed of the recovery and range from a GDP hit of 7% with a four-month lockdown (World Bank), nearly 15% (Palestinian Central Bureau of Statistics - PCBS) and almost 20% (the Palestine Economic Policy Research Institute - MAS)), which assume that the lockdown continues for three months and the economy is only partially reopened by the end of the year.

As with other economies, the simultaneous demand and supply shock has hit cash flow to businesses hard and created considerable uncertainty for businesses and households alike. Without urgent measures from the GoP, many viable private firms that will be the foundations of our economic recovery would go out of business, due to a short-term cash flow crisis. This would result in the current severe economic contraction developing into a long-term recession or even depression in the Palestinian economy.

2. Planning the Recovery from COVID-19

We know that, despite our success in containing the virus, we still face a long road to recovery and resilience, against a backdrop of ongoing geopolitical threats and fiscal challenges. Below, we present our strategic responses to the remaining challenges and the support that we urgently need to continue to protect our people and restart our economy.

Going forward, our strategy will be based on three foundations: protecting lives, safeguarding livelihoods, and supporting economic recovery:

1. **Maintaining our robust public health response** to the continuing global pandemic to make sure the sacrifices we have made have not been in vain;
2. **Safeguarding the most vulnerable**, particularly those hardest hit by COVID, such as households newly thrown into poverty and newly unemployed workers; and
3. **Moving into economic recovery**, starting with the small to medium size enterprises (SME) that make up the heart of our economy.

2.1 Maintaining our robust public health response

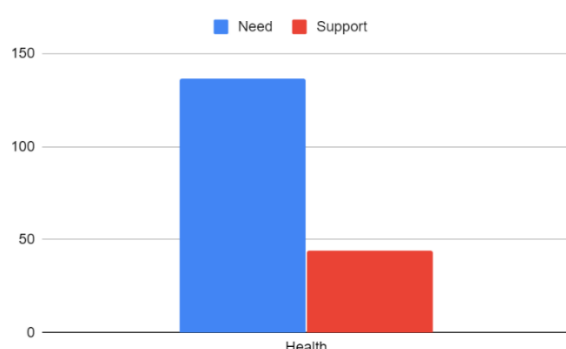
We took swift action to control the spread of the illness and save lives. Building resilience in the health system will allow the GoP to build on that success.

While the virus has been contained, we must prepare for its potential (and more aggressive) re-emergence. Our public health response plan remains the three-part strategy announced in March 2020: 1) stop the spread, 2) communicate clearly to the Palestinian people, and 3) build resilience of the Palestinian health care system.

To date, this has succeeded in suppressing the virus, and we have eased restrictions. However, it is soberingly clear from global and historical experiences that we must be prepared for future outbreaks.

Therefore, with support from over 30 international and local partners, we are procuring the most essential equipment and supplies needed to re-activate and equip the tracing teams, testing labs and quarantine centers needed to combat a second wave of COVID-19. But we still need \$101 million to secure the public health supplies and equipment needed to manage another outbreak.

Chart 3: Remaining GoP public health response needs

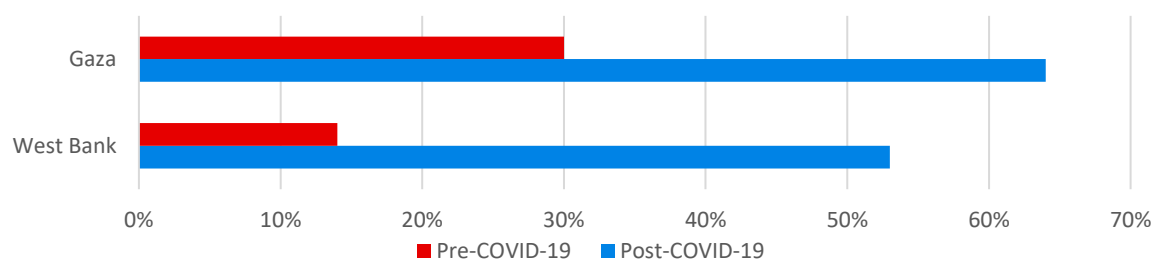


2.2 Safeguarding the most vulnerable

As a nation, we stayed at home to protect each other. Now, we must ensure that those most vulnerable to poverty and unemployment do not have to choose between public health and their families going to bed hungry.

We expect that unemployment and poverty will spike as a result of COVID-19. This will hit the most vulnerable hardest. Poverty rates may already have doubled in the West Bank, with the World Bank estimating that 30% of households now under the poverty line, as compared to 14% before the COVID-19 outbreak. In the Gaza Strip, the World Bank estimates that as many as 64% of households now live under the poverty line.

Chart 4: Predicted change in poverty rates in the West Bank and Gaza Strip



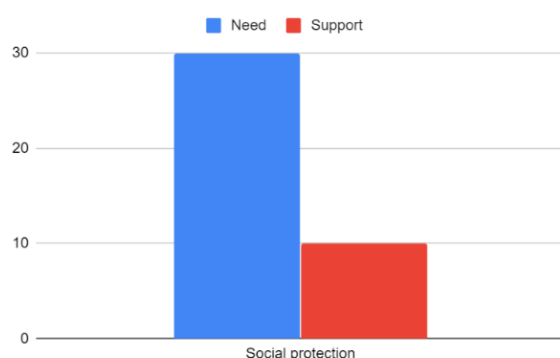
Focus on Gaza Strip: While here we describe our national response to the impact of COVID-19, we must also highlight our continued commitment to responding to the deep and long-standing needs of our people in the Gaza Strip. The Gaza Strip receives \$120 million in monthly support from the GoP, and hundreds of millions of dollars in development projects currently being implemented there. And yet, poverty and unemployment rates remain unforgivably high. The GoP calls on the international community to stand with our people in the Gaza Strip, through development and humanitarian funding and – most importantly – by calling on the GoI to end the siege and allow our people to re-build their lives and economy.

We are providing a two-pronged safety net for those hit hardest by COVID-19:

- 1) Expanding social protection:** We have prioritised spending on social protection support to already poor households: 115,000 households already benefit from the Cash Transfer Program, which is our flagship mechanism commended by our international partners for its rigorous methodology.

We now plan to extend the program to include 100,000 “new poor” households for three months, with a special focus on women who have lost their income due to closures of nurseries and kindergartens. This will require \$30 million in funding. So far, only \$1.42 million has been provided, leaving \$28.6 million needed.

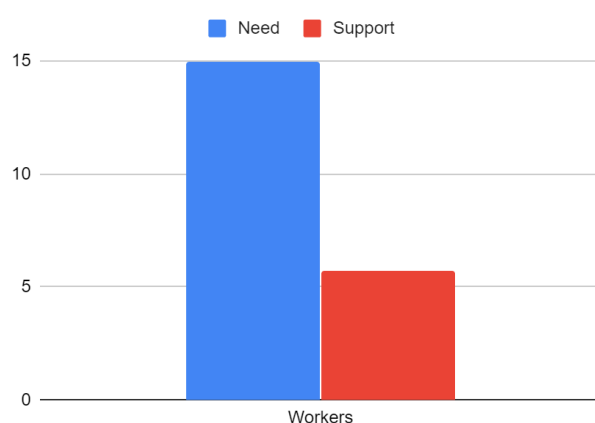
Chart 5: Remaining COVID-19-Related Social Protection (CTP Expansion) Needs



2) Supporting workers who lost their income: Our daily workers have made big sacrifices to comply with our emergency public health measures. We owe a huge debt to our poor and vulnerable neighbours who have lost their incomes as a result of the emergency measures we have taken to protect lives. And we are humbled by the sacrifices made by workers in the health sector – who have put the care of others before their own needs. To show our social solidarity with our fellow Palestinians, we are providing support through the Ministry of Labor to those who have lost their daily income due to the COVID-19-related restrictions. The Ministry of Social Affairs will identify eligible workers who are not already receiving any government aid.

We plan to provide a one-time emergency cash transfer to 80,000 workers. This will require \$15 million. Thus far, we have received \$7 million, leaving another \$8 million needed.

Chart 6: Remaining COVID-19-Related Workers' Support Needs



2.3 Moving into economic recovery

Palestine has not been immune from the scale of devastation that COVID-19 has wreaked on the world economy. The GoP has already put in place measures to help private businesses **survive** the immediate economic crisis. We are now developing measures to promote a rapid economic **recovery** as the lock-down lifts to avoid short run recession becoming long term depression.

GoP emergency measures to help private businesses *survive* the immediate economic crisis caused by the lockdown included:

- **Minimising economic disruption from COVID-1** by keeping 30,000 vital businesses employing over 100,000 workers (including pharmacies, bakeries and agricultural firms) open throughout the lockdown.
- **Maintaining demand in the economy by paying** civil servants and military personnel wages in full and strengthening social protection. These wages represent a major source of liquidity to the Palestinian economy: reducing wages would reduce

economic consumption and, with high levels of borrowing amongst government employees, create losses to the financial institutions that provide them with loans.

- **Maintaining cash flow to private firms by keeping banks open**, providing them with additional liquidity and postponing loan installments by four months.

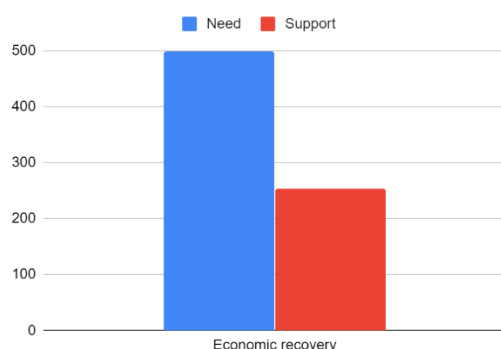
GoP measures to promote a rapid *economic recovery*. The GoP has already transitioned into Stage Two of combating the pandemic - to reduce the spread of the disease and tighten the lockdown *only in infected areas*.

However, the **GoP suffers from unique constraints that severely undermine the prospects of a rapid economic recovery**. We do not have control over our own natural resources. We are not able to manage monetary policy (by printing money or changes interest rates) or fiscal policy (by changing VAT rates). We do not have control over key revenue collection and are not able to borrow money as a state from international mechanisms.

We are putting in place measures aimed at:

- **Promoting rapid re-opening of the economy** without putting lives at risk via a staged approach, which first allowed vital economic activities to resume in governorates where it is safe to do so and then allowed a general re-opening at the end of May,
- **Providing additional help to hard hit sectors** such as tourism and hospitality, which may be crucial to medium run economic growth via targeted tax-exemptions and an extended eight-month deferment of interest on loans.
- **Supporting SMEs with \$500 million soft loan/loan guarantee programs.** These enterprises will be granted facilitated loans through banks and other financial institutions under the supervision of the Palestine Monetary Authority, which has provided \$210 million. In total, \$250 million has been provided, leaving another \$250 million needed.

Chart 7: Remaining Gap in COVID-19-Related Economic Recovery (SME) Needs



3. Fiscal Challenges

Palestinian resources and revenues continue to be confiscated by Israel. The GoP government is working to protect our people and our economy from the impact of COVID-19, but – inevitably – we are hindered by the occupation. There are tough decisions that can and will be made to ensure fiscal sustainability and further our self-reliance. However, since the overarching cause of our economic and fiscal problems remains the occupation of our land and confiscation of our resources, we call on the international community to maintain fiscal stability and pressure Israel to reverse their unrelenting annexation agenda and engage credibly to implement the two-state solution.

For many years, the GoI has failed to transfer hundreds of millions of dollars in GoP revenues, in contravention of international agreements. These are the same fiscal issues highlighted in the past AHLC reports, particularly the April 2016 and September 2018 reports.

Most of these issues were not resolved, and the **Palestinian rightful claims and monies continue to accumulate.** The list of fiscal leakages requested highlighted below are caused by Israeli actions, in direct and indirect violation of the interim agreements.

Leakage/ GoI violation	Loss to GoP
Passenger exit fee: Failure to transfer the GoP's share of the passenger exit fee collected at the Karamah Border Crossing.	\$180 million (cumulative) <i>13% of financing gap</i>
Israeli businesses operating within Area C: Failure to transfer tax revenues collected on Israeli income in Area C.	\$420 million (since 2000) <i>30% of financing gap</i>
Custom Taxes on Indirect Imports: Failure to enforce the principle of place of final destination and to allow GoP to crack down on illegal imports through Area C.	\$30 million annually <i>2% of financing gap</i>
Value Added Tax Clearance: Failure to fully apply the VAT clearance mechanism established by the Paris Protocol.	\$120 million annually <i>9% of financing gap</i>
Fuel Purchases: Unilateral decision to collect taxes and fees on fuel purchased by Palestine.	\$26 million annually <i>2% of financing gap</i>
Handling Fees (3% Deduction from Clearance Revenue): Excessive handling fees imposed by the Government of Israel.	\$51 million annually <i>4% of financing gap</i>

The immediate resolution of the fiscal leakage files and transfer of these funds would significantly ease our immediate fiscal stress and would significantly reduce our need to request external support.

4. The GOP'S Budget Response

This document has set out the GoP's programme to protect the health and livelihoods of the Palestinian People and stimulate rapid economic recovery. But like all other countries, the health and economic crises caused by COVID-19 have placed the GoP budget under considerable strain. And in Palestine, these pressures are on top of a chronic budget deficit caused by the continued lack of access to natural and financial resources due to the Israeli military occupation.

The principle cause of the additional budget pressure is the collapse in tax and clearance revenues caused by the economic consequences of COVID-19 - not any fiscal profligacy. Economic growth had fallen to +0.5% in 2019 due to the reduction in clearance payments from Israel. Forecast economic growth has fallen to -20% in 2020 from +1% before COVID-19 hit. Our initial estimates are of a 60% fall in domestic revenues over 2020 and a more than 50% fall in clearance revenues. This has happened at a time when there has been a significant reduction in international aid.

The GoP has acted like any responsible Government by putting in place Emergency Budget measures. We have faced an extra \$182 million of spending pressures on health and social protection as a result of COVID-19. But we would not ask for further support from our international donors, if we had not already taken the tough action that other countries may have to consider themselves. The GoP has already taken robust action to cut planned baseline expenditure for 2020 by \$63 million compared to expenditure in 2019, through focused measures to economise on fuel, transport, rent, etc. In addition, the GoP has instituted monthly cash management processes to scrutinise every item of expenditure and make further efficiency savings wherever we can.

The overall GoP budget deficit has increased dramatically to \$2.6 billion as a result of the collapse in tax revenues. Large increases in deficits have been seen in many other countries. The GoP has already put in place plans to finance around \$1.2 billion of this from donors, domestic borrowing, and expenditure reductions.

Despite the severity of the fiscal situation, pledged budget support from donors has fallen compared to a year ago. Donors have pledged to deliver on \$619 million of budget support. This represents an increase on the budget support donors provided last year – but is less than what we expected them to provide at the start of 2019. And it does not include the additional spending needs for protecting lives and livelihoods identified in this report.

GoP is not able to borrow money as a state from international mechanisms to fund this deficit and we cannot lower interest rates or print additional money, because we do not control our own currency. The only two options which remain available to use are further borrowing from the domestic banking sector and a further build-up of arrears to the private sector, through a temporary reduction in public sector worker wages. **Both of these would be extremely damaging to the prospects of economic recovery.** The World Bank has concluded that additional borrowing from domestic banks of more than \$200 million would risk the stability of the financial sector. And a further build-up of arrears would undermine the efforts

to protect livelihoods and to support the survival and recovery of private firms set out in this report. **This leaves us with a financing gap of \$1.4 billion.**

As noted above, **Gol is failing to transfer hundreds of millions of dollars in GoP revenues**, in contravention of international agreements. The immediate transfer of these funds would significantly ease our immediate fiscal stress and increase our long-term sustainability.

Further generosity from donors is critical. Without a further release of clearance revenues from Gol, **the GoP asks the donor community to provide an additional \$400 million in urgent budget support** to help deliver on this programme of measures to protect the health and livelihoods of the Palestinian people.

IV. CONCLUSION

In this document, we have presented our plan protect the lives and livelihoods of the Palestinian people through the health, economic, and fiscal crises caused by COVID-19. This emergency plan sets out a principled case for higher spending on health and social protection and economic measures to help businesses survive the effects of lockdown and rapidly recover. The GoP has already taken robust action to make efficiency savings and introduce an Emergency Budget and has reached the limit of what can be financed through domestic sources. Any further measures would threaten the economic recovery by depressing demand and threatening the viability of private sector firms.

We call for the full and timely release of clearance revenues and further support from the international donor community. Without this support, the GoP would be forced to contemplate measures that would risk stability. Without more generous international aid, the GoP could only fund the budget deficit with a significant reduction in the role of the state to provide public services, which will affect the welfare of the Palestinian people.

We have also called for measures by the international community to stop Israel's annexation of the West Bank. If annexation by Israel moves forward, our national and economic situation will face an even greater – even catastrophic – outlook.

The international community, including the UN and the EU, does not recognize Israel's claim of sovereignty over the occupied territory. **To combat the Israeli annexation plan, the world community must shift from rhetoric into active and effective policies, including sanctions and other political and economic actions.** Without any action, the world community should expect not only the end of the two-state solution but also the escalation of the conflict.