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UNCTAD's ASSISTANCE TO THE PALESTINIAN PEOPLE

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Introductory statement by the representative of the Secretariat

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Mr. President, distinguished delegates

I am honoured for the opportunity to present to you and the Board UNCTAD's Report on its Assistance to the Palestinian people.

Before turning to the main points of the report, I would like to point out that yesterday in New York three international reports were presented to the Ad Hoc Liaison Committee (AHLC): the first report was prepared by the UN (to which we make contributions), and the other two were by the World Bank and the IMF. I was not surprised to see that these reports not only echoed the findings of our report for this year, but also the findings of last year's report. Specifically, the IMF and World Bank reports echo what we said about the Palestinian fiscal fragility, the dangers of further fiscal austerity in the occupied Palestinian territory, and the need to address the issue of Palestinian fiscal leakage to the Israeli economy.

Mr. President, our report last year discussed the Palestinian fiscal leakage at length and we are glad to see that it has been picked up not only by the IMF and World Bank but also by the Israeli and Palestinian authorities. We are not referring to this because we want to say that we were ahead of the curve, but to say that UNCTAD was able to foresee the way ahead and to make a tangible contribution to the negotiations, which started last July, between the Palestinian and Israeli sides to seek ways to reduce the Palestinian fiscal leakage and therefore increase the Palestinian public revenue from the taxes on imports which Israel collects on behalf of the PA.

In the same spirit, we hope that the analysis presented to you in this session will also make contributions not only to addressing emerging crises but more importantly to identifying the long-term constraints on the Palestinian economy and propose solutions for these constraints so that it can be transformed into a dynamic economy capable of meeting the aspirations of the Palestinian people and capable of sustaining the future Palestinian state as called for by the relevant UN resolutions. And by doing so, we hope that through our reports and analysis, we make contributions to a lasting peace in the Middle East.

Mr. President, I will now turn to the main points of this year's report. Recent data suggest that the economy of the occupied Palestinian territory grew by almost 10 percent in 2011 and 2010. For a lay person, these rates may suggest a healthy and strong economy. However, our analysis shows that this growth is deceptive and not sustainable for the following reasons: First, most of this growth is driven by the reconstruction activities in Gaza, undertaken to partly rehabilitate some of the devastation of the Israeli military operation in Dec. 2008- Jan. 2009. In 2011, while the local economy in Gaza grew by 23 percent, the West Bank economy grew by 5 percent; and second this growth is a reflection of the low base of economic activities in the previous years.

Mr. President, the unsustainability of the recent growth stems from the fact that Gaza remains under an almost complete economic siege; mobility barriers in the West Bank increased from 500 in 2010 to 523 in 2011; also impoverishment, the incidents of demolition of Palestinian infrastructure and homes and the expansion of illegal settlement in the West Bank have increased. At the same time, the Palestinian Authority's fiscal crisis is getting deeper and donor support is declining.

All other indicators suggest an economy in a persistent crisis and heavily dependent on Israel with: food insecurity affecting two thirds of the Palestinians in the OPT; unemployment remains high at 26 percent; more than 8 percent decline in the real wage in the last five years and a 4 percent decline in labour productivity.

What is also alarming is the situation in East Jerusalem. Poverty in the city is higher than the remaining OPT, jumping from 64% in 2006 to 78% in 2012; unemployment affecting 40% of Palestinian men and 85% of women; the city lacks municipal infrastructure, housing and economic opportunities; and the Separation Barrier is deepening its isolation from the rest of the Palestinian economy.

Now allow me, Mr. President, to turn to the Palestinian fiscal crisis. As a result of the persistent crisis, while the Palestinian Authority's arrears to the private sector grew by more than half a billion dollars, its debt to domestic banks reached 1.1 billion or 50% of public revenue. At the same time, donor support was more than half a billion dollar short of Palestinian financing needs. In 2011, net current transfers to the OPT (mostly donor support) were 27% less compared to its level in the last two years. It is estimated that the financing gap in 2012 will be $1.3 billion or 15 percent of GDP.

The PA’s fiscal instability is also linked to the channeling of the Palestinian trade revenue clearance (what we called in last year's report revenue leakage to Israel). Clearance revenue alone represents 70 percent of Palestinian public revenue. In 2002, 2006 and more recently in May and November 2011, Israel withheld Palestinian clearance revenue. This undermines the PA’s ability to meet its contractual obligations to the private sector and pay wages on time, and also creates a climate of uncertainty and risk for private suppliers and creditors and therefore undermines economic growth and the prospects of investment in the OPT.

Mr. President, the Palestinian economic dependence on Israel continues to be an issue of major concern. Trade with Israel in 2011 accounted for 83% of Palestinian trade deficit. This forced dependence, deprives Palestinians of competitive sources of imports and also markets for exports. It is essential to reduce this dependence and to reorient Palestinian trade to the Arab and regional economies, where trading arrangements are more favorable.

Mr. President, the key obstacles to Palestinian economic development are related to occupation and much less to that of the PA's economic policies. This is so because marketing opportunities are eliminated as a result of mobility restrictions, the erosion of Palestinian land and natural resources upon which productive activities can be developed, and because of the thwarting of the private sector investment as a result of higher costs and risk to producers. After all Palestinian Public infrastructure and private investment are extremely restricted in 63 % of the West Bank area - Area C, which is under Israel control.

Now, Mr. President, I would like to draw the attention of the Board to our preliminary analysis of the Palestinian Agriculture sector. Years of occupation have rendered Palestinian agriculture incapable of realizing its productive and employment potential and has led to the systematic erosion of the Palestinian agricultural productive base. The sector which used to produce 12 percent of GDP in 1995, is now contributing only about 5.5 percent. Only 35% of the OPT irrigable land is actually irrigated. This costs the economy 110,000 jobs per year and 10% of GDP. About 10% of the West Bank land is no longer accessible to Palestinian farmers because of the construction of the Separation Barrier. Since the occupation in 1967, more than two and half million productive fruit trees have been uprooted, 800,000 of which were olive trees. Because Palestinian fishermen are restricted to 3 nautical miles fishing area, (instead of the agreed upon 20 miles), the fishing industry in Gaza has collapsed with 66% reduction in the number of fishermen.

As for the water resources available to the Palestinian farmers, while neither the PA nor Palestinian farmers are allowed to construct wells in the West Bank, Israel extracts more than 82% of the West Bank sourced-water.

The report proposes specific actions to revive the highly important Palestinian agriculture sector. Specifically we call for corrective measures to replant uprooted trees, to compensate farmers for low quality factors of production and to help them market their products domestically and internationally. But most importantly we call for the establishment of a Public Agriculture development Bank, which would take into consideration the aforementioned facts.

Mr. President, allow me now to brief the board on UNCTAD's technical cooperation activities. In 2011 UNCTAD launched a three-year technical cooperation project to build the Palestinian trade facilitation capacity and strengthen the institutional capacity of the Palestinian Shippers' Council. UNCTAD also continues to play a pivotal role in building and modernizing Palestinian Customs. UNCTAD developed a new intervention to consolidate previous achievements in this area. We hope that the new project will commence towards the end of 2012.

We also made a contribution to strengthen the economic modeling and forecasting capacity of Palestinian policymakers, by training staff from the PA and the Palestinian Central Bureau of Statistics to use UNCTAD's econometric model of the Palestinian economy to produce official economic forecasts and assess alternative economic policy scenarios. We have also trained Palestinian diplomats and introduced them to the UN system in Geneva.

At this point we would like to thank member States for their trust and for the expanded mandate which they extended to us in Doha last April, where they specifically requested UNCTAD to strengthen its Programme of Assistance to the Palestinian People.

In closing, Mr. President,

The secretariat seeks the active support of all members to secure sufficient and predictable resources to enable UNCTAD to implement the Doha Mandate, to deliver effective and tangible interventions, and to maximize UNCTAD’s unique contribution to Palestinian development at a time when it is most needed. We look forward to benefiting from a constructive, interactive discussion here at the Board and addressing the diverse and urgent issues I have reviewed.

Thank you