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Report on UNCTAD assistance to the Palestinian people

Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the occupied Palestinian territory[1]

Note by the UNCTAD secretariat[2]

Executive Summary

The long-term prospects for Palestinian economic development became even more unattainable in 2011 than in the previous years. Restrictions on movement, faltering aid flows, a paralysed private sector, and a chronic fiscal crisis cloud the horizons. The recent recovery of growth in Gaza is unsustainable. High unemployment persists, exacerbating poverty, with one in two Palestinians classified as poor. Under current circumstances, where private demand is weak, reduction in Palestinian Authority spending is counterproductive. Donors need to make predictable aid disbursements and greater capture of trade-related fiscal revenue is warranted to prevent a full-blown socio-economic crisis. The impact of occupation on the Palestinian productive base, especially the agriculture sector, has been devastating. The economy has lost access to 40 per cent of West Bank land, 82 per cent of its ground water, and more than two thirds of its grazing land. In Gaza, half of the cultivable area and 85 per cent of fishery resources are inaccessible. Strategic

[1] The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delineation of its frontiers or boundaries. In accordance with the relevant resolutions and decisions of the United Nations General Assembly and Security Council, references in this report to the occupied Palestinian territory (or territories) pertain to the Gaza Strip and the West Bank, including East Jerusalem. Use of the term “Palestine” refers to the Palestine Liberation Organization (PLO), which established the Palestinian Authority following its 1993/94 accords with Israel. References to the “State of Palestine” are consistent with the vision expressed in Security Council resolution 1397 (2002).

[2] This report should not be quoted by the press before 5 September 2012.

Palestinian economic development stands to benefit from the establishment of an agricultural development bank to provide credit, risk-sharing, and investment in agriculture. Despite limited resources, UNCTAD continued to support Palestinian institutional capacity development in different areas, including training and technical cooperation projects on Customs modernization, trade facilitation, and econometric modelling of the Palestinian economy.

I. Deceptive growth: Palestinian economic losses continue

1. The economy of the occupied Palestinian territory (OPT) grew by 9.9 and 9.8 per cent in 2011 and 2010, respectively. While this gives the impression of a booming economy, the reality is that growth was driven by reconstruction-related activities, which took place to partly rehabilitate after the devastation from the Israeli military operation in Gaza in December 2008 and January 2009. The local economy in the Gaza Strip grew by 23 and 29 per cent, and that of the West Bank grew by 5.2 and 4.4 per cent, in 2011 and 2010 respectively.

2. Gaza's strong growth was due to low base effects from the deterioration of previous years and to aid inflows. It was also driven by increased imports of production inputs and consumer goods from Egypt through the cross-border tunnels, and some easing of Israeli restrictions on the importation of consumer goods and materials for reconstruction activities supervised by international organizations. However, the restrictions on imports and exports of production inputs remain tight. Despite the strong growth, real gross domestic product (GDP) per capita in Gaza in 2011 was still 10 per cent below the 2005 level. The observed growth therefore remains easily reversible and vulnerable to Israeli security policy.

3. With growth stabilizing in the West Bank and expected to decline in Gaza, there is a risk that the Palestinian economy may deteriorate in 2012. There are serious risks that conditions may worsen if the growth retraction gathers momentum, adding to the persistent long-term occupation-related constraints on the economy and the impact of more than a decade of functioning well below capacity.

A. Mobility restrictions, falling aid and fiscal crisis undermine growth

4. The Palestinian economy continues to operate much below potential because of continued movement restrictions (the number of barriers in the West Bank increased from 500 in 2010 to 523 in 2011), continuation of the economic siege on Gaza, the Palestinian Authority's fiscal crisis, and decline in donor support. Moreover, 2011 witnessed further impoverishment, with increased demolitions of Palestinian infrastructure (especially homes), and the expansion of Israeli settlements particularly in the areas surrounding East Jerusalem and Bethlehem (Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO), 2011), adding to the existing physical fragmentation between various Palestinian "bantustans".[3]

5. In recent years, aid has been essential for sustaining the Palestinian economy and preventing the onset of deeper socio-economic crises. As such, the decline in donor support observed in 2011 had a negative impact on growth. However, the economic sensitivity to aid fluctuations is just a symptom of the Palestinian development problem, not the cause. The key long-term constraints blocking the emergence of a strong economy are the loss of Palestinian natural resources, land and water to occupation and settlements, and the

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[3] This concept has been applied in studies on the economic geography of occupation. For example:

(a) Farsakh L (2005). *Palestinian Labour Migration to Israel: Labour, Land and Occupation.* New York. Routledge;

(b) South Africa Human Sciences Research Council (2009). *Occupation, Colonialism, Apartheid? A reassessment of Israel's practices in the occupied Palestinian territories under international law.* May. Cape Town; and

(c) Israeli Committee Against House Demolitions (2012). *Demolishing Homes, Demolishing Peace.* April.

isolation of Palestinian producers from regional and global markets leading to their inability to procure production inputs and to export their goods and services.

6. Despite the fact that these inhibiting conditions prevent the establishment of a normal market economy with a concomitant expansion of the public revenue base, the Palestinian Authority (PA) has initiated broad and politically difficult fiscal and institutional reforms to promote an enabling environment for domestic and foreign private investment. However, the potential pay-off from these efforts has been minimized by the persistence of Israeli closure policy and by the loss of natural and economic resources.

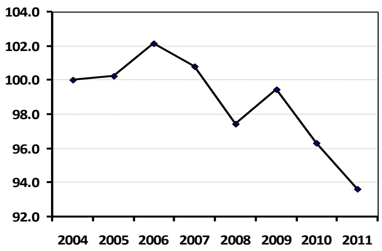
7. Prolonged occupation, and the socio-economic impact of confrontation with an expanding settler/colonial-type enterprise (Salamanca et al., 2012), is the main cause of the failure of Palestinian economic development efforts. Ending settlement and occupation is the sine qua non for sustainable development to take root. In the absence of a dramatic shift in the economic and political balance of power between the Israeli occupation and the Palestinian people, genuine economic recovery in the OPT will remain elusive. Lifting Israeli restrictions on Palestinian workers (including on their mobility) (International Labour Organization (ILO), 2012), and on business and trade, and enabling full PA trade revenue capture would be useful first steps towards ending the adverse impact of occupation and enhancing the possibilities of establishing a sovereign Palestinian State as called for by relevant United Nations resolutions.

B. High unemployment, and falling productivity and real wages

8. Unemployment has remained stubbornly high in the OPT. In 2011 the unemployment rate was 26 per cent, compared to 30 per cent in 2010. However, the observed improvement was accompanied by a worrisome 4 per cent decline in labour productivity (Palestinian Central Bureau of Statistics (PCBS), 2012). Despite 5 per cent growth in the West Bank, unemployment did not improve in 2011, indicating that the sectors with higher job-creation potential and productivity are disproportionately impacted by occupation and the tightened movement and access restrictions. In Gaza, as international organizations were able to implement some projects following a modest easing of Israeli restrictions on imports, the labour market picked up and unemployment declined by 9 percentage points to 33 per cent in 2011.

Figure 1

OPT: Index of real wages (2004 = 1.00)



9. However, OPT wage growth lagged behind inflation in 2011 (PCBS, 2012). Consequently, average real wages in 2011 were 8.4 per cent lower than their level five years earlier. The decline in average real wages was more pronounced in the West Bank; the modest rise in Gaza doesn't change the fact wages there are 70 per cent of the average in the West Bank (Palestine Monetary Authority (PMA) et al., 2012). Such wage compression, reminiscent of the trends in neighbouring Arab countries in the build-up to

the recent uprisings, can only add fuel to the deepening socio-economic crisis facing the Palestinian people.

C. Inflation erodes real incomes and increases poverty

10. The inflation rate in the OPT in 2011 was 2.9 per cent: 3.5 and 0.6 per cent in the West Bank and Gaza respectively. In the former, the prices of almost all goods groups increased, including fuel, and electricity which rose by 18 per cent as a result of the implementation of a unified cost-based price and increased prices charged by the Israel Electric Corporation (PMA et al., 2012). Inflation has featured as a major source of concern and recent protest for Palestinian consumers having to adapt to Israeli price levels. In addition to the erosion of purchasing power and lower standards of living, inflation adds pressure on producers on the cost side.

11. Gaza’s low inflation reflects the greater availability of goods imported from Egypt through the vibrant tunnel economy (PCBS, 2012). It is worth noting that in spite of the high cost of transporting imports through the tunnels, key food items coming into Gaza were still 10–15 per cent cheaper than those imported from Israel (PMA et al., 2012). This corroborates research by UNCTAD (2011, 2004) indicating that many Palestinian imports from or via Israel can be obtained at lower prices through Egyptian and Jordanian ports if the Palestinian economy is allowed to participate freely in international trade.

12. Even more alarming is that East Jerusalem’s poverty rate is higher than Gaza’s, despite it being encompassed by an Israeli urban metropolis of “Greater Jerusalem”. Poverty jumped from 64 per cent in 2006 to 78 per cent in 2012 (Association for Civil Rights in Israel (ACRI), 2012). This sharp poverty is rooted in the high level of unemployment that affects 40 per cent of Palestinian men and 85 per cent of Palestinian women in Jerusalem, in the lack of municipal infrastructure and of housing and economic opportunities, and the adverse impact on social and political integration with the rest of the West Bank caused by the Separation Barrier and the deepening isolation of the city from the rest of the Palestinian economy.

13. Severe poverty is mirrored by chronic food insecurity. Two in three Palestinians are affected by food insecurity. Recent data reveal that 33 per cent of Palestinian households are food-insecure, with an additional 13 per cent vulnerable to food insecurity and 21 per cent marginally secure. The problem is much worse in Gaza, where 52 per cent of households are food-insecure and another 13 per cent are vulnerable to food insecurity (World Food Programme (WFP), Food and Agriculture Organization (FAO) and PCBS, 2010).

D. Despite PA reforms, fiscal crisis continues

14. In 2011 the PA continued with its far-reaching efforts, which started in 2008, to narrow the budget deficit, achieve fiscal sustainability and reduce dependence on donor support. These reforms have been implemented in an unfavourable environment characterized by falling donor support, low development expenditure, and devastated infrastructure. Concurrently, the private sector has been incapable of mitigating the PA’s fiscal stress by expanding investment and output and hence expanding the tax base and generating decent jobs to reduce the pressure on the PA as the employer of last resort.

15. Efforts by the PA to reduce utility subsidies to municipalities (net lending) continued in 2011 with the introduction of a unified electricity tariff system and prepaid electricity meters that allow for higher collection rates (Palestinian National Authority (PNA), 2011). The PA also drafted and enacted an income tax law to increase income tax

revenue from the low level of 1.5 per cent of GDP to approach the regional average of 5 per cent, and to mitigate the overreliance on indirect taxes and the regressive elements that these imply.

Table 1
Economy of the occupied Palestinian territory: key indicators[a]

	1995	*1999*	*2002*	*2005*	*2008*	*2009*	*2010**	*2011**
Macroeconomic performance								
Real GDP growth (%)	6.0	8.8	(13.3)	8.6	7.1	7.4	9.8	9.9
GDP ($ mil.)	3 220	4 179	3 433	4 634	6 247	6 764	8 331	8 769
Gross national income ($ mil.)	3 699	4 932	3 656	4 992	6 884	7 311	8 930	9 426
Gross national disposable income ($ mil.)	4 099	5 306	4 708	6 120	10 057	9 437	10 921	11 790
GDP per capita ($)	1 400	1 493	1 125	1 410	1 737	1 827	2 186	2 232
GNI per capita ($)	1 608	1 763	1 199	1 519	1 914	1 975	2 343	2 399
Real GNI per capita growth (%)	0.7	4.1	(16.7)	7.2	5.2	2.7	6.4	5.3
Population and labour								
Population (mil.)[a]	2.34	2.96	3.23	3.51	3.83	3.94	4.05	4.23
Unemployment (%)[b]	32.6	21.7	41.2	29.0	32.4	30.1	30.0	25.8
Total employment (thousands)	417	588	452	603	667	718	744	837
In public sector	51	103	125	145	161	181	179	181
In Israel and settlements	68	135	42	56	67	73	78	84
Fiscal balance (% of GDP)								
Revenue net of arrears/clearance withheld	13.2	23.9	8.5	29.5	25.1	23.6	23.1	24.5
Current expenditure	15.3	22.6	29.0	43.0	46.2	47.2	36.9	36.9
Total expenditure	25.6	29.9	35.4	49.2	55.6	49.8	41.5	41.2
Overall balance – cash basis	(12.3)	(6.1)	(27.0)	(19.7)	(30.5)	(26.2)	(18.4)	(16.7)
External trade								
Net current transfers ($ mil.)	400	399	1 096	1 175	3 230	3 219	1 991	2 364
Exports of goods and services ($ mil.)	499	684	380	613	960	919	1 151	1 015
Imports of goods and services ($ mil.)	2 176	3 353	2 519	2 864	4 086	4 363	4 626	4 192
Trade balance ($ mil.)	(1 677)	(2 670)	(2 139)	(2 250)	(3 126)	(3 444)	(3 475)	(3 177)
Trade balance (% of GDP)	(52.1)	(63.9)	(62.3)	(48.6)	(50.0)	(50.9)	(41.7)	(36.2)
Trade balance with Israel ($ mil.)	(922)	(1 598)	(886)	(1 945)	(2 888)	(2 558)	(2 841)	(2 677)
Trade balance with Israel (% of GDP)	(28.6)	(38.2)	(25.8)	(42.0)	(46.2)	(37.8)	(34.1)	(30.5)
PA trade with Israel/total PA trade (%)[c]	92.3	69.7	56.3	83.6	89.7	74.4	75.6	84.7
PA trade with Israel/total Israeli trade (%)[c]	4.3	3.9	2.1	2.7	2.8	3.0	2.8	2.5

Sources: Palestinian Central Bureau of Statistics (PCBS), PA Ministry of Finance, IMF, International Labour Organization (ILO), and Israel Central Bureau of Statistics.

* Preliminary estimates.

[a] Except for the population figures, these data exclude East Jerusalem, due to the fact that the PCBS has no access to the city.

[b] ILO's "relaxed definition" of unemployment includes discouraged workers.

[c] Palestinian and Israeli trade data refer to goods, and non-factor and factor services.

16. Despite these efforts, the budget deficit persisted, as revenue and donor support fell below expectations. Recurrent deficit, on a cash basis, narrowed by about 11 percentage points between 2009 and 2011, reaching 12.4 per cent of GDP (in 1999 this balance showed a surplus of 1.3 per cent). On a commitment basis, the recurrent deficit has declined by about 12 percentage points in the last three years (PNA Ministry of Finance (MoF), 2012).

17. Even though PA revenue increased from $1.8 billion in 2009 to $2.2 billion in 2011, it was still below projections. This was due to the revenue-neutral GDP growth in Gaza, and slower-than-expected growth in the West Bank. On the expenditure side, measures to control spending featured reductions in allowances and privileges, and in operational and capital expenditures, as well as a reduction in public employment in the Palestinian health sector and in Gaza in general. Therefore, total expenditure remained at the 2009 level of $3.2 billion.

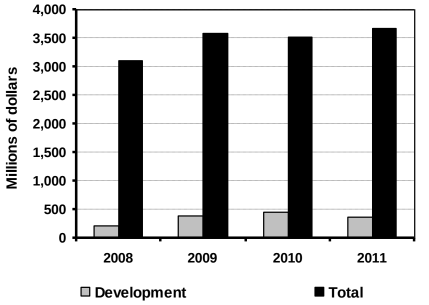
E. Uncertain donor support and revenue and higher debt increase fiscal fragility

18. Net current transfers to the OPT (mainly donor support) were $2.4 billion in 2011; 27 per cent lower than the level in the previous two years. At $980 million, budget support was $520 million short of the total PA financing needs for the year. This forced the PA to resort to borrowing from domestic banks and to accumulate arrears to private sector suppliers and public pension funds. While arrears grew by $540 million, debt to domestic banks increased by $140 million to reach $1.1 billion – 50 per cent of public revenue – by the end of 2011 (UNSCO, 2012). The growing debt and arrears will undermine the PA's fiscal position for years to come, since repayment of these debts will take precedence over implementing planned budgets.

19. Total external financing needs in 2012 are estimated at $1.3 billion – $1 billion for budget support and $300 million for development support. Early indicators suggest a financing gap of $540 million. If not financed, this gap will force the PA to cut spending on essential services, seek financing again from the already overexposed domestic banks, and continue to accumulate arrears to the already edgy private sector. This poses serious threats to the sustainability of the PA itself, unless donors commit sufficient aid resources and disburse them in a timely manner.

20. A key source of the PA's fiscal instability is the channelling through Israel of Palestinian trade clearance revenue, which Israel collects on behalf of the PA as stipulated by the Paris Protocol. In May and November 2011, Israel withheld Palestinian revenue to further its political goals, as it did in 2002 and 2006. Even though the withheld funds were eventually transferred to the PA, this measure destabilizes the PA's fiscal position and the Palestinian economy, because public spending is a key source of economic growth, and clearance revenue represents 70 per cent of total revenue (World Bank, 2012). Withholding revenue undermines the PA's ability to meet its contractual obligations to the private sector and to pay wages on time. It also undermines the prospects of investment, by fostering a climate of uncertainty and increasing risk for private suppliers and creditors.

Figure 2
PA: Development and total expenditures



21. Another key element of Palestinian fiscal woes is the negligible share of development expenditure in the budget, which amounted to a meagre $215 million or 3.4 per cent of GDP in 2008. Development expenditure increased slightly in 2011, to about $368 million or 4.2 per cent of GDP. In this context, it has to be stressed that the foregone benefits as a result of low levels of development spending are likely to be very high in light of the attrition of infrastructure and restrictions on much of the Palestinian productive base.

22. The PA’s persistent fiscal weakness is mainly caused by a regime that exacts a fiscal toll through revenue leakage to Israel and lack of sovereignty to collect taxes and ensure the accuracy of tax-related information. This diminishes the tax base, lowers collection rates, and adds pressure to the PA’s expenditure obligations in response to the recurrent humanitarian and economic crises. The estimate by the PNA Ministry of National Economy (MoNE) (2011) of the economic cost of occupation (in terms of lost potential output) to the Palestinian economy in 2010 is $6.9 billion or about 82 per cent of GDP. Had such a loss not been incurred, the PA’s books would be balanced, with significant resources available for development. Such hidden, recurrent costs hamper economic growth and render its development impact negligible.

23. The view that fiscal sustainability can be achieved by further reductions in public spending doesn’t only discount the real reasons for the fiscal crisis; it may be self-defeating on purely fiscal terms. Further PA spending cuts will generate pressure on both sides of the government balance sheet. The resultant economic slowdown will shrink tax revenue and inflate the PA’s social spending to contain the ensuing poverty. While the average public real wage declined by 8.4 per cent between 2006 and 2011, public employment has been virtually stagnant (PCBS, 2012). Further pressure on public employment and wages, especially in Gaza, not only threatens to depress the economy; it also undermines social cohesion and jeopardizes any achievements in laying the institutional foundations for a viable Palestinian State.

24. Analysis of the PA fiscal predicament needs to recognize that the levels of public employment and social spending reflect the fact that occupation has smothered the private sector’s ability to produce jobs and increase tax revenue. Comparisons of the Palestinian public wage bill share in GDP with those of other countries are misleading because they ignore the effects of occupation and can lead to dubious policy prescriptions. Therefore, any comparison of Palestinian socio-economic indicators against regional averages should always factor in the deep level of aid dependence, and Palestinian exposure to Israel’s monetary policy and reliance on its currency, as well as the lack of sovereignty and limited access to land, water and natural resources.

25. The pursuit of such fiscal policies may appear to be the only available tool that a self-governing authority can apply to sustain a public budget burdened by a large payroll obligation and a range of security and public institutional expenditures that are normally the

responsibility of sovereign States. However, the PA has increasingly been obliged to shoulder alone the fiscal responsibilities that any low- or middle-income State would have difficulty addressing, through "structural reforms" which are inappropriate in such a situation, to say the least. Such measures, and the lowering of the effective Palestinian "social protection floor", have placed a significant burden on middle- and lower-class households and domestic producers alike. That, in turn, has already provoked public protests, followed by intensive tripartite social dialogue – but no change of tack. In order to move away from the sterile dynamics that have dominated the debate on the Palestinian fiscal crisis, it is incumbent on all parties concerned to assess – in the light of international law – the point at which the PA's obligations to pay the costs of a continuation of the status quo should end and those of the international community and the occupying power should begin.

F. Trade deficit and economic dependence on Israel persist

26. In 2011, Palestinian exports showed no signs of recovery. Export weakness reflects the erosion of productive capacity, a disabling environment facing the private sector, and movement restrictions. In addition, the blockade on Gaza has eliminated much of its export capacity, which has been especially harmful because Gaza's agriculture and most of its industries were export-oriented and heavily reliant on imported goods. Palestinian exports declined by $136 million in 2011 to reach slightly more than $1 billion – 12 per cent of GDP. Imports declined too, by $434 million to reach $4.2 billion – 48 per cent of GDP. Consequently, the trade deficit persisted at $3.2 billion – though at a lower share of GDP than in previous years, at 36 per cent.

27. Given the overwhelming Palestinian dependence on Israel as a source of imports and destination for exports, trade and economic dependence on Israel continues to be a serious problem. Trade with Israel in 2011 accounted for 83 per cent of total Palestinian trade, with 83 per cent of imports originating from/via Israel and 80 per cent of exports absorbed by Israeli markets. Hence, the Palestinian trade deficit with Israel accounted for 84 per cent of the total deficit, and 31 per cent of GDP.

28. This high dependence deprives the Palestinian economy of more competitive sources of imports and markets for exports, and heightens its vulnerability to the Israeli business cycle and security policies. As a result of tightened Israeli restrictions, Palestinian exports to Israel plummeted by 24 per cent between 2008 and 2011 (IMF, 2012). Therefore, it is essential to reduce trade dependence on Israel and to reorient Palestinian trade and facilitate its integration into the Arab and regional economies, where trading arrangements are more favourable. As was noted by experts at a panel discussion held at the UNCTAD XIII Conference in Doha in April 2012,[4] reviving these historical trade routes is indispensible for the revitalization of the Palestinian export sectors and the economy as a whole.

G. The key obstacles to Palestinian development

29. At UNCTAD XIII, member States agreed on the importance of assessing the economic development prospects of the OPT and examining obstacles to trade and development. This should aim to help alleviate the adverse economic and social conditions imposed on the Palestinian people, as a part of the international community's commitment to building an independent Palestinian State. As systematic monitoring of the OPT

[4] http://unctad.org/en/pages/InformationNoteDetails.aspx?OriginalVersionID=18.

economy has shown over the years, and despite any appearances to the contrary, the key obstacles facing the Palestinian economy are all related to occupation, and much less to PA economic policy whose scope is by definition limited. Occupation has eliminated marketing opportunities, shrunk the land and natural resources upon which productive units can be developed, and thwarted private sector investment by increasing the cost and risk to producers.

30. Public infrastructure and private investment are restricted in Area C (under Israeli control), which constitutes 63 per cent of the West Bank land. Palestinian investment activities in this area require permission from Israel. Applications by the PA for such permission are routinely rejected, or at best delayed for years. For example, permission for the Palestinian Water Authority to implement the Wadi Azumar wastewater project was received after 10 years. Under such draconian conditions affecting access to strategic national assets and natural resources, state-building is an elusive concept. In the current conditions, all efforts should focus on preventing further encroachment by settlement and occupation on the Palestinian economy and society, indeed reversing it.

31. In its report to the Ad Hoc Liaison Committee meeting held in Brussels on 21 March 2012, UNSCO (2012) concludes that: “The absence of a political horizon that would match progress in the Palestinian state-building agenda remains the fundamental impediment to realizing a more meaningful change for Palestinians on the ground.” Recovery of the Palestinian economy requires credible steps towards the two-state solution as envisaged by the relevant United Nations resolutions. A sustained economic growth trajectory can only be attained by lifting the blockade on Gaza, the internal and external closures, and the restrictions on public and private investment, land control and use and natural resource management in Area C. Economic recovery also requires timely, predictable and substantial donor support, not only for budget support, but also to fund investment to revive the battered productive base.

II. Palestinian agriculture under siege

32. The agricultural sector is the cornerstone of Palestinian economic survival and the viability of the two-state solution. However, the sector has not been able to play its strategic role, because of dispossession of land and denying Palestinian farmers’ access to agricultural areas and water resources, as well as to domestic and external markets to sell their products and buy factors of production.

33. Cultivable agricultural land in the West Bank and Gaza is estimated at 1,925 km^2 (31 per cent of the total area). Ninety-one per cent of the arable land is in the West Bank, and the remainder is in the Gaza Strip. Due to limited access to water resources, irrigated agriculture represents 14 per cent of arable land, of which 56 per cent is in the West Bank. Rain-fed areas account for 86 per cent of cultivated land, of which 97 per cent is in the West Bank. Ground water represents the main source of irrigation in Gaza (PNA Ministry of Agriculture (MoA), 2010).

34. In 2011, the agriculture sector accounted for 5.5 per cent of GDP and about 12 per cent of total employment (PCBS, 2012). Of the 292,000 workers employed in agriculture, about 94 per cent are non-paid, family members (PMA et al., 2012). The sector supplies roughly 15 per cent of Palestinian exports, with olives, olive oil, vegetables and cut flowers being the primary exports.

35. Cognizant of the actual role of the agriculture sector, and its potential contribution to laying a strong economic foundation for future development – not to mention that it is a source of food, income and employment, especially during times of crisis – the PA has articulated a goal to build a sustainable, internationally competitive agriculture sector (PNA

MoA, 2010). However, the mounting difficulties facing the PA since 1999 have prevented it from providing adequate support to the beleaguered sector, as recurrent emergencies and economic and humanitarian crises have claimed much of its attention and resources. Consequently, agriculture has accounted for 1 per cent of donor support and PA budget allocation in recent years.

A. Mobility restrictions, settlements and the Separation Barrier erode the agricultural productive base

36. Mobility restrictions on Palestinian people and goods have been especially harmful to the agriculture sector. They undermine the ability of farmers both to access their land for essential work and to market, import and export agricultural inputs and outputs. Perishable and short shelf-life agricultural produce have been disproportionately impacted by these restrictions and by the unloading and reloading of products at checkpoints. As a result, production and transaction costs have increased drastically and have eroded the profits of Palestinian producers, who find it increasingly difficult to compete with the subsidized products of Israeli settlements, whose producers enjoy advanced technology, unconstrained access to water, and unfettered access to markets at normal costs.

37. Another adverse factor is systematic erosion of the agricultural productive base caused by the uprooting of productive trees, land levelling, and denying access to water. During the second intifada (2000–2006), Israel uprooted 1 million trees in Gaza and almost 600,000 trees in the West Bank (Agencia Española de Cooperación Internacional, 2007). It is estimated that about 2.5 million fruit trees have been uprooted since 1967 (PNA MoNE, 2011). Moreover, the Israeli control of Palestinian land in Area C (63 per cent of the West Bank) has sharply diminished the amount of agricultural land and rangeland. Out of the 2 million dunams of Palestinian rangeland,[5] only 31 per cent is available for grazing (PNA MoA, 2010).

38. The Separation Barrier, and settlement and related infrastructure growth, have led to the effective loss of important Palestinian agricultural land and water resources. The Barrier renders much of the western part of the West Bank's fertile land inaccessible to Palestinian producers, isolates communities, and fragments domestic markets. By 2009, almost 9,000 dunams of irrigated land had been expropriated to build the Barrier, and 10 per cent of West Bank land is now trapped in the "seam zone" between the Barrier and the 1967 borders (World Bank, 2009). Thousands of Palestinians who own land in this zone need to obtain hard-to-get permits from Israeli authorities to access and work their own land. Even with the high rate of application rejection, when a farmer obtains the permit, additional problems abound. Farmers may not be able to obtain permits for workers to carry out agricultural work; gates on the Barrier are often closed for days; and when farmers go through, they have to transport agricultural equipment through the gate and back on the same day, because they are not allowed to store equipment on their land in the "seam zone".

39. The Israeli blockade of Gaza and the tight restrictions on fishing and on export and import activities since 2007 have debilitated the already weak agriculture sector. The December 2008/January 2009 Israeli military operation, and its aftermath, worsened the dire state. Significant output and employment losses occurred as a result of the extensive destruction of the agricultural productive base, such as cultivated land, fields, trees, buildings, greenhouses, nurseries, roads, and irrigation networks and animal production facilities. Furthermore, farmers are denied access to agricultural lands within the 300 to 1,000-metre-wide "buffer" zone along the border with Israel. By 2009, 46 per cent of

[5] A dunam is 1,000 square metres.

Gaza's agricultural land was inaccessible or out of production (PNA MoA, 2010). Water supply is limited in Gaza, and ground water has become increasingly unsuitable for agriculture and human consumption as a result of salinity, contamination by untreated wastewater, and the inability of the PA to repair the shattered infrastructure.

40. The Palestinian fishing industry has collapsed almost completely, with the reach of fishermen steadily declining since 2000. Fishing off the coast of Gaza is restricted to only 3 nautical miles, instead of the 20 miles stipulated in the Oslo Accords. Moreover, the yield from allowed fishing areas has declined, because of overfishing and the contamination caused by the dumping of sewage water into the sea after the destruction of the sewage treatment facility during the Israeli military operation in December 2008. As a result, the number of fishermen has declined by 66 per cent since 2000.

B. Obstacles to access to water resources, and deterioration in quality

41. An interim arrangement for development and use of Palestinian water resources by the PA was established by Article 40 of the 1993 Oslo Accords. The Article allocates only one quarter of the water (138.5 million m^3) of the three West Bank aquifers to the Palestinians, while Israel gets the remainder. Article 40 acknowledges Palestinian water rights, but it leaves them undefined pending final status negotiations. During a five-year "interim arrangement", water-related decisions were supposed to be taken by the consent of the two parties. However, this arrangement left the Palestinian people with too small a share of their water resources. The interim arrangement continues to exist more than fifteen years after its supposed expiry. Furthermore, the asymmetric power of the two parties, and Israel's settlement infrastructure and control of Area C, have ensured Israel's domination over water resource allocation in the OPT.

42. While Israel controls the quantity of water extracted by the Palestinians, and has veto power over Palestinian investment in water infrastructure, the PA does not have the same power, nor does it have access to Israeli water use data. Israel has been extracting water above the level determined by Article 40 by confiscating 82 per cent of Palestinian ground water for use inside its borders or its settlements. Such over-pumping could deplete the aquifers, which represents a serious threat to the future of Palestinian water resources (PNA MoA, 2010). At the same time, both the PA and Palestinian farmers are denied the right to construct wells to meet growing demand for water, even when water almost entirely originates within the West Bank. In practice, Israel gets more than the share identified by the interim arrangement, while the Palestinians end up with less and are left with no choice other than importing from Israel over 50 per cent of their water consumption (Ma'an, 2010).

43. Since the occupation in 1967, Palestinians have been denied access to the Jordan River's water and that of the natural springs which feed it, and can no longer use it for agriculture. Had the Jordan River water been available, the Palestinian water supply would have increased substantially. Moreover, the confiscation of West Bank land to build settlements has resulted in the Israeli authorities taking control of a growing number of the 152 freshwater springs in the West Bank. Consequently, agricultural activities have become less viable, and many Palestinian farmers have lost their source of livelihood and been forced to abandon cultivation (Office for the Coordination of Humanitarian Affairs (OCHA), 2012).

44. In Gaza, there are no water springs and all agricultural water comes from wells. The key problem is the deterioration of water quality caused by (a) the destruction of water infrastructure, including wells, during the Israeli military operations during December 2008 and January 2009; and (b) the continued blockade, which prevents the PA from rebuilding the destroyed infrastructure.

45. Due to restrictions on drilling and on the rehabilitation of water infrastructure, Palestinian per capita water extraction has been has been falling; by 2009 it was 25 per cent of the level in Israel. Furthermore, Palestinians have access to only 10 per cent of the annual recharge of the West Bank water system (PNA MoNE, 2011). Palestinian use of water for agriculture is estimated at one tenth of Israel's. On a per capita basis, the water consumption in Israel is more than five times its level in the West Bank (Ma'an, 2010). The World Bank (2009) suggests that only 35 per cent of irrigable Palestinian land is actually irrigated, which costs the economy a staggering 110,000 jobs and 10 per cent of GDP.

C. Restrictions on imported inputs and lack of credit diminish agriculture productivity

46. The Israeli security ban on imported fertilizers has detrimental impacts on Palestinian agriculture. It has created problems ranging from unavailability of essential fertilizers to the high cost of using unsuitable alternatives which reduce the soil quality and result in lower productivity and profitability. It is estimated that agricultural productivity has declined by 20–33 per cent since the enforcement of the ban on importation of fertilizers, which does not apply to Israeli settlements in the West Bank (PNA MoNE, 2011).

47. Lack of access to finance is another salient constraint on Palestinian agriculture. Access to credit is extremely limited, due to the small size of the typical agriculture production unit, lack of acceptable collateral for commercial loans, and high risks to agricultural production emanating from the weather, price fluctuations, and recurrent political shocks. Annual demand for agricultural loans is estimated at $150 million (PNA MoA, 2010). Despite this relatively small demand, lending institutions have not been capable of meeting it due to the risk involved. For instance, from January to September 2011, the share of agriculture in banks' total private credit was a meagre 1 per cent, while the trade, construction and services sectors accounted for 21, 17 and 16 per cent respectively (PMA et al., 2012).

D. Long-term decline of olive production

48. The olive tree plays a central role in Palestinian life because of its economic, social, historical and even spiritual significance. Its fruits, oil, sediment, wood and leaves are used by Palestinian families worldwide as the basis for a range of Palestinian food staples, and for soap, medicinal uses, fuel, and decorative crafts exemplifying the rich Palestinian environmental, social and cultural landscape. Olive groves cover 940,000 dunams of Palestinian land in the OPT or some 15 per cent of its total area, and contribute to the economy through linkages with the food industry, and with other industries such as traditional soap and crafts. The olive subsector contributes 15 per cent of total agricultural income. It also mitigates the impact of the unemployment and poverty by providing 3–4 million days of seasonal employment per year and supporting 100,000 Palestinian families. However, olive oil production is in decline; it dropped from an average of 23,000 tons per year during the period 2000–2004 to 14,000 tons per year during the period 2007–2010. As a result, olive oil imports in 2009 covered 50 per cent of domestic demand (PNA MoA, 2010).

49. Palestinian farmers face multiple challenges that reduce the quantity and quality of olive production. They have considerably reduced their use of fertilizers as a result of Israeli restrictions on agricultural inputs. Moreover, farmers suffer restricted access to their groves, especially during the harvest season. For instance, in 2010, 40 per cent of applications by Palestinian farmers to access their groves in the "seam zone" were denied.

Gates on the Barrier are open for limited hours, even during the harvest season. In addition, Palestinian olive groves around settlements in the West Bank are subject to uprooting, vandalism and blazing by settlers. It is estimated that since 1967, more than 800,000 productive olive trees have been uprooted (PNA MoNE, 2011), and that in just the first three quarters of 2011, more than 7,500 olive trees were destroyed.

E. Agriculture should play a strategic role for sustainable development

50. Even though Palestinian agriculture has been incurring heavy losses since 1967, it is one of the most resilient and strategic sectors in the Palestinian economy and is capable of achieving quicker and more sustainable recovery, compared to others. Studies suggest that the removal of constraints on the sector, with full unrestricted access to land, water and markets, coupled with sufficient investment in infrastructure, can lead to a considerable expansion of irrigated agriculture land in Area C and the Jordan Valley, and the rise of agricultural value added to more than 25 per cent of GDP (PNA MoNE, 2011).

51. For Palestinian agriculture – currently operating at perhaps one quarter of its potential – to develop, there is an urgent need to address the problem of lack of Palestinian control, if not sovereignty, over land and water resources, without which there is little scope for designing and implementing plans to develop and optimize the use of the scarce Palestinian land and water resources. The PA, with the support of the international community, should consider taking corrective action to compensate for the impact of Israeli restrictions on Palestinian agriculture, and for the failure of the market to provide adequate financing and insurance to farmers. These corrective measures could be in the form of subsidizing certain factors of production to make up for the scarcity and low quality of fertilizers under the Israeli ban. Measures could also take the form of programmes to compensate farmers for uprooted trees and to replant them, programmes to promote Palestinian agricultural products domestically and internationally, and programmes for land improvement and reclamation. However, a prerequisite for any such actions is an increase in the share of agriculture both in the PA budget and in donor support.

52. The agriculture sector is a main pillar of the Palestinian economy, and it has a strategic role in preserving Palestinian land and water against confiscation and annexation. Therefore, there is an urgent need for the establishment of a well-funded, not-for-profit, public agricultural development bank. In addition to making contributions to implementation of the measures listed in the previous paragraph, the task of such a bank should be the sharing of the risk of agricultural activities, providing credit and insurance services to farmers, and supporting marketing and post-harvest services, as well as funding and guaranteeing investment in agricultural and water infrastructure.

III. UNCTAD assistance to the Palestinian people

A. Framework and objectives

53. In 2011, UNCTAD continued its support to the Palestinian people in coping with the adverse socio-economic conditions and in building the human and institutional capacities required for a sovereign Palestinian State, as reiterated by the relevant United Nations resolutions, and in line with the mandates of UNCTAD X, XI and XII, and, more recently, UNCTAD XIII held in Doha in April 2012.

54. In paragraph 31(m) of the Doha Mandate, member States renewed and extended UNCTAD's mandate to assist the Palestinian people through assessment of the economic development prospects of the OPT and examination of the obstacles to trade and

development. Member States also requested UNCTAD to "strengthen its programme of assistance to the Palestinian people with adequate resources and effective operational activities, as part of the international community's commitment to building an independent Palestinian State, and with a view to alleviating the adverse economic and social conditions imposed on the Palestinian people, in line with the Accra Accord."

55. UNCTAD's assistance to the Palestinian people draws on its thorough knowledge of the Palestinian economy garnered from nearly three decades of sustained substantive support towards Palestinian development. Together with research and policy analysis, UNCTAD's work seeks to strengthen Palestinian public-sector institutional capacities and to support the Palestinian private sector. To overcome funding shortfalls and the difficult conditions in the field, UNCTAD continues to apply a selective and flexible mode of operation to respond to the evolving needs of the Palestinian people.

56. The multifaceted programme of technical assistance to the Palestinian people draws on the experience of UNCTAD as a whole, and is carried out in close cooperation with the PA, the Palestinian private sector, civil society organizations, United Nations agencies, and other international organizations. The programme emphasizes the interrelated treatment of trade, finance and enterprise development, with technical assistance activities grouped within four clusters: (a) trade policies and strategies; (b) trade facilitation and logistics; (c) finance and development; and (d) enterprise, investment and competition policy. While these clusters could be dealt with independently in any other development context, it is the particular situation of the OPT which makes UNCTAD's contributions even more relevant.

B. Operational activities under way

57. As part of its ongoing contributions to Palestinian private-sector institution-building and the strengthening of the Palestinian Shippers' Council (PSC), UNCTAD signed a $2.1 million grant agreement with the Canadian International Development Agency to finance a three-year technical cooperation project entitled "Developing Palestinian Trade Facilitation Capacity". Project implementation commenced in April 2011. The objective of the project is to build the knowledge base of Palestinian shippers (exporters and importers) by strengthening the institutional capacity of the PSC, increasing shippers' awareness of internationally recognized best practices on trade facilitation, and providing training and advisory services to shippers and policymakers in the area of trade facilitation. In 2011, studies on Palestinian trade facilitation were commissioned, and two workshops were held with more than 70 people receiving training.

58. In 2011, UNCTAD's Assistance to the Palestinian People Unit and the Palestinian Central Bureau of Statistics signed a Memorandum of Understanding to strengthen the PCBS's economic modelling and forecasting capacity and to enhance the PA's capacity to produce, evaluate and interpret economic, demographic and labour indicators. In this context, UNCTAD conducted a one-week training programme to train staff from the PA and PCBS to use its macroeconometric model of the Palestinian economy. UNCTAD transferred its macroeconometric model of the Palestinian economy to the PCBS. The model is already being – and will continue to be – used to produce the PCBS's official economic forecasts. UNCTAD will continue to provide relevant training and advice to the PA and PCBS as needed. Another goal of this activity is to enhance the PA's ability to formulate alternative economic policies, which UNCTAD has consistently highlighted in its research and policy recommendations.

59. UNCTAD activities in supporting Palestinian Customs continued in 2011. With major accomplishments under three previous projects, UNCTAD has played a pivotal role in building and modernizing Palestinian Customs capacity since 1999. UNCTAD's contributions include the introduction of its Automated System for Customs Data

(ASYCUDA), and the provision of extensive training to PA functional and IT staff as well as private sector agents. As a result, the Palestinian Customs Administration has become able to implement new Customs procedures, enhance Customs controls, significantly enhance revenue collection, and interface with the Israeli Customs system more effectively. Building on these achievements, in coordination with the PA, UNCTAD in 2011 developed a project document for a new intervention to consolidate previous achievements and hand over the ASYCUDA system to the PA. The European Commission has agreed to fund the new technical cooperation project, which is expected to commence in 2012.

60. The studies and discussions under the project entitled "Promoting Subregional Growth-Oriented Economic and Trade Policies Towards Achieving the MDGs in Arab Countries" have resulted in the publication of a book on pro-poor trade and growth strategies, infrastructure and institutions, to facilitate regional integration and harmonization of trade statistics. Arabic and English versions of the book have already been published, in early 2012. UNCTAD successfully completed the implementation of this Development Account Sixth Tranche project in early 2011. The project benefits the OPT and four other Arab countries, and provided a platform for the exchange of ideas and experiences among policymakers from participating economies, UNCTAD staff, and experts.

61. UNCTAD hosted and trained Palestinian diplomats and introduced them to the United Nations system in Geneva in September 2011. This was in cooperation with the Division for Palestinian Rights (a division of the United Nations Department of Political Affairs) and part of an annual programme to deepen PA diplomats' knowledge of the United Nations system. The training covered UNCTAD's scope of work, including the meetings of the Trade and Development Board, as well as the work of other United Nations agencies in Geneva.

C. Resource mobilization, coordination and harmonization

62. Over the last year, UNCTAD has undertaken several missions to the OPT and met with relevant PA staff and officials to discuss the various areas of coordination, to ensure harmonization on all levels. Additionally, UNCTAD has strengthened its relations with the national economy and finance ministries via the ongoing advisory services, capacity-building and trainings that it provides. In addition, UNCTAD has maintained close relations with the United Nations country team and with all United Nations agencies and donor countries operating in the OPT.

63. In December 2010, the United Nations country team endorsed UNCTAD's proposal to introduce the United Nations Inter-Agency Cluster on Trade and Productive Capacity in the OPT. This initiative aims at developing the Palestinian trade and productive sectors within a dynamic framework that fosters synergies between humanitarian interventions and building a Palestinian productive base; and achieving coordination and integration of the activities of all United Nations agencies involved in the cluster. Extrabudgetary resources are required to launch this initiative in the OPT.

64. To maintain and build on UNCTAD's achievements, mobilizing additional resources will be necessary, both to address the special needs of the Palestinian economy under occupation, and to provide substantive advisory services and technical cooperation activities. Although in 2011 extrabudgetary funding increased, UNCTAD still needs further resources to expand its activities in the coming years in line with the Doha Mandate.

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