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### **Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory\***

**Note by the UNCTAD secretariat\*\* \*\*\***

#### *Summary*

Socioeconomic conditions in the Occupied Palestinian Territory have been moving from bad to worse. High rates of poverty and unemployment have persisted and gross domestic product (GDP) per capita has declined for the third consecutive year. Even before the economic shock due to the coronavirus disease (COVID-19) pandemic, the economy was expected to slip into recession in 2020 and 2021, with Palestinian women continuing to pay an additional toll due to occupation. Economic prospects darkened further as a result of the annexation of large areas of the West Bank, the economic ramifications due to the COVID-19 pandemic, faltering aid flows and the loss of hundreds of millions of dollars through deductions or leakage to the treasury of Israel. By April 2020, one month after the start of the COVID-19 pandemic, the fiscal revenues of the Palestinian National Authority (PNA) had declined to their lowest levels in 20 years. The persistence of occupation and current trends in donor aid threaten the very existence of PNA. Donors could enhance financial support and the international community can play a key role in this regard in line with international law.

Despite limited extrabudgetary resources, UNCTAD continued to provide support, training and advisory services to Palestinian public and private sector institutions and civil society. Additional extrabudgetary resources are required for UNCTAD to respond to

\* The designations employed, maps and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat 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 General Assembly and Security Council, references 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, which established the Palestinian National Authority. References to the "State of Palestine" are consistent with the vision expressed in Security Council resolution 1397 (2002) and General Assembly resolution 67/19 (2012).

\*\* This report should not be quoted by the press before 8 September 2020, 5 p.m. GMT.

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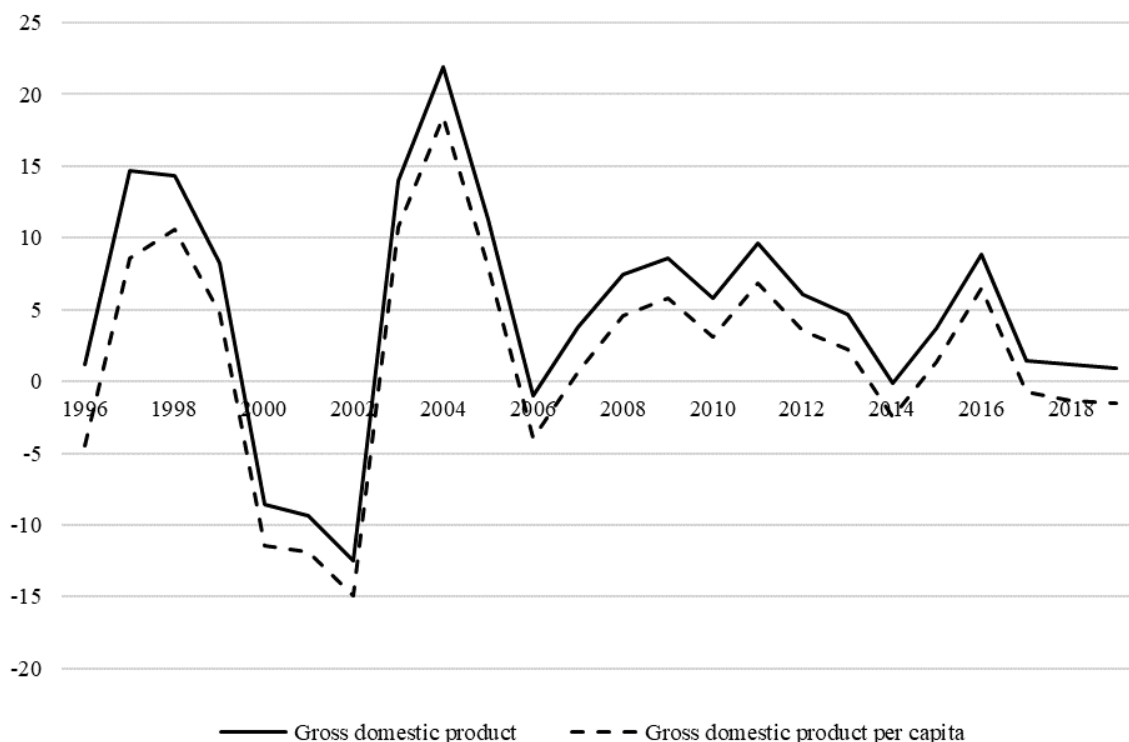
resolutions 69/20, 70/12, 71/20, 72/13, 73/18 and 74/10 of the General Assembly of the United Nations and to maintain its capacity to support the Palestinian people.

## I. Dismal conditions and grim forecasts before the onset of the coronavirus disease pandemic

1. Before the onset of the COVID-19 pandemic, the performance of the Palestinian economy was weak and the overall environment was unfavourable. The productive base had been hollowed out by recurrent hostilities, geographical and economic fragmentation, technological regression, restrictions on imported inputs and technology, the loss of land and natural resources, settlement expansion, the leakage of fiscal resources and the near collapse of the economy of the Gaza Strip.

2. The Palestinian economy failed to regain momentum in 2019, registering just 0.9 per cent of real GDP growth, not much better than in the two preceding years. The slowdown was driven by a decline in public and private consumption and investment. Down from 2.3 per cent in 2018, growth in the West Bank was at 1.15 per cent, the lowest since 2012 (see figure). Meanwhile, in Gaza, GDP growth was virtually at zero and Gaza has thus failed to rebound from two consecutive contractions: -7.7 per cent in 2017 and -3.5 per cent in 2018. Therefore, real GDP per capita declined by 1.6 per cent in the Occupied Palestinian Territory for the third year in a row, falling by 1.1 per cent in the West Bank and 2.8 per cent in Gaza.

**Growth rates of real gross domestic product and gross domestic product per capita**  
(Percentage)



Source: UNCTAD.

3. As in recent years, the weak economic growth relied on the services and construction sectors, which grew by 2.9 and 1.1 per cent, respectively. Meanwhile, the tradable goods sector continued its secular decline, with the agricultural sector contracting by 1 per cent and the industrial sector registering 0.2 per cent growth.<sup>1</sup>

4. During the last decade, PNA has pursued far-reaching fiscal reforms and succeeded in bringing the fiscal deficit from 23.3 per cent of GDP in 2006 to 6.3 per cent of GDP in 2018. This was achieved mainly via improved revenue collection and reduction of the wage bill from 24 per cent of GDP in 2006 to around 11 per cent. Despite the inability to collect taxes in Gaza, PNA managed to enlarge the tax base, raise public revenue and contain expenditure. The remaining deficit reflects the administrative separation of Gaza, since PNA finances for the West Bank break even.<sup>2</sup>

5. The Paris Protocol entrenched the dependence of the Palestinian economy on Israel via a customs union that leaves no space for independent Palestinian economic policies. It ties the Occupied Palestinian Territory to the trade policies, tariff structure and value-added tax rate of Israel. Moreover, the authorities in Israel collect trade tax revenues on behalf of PNA and transfer them to PNA. This arrangement allows Israel to control two thirds of Palestinian tax revenue, a leverage frequently used, and entails the leakage of Palestinian fiscal resources to the treasury of Israel, estimated at hundreds of millions of dollars per year. UNCTAD partially estimates the Palestinian fiscal leakage, from six main sources, at 3.7 per cent of Palestinian GDP or 17.8 per cent of total tax revenue. The cumulative fiscal leakage in 2000–2017 is estimated at \$5.6 billion, or 39 per cent of GDP in 2017. Stemming of the leakage of substantial Palestinian fiscal resources to Israel can be an essential component of ensuring fiscal sustainability in the Occupied Palestinian Territory.<sup>3</sup>

6. The PNA fiscal situation took a sharp negative turn in early 2019. In March 2019, the Government of Israel began to implement its law mandating the deduction of \$12 million per month from Palestinian clearance revenue, equivalent to the payments made by PNA to families of Palestinian prisoners in Israel and Palestinians killed in attacks or alleged attacks against Israelis. PNA responded that it would not accept anything less than the full amount of its clearance transfers, which represent two thirds of its total revenue. However, after six months of revenue not being transferred, the ensuing fiscal situation forced PNA to accept reception of the reduced clearance revenue.

7. Public and private consumption fell in the aftermath of the March–September fiscal dispute and constrained GDP growth on the demand side. The loss was magnified by the presence of a large fiscal multiplier, whereby reductions in public spending generated substantial negative impacts on output. This is confirmed by the brisk recovery that followed the resumption of clearance revenue transfers in September 2019. In the fourth quarter of 2019, depressed expenditure recovered and GDP grew by 3.6 per cent, compared with the third quarter of 2019, and lifted the growth average for the whole year.

8. The fiscal progress was somewhat reversed in 2019. The budget deficit, on a commitment basis, increased from 6.3 to 9 per cent of GDP as a result of the rise in operational expenses and revenue decrease in the aftermath of the fiscal dispute with Israel. Clearance revenue fell by \$65 million, compared with 2018, and the resulting slowdown in economic activity diminished revenue from income tax, value-added tax and customs. Consequently, the already low level of development expenditure further decreased as the government decided to suspend development projects planned to start in 2019. Overall, the

<sup>1</sup> PCBS, 2019, The performance of the Palestinian economy during 2019, as well as the economic forecasts for the year 2020, 24 December, available at <http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3636>.

*Note:* All websites referred to in footnotes were accessed in July 2020.

<sup>2</sup> World Bank, 2019a, Economic monitoring report to the Ad Hoc Liaison Committee meeting, 26 September.

<sup>3</sup> UNCTAD, 2019a, *The Economic Costs of the Israeli Occupation for the Palestinian People: Cumulative Fiscal Costs* (United Nations publication, sales No. E.20.II.D.6, Geneva).

fiscal deficit reached \$1.4 billion in 2019. With donor support at \$590 million, the financing gap of \$800 million was the largest in years.<sup>4</sup>

9. Donor budget support has declined substantially in recent years, falling from 32 per cent of GDP in 2008 to 3.5 per cent of GDP in 2019. The negative trend in aid, combined with unpredictability and fluctuations, has been a constant source of fiscal uncertainty. The recent decline in funding to United Nations agencies operating in the Occupied Palestinian Territory aggravates fiscal stress by constraining economic growth on the demand side and increasing the pressure for transfers to poor households. The social and humanitarian spending of these agencies stimulates the economy and provides jobs and critical services. By stimulating economic growth, such spending increases fiscal revenue and mitigates the pressure on PNA to provide social support to poor households.

10. Consequently, PNA relied on domestic sources to finance two thirds of the budget deficit. Commercial banks accounted for 64 per cent of domestic financing and net arrears to the private sector accounted for the rest. Public debt rose by 8 per cent, reaching \$2.8 billion, or 16.4 per cent of GDP, of which domestic debt accounted for \$1.6 billion.

11. The restrictions by Israel on trade have stunted the Palestinian economy and impacted the production of exports and importable goods. Almost all Palestinian imports and exports transit via ports and crossing points of Israel, at which delays and security measures can increase costs by an average of \$538 per shipment.<sup>5</sup> This cultivates a significant persistent trade deficit. In 2019, the trade deficit remained high, at 33.7 per cent of GDP (see table).

12. Meanwhile, Palestinian economic dependence on Israel, as discussed in paragraph 5, deepened in 2019, with the bilateral trade deficit rising from \$3.4 billion to \$4 billion, as Israel accounted for 63 per cent of total Palestinian trade. While Occupied Palestinian Territory exports to Israel are primary and low valued-added manufactured goods, imports are sophisticated, final consumer goods and durables.

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<sup>4</sup> World Bank, 2020, Macropoverty outlook for Middle East and North Africa: Palestinian territories, available at [https://www.worldbank.org/en/publication/macro-poverty-outlook/mpo\\_mena](https://www.worldbank.org/en/publication/macro-poverty-outlook/mpo_mena).

<sup>5</sup> World Bank, 2019b, Palestinian territories: Partnership for infrastructure development – annual report, 1 July 2018 to 30 June 2019, available at <https://www.worldbank.org/en/programs/palestinian-partnership-for-infrastructure-trust-fund>.

### Economy of the Occupied Palestinian Territory: Key indicators

	1995	1999	2002	2006	2010	2014	2018	2019*
<b>Macroeconomic performance<sup>a</sup></b>								
Real GDP growth (percentage)	7.1	8.3	-12.5	-1.0	5.8	-0.2	1.2	0.9
GDP, nominal (millions of dollars)	3 283	4 271	3 556	5 348	9 682	13 990	16 277	17 059
Gross national income (millions of dollars)	3 723	5 025	3 775	5 771	10 281	15 472	19 064	19 717
Gross national disposable income (millions of dollars)	4 122	5 398	4 826	7 062	12 272	17 138	20 563	21 726
GDP per capita, nominal (dollars)	1 427	1 553	1 182	1 578	2 559	3 357	3 562	3 641
Gross national income per capita, nominal (dollars)	1 618	1 827	1 255	1 703	2 718	3 713	4 172	4 208
Real GDP per capita growth (percentage)	-0.2	4.8	-15.0	-4.0	3.1	-2.5	-1.3	-1.6
Real gross national income per capita growth (percentage)	0.7	4.6	-16.4	-2.7	0.6	-1.2	1.9	-3.0
<b>Population and labour</b>								
Population (millions) <sup>b</sup>	2.34	2.96	3.23	3.61	4.05	4.55	4.85	4.98
Unemployment (percentage) <sup>c</sup>	18.2	12.0	31.2	23.7	23.7	26.9	31.0	33.0
Total employment (thousands)	417	588	452	636	743	913	956	1 010
In public sector	51	103	105	147	178	209	202	210
In Israel and settlements	68	135	42	55	78	107	127	133
<b>Fiscal balance (percentage of gross domestic product)</b>								
Revenue net of arrears/clearance withheld	13.0	23.4	8.2	25.0	19.9	19.7	21.2	20.2
Current expenditure	15.0	22.1	28.0	42.6	31.8	29.2	25.3	27.2
Total expenditure	25.1	29.3	34.2	48.3	36.4	31.0	27.5	29.1
Overall balance (commitment basis)	-12.1	-5.9	-26.0	-23.3	-16.5	-11.3	-6.3	-9.0
Public debt <sup>d</sup>	..	20.0	21.1	20.4	19.4	15.8	14.6	16.4
<b>External trade</b>								
Net current transfers (millions of dollars)	400	373	1 051	1 291	1 991	1 405	1 774	1 835
Exports of goods and services (millions of dollars)	562	752	478	1 046	1 639	2 320	2 579	2 624
Imports of goods and services (millions of dollars)	2 441	3 364	2 234	5 263	5 793	6 929	8 257	8 368
Trade balance (millions of dollars)	-1 879	-2 612	-1 756	-4 218	-4 154	-4 610	-5 678	-5 745
Trade balance (percentage of GDP)	-57.2	-61.2	-49.4	-78.9	-42.9	-33.0	-34.9	-33.7
Trade balance with Israel (millions of dollars)	-922	-1 598	-886	-1 887	-2 737	-2 869	-3 433	-3 957
Trade balance with Israel (percentage of GDP)	-28.1	-37.4	-24.9	-35.3	-28.3	-20.5	-21.1	-23.2
PNA trade with Israel/total PNA trade (percentage) <sup>e</sup>	83.5	67.5	56.9	46.3	59.9	63.0	64.0	62.8
PNA trade with Israel/total Israeli trade (percentage) <sup>e</sup>	4.2	3.8	1.9	2.3	2.7	3.1	3.4	3.3

Sources: Israel Central Bureau of Statistics, Palestinian Central Bureau of Statistics (PCBS), Palestinian Ministry of Finance and Palestinian Monetary Authority.

\* Preliminary estimates.

<sup>a</sup> PCBS has revised all national accounts data from 2004 on.

<sup>b</sup> Except for the population figures, all data exclude East Jerusalem, due to the fact that PCBS has no access to the city.

<sup>c</sup> Includes labour underutilization. In 2019, PCBS began to apply the resolutions and guidelines adopted by the nineteenth International Conference of Labour Statisticians, which produced a 25 per cent unemployment rate for 2019.

<sup>d</sup> Includes domestic and external debt but not arrears and PNA debt to the pension fund.

<sup>e</sup> Israeli and Palestinian trade data refer to goods and non-factor and factor services.

13. The dual-use list system, which bans the importation of technology and critical inputs, undermines the export sector. The list contains 56 items requiring “special approval” to enter Gaza and the West Bank and an additional 61 items that only apply to Gaza. The economic costs of the dual-use list as currently implemented have been shown to be significant. Relaxing the dual-use list ban alone would allow GDP to expand by 6 per cent in the West Bank and 11 per cent in Gaza by 2025.<sup>6</sup>

14. The prolonged closure of Gaza and severe restrictions have virtually eliminated its export sector. In 2019, the volume of exports from Gaza was only a quarter of the level in the first half of 2007, before the imposition of closures and restrictions. The sector is additionally constrained by lack of access to technology and inputs, electricity shortages and uncertainty.<sup>7</sup> The World Bank estimates that without the restrictions implemented by Israel, Palestinian exports could be twice their current levels, given the proximity of the Occupied Palestinian Territory to large regional markets.<sup>8</sup>

15. Even before the onset of the COVID-19 pandemic, economic forecasts for 2020 and 2021 were bleak. PCBS simulated the economy under a baseline scenario that assumed a continuation of the same conditions as in 2019 except for improved aid flows and, under this scenario, GDP per capita would decrease by 0.1 per cent.<sup>9</sup> However, under a more realistic scenario, which assumes a decline in aid, the tightening of restrictions by Israel and a delay in the transfer of clearance revenue by Israel, GDP per capita would decrease by 4.5 per cent and unemployment would worsen further. However, the World Bank projects that even under a scenario that assumes no change in the conditions that prevailed in 2019, the economy will slip into a recession in 2020 and 2021, implying a decline in GDP per capita of more than 3 per cent.<sup>10</sup>

#### **A. Fragmentation and mobility restrictions foster poverty**

16. The barriers to the movement of Palestinian workers have significant human and economic implications. They divide the West Bank into disconnected islands controlled by over 600 military checkpoints, gates and roads exclusive to settlers from Israel. The only contiguous part of the West Bank is Area C, but it remains under the control of Israel and inaccessible to Palestinian producers, even though it has the most valuable natural resources, such as fertile land, minerals and stones, as well as tourist attractions and cosmetic products. The separation barrier, along with settlements, deepens the physical, administrative and legal fragmentation of the Occupied Palestinian Territory into 227 disconnected territories lacking an integrated infrastructure.

17. Freedom of movement is an indispensable prerequisite for the enjoyment of economic rights, including in relation to work, education, health care and family and communal life. Restrictions by Israel can extend to the movement of personnel of relief and international organizations and supplies, causing delays and inflated costs, which undermine operational effectiveness and impede access to Palestinian communities in need of education, health care and relief.

18. Fragmentation and restrictions on movement hold back competition and competitiveness and pre-empt the realization of economies of scale. They give rise to productivity differences that correlate with the severity of the restrictions imposed under occupation; firms in East Jerusalem are 55 per cent more productive than their counterparts in the West Bank, while firms in Gaza are 15 per cent less productive than the latter.<sup>11</sup> An illustrative case is the erosion of the competitiveness of the stone and marble industry, which accounts for 20 per cent of exports and contributes substantially to employment. Sites

<sup>6</sup> World Bank, 2019c, *Jobs in West Bank and Gaza: Enhancing Job Opportunities for Palestinians* (Washington, D.C.); World Bank, 2019d, Economic monitoring report to the Ad Hoc Liaison Committee meeting, 30 April.

<sup>7</sup> See <https://www.ochaopt.org/content/gaza-blockade-restrictions-eased-most-people-still-locked>.

<sup>8</sup> World Bank, 2019c.

<sup>9</sup> PCBS, 2019.

<sup>10</sup> World Bank, 2019a.

<sup>11</sup> World Bank, 2019c.

suitable for quarrying located in areas controlled by PNA are largely exhausted, while major quarrying reserves in Area C are inaccessible to Palestinian firms. The ban on the importation of certain items and inputs forces producers to rely on outdated technology and thereby inflates costs and stifles competitiveness.

19. According to PCBS, by some estimates, Palestinians lose 60 million work hours per year (equivalent to \$274 million) as a result of mobility restrictions and also lose about 80 million litres of fuel, at a time of worsening global warming.<sup>12</sup> Assessing the cost of mobility restrictions, the World Bank estimates that easing road obstacles, a single element of a larger set of restrictions, just enough to improve market access by 10 per cent, would increase local output in the West Bank by 0.6 per cent and, therefore, in the absence of such obstacles, GDP per capita in the West Bank would have been 4.1 to 6.1 per cent higher than its observed level.<sup>13</sup> In 2019, this was equivalent to a total loss of \$589 million to \$876 million. Furthermore, some relaxation of other restrictions by Israel would, by 2025, enlarge the Palestinian economy by 33 per cent.

20. An empirical study concludes that closures substantially reduce the probability of being employed, hourly wages and the number of days worked, while they increase the number of working hours per day. Much of this impact is driven by reduced firm profitability and labour demand. The study concludes that checkpoints alone cost the West Bank economy a minimum of 6 per cent of GDP and that placing one checkpoint one minute away from a locality reduces the probability of being employed by 0.41 per cent, the hourly wage by 6.3 per cent and working days by 2.6 per cent.<sup>14</sup>

21. Many restrictions were imposed on Gaza in the early 1990s. After June 2007, Israeli restrictions were intensified. This significantly impacted the economy of Gaza and entrenched the dependence of more than 80 per cent of the population on international assistance. The latter, however, has been far from sufficient to prevent deep crises of poverty, food insecurity, hygiene and health, as well as electricity shortages and a dearth of safe drinking water.

22. Historically, the fishing industry in Gaza was a significant source of livelihood, employment and nutrition for the population. However, limitations by Israel on access to the sea, the ban on fish exports and restrictions on the importation of essential equipment have impacted the industry. Fishing off the coast of Gaza has been frequently restricted to between 3 and 12 nautical miles instead of the 20 nautical miles stipulated in the Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip (known as the Oslo II Accord). At times, restrictions are enforced with the use of force, sometimes resulting in arrest or injury and confiscation of Palestinian boats and equipment. In April 2019, the authorities of Israel expanded the fishing zone up to 15 nautical miles in part of the coastal area. However, uncertainty remained high. Between April and October 2019 alone, the fishing limits were changed 14 times, including a full ban on three occasions. Over the years, the uncertainty and restrictive measures have discouraged upgrading and maintaining of boats and fishing equipment. Consequently, the industry is too battered to take advantage of expanded fishing limits.<sup>15</sup>

23. The poverty rate in the Occupied Palestinian Territory increased from 25.8 per cent in 2011 to 29.2 per cent in 2017 and was at 13.9 per cent in the West Bank and 53 per cent in Gaza in 2017. Furthermore, by 2018, 68 per cent of households in Gaza had been identified as food insecure, compared with 53.3 per cent in 2014. The rising unemployment levels, declining donor support and falling per capita GDP indicate that the poverty crisis has only

<sup>12</sup> Applied Research Institute Jerusalem, 2019, Assessing the impacts of Israeli movement restrictions on the mobility of people and goods in the West Bank, available at <http://www.arij.org/publications/special-reports/305-special-reports-2019/955-assessing-the-impacts-of-israeli-movement-restrictions-on-the-mobility-of-people-and-goods-in-the-west-bank-2019.html>.

<sup>13</sup> World Bank, 2018, Obstacles on the road to Palestinian economic growth, Policy Research Working Paper No. 8385.

<sup>14</sup> M Cali and SH Miaari, 2012, The labour market impact of mobility restrictions: Evidence from the West Bank, Working Paper No. 130, Households in Conflict Network.

<sup>15</sup> See <https://www.ochaopt.org/content/gaza-s-fisheries-record-expansion-fishing-limit-and-relative-increase-fish-catch-shooting>.

become worse since 2017 in both Gaza and the West Bank. Vulnerability remains high, with a small change in income level or consumption expenditure capable of reducing a large percentage of households to poverty. The World Bank estimates that, in the West Bank, a 15 per cent reduction in expenditure increases poverty by 50 per cent.<sup>16</sup> The sensitivity of poverty to changes in expenditure is likely to be higher in Gaza.

24. In Gaza, the toll of monetary poverty is compounded by significant shortages of clean water, electricity and other essential services such as sanitation, education and health care. The closures and restrictions and a chronic energy crisis have undermined the availability and quality of health services. The inability of the health system to cope with demand means that Palestinians must seek treatment in the West Bank and East Jerusalem. However, to leave Gaza, patients require permits from authorities in Israel, and applications by patients and their family companions may be rejected.

25. Control by Israel of 85 per cent of Palestinian water sources forces the Occupied Palestinian Territory to buy 22 per cent of its water needs from the national water company of Israel. As such, per capita water consumption in the Occupied Palestinian Territory is below the internationally recommended level and in Gaza, 97 per cent of water pumped from the coastal aquifer does not meet World Health Organization standards.<sup>17</sup>

## **B. The impact of occupation on Palestinian women and youth**

26. Low wages and high unemployment demonstrate the extreme weakness of the labour market. Driven by the situation in Gaza, the depression-level unemployment rate in the Occupied Palestinian Territory rose from 31 per cent in 2018 to 33 per cent in 2019, despite a low labour force participation rate of 46 per cent. The unemployment rate in Gaza was 45.1 per cent in 2019, compared with 14.6 per cent in the West Bank, while the gender breakdown indicates 39.5 per cent unemployed men compared with 63.7 per cent unemployed women.

27. Policy measures introduced in 1967 enabled Israel to benefit from a reservoir of cheap Palestinian labour either directly or through the hiring of Palestinian enterprises in the Occupied Palestinian Territory as subordinate subcontractors, with no social or demographic burden in either case. By the early 1970s, one third of the Palestinian labour force was employed in Israel and settlements and the income they earned financed large amounts of Palestinian imports from Israel.<sup>18</sup> In 2019, 133,000 Palestinians, or 10 per cent of the West Bank workforce, were employed in Israel and settlements, mostly in the construction sector, which accounted for two thirds of the workforce, followed by agriculture and low-technology industries and services.

28. The situation of the Occupied Palestinian Territory as a reservoir of cheap labour constrains the capacity of the Palestinian economy to develop its competitive edge. One example, from which generalizations may be made, is the furniture subsector, which has achieved significant progress in terms of output and employment, allowing it to increase exports and replace imports in the domestic market. However, the sector has been significantly inhibited by the continuous flow of skilled workers to competitors in Israel that can afford to pay higher wages.<sup>19</sup>

29. One study empirically investigates the impact of employment in Israel and settlements on the Palestinian economy and concludes that, while it increases factor income received from Israel, it also decreases labour supply to the domestic market, dampens incentives to invest in human capital and negatively affects GDP growth.<sup>20</sup>

<sup>16</sup> World Bank, 2018, *West Bank and Gaza: Poverty and Shared Prosperity Diagnostic 2011–2017* (Washington, D.C.).

<sup>17</sup> See <http://www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=3690>.

<sup>18</sup> Economic Policy Research Institute, 2019a, Economic disengagement from Israel: Challenges and feasibility, Background Paper, Round Table 1.

<sup>19</sup> M Jamil, 2018, Developing the competitiveness of Palestinian product and increasing its market share: Furniture sector, Economic Policy Research Institute.

<sup>20</sup> J Agbahey, K Siddiq and H Grethe, 2016, Access to Israeli labour markets: Effects on the West Bank economy, available at <https://econpapers.repec.org/paper/agsiamf16/243992.htm>.



30. The dynamics of occupation affect demographic and regional groups in different ways, with women, youth and the population in Gaza significantly affected. The share of young workers who are not in education, employment or training is already high. In 2013, the ratio of those not in education, employment or training among youth aged 15–24 was one of the highest in the world and, by 2015, it had risen to 30 per cent.<sup>21</sup> Unfavourable labour market conditions since then suggest that the problem is growing worse. Moreover, between 2015 and 2019, women’s labour force participation, among the lowest in the world, stagnated at 10 per cent, while men’s participation reached 70 per cent. Meanwhile, 29 per cent of men employed in the private sector are paid less than the minimum monthly wage (\$420) compared with 35 per cent of women.<sup>22</sup>

31. Before the onset of occupation, about two thirds of Palestinian women were active in agriculture.<sup>23</sup> However, the sector has diminished, with the loss of land and water, and its share in GDP has declined, from 35 per cent in 1972 to 12 per cent in 1995, at the signing of the Oslo Accords, to less than 4 per cent in recent years. In terms of employment, Palestinian women paid the heaviest cost of the decline of the agricultural sector as alternative employment opportunities failed to emerge. Furthermore, Palestinian women do not benefit from employment in Israel and settlements as much as their men counterparts do because such employment is concentrated in the construction sector and commutes are difficult.

32. The decline of agriculture has not been accompanied by a corresponding rise in manufacturing, as is the case with successful structural transformation experiences in other countries. The share of manufacturing in GDP was 8 per cent in 1972 and 20 per cent in 1995 and has been around 12 per cent in recent years. Meanwhile, economic activity has been increasingly concentrated in the less dynamic, less productive, less employment-intensive services sector.

33. Women are often significantly and differentially affected by other practices such as the demolition of houses and barriers to movement. In some areas, parents may not allow girls to go to school, which results in lower attendance and higher dropout rates. The cumulative effects impact women’s education and participation in the labour force and place them at increased risk of poverty and marginalization.<sup>24</sup>

### C. Settlements: From facts on the ground to annexation

34. PCBS data suggest that occupation deprives the Palestinian people of 55 per cent of West Bank land classified as of high or medium agricultural value. It also affirms that most of the valuable land is in Area C, which covers 60 per cent of the area of the West Bank and remains under occupation by Israel and inaccessible to Palestinian producers.

35. To make room for the expansion of settlements in Area C and East Jerusalem, the zoning and planning regime of Israel restricts the possibility of Palestinians obtaining building permits for residential and other purposes. Palestinians are therefore forced to accommodate their growing needs by building without permits at the risk of costly demolition.<sup>25</sup>

36. In 2019, Israel demolished or seized 622 Palestinian structures in the West Bank, including 127 intended for humanitarian assistance. In Area C alone, there are over 13,000 pending demolition orders, including 40 for schools.<sup>26</sup> Demolitions often result in

<sup>21</sup> World Bank, 2019c.

<sup>22</sup> See <http://www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=3679>.

<sup>23</sup> I Shikaki, 2019, The political economy of growth and distribution in Palestine: History, measurement and applications, The New School for Social Research, The New School University, available at <https://online.ucpress.edu/jps/article/49/2/119/107381/Bibliography-of-Recent-Works16-AUGUST-15-NOVEMBER>.

<sup>24</sup> Women’s Centre for Legal and Counselling, 2019, Shadow report for the Committee on Economic, Social and Cultural Rights, Sixty-sixth session, Israel review.

<sup>25</sup> A/74/507.

<sup>26</sup> See <https://www.ochaopt.org/content/displacement-more-100000-displaced-gaza-hostilities-and-over-9000-west-bank-demolitions>.

poverty, displacement, loss of shelter and deprivation of basic services such as health care and education. The displacement of Palestinians doubled in 2019, compared with 2018, with 914 Palestinians affected, about half of whom were children.

37. In 2019 and early 2020, occupation was further entrenched through the accelerated expansion of settlements. The occupying Power approved the construction of 8,457 new housing units and the establishment of 13 new outposts. By the end of 2018, there were 150 settlements and 128 outposts. Settler population had reached 671,007 by the end of 2018, equivalent to about a quarter of Palestinians living in the West Bank.<sup>27</sup>

38. Palestinian agricultural livelihood is undermined by the uprooting of and damage to olive trees. To facilitate settlement expansion, in 2018 alone, the occupying Power uprooted 7,122 trees, bringing the total to over 1 million trees destroyed since 2000.<sup>28</sup> In 2019, the rate of incidents rose by 16 per cent compared with 2018 and by more than 100 per cent compared with 2017.<sup>29</sup> During the 2019 olive season (September–November), 60 incidents were recorded in connection with over 2,700 trees and approximately 160 tons of produce.<sup>30</sup>

39. The separation barrier does not coincide with the internationally recognized border, but runs into Palestinian land, effectively rendering it an annexation wall.<sup>31</sup> According to PCBS, the barrier has isolated more than 10 per cent of the area of the West Bank, disrupted 219 Palestinian localities, isolated 2,700 establishments, damaged 5,300 establishments and undermined the livelihood of 35,000 households.<sup>32</sup>

40. Eighty per cent of Palestinian farmers have steadily lost access to their land, which is between the separation barrier and the internationally recognized border, or in the seam zone.<sup>33</sup> For the few who still have some access, the restrictions in place impede essential year-round agricultural activities. Olive productivity and value have therefore been affected. A sample of 16 trees on each side of the separation barrier indicated that trees in the seam zone were half as productive as trees on the other side of the separation barrier.<sup>34</sup>

41. In previous reports, UNCTAD has highlighted the negative impacts of the expansion of settlements and annexation of Palestinian land, as identified in several United Nations resolutions. On 23 April 2020, the United Nations Special Coordinator for the Middle East Peace Process, in a briefing to the Security Council, stated that “on 20 April, the two leading political parties in Israel signed a coalition agreement to form a government [and] also agreed on advancing annexation of parts of the West Bank, starting 1 July 2020”.<sup>35</sup> This annexation of Palestinian land would “deal a devastating blow to the two-State solution” and the prospects of peace and economic development, and lead to further conflict and negative socioeconomic impacts.<sup>36</sup> The position of the United Nations on settlements is reiterated in numerous resolutions, such as resolution 476 of the Security Council. This resolution was reaffirmed in resolution 2334 of the Security Council, which condemned “all measures aimed at altering the demographic composition, character and status of the Palestinian Territory occupied since 1967, including East Jerusalem, including, inter alia, the construction and expansion of settlements, transfer of Israeli settlers, confiscation of land, demolition of homes and displacement of Palestinian civilians, in violation of international humanitarian law and relevant resolutions”.

<sup>27</sup> PCBS, 2020, Dr. Awad highlights the forty-four[th] annual commemoration of Land Day in statistical figures, 29 March, available at <http://www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3700>.

<sup>28</sup> See <http://www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=3457>.

<sup>29</sup> United Nations Office for the Coordination of Humanitarian Affairs, 2020, Record yield reported from 2019 olive harvest, 28 February, available at <https://www.ochaopt.org/content/record-yield-reported-2019-olive-harvest>.

<sup>30</sup> Ibid.

<sup>31</sup> International Court of Justice, 2004, *Legal consequences of the construction of a wall in the Occupied Palestinian Territory, Advisory Opinion, ICJ Reports 2004*.

<sup>32</sup> PCBS, 2020.

<sup>33</sup> See <https://law.acri.org.il/en/2014/11/24/twosysreport/>.

<sup>34</sup> United Nations Office for the Coordination of Humanitarian Affairs, 2020.

<sup>35</sup> See <https://unsco.unmissions.org/security-council-briefing-situation-middle-east-including-palestinian-question-delivered-sc-0>.

<sup>36</sup> Ibid.

42. On 11 February 2020, the Secretary-General of the United Nations, in his introductory remarks at a Security Council open briefing on the Middle East, stated that the position of the United Nations in this regard had been defined, throughout the years, by resolutions of the Security Council and General Assembly and that the United Nations remained committed to supporting the parties in their efforts to achieve a two-State solution and “realizing the vision of two States – Israel and Palestine – living side by side in peace and security within recognized borders, on the basis of the pre-1967 lines”.<sup>37</sup>

## II. Coronavirus disease pandemic strikes in a drained economy

43. The prolonged occupation and conflict have left the Palestinian economy vulnerable to shocks. The pandemic struck at a time of rapidly deteriorating conditions in the Occupied Palestinian Territory, with the first case of COVID-19 reported in early March. PNA responded by closing institutions and limiting the movement of people within the Occupied Palestinian Territory, and completely locked down some localities.

44. Before the outbreak, the most optimistic forecasts for 2020 projected sluggish economic growth and a further decline in GDP per capita. The severity of socioeconomic conditions before the pandemic is illustrated by the deep fiscal crisis, unemployment of one third of the workforce and 25 per cent poverty rate among Palestinian households.

45. Subsequent to the annual loss of \$144 million through deductions by Israel, the pandemic will have far-reaching fiscal implications. The slowdown in imports will decrease clearance revenue while the reduction in labour supply, freeze in economic activities and deterioration in output will impact tax revenue from income, profit and value-added tax. The impact of the revenue collapse will be heightened by the additional expenditure necessitated by the pandemic, which extends from health to security, social welfare and support for the private sector.

46. PNA declared an emergency budget, aimed at keeping public spending to a minimum, reorienting expenditure towards public health and ensuring adequate funding to the Ministry of Health and other vital public services, providing a safety net for vulnerable groups and maintaining the salaries of public employees who, together with pensioners, support a quarter of the population.

47. By mid-April 2020, the Ministry of Finance and the Palestinian Monetary Authority had reached an agreement whereby banks would extend \$400 million of additional financing to PNA for the six-month duration of the emergency budget. However, the fiscal impact of the pandemic and the large-scale losses borne by households and firms risks destabilizing the banking system, which is highly exposed to PNA and its employees, who together account for 35 per cent of total bank credits (\$3.11 billion).

48. Tourism is destined to be among the hardest hit sectors and its recovery from the pandemic will be slower than that of other sectors. Before the pandemic, the sector directly accounted for 4 per cent of the employed workforce and, in recent years, its contribution to the economy had been rising fast. During the first half of 2019, the sector registered a 21 and 40 per cent increase in hotel guests compared with the corresponding periods in 2018 and 2017, respectively.<sup>38</sup>

49. The general slowdown of the economy, cessation of operations and decline in sales has significantly affected the private sector. One month after the outbreak, private sector representatives announced plans to cut wages by 50 per cent. Meanwhile, the loss of income of the 140,000 Palestinians who work in Israel and settlements will significantly undermine household consumption and affect the entire economy via aggregate demand shock. Such workers earn, on average, 2.5 more than their counterparts employed in the domestic economy, and their households account for one third of private consumption, a key driver of GDP growth in recent years.

<sup>37</sup> See <https://www.un.org/sg/en/content/sg/statement/2020-02-11/secretary-generals-introductory-remarks-security-council-open-briefing-the-middle-east-delivered>.

<sup>38</sup> See <http://www.pcbs.gov.ps/site/512/default.aspx?lang=en&ItemID=3555>.

50. Over the years, occupation has cultivated and deepened the dependence of the Palestinian economy on official and private transfers from expatriates, both of which will likely decline in the aftermath of the pandemic, which is expected to burden the PNA budget with additional expenditures of over \$120 million at a time when donor support is expected to be at \$266 million, the lowest in more than a decade. With no buffer to cope with the additional fiscal pressure, by April, barely one month after the pandemic-induced restrictions had been initiated, PNA revenues from trade, tourism and transfers had declined to their lowest levels in 20 years. Therefore, the already wide PNA fiscal gap in 2020 is likely to exceed \$1 billion and could rise to \$1.4 billion or more.<sup>39</sup> The fiscal stress is compounded by the above-mentioned annual loss of \$144 million deducted by Israel from Palestinian tax revenue.

51. Meanwhile, Gaza has been in a worsening humanitarian crisis for the last 13 years. By 2019, real per capita GDP in Gaza had declined by 29 per cent compared with the level in 2006, before the prolonged closures that began in 2007, and by 39 per cent compared with the level in 1994, when PNA was established. The precipitous deterioration prompted the United Nations to warn that Gaza might become unliveable by 2020.<sup>40</sup>

52. In 2019, the unemployment rate in Gaza was at 43 per cent and youth unemployment was at 64 per cent, with more than half of the population living below the poverty line of \$4.6 per day. The risk of grave pandemic-induced damage to Gaza is heightened by poverty and the dismal economic conditions and weakened health-care system. These conditions have precipitated brain drain, with the departure of a large number of highly skilled entrepreneurs, as well as health and education professionals.<sup>41</sup> The drain of medical staff departing Gaza had compounded the pressure on the health-care system before the outbreak of COVID-19.

53. Prior to the pandemic, the situation in Gaza was marked by deteriorating basic hygiene, a lack of clean water, electricity shortages, debilitated sewage treatment facilities and a distinctively unprepared health-care system. Meanwhile, Gaza has one of the highest population densities in the world, with over two million people mostly living in 365 square kilometres, a significant part of which, along the border of Israel, is inaccessible because the occupying Power has designated it as a buffer zone. This makes the social distancing required to mitigate the spread of COVID-19 particularly challenging and underscores the urgency of effective donor engagement to manage the situation.

54. Various institutions have attempted to forecast the impact of the pandemic. Estimates of the economic loss vary with the assumptions made regarding the severity and duration of the crisis and the nature of the policy response. One such attempt is by the Economic Policy Research Institute, which uses a computable general equilibrium model to estimate the losses under certain assumptions about relevant variables. The Economic Policy Research Institute compares two scenarios to a baseline, which assumes that, in the absence of the COVID-19 pandemic, GDP in 2020 would have grown at a rate equal to the average growth rate in 2017–2019.<sup>42</sup> The optimistic scenario assumed that the pandemic would have been contained in two months after the lockdown ordered in March, paving the way for a gradual return to business as usual during the third month. The second scenario assumed that the state of emergency would extend for another 90 days and restrictions gradually removed afterwards, but at a slower pace. Compared with the baseline benchmark, under the first scenario, the real GDP of the West Bank would fall by 21 per cent in 2020 and public revenue would fall by 24 per cent. Under the second scenario, real GDP would fall by 35 per cent and public revenue would fall by 33 per cent.<sup>43</sup>

<sup>39</sup> See <https://reliefweb.int/report/occupied-palestinian-territory/nickolay-mladenov-special-coordinator-middle-east-peace-25>.

<sup>40</sup> United Nations, 2012, *Gaza in 2020: A liveable place? A report by the United Nations Country Team in the Occupied Palestinian Territory*.

<sup>41</sup> Economic Policy Research Institute, 2019b, *Brain drain from the Gaza Strip: Repercussions and possible solutions*, Background Paper, Round Table 4.

<sup>42</sup> Economic Policy Research Institute, 2020, *Preliminary assessment of the possible impacts of COVID-19 health crisis on the Palestinian economy*, Economic Monitor, Special Supplement.

<sup>43</sup> *Ibid.*

55. PCBS also simulates the economy under different assumptions pertaining to crisis duration, severity and scope. Assuming a three-month duration before a gradual return to normalcy, PCBS projects the contraction of GDP by 14 per cent compared with the baseline.<sup>44</sup>

56. Meanwhile, the World Bank projects the cost of the pandemic to be in the range of 2.5 to 7 per cent of GDP.<sup>45</sup> However, these projections are merely demand-driven, static and based on relaxed assumptions, and do not account for the supply-side shock nor for second-round effects.

57. The historical record suggests that the cost of the pandemic will be significant. Following the outbreak of the second intifada in September 2000, the occupying Power implemented a policy of border and internal closures that resulted in the widespread disruption of economic activity in the Occupied Palestinian Territory. As depicted in the figure above, the restriction reversed a cycle of double-digit growth in previous years, as real GDP contracted by 9, 9 and 13 per cent in 2000, 2001 and 2002, respectively. The consecutive three-year contraction translated into the decline of real GDP per capita by 11 per cent in 2000, 12 per cent in 2001 and 15 per cent in 2002.

## A. Recommendations

58. PNA is ill-equipped to cope with the far-reaching economic ramifications of the COVID-19 pandemic. Nor would it be able to cope with a future outbreak of the same or different situations. Its capacity to respond to sudden crises has been eroded over time by occupation and a lack of policy space and conventional economic policy tools to deal with shocks. It has little access to external borrowing and extremely limited fiscal space and does not have a national currency or an independent monetary policy. This underscores the urgency of action at the international level to ensure that PNA and the Palestinian people can weather the COVID-19 pandemic.

59. Beyond the COVID-19 pandemic, and in light of the continuous leakage of Palestinian fiscal resources to Israel and the annexation of large parts of the West Bank, there is no alternative to donor support for ensuring the survival of PNA and its capacity for the provision of minimal, vital services to the Palestinian people.

60. The international community can play a key role in alleviating the adverse conditions imposed on the Palestinian people by occupation. Donors need to promptly extend urgently needed assistance to prevent further socioeconomic disintegration in the Occupied Palestinian Territory. Donor-funded rescue packages can be used to stabilize the economy by providing concessional loans to small and medium-sized enterprises to ensure their survival, extending wage subsidies and unemployment compensation to the affected sections of the labour force, clearing PNA arrears to the private sector and ensuring the continuation of the banking system.

61. The international community can call on Israel to abide by the terms of the Paris Protocol and end the documented annual leakage of an estimated hundreds of millions of dollars of Palestinian fiscal resources to its treasury and reverse its decision, in effect since March 2019, to deduct \$144 million per year from Palestinian revenue. Furthermore, Israel needs to shoulder its responsibility under international law, including lifting of the closures and restrictions in Gaza to allow, among other things, the importation of needed medical equipment, hygiene kits, ventilators and other supplies. As an occupying Power, Israel needs to promote the well-being and safety of the population under its control, in line with the stipulations of international law, by facilitating the treatment of Palestinians who need health care in or outside Gaza.

62. United Nations agencies continue to face major financial challenges. Without further financial support, critical services in Gaza and the rest of the Occupied Palestinian Territory are highly likely to be diminished or suspended, with major humanitarian consequences, particularly in the aftermath of the pandemic. The international community can play a key

<sup>44</sup> See [http://pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_23-4-2020-forc-en.pdf](http://pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_23-4-2020-forc-en.pdf).

<sup>45</sup> World Bank, 2020.

role by ensuring proper funding to ensure the delivery of essential services such as health care, food, education and other assistance to millions of Palestinian refugees, particularly in Gaza.

63. If current trends continue, the damage to the Palestinian economy threatens the very existence of PNA. The fact that pandemics, epidemics and political, financial and climate-related crises could recur at a greater frequency underscores the urgent need to end the occupation so as to enable the Palestinian people to be able to develop the essential capacities and resilience to cope with inevitable future emergencies. The international community can play a key role in this regard by calling on the occupying Power to comply with its obligations under international law.

### **III. UNCTAD assistance to the Palestinian people**

#### **A. Framework and objectives**

64. For over three decades, UNCTAD has been supporting the Palestinian people through policy-oriented research, the implementation of capacity-building and technical cooperation projects, the provision of advisory services and the promotion of international consensus on the needs of the Palestinian people and their economy.

65. The mandate extended to UNCTAD was further expanded by the General Assembly of the United Nations in resolutions 69/20, 70/12, 71/20, 72/13, 73/18 and 74/10, which request UNCTAD to report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people. The UNCTAD programme of assistance to the Palestinian people responds to paragraph 55 (dd) of the Nairobi Maafikiano, which requests UNCTAD to “continue to assess the economic development prospects of the Occupied Palestinian Territory and examine obstacles to trade and development... 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”. The programme is also guided by paragraph 31 (m) of the Doha Mandate, paragraph 44 of the Accra Accord and paragraph 35 of the Sao Paulo Consensus.

66. The programme aims to build and strengthen the institutional capacities of the Palestinian public and private sectors. It addresses the constraints and emerging needs of the economy through the following four clusters:

- (a) Trade and macroeconomic policies and development strategies;
- (b) Trade facilitation and logistics;
- (c) Finance and development;
- (d) Enterprise, investment and competition policy.

#### **B. Operational activities under way**

67. In response to the afore-mentioned resolutions, in 2019, UNCTAD submitted a report to the General Assembly on the economic costs of occupation.<sup>46</sup> The report measures and draws attention to the cumulative fiscal costs of occupation and assesses the potential that the Palestinian economy could realize if these costs were alleviated. Previous pioneering research and studies by UNCTAD played a pivotal role in the reimbursement by Israel to PNA of hundreds of millions of leaked resources, as well as the lifting by Israel of the fees it imposes on Palestinian fuel and other imports. The report makes specific recommendations for mitigating these fiscal losses as a prerequisite for socioeconomic recovery in the Occupied Palestinian Territory.

68. In 2019, UNCTAD released a study that draws attention to the unrealized Palestinian oil and natural gas resource wealth, with a value estimated as in the tens of billions of dollars,

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<sup>46</sup> A/74/272.

which the Palestinian people could benefit from to foster development and pursue the Sustainable Development Goals.<sup>47</sup>

69. In 2019, UNCTAD benefited from a grant from the Government of Bahrain to sustain the professional capacity of its programme of assistance to the Palestinian people. The grant enabled UNCTAD to update its macroeconomic model of the Palestinian economy and enhanced its capacity to respond to different requests for support and advisory services to Palestinian public and private sector institutions. The updated model has been shared with PCBS and the Economic Policy Research Institute. This will enable PCBS and the Economic Policy Research Institute to provide Palestinian policymakers and the private sector with empirical tools to evaluate key aspects of the economy and formulate economic development strategies.

70. In 2019, UNCTAD continued to provide advisory services to the PCBS Forecasting Unit, which uses the UNCTAD macroeconomic model of the Palestinian economy and is run by professional staff trained by UNCTAD. PCBS forecasts are used by the Ministry of Finance for budget preparations and by other Palestinian agencies for forecasting and scenario analysis. Most recently, the model was used by PCBS to simulate the economy under different scenarios related to COVID-19. Furthermore, in April and May 2020, UNCTAD provided the Economic Policy Research Institute with a series of advisory services on modelling and assessing the economic impact of the COVID-19 pandemic.

### **C. Coordination, resource mobilization and recommendations**

71. In 2019, UNCTAD continued its support to the Palestinian people in coordination with PNA, Palestinian civil society, international organizations, donors and the United Nations Country Team.

72. Shortage of extrabudgetary resources continues to limit the ability of UNCTAD to deliver on this mandate and meet the growing needs for technical assistance by PNA, the private sector and civil society. Therefore, member States are invited to consider extending extrabudgetary resources to enable UNCTAD to fulfil the requests in the General Assembly resolutions and the Nairobi Maafikiano.

73. Adverse field conditions impact the delivery of support to the Palestinian people. UNCTAD staff face difficulties in obtaining permits to enter, exit and move within the Occupied Palestinian Territory.

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<sup>47</sup> UNCTAD, 2019b, *The Economic Costs of the Israeli Occupation for the Palestinian People: The Unrealized Oil and Natural Gas Potential* (United Nations publication, sales No. E.19.II.D.10, Geneva).