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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[*]

Note by the UNCTAD secretariat[**]

Executive summary

Under the impact of yet another year of prolonged occupation, 2013 proved to be one more year of lost Palestinian development. The economy continued to lose ground, and the slowdown that was had been witnessed in 2012 worsened in 2013. As a result, real per capita income in the Occupied Palestinian Territory declined, and unemployment, poverty and food insecurity worsened. Palestinian women continued to bear the brunt of occupation, which has condemned them to one of the lowest rates of labour market participation and the highest unemployment rate in the world. The Israeli occupation of Area C deprives the economy of the Occupied Palestinian Territory of much of its natural resource base and costs at the very least one third of its gross domestic product (GDP) every year. Despite difficult field conditions and limited resources, UNCTAD continues to respond to the complex needs of the Palestinian economy. However, securing extrabudgetary resources remains critical for enhancing the support of the secretariat to the Palestinian people.

[*] 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 3 September 2014.

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I. Economic stagnation under occupation

1. Although in 2013 donor aid recovered somewhat from its decline the previous year, it was not sufficient to compensate for the severe effects of the Israeli restrictions on the movement of Palestinian people and goods, pervasive uncertainty, persistent fiscal crisis and gloomy political horizons. Economic growth in the Occupied Palestinian Territory declined from an average of about 11 per cent in 2010 and 2011 to a mere 1.5 per cent in 2013, the lowest rate of growth since 2006, well below that of population growth.

A. Weak growth, fragile fiscal position and mass unemployment

2. In response to the recognition of Palestine as a non-member observer State in November 2012 by the United Nations General Assembly, Israel applied its traditional economic restrictions and withheld the transfer of clearance revenue to the Palestinian National Authority, further constraining its already thin fiscal space and curtailing its ability to pay its employees and suppliers. As a result of this and other long-standing constraints, real GDP growth was particularly weak in the West Bank. It fell from 5.6 per cent in 2012 to just 0.4 per cent in 2013. Growth in the West Bank contracted by 0.6 per cent in early 2013, mainly as a result of the economic disruption caused by Israel's withholding of clearance revenue, but it picked up again with the resumption of clearance revenue transfer.

3. In Gaza, despite the prolonged Israeli economic siege, growth was strong in the first half of 2013, mainly driven by the implementation of donor-funded projects. However, performance was reversed later in the year mostly due to the scarcity of inputs caused by the crackdown on the tunnel economy on the border with Egypt. Consequently, Gaza's growth fell from an average of 26 per cent in 2010 and 2011, to 4.5 per cent in 2013. Real GDP per capita in Gaza in 2013 was 20 per cent below its level in 1994 (Office of the United Nations Special Coordinator for the Middle East Peace Process, 2013).

4. The economic prospects of the Occupied Palestinian Territory depend on political trends, aid flows, the blockade of Gaza and Israeli restrictions on movement and access, as well as access to Area C. If the aid levels and political situation that prevailed in early 2014 persist, growth may not increase more than one point above its level of 2013, to hover around 2.5 per cent in 2014. This will not be sufficient to absorb the new labour market entrants; nor will it be high enough to keep up with population growth. It will therefore produce higher unemployment and lower per capita income.

5. Palestinian official data indicate that the overall rate of unemployment in the Occupied Palestinian Territory remained high in 2013 at 27 per cent, in Gaza at 36 per cent and the West Bank at 22 per cent. The unemployment crisis is particularly severe in Gaza due to the persistence of the Israeli blockade and the shutdown of the tunnel economy, which virtually brought the construction and transportation sectors to a halt.

6. In 2013 the Palestinian labour force expanded further by 3.7 per cent, but the rate of labour force participation remained unchanged at 43.6 per cent. This rate is very low, even by regional standards; it reflects the fact that many working-age adults have been discouraged from participation by the dearth of decent work opportunities. The low rate also reflects the weak participation of women, which stood at 17 per cent in 2013, compared with 69 per cent for men (table 2). With 70 per cent of the Palestinian population under 30 years of age, it is alarming that the unemployment rate is 41 per cent among Palestinian youth in the 15–24 years age group. The youth unemployment problem is even worse among women, with two out of three young women out of work.

7. The policy space available for the Palestinian National Authority to address the employment crisis is shrinking, and the ongoing Palestinian fiscal crisis implies that the

public sector, which currently employs 23 per cent of the workforce, cannot be relied on to absorb the growing work force. It is estimated that about 4.5 per cent of annual GDP growth is required just to absorb new labour market entrants. Therefore, short of a wide-ranging lifting of Israeli restrictions on the Palestinian economy and trade, and enabling greater access to economic and natural resources, the Palestinian private sector will remain unable to create jobs, and the severe unemployment crisis will worsen. This will in turn exert upward pressure on poverty and food-insecurity levels. Lifting the Israeli restrictions is a prerequisite for overcoming the unemployment crisis because it will not only enable greater investment in productive capacity, but it will make it possible to correct the distortion in investment patterns, which currently favours services at the expense of employment-intensive agriculture and manufacturing.

8. It is erroneous and misleading to view the fiscal crisis as the reason for the weakness of the economy of the Occupied Palestinian Territory. Fiscal weakness is the result, not the cause, of an economic weakness that is rooted in occupation. Long-term sustainable development cannot be achieved without addressing the fundamental weaknesses and structural distortions that were fuelled by decades of occupation. This structural deformation was driven by diverting investment towards the non-tradable goods sector, mainly services and residential construction, at the expense of agriculture and manufacturing, which were relatively employment intensive.

9. Consequently, the services sector accounts for two thirds of GDP, while the share of the agricultural sector has declined by 72 per cent since 1994, standing today at just around 4–5 per cent of GDP. The contribution of the light manufacturing sector to is also negligible, accounting for just 4 per cent of GDP and 4 per cent employment, despite the proximity to large markets, favourable bilateral trade agreements and a relatively well-educated labour force. The concentration of economic activity in the services and construction sectors is unhealthy because of the limited room for further expansion, as they are less dynamic than the agricultural and manufacturing sectors and are characterized by limited capacity for job creation and technological innovation.

10. Table 1 indicates that the 2013 trade deficit remained high at 41 per cent of GDP, even though it was lower than in 2012. This decline is caused by a slightly higher export level and stagnant imports, reflecting weak income growth. Although exports rose by 24 per cent, they cover less than one third of the import bill.

11. Prior to the blockade of Gaza, the local economy in the Gaza Strip was largely export oriented. However, exports to Israel have been banned, and trade with the West Bank has been severely restricted since 2007. These measures have wiped out the exports of Gaza almost completely. In 2013, only 182 truckloads of agricultural produce were exported, a substantial drop from the over 15,000 trucks recorded in 2000 (International Labour Office (ILO), 2014). Gaza’s low value added exports lack competitiveness for reasons related to the ongoing blockade, lack of access to inputs (some of which are considered by Israel as “dual-use”), destruction of infrastructure and high production and transportation costs.

12. Despite sluggish GDP growth, declining per capita income and below-expectation aid, the Palestinian National Authority remained committed to fiscal reforms, pursuing fiscal sustainability, controlling the budget deficit and mitigating the structural dependence on aid. Moreover, the Palestinian National Authority was successful in enhancing revenue performance, while controlling expenditure, and thereby reduced the recurrent budget deficit on a commitment basis from 30 per cent of GDP in 2009 to 14.5 per cent in 2012 and 11.7 per cent in 2013.

Table 1
Economy of the Occupied Palestinian Territory: Key indicators

	1995	*1999*	*2002*	*2006*	*2010*	*2011*	*2012*[a]	*2013*[a]
Macroeconomic performance[a]								
Real gross domestic product growth (percentage)	6.0	8.8	(13.3)	(5.2)	9.3	12.2	5.9	1.5
Gross domestic product, nominal (million dollars)	3 220	4 179	3 433	4 619	8 331	9 775	10 255	10 750
Gross national income, nominal (million dollars)	3 699	4 932	3 656	5 047	8 930	10 484	10 973	11 626
Gross national disposable income (million dollars)	4 099	5 306	4 708	6 323	10 921	11 730	12 090	13 500
Gross domestic product per capita (dollars)	1 400	1 493	1 125	1 363	2 185	2 489	2 534	2 578
Gross national income per capita (dollars)	1 608	1 763	1 199	1 489	2 342	2 670	2 711	2 788
Real gross domestic product per capita growth (percentage)	(1.3)	4.3	(15.7)	(8.1)	6.1	8.9	2.7	(1.5)
Real gross national income per capita growth (percentage)	0.7	4.1	(16.7)	(6.5)	3.6	8.6	3.6	(00.4)
Population and labour								
Population (millions)	2.34	2.96	3.23	3.61	4.05	4.17	4.29	4.42
Unemployment (percentage)[b]	32.6	21.7	41.2	29.8	30.0	25.8	26.7	27.0
Total employment (thousands)	417	588	452	636	744	837	858	885
Public sector	51	103	125	148	179	188	195	204
Israel and settlements	68	135	42	55	78	84	83	99
Fiscal balance (percentage, gross domestic product)								
Revenue net of arrears/clearance withheld	13.2	23.9	8.5	25.0	22.6	20.9	20.2	23.5
Current expenditure – commitment basis	15.3	22.6	29.0	49.3	36.9	33.1	32.4	33.5
Total expenditure – cash basis	25.6	29.9	35.4	55.0	41.5	31.3	29.1	31.0
Overall balance – cash basis	(12.3)	(6.1)	(27.0)	(30.0)	(18.9)	(10.4)	(8.9)	(7.5)
External trade								
Net current transfers (million dollars)	400	374	1 052	1 276	1 991	1 246	1 116	1 874
Exports, goods and services (million dollars)	499	684	380	678	1 152	1 510	1 670	2 067
Imports, goods and services (million dollars)	2 176	3 353	2 519	3 202	4 626	5 775	6 467	6 447
Trade balance (million dollars)	(1 677)	(2 670)	(2 139)	(2 523)	(3 474)	(4 266)	(4 797)	(4 380)
Trade balance (percentage, gross domestic product)	(52.1)	(63.9)	(62.3)	(54.6)	(41.7)	(43.6)	(46.8)	(40.7)
Trade balance with Israel (million dollars)	(922)	(1 598)	(886)	(1 887)	(2 737)	(3 085)	(3 481)	(3 096)
Trade balance with Israel (percentage, gross domestic product)	(28.6)	(38.2)	(25.8)	(40.9)	(32.9)	(31.6)	(33.9)	(28.8)
Palestinian National Authority trade with Israel/total Palestinian National Authority trade (percentage)[c]	92.3	68.6	53.5	72.5	75.5	68.7	64.9	60.4
Palestinian National Authority trade with Israel/total Israeli trade (percentage)[c]	4.3	3.7	1.8	2.2	2.7	2.7	2.8	2.7

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

Note: Except for the population figures, all data exclude East Jerusalem, since the PCBS has no access to the city.

[a] Preliminary estimates. The PCBS is currently revising its national accounts data and rebasing real values to 2010.

[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.

13. Gaza's seven-year-long excessive pressure on the public finances of the Palestinian National Authority eased slightly in 2013, although the Gaza Strip still contributed a meagre 3 per cent of the revenue of the Palestinian National Authority, while claiming 43 per cent of its expenditure. Gaza's contribution to the public finances of the Palestinian National Authority is unlikely to return to its pre-2007 level unless Israel lifts its blockade.

14. The fiscal control efforts of the Palestinian National Authority featured zero net hiring in the public sector, reduced allowances, rationalization of social transfers and non-wage expenditure, a decrease in net lending, an enlargement of the tax base and an increase in the value added tax rate by 1 per cent. Although the wage bill still consumes about 50 per cent of recurrent expenditure, the Palestinian National Authority was able to reduce its share of GDP from 26–16 per cent between 2006 and 2013 (World Bank, 2014). Importantly, this was done in an environment characterized by high unemployment, a private sector incapable of job creation and immense pressure on the Palestinian National Authority to provide employment opportunities for a young and growing labour force.

15. Nonetheless, the fiscal situation is much worse than suggested by official statistics, which should be viewed in the context of prolonged occupation. Furthermore, the fiscal reform efforts of the Palestinian National Authority were outweighed by the recent decline in foreign aid. The $1.3 billion of aid disbursements in 2013 were $500 million below the 2008 level. The reduction in aid pushed the Palestinian National Authority to resort to arrears accumulation to finance the deficit, adding $490 million to its arrears in 2013, two thirds of which are owed to the pension fund. Accumulation of arrears beyond a certain point is unsustainable and may be fiscally counterproductive if it limits the expansion of the tax base by undermining private investment.

16. In addition to arrears, the Palestinian National Authority resorted to borrowing from domestic banks and built up a domestic debt stock of $1.3 billion (50 per cent of public revenue) by early 2014. In an effort to provide the Palestinian National Authority with more financing options and restructure the debt away from high-interest, short-term loans, the Palestinian Monetary Authority announced its intention to issue three-year bonds worth $200 million to be traded within the banking sector. This should be viewed with caution because it could increase the reliance on domestic borrowing in the face of uncertain aid flows, and therefore may worsen the already high exposure of the banking system to the Palestinian National Authority.

17. The survival and credibility of the Palestinian National Authority requires a stable fiscal space, which is nearly impossible to attain under occupation. Coping with the narrow fiscal space through borrowing is not a viable solution. The Palestinian National Authority has little access to external credit, and the accumulation of arrears and borrowing from domestic banks are unsustainable. The option of expenditure compression and fiscal austerity – beyond a certain limit – is counterproductive in purely fiscal terms, as it can push the economy into a downward spiral. It is imperative, therefore that donors increase their support to the Palestinian National Authority to avoid the onset of socioeconomic and governance crises.

18. In this regard, donor fatigue should not set in as a result of lack of progress on the political front. On the contrary, donors would need to scale their support up, not down, to offset the negative economic impact of political uncertainty and any additional Israeli restrictions. However, this should not in any event be a substitute for ending the Israeli occupation.

B. Palestinian women disenfranchised and marginalized by occupation

19. With deteriorating economic conditions, rising unemployment and declining real wages in 2013, poverty and food insecurity have deepened in the Occupied Palestinian Territory. The latest available statistics show that the percentage of Palestinian households classified as food insecure rose from 27–34 per cent between 2011 and 2012. In the latter year, 26 per cent were considered to be marginally food secure and 16 per cent, vulnerable to food insecurity. This means that only one in four households in the Occupied Palestinian Territory is classified as food secure.

20. Palestinian households have been coping with food insecurity by deploying a series of short-term strategies, such as buying food on credit, defaulting on utility bill payments, borrowing from relatives and friends, as well as reducing the variety, quantity and quality of food consumed. The precarious socioeconomic conditions could have been worse, had it not been for the Palestinian National Cash Transfer Programme covering 104,030 households, 54 per cent of which are located in Gaza.

21. The humanitarian conditions in Gaza deteriorated further. From a dire state in 2011, socioeconomic conditions worsened in 2012, as 57 per cent of households were classified as food insecure, four out of five people depended on humanitarian aid and one third of households reduced the number of daily meals (ILO, 2014). The shortages in construction materials and related price hikes resulted in mass unemployment in the construction sector, which used to absorb 10 per cent of the Gaza workforce and thereby increased the poverty and food-security rates.

22. The Israeli constraints in general and restrictions on the mobility of Palestinian workers in particular, have had a disproportionately high impact on Palestinian women because they are more vulnerable not only to all the measures enforced at the checkpoints, but also to settler violence and prolonged commutes to work locations. Therefore, Palestinian women suffer higher unemployment rates, and their participation in the labour force is very low, even by regional standards. Moreover, the widespread poverty and retreat of discouraged Palestinian men from the labour market caused by the dearth of employment opportunities have affected women negatively. The situation has forced many of them to seek to augment household income by taking unprotected, low-paying jobs close to home in the informal and unprotected sectors, such as informal agriculture, petty trade, crafts and livestock production (Al-Botmeh, 2013).

23. Occupation exacts an additional socioeconomic toll by lowering the economic participation of the average Palestinian woman, who is well educated by international standards. This forestalls their potential contribution to sustainable social and economic development in the Occupied Palestinian Territory. The shocking rates of underutilization of youth, college graduates and women's human capital will have lasting effects on Palestinian society. Table 2 shows the disproportionate labour market marginalization of Palestinian women in terms of low participation and high unemployment rates.

24. Because of the structural distortions of the Palestinian economy, women's participation is concentrated in the informal sector and a narrow range of fields in the formal economy. Women tend to be represented more in professional and clerical public sector jobs, and at the lower end of the agricultural and informal sectors. The inability of the constrained Palestinian economy to produce decent employment opportunities leaves relatively young rural women, with only a high-school education or less, with dim employment prospects and a myriad of social disadvantages.

Table 2
Unemployment and labour force participation rates by sex in 2013 and 2008

	Unemployment rate (percentage)			*Participation rate (percentage)*		
	Overall	Male	Female	Overall	Male	Female
2013						
Occupied Palestinian Territory	23.4	20.6	35.0	43.6	69.3	17.3
West Bank	18.6	16.8	25.9	45.0	71.3	18.0
Gaza Strip	32.6	27.8	53.1	41.2	65.8	16.0
2008						
Occupied Palestinian Territory	26.0	26.5	23.8	41.3	66.8	15.2
West Bank	19.0	19.5	16.7	43.0	68.3	17.1
Gaza Strip	40.6	40.2	42.8	38.1	64.0	11.7

Source: PCBS, annual labour market survey.

Note: Unemployment rates follow the strict definition used by the International Labour Organization, while those in table 1 follow the relaxed definition, which includes discouraged workers who are not seeking employment at the present time.

C. Prerequisites for transforming the Palestinian economy

25. Despite the unanimous recognition of the credibility of the Palestinian National Authority's institutional capacity and the international consensus in favour of a two-State solution (United Nations Security Council resolution 1397 (2002)), the prospects for the emergence of a sovereign, contiguous, viable Palestinian State remain elusive. The continuous loss of land and natural resources to occupation have not only precluded the Palestinian National Authority from the provision of public goods in most of the West Bank where it lacks access and control, but now threatens to erode its hard-won achievements, breeding further political instability. It is therefore critical that the international community strengthen its support to the Palestinian National Authority at all levels, including the mobilization of the $1.8 billion required for successful implementation of the 2014–2016 National Development Plan.

26. The Office of the Quartet Representative (2013) announced the Initiative for the Palestinian Economy, which aims to achieve the rapid and positive transformation of the economy of the Occupied Palestinian Territory and envisages private and donor-funded investment in the range of $19 billion to foster a 50 per cent increase in GDP over six years.

27. Effective implementation of the plan, however, hinges on a set of "critical enablers" identified by the Office, most of which are firmly in the hands of Israel. These enablers include Israel's cooperation to facilitate investment in infrastructure, tourism, manufacturing, telecommunication, energy, water and housing in Gaza, East Jerusalem and Area C, as well as the reconnection of Gaza with the West Bank and the lifting of Israeli restrictions on movement and access.

28. Notwithstanding the large scope of the Initiative, history shows that international support is unlikely to put the Palestinian economy on a path of sustainable growth under occupation, constricted policy space and mobility restrictions. Neither will foreign investors come forth under such prohibitive conditions such as high production costs, political risk and uncertainty.

29. Overcoming the main impediments to the recovery of the Palestinian economy and resolving the Palestinian National Authority's fiscal crisis requires a fundamental change in the economic relations between Palestine and Israel. The lifting of occupation constraints on Palestinian development is a prerequisite for the successful implementation of the Initiative for the Palestinian Economy.

30. The asymmetry of power between the occupier and the occupied continues to be the norm in the Occupied Palestinian Territory. It is therefore incumbent on the international community to urge Israel to support the right of the Palestinian people to development by cooperating with the international community and facilitating the critical enablers identified by the Office of the Quartet Representative as preconditions for the success of the Initiative.

II. Settlements and occupation of Area C smother economic viability of the Occupied Palestinian Territory and the two-State solution

A. Status of occupied Area C and its economic resources

31. The Palestinian territory, which was occupied by Israel in 1967, encompasses about 6,200 square kilometres (km^2) or 22 per cent of historic Palestine under British mandate. It includes 360 km2 in the Gaza Strip, and about 5,840 km^2 in the West Bank, including East Jerusalem and the Dead Sea. According to the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip, signed by the Palestine Liberation Organization and Israel in September 1995,[1] the West Bank is divided into three parts: Areas A, B and C. Area C includes more than 61 per cent of the area of the West Bank, and is under complete Israeli control, including security, planning and zoning. Area C includes the most fertile agricultural areas and the bulk of Palestinian land reserves for development activities. Area A, which represents less than 18 per cent of the West Bank, is under the Palestinian National Authority's civil and security control, while Area B, which covers 21 per cent of the West Bank, is supposed to be under Palestinian civil control, and joint Israeli-Palestinian security control.

32. Although the Agreement was only a temporary arrangement, today, nearly two decades after signature, Israel continues to occupy, control, and impose measures altering the geographical and demographical status and state of the Occupied Palestinian Territory, particularly Area C. The occupation of Area C renders more than 61 per cent of Palestinian land in the West Bank and its natural resources out of reach for Palestinian development and breaks the geographical contiguity of the whole West Bank (figure 1). This simply pre-empts Palestinian development not only in Area C but in the entire Occupied Palestinian Territory by blocking any meaningful infrastructure or private sector development projects within and between Palestinian cities and villages, thereby further diminishing the economic viability of the two-State solution.

33. Actions taken by Israel to alter the conditions on the ground in Area C are also worrisome. These include the displacement of the Palestinian population, demolition of residential structures, restrictions on movement, access and economic activities, discriminatory regional planning and zoning systems, construction of the separation barrier and settlements, and the growing number of Israeli settlers. These measures are in contradiction with international law; as such Israel is in violation of its international

[1] Also known as Oslo II agreement; the full text is available at http://www.refworld.org/cgi-bin/texis/vtx/rwmain?docid=3de5ebbc0 (accessed 26 June 2014).

obligation as the occupying power. In the words of the United Nations Secretary General, "Settlements in the West Bank and East Jerusalem are illegal under international law and constitute obstacles to achieving peace. Demolitions of Palestinian households and other property are in contradiction to Israel's obligations to protect the civilian populations under its occupation."[2]

34. Despite unequivocal objections by the international community, voiced, for example in General Assembly resolution 68/82 of 16 December 2013, Israel stepped up the construction of settlements, and more than doubled the rate of expansion compared with 2012, thereby redefining the landscape in the West Bank, including East Jerusalem. Settlements and related infrastructure now cover 42 per cent of the land in the West Bank, and the settler population has tripled since the Oslo Accords to about 500,000–650,000 (ILO, 2014).

B. Israel's restrictive and discriminatory measures in Area C

35. The establishment of new Israeli settlements and expansion of existing ones has become common in the entire West Bank, not only in Area C.[3] Settlements have altered the West Bank's landscape to an archipelago of disconnected islands (figure 1), and settler violence against the Palestinian people exacts a serious economic toll. Such violence includes the takeover of, and damage to, private property; obstruction of access to grazing or agricultural land and water resources; and attacks on livestock, agricultural land and holy places, as well as uprooting and vandalizing of trees and damage to other agricultural property. In 2013, 10,142 trees were reported burned, uprooted, or otherwise vandalized, including in areas adjacent to settlements, compared with 8,259 trees in 2012 (OCHA, 2013a). These factors create relentless pressures on the Palestinian communities to leave their ancestral land and relocate.

[2] Message of the Secretary-General at the opening session of the International Meeting on the Question of Jerusalem, 12 and 13 May 2014. Available at http://www.un.org/sg/statements/index.asp?nid=7664 (accessed 1 July 2014).

[3] Data and information in this section were obtained mainly from the Office for the Coordination of Humanitarian Affairs (OCHA, 2014a, 2014b and 2013b).

Figure 1
Map of Area C

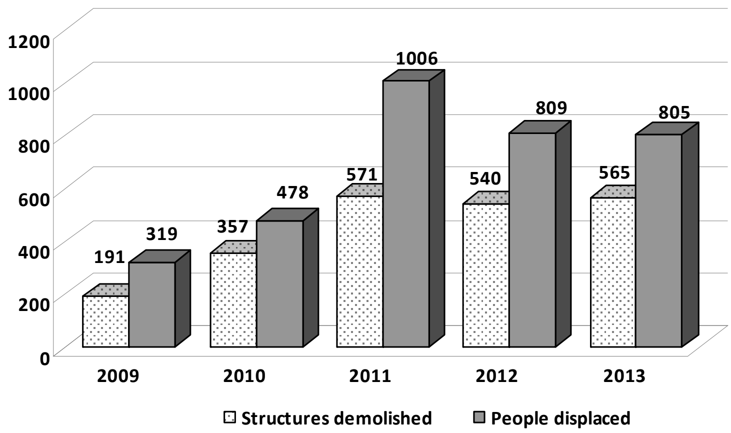
Source: OCHA, www.ochaopt.org/documents/ocha_opt_area_c_map_2011_02_22.pdf (accessed 27 June 2014).

36. It is estimated that 300,000 Palestinians in Area C live in 532 residential communities. According to OCHA (2011), 62 per cent of the occupied West Bank area is not accessible to Palestinians. This means that the Government of Israel has designated 39 per cent (more than twice that of area A) for settlements and their future expansion, 20 per cent for closed Israeli military areas (including firing zones), and 13 per cent for natural reserves. Consequently, Israel bans all Palestinian construction in 70 per cent of Area C, allowing a meagre 1 per cent for Palestinian spatial development, while heavily restricting construction in the remaining 29 per cent.

37. In 1970 Israel declared about 18 per cent of the West Bank, or 30 per cent of Area C, restricted areas designated as firing zones.[4] There are 38 Palestinian communities numbering 6,200 inhabitants within these zones, in addition to 50 communities with 12,000 residents living in close vicinity. Most of these communities existed before the establishment of these zones. On a regular basis, members of these communities are temporarily evicted from their homes, while others are subject to permanent Israeli eviction orders and demolition of their houses and residential structures. Palestinians living in these zones also experience confiscation of property, settler violence, harassment by soldiers, mobility restrictions and denial of access to water, other resources and infrastructures (OCHA, 2012a). In contrast, at least 10 Israeli outpost settlements, illegal even under Israeli law, are left to locate in the firing zones, facing no risk of demolition.

38. To maintain and reinforce the ongoing land transformation process, Israel established an extremely rigid permit regime, whereby any Palestinian building without a permit can be demolished and its inhabitants displaced. According to the Israeli non-governmental organization Bimkom – Planners for Planning Rights,[5] the Israeli Civil Administration has issued 12,570 demolition orders against Palestinian structures in Area C since 1988 (OCHA, 2014a). In a five-year period, 2009–2013, 2,224 Palestinian structures (figure 2) were demolished, including residential structures and schools in the firing zones. The demolitions peaked in 2011, with more than 1,000 structures demolished in one year. Consequently 3,417 Palestinians in Area C were displaced in five years only.

Figure 2
Demolitions and displacement in Area C, 2009–2013



Source: OCHA (2014a and 2013b)

39. While Palestinians are forcefully displaced, the Israeli settler population in Area C rose from 800 in 1972 to more than 360,000 in 2012 (PCBS, 2013). The annual growth rate of settlers – 5 per cent – is three times that of the population growth of Israel. Settlers in Area C live in at least 125 settlements and 100 outposts, with areas for future expansion nine times larger than their present built-up areas (B'Tselem, 2013).

40. The Israeli Civil Administration has powers with regard to planning, zoning, issuance of building permits and demolition in Area C. Of the 532 Palestinian communities in Area C, only 14 per cent presently have planning schemes that have been approved by the Civil Administration for development in an area representing only half a percentage

[4] Area equals the whole of Area A, which is under Palestinian control.
[5] See http://bimkom.org (accessed 27 June 2014).

point of Area C. Furthermore, of the 3,750 building permit applications submitted by Palestinians to the Civil Administration between 2000 and 2012, only 5.6 per cent were approved. In contrast, more than 15,000 residential units were built in settlements between 2000 and 2010 (B'Tselem, 2013).

41. Two thirds of the farmland of the Occupied Palestinian Territory, including the most fertile and best grazing land, is located in Area C, where Palestinian agriculture is under siege by an array of overlapping restrictions blocking Palestinian private and public sector access to their arable land. The Land Research Centre (2010) estimates that Palestinians cannot access half a million dunums[6] – 14 per cent of Area C – of arable land because it is either occupied or cultivated by settlers (187,000 dunums), or because of lack of water. Additionally, Palestinians are denied access to about one million dunums (27 per cent of Area C) that could be used for grazing or forestry.

42. A host of other Israeli restrictions ensures inefficient and uncompetitive use of Palestinian agricultural land. Palestinian farmers are not allowed to build structures or dig wells without Israeli permits, which are almost impossible to obtain. Palestinian farmers are also not allowed to use proper concentration fertilizers and are forced to use longer roads and pass through checkpoints, which increases transportation time and cost significantly (UNCTAD, 2013).

43. Some of the most fertile Palestinian agricultural land is trapped between the Green Line and the separation barrier in the seam zone. Palestinians who live in the seam zone need special permits to live in their own homes and access their lands. The costly and uncertain permit requirements undermine the scope for meaningful economic activity. Limitations on access have forced some permit holders to stop cultivation altogether or shift from labour-intensive to rain-fed, low-value crops. The restrictive permit system has led to lower productivity of rain-fed crops in the seam zone. Data collected by OCHA indicate that, in the last five years, the yield of olive trees in the seam zone was 60 per cent lower than the equivalent on the other Palestinian side of the separation barrier.

44. Similarly, Palestinians have very limited access to the natural resources in Area C – marble, stones and building materials, and Dead Sea minerals and salts, for example. While Israeli settlers are allowed to exploit these resources, including in settlement quarries (OCHA, 2012b), few new Palestinian quarry licences have been granted since 1995, and only a few of the existing ones have been renewed (Union of Stone and Marble Industry, 2011). In short, Palestinian public and private investments are forbidden, and sovereignty is denied in Area C.

C. Economic costs of the occupation of Area C

45. The economic costs of the Israeli occupation of Area C include the economic benefits that Israel and its settlements presently derive from Area C, as well as the potential benefits to Palestinians if the Israeli restrictions on access are lifted. Recently, the World Bank (2013) released a report providing partial estimates of the cost of occupation of Area C. The report constructs a counterfactual scenario assuming no physical, legal or regulatory constraints on Palestinian investment and no restrictions on Palestinian economic agents to freely invest, produce and sell in Area C. The study estimates the direct and indirect economic cost in specific sectors: agriculture, Dead Sea minerals exploitation, stone mining and quarrying, construction, tourism, telecommunications and cosmetics.

[6] One dunum equals 1,000 square metres, and one km^2 equals 1,000 dunums.

46. The report estimates that Palestinian GDP could increase by 7 per cent ($704 million in 2011) with free access to 326,400 dunums of arable land, hundreds of thousands of dunums of rangeland and forests, and access to irrigation water in Area C. However, the study excludes from the land notionally available to Palestinians the 187,000 dunums controlled by Israeli settlers.

47. Allowing Palestinian investors access to the large, cheap and easily exploitable deposits of potash and bromine of the Dead Sea could increase Palestinian GDP by 9 per cent ($918 million in 2011). Moreover, free access to 20,000 dunums of land that can be quarried could double the size of the Palestinian stone mining and quarrying industry, the Occupied Palestinian Territory's largest export industry, and could add 2 per cent ($241 million) to GDP. The latter could further increase by 3.5 per cent ($413 million) if Israeli restrictions on the construction, tourism and telecommunication sectors in Area C were lifted.

48. The sum of the direct increase in output from the sectors evaluated in the report amounts to 23 per cent of GDP ($2.2 billion in 2011). However, once the direct benefits are obtained and injected into the economy, additional indirect benefits would be generated as a result of the economic forward and backward linkages. This would have sizeable multiplier effects on the demand for output of other sectors. The report assumed a conservative multiplier of 1.5, which leads to the generation of indirect benefit of 12 per cent of GDP ($1.2 billion in 2011). Hence, the total direct and indirect benefit could be at least 35 per cent of GDP. In other words, the cost of occupation of Area C (considering the evaluated sectors only) is estimated at a minimum of 35 per cent of GDP.

49. At the fiscal level, if the improvement in GDP were to take place, the 2011 tax revenues of the Palestinian National Authority would rise by some $800 million, which would cut the fiscal deficit by half and significantly lower its dependence on aid. Also if the 35 per cent increase in output were to materialize, employment would rise by 35 per cent, and would thus ease the stress on the budget by removing the pressure on the Palestinian National Authority to act as an employer of last resort and provider of large social transfers to the poor and unemployed.

50. Finally, the lack of Palestinian control over Area C forestalls the development of institutional infrastructure such as banking and financial services. Although the World Bank report acknowledges that the cost of these restrictions and the potential benefits of lifting them are considerable, it makes no attempt to quantify them. Furthermore, the report does not consider that the restrictions in Area C have serious constraints on the rest of the Palestinian economy in Areas A and B, and Gaza. The report also confines itself to a number of specific sectors and does not consider all sectors in the economy. Therefore, the true total cost of the occupation of Area C is certainly far greater than 35 per cent of GDP.

51. Moreover, the report's estimated potential increase in the output of Area C itself is partial, conservative and non-exhaustive. For instance, the 187,000 dunums directly used by the settlements have been excluded from the calculations of land potentially cultivable by Palestinians. If the land in Area C had been transferred to the Palestinian National Authority by 2000 as envisaged in the Oslo Accords, the cultivable land area available for Palestinians would be 57 per cent larger than the land area cited in the World Bank report, that is to say, 513,400 dunums, instead of 326,400 dunums. This would imply a cost of occupation of at least 41 per cent of GDP, a 41 per cent increase in employment and a 60 per cent reduction in the fiscal deficit.

D. Recommendations for action

52. In its report to the Ad Hoc Liaison Committee in March 2013, the Palestinian National Authority affirmed that “Area C is an integral part of the State of Palestine, the backbone of the Palestinian economy, and true sovereignty thrives or dies with control over it” (State of Palestine, 2013). This was reaffirmed in the Palestinian National Development Plan 2014–2016, which was released in early 2014. The position of Area C in the Plan, and how to operationalize its strategic framework, was further outlined in another document released by the State of Palestine in May 2014 (State of Palestine, 2014).

53. The Office of the United Nations Special Coordinator for the Middle East Peace Process (2013) emphasized that Area C was fundamental to the contiguity of the West Bank and the viability of the Occupied Palestinian Territory and its economy. It was essential not only for the expansion of public infrastructure, but also for the development needs of communities in Areas A and B and for the fiscal sustainability of the National Palestinian Authority.

54. Furthermore the European Parliament, in its resolution 2012/2694 (RSP) of 5 July 2012,[7] expressed deep concern about developments in Area C and stressed the critical importance of social and economic developments in the Area for the viability of a future Palestinian State and keeping the prospects for the two-State solution alive. The resolution called on Israel to meet its obligations under international humanitarian law and protect the rights of the Palestinian population in Area C and East Jerusalem by ending house demolitions, evictions and the forced displacement of Palestinians and removing restrictions on access to land and water.

55. However, this broad international attention to Area C needs to be coordinated among the different domestic and international stakeholders to translate it into effective action. It is necessary, therefore, to establish coherent policies, strategies, mechanisms and coordinated actions to achieve these goals. With the help of the international community, the Palestinian National Authority should take the lead in establishing such a coordinated approach within the framework of its National Development Plan 2014–2016.

56. There is an urgent need for action by the Palestinian National Authority, Israel and the international community to ensure that Palestinians have unhampered access to their productive assets in Area C, without which economic development and the two-State solution are inconceivable.

57. Tapping the economic potential of Area C requires significant cooperation from Israel by taking the following measures:

(a) Removing the barriers it installed that hamper investment in all the identified sectors; especially in critical infrastructure;

(b) Attending to the hitherto neglected needs of Palestinian communities and granting permits for critical projects such as the construction of wells to meet growing demand for water;

(c) Allowing the Palestinian National Authority to establish a planning and zoning regime;

(d) Desisting from the demolition of Palestinian structures as the first step preceding the retroactive legalization of all the structures that Palestinians were forced to

[7] See http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2012-0298&language=EN (accessed 4 July 2014).

build without Israeli permits. Ultimately, Israel should cede control of Area C to the Palestinian National Authority in accordance with the Oslo Accords.

58. The Palestinian National Authority should consider the following action:

(a) Further enhancing its policy attention to Area C in a more strategic, systematic manner by, for instance, devising effective mechanisms and interventions for supporting, strengthening and protecting Palestinian communities, producers and investors in Area C in all areas, including access to finance, preferential tax treatment and risk sharing;

(b) Building its own legal capacity with the support of its international partners to provide Palestinian communities, producers and investors with legal aid to seek redress in all courts of law, including Israeli courts;

(c) Allocating part of its budget to invest and develop critical infrastructure, provide social services and enable farmers in Area C to use unutilized land, currently belonging to public entities and *waqf*[8] in ways that serve development and help farmers to persevere on their land and withstand the pressure to relocate;

(d) Establishing a national land registry to survey and register all land, especially in Area C;

(e) Enacting legislation, in particular, a Palestinian land law and mortgage and foreclosure laws. The latter would help mitigate the impact of the Israeli control over registration, ownership and transfer of land in Area C, which impedes the use of land as collateral to secure loans for agricultural and other purposes.

III. UNCTAD assistance to the Palestinian people

A. Framework and objectives

59. For the last three decades, UNCTAD has been consistently supporting Palestinian economic development endeavours by carrying out research, implementing technical cooperation projects and providing advisory services. This has been done in close cooperation with the Palestinian National Authority, the private sector, donors and international and non-governmental organizations. UNCTAD engagement has been geared towards strengthening Palestinian public and private sector institutional capacities that are essential for the establishment of a well-functioning, independent Palestinian State.

60. The UNCTAD programme of assistance to the Palestinian people is guided by paragraph 31(m) of the Doha Mandate, paragraph 44 of the Accra Accord, and paragraph 35 of the Sao Paulo Consensus. The programme addresses the Palestinian economy’s evolving, complex needs through four clusters:

(a) Trade policies and strategies;

(b) Trade facilitation and logistics;

(c) Finance and development;

(d) Enterprise, investment and competition policy.

[8] Endowment made by a Muslim to a religious, educational or charitable cause (http://www.oxforddictionaries.com/definition/english/waqf?q=waqf).

61. In 2013 and early 2014, UNCTAD undertook several missions to the Occupied Palestinian Territory and met with relevant officials of the Palestinian National Authority, members of the United Nations country team, civil society and donors, and discussed areas of current and forthcoming cooperation, ensuring harmonization at all relevant levels.

62. As the United Nation focal point for Palestinian trade and development, UNCTAD in 2013 contributed to the preparation of the United Nations Development Assistance Framework (UNDAF) 2014–2016 for the State of Palestine, which was signed in August 2013. UNDAF is the strategic planning framework that will guide the United Nation's development programming, in full partnership with the Palestinian National Authority. UNDAF focuses on six priority areas:

(a) Economic empowerment, livelihood, food security and decent work;

(b) Governance, the rule of law, justice, security and human rights;

(c) Education;

(d) Health;

(e) Social protection;

(f) Urban development, natural resource management and infrastructure.

B. Operational activities under way

63. In 2013, UNCTAD continued implementation of a project on developing Palestinian trade facilitation capacity, which aims at consolidating the institutional capacity of the Palestinian Shippers Council by increasing awareness of the best practices on trade facilitation and strengthening national capacities through the provision of training and advisory services. In 2013, legal, technical and training units were established within the Council with clear mandates, and support was provided by consultants and staff members recruited by UNCTAD. The Legal Unit has already handled some 12 legal and technical cases, offering legal advisory services to Palestinian shippers. This has led to considerable reductions in the cost of import supply chains.

64. UNCTAD rolled out a trade facilitation training programme tailored to the needs and circumstances of the Occupied Palestinian Territory. Its comprehensive curriculum features technical, theoretical and practical knowledge about export and import operations. Additionally, 12 workshops were held throughout the Occupied Palestinian Territory, covering trade-related topics ranging from export management to import regulations on food and agricultural products.

65. As in previous years, and in cooperation with the United Nations Division for Palestinian Rights, UNCTAD hosted and trained Palestinian staff from the Palestinian Ministry of National Economy in 2013. They were introduced to the work of UNCTAD, including the meetings of the Trade and Development Board, and the work of other Geneva-based international organizations and United Nations agencies.

66. During the past year UNCTAD continued cooperation with various United Nations agencies and provided inputs to several reports and meetings on the question of Palestine. For example, it took part in the International Meeting on the Question of Jerusalem, held by the Committee on the Exercise of the Inalienable Rights of the Palestinian People, in Ankara, in May 2014.

67. UNCTAD also delivered a presentation on the integration of Palestine in international markets to an international conference on the role of trade in promoting the economic development of Palestine. The conference was organized by the European Union

and the Government of Turkey. Furthermore, in the context of the post-2015 development agenda, the secretariat was invited by the Arab States/Middle East and North Africa Regional United Nations Development Group to contribute to the Arab Development Forum.

68. Building on its long-standing support to the development and modernization of Palestinian customs capacity, UNCTAD maintained close contacts with the Palestinian National Authority, potential donors and the United Nations country team in the Occupied Palestinian Territory to secure funding for a new technical cooperation project. The aim of the project is to consolidate achievements of previous projects and ensure a complete handover to the Palestinian National Authority of the Automated System for Customs Data, commonly known as ASYCUDA.

69. In another area, UNCTAD drafted a proposal in cooperation with UN Women and the International Trade Centre for a technical cooperation project entitled “One-Stop Shop to Create Sustainable Businesses with Export Potential”. The proposal is based on the UNCTAD-Empretec approach and aims to enhance the capacities of small and medium-sized enterprises, with a special focus on Palestinian women and youth.

C. Coordination, harmonization and resource mobilization

70. The acute need for mobilizing additional resources to deliver technical cooperation support became more apparent in 2013, as several vital projects envisioned for building critical Palestinian institutional capacities remained without funding. During the year, UNCTAD closely coordinated with the Palestinian National Authority, Palestinian civil society, the donor community and United Nations agencies, funds and programmes on ongoing projects and forthcoming activities.

71. Despite tangible progress in providing technical cooperation support, advisory services, and research and analysis, the contributions of UNCTAD to the Palestinian people remain hampered by the inadequacy of resources and difficult conditions affecting the access of staff and consultants to the field.

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