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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

In 2015, Israel withheld Palestinian fiscal revenue for four months, donor aid declined and Israeli settlements continued to expand into the Occupied Palestinian Territory, while poverty and unemployment remained high. The Occupied Palestinian Territory continued to be a captive market for exports from Israel, while occupation neutralized the potential development impact of donor aid. Genuine reconstruction has yet to take off in the Gaza Strip despite \$3.5 billion in donor pledges. Gaza's socioeconomic conditions worsened and the infant mortality rate increased for the first time in 50 years.

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Occupation imposes a heavy cost on the economy of the Occupied Palestinian Territory, which might otherwise reach twice its current size. Yet, to date, attempts to estimate the economic cost of occupation remain partial and ad hoc. There is a need to establish a systematic, comprehensive and sustainable framework within the United Nations system to report to the General Assembly, as requested in its resolutions 69/20 and 70/12. Despite limited resources, UNCTAD continues to deliver technical cooperation, training and advisory services to the Palestinian people. While funding from Qatar will allow UNCTAD to maintain a third professional post in the Assistance to the Palestinian People Unit for 18 months, additional resources are needed for long-term retention of the post and the implementation of unfunded projects.

I. Impact of the 2014 recession persists into 2015

1. 2015 was yet another difficult year for the Palestinian people. With weak recovery from the 2014 recession, gross domestic product (GDP) growth was too modest to improve per capita income. The impact of the 2014 recession, triggered by the Israeli military operation in Gaza, persisted into 2015. In the West Bank, growth decelerated from 5.3 to 2.5 per cent in 2014–2015, while in Gaza, following a 15 per cent contraction in 2014, growth was a mere 6.8 per cent in 2015, which was too weak given the vast grounds the local economy had lost during the last decade. The 3.5 per cent overall rate of economic growth in the Occupied Palestinian Territory leaves per capita income stagnant and still lower than its 2013 level, prior to the Israeli military operation in Gaza.

2. The main reasons for the 2015 stagnation were the decline in foreign aid; the suspension by Israel of clearance revenue transfers to the Palestinian National Authority (PNA) in the first four months of 2015; the slow pace of reconstruction in Gaza due to continuing restrictions by Israel on imports that are essential for reconstruction; and low levels of disbursement by donors.

3. The observed GDP growth in Gaza was not in any way related to enhancing productive capacities to pave the way for sustainable development. Growth in Gaza was concentrated in the construction sector, and geared to rebuilding infrastructure destroyed during the Israeli military operation in 2014, rather than on gaining new ground. In the West Bank, the modest level of growth was concentrated in the services sector and wholesale and retail trade, while agriculture and manufacturing both contracted in 2015.

4. The weak GDP growth in the Occupied Palestinian Territory is unsustainable as it is driven by consumption, facilitated by an expansion in bank credit to PNA and its public employees. Credit to the private sector grew by nearly 19 per cent in 2015, while bank credit extended to PNA increased by 17.5 per cent, as the private credit-to-deposits ratio has nearly doubled in the last four years. However, such credit was concentrated on construction and consumer loans; the productive sectors of the economy were excluded from credit expansion.

A. Permanent unemployment crisis persists and food insecurity expands

5. In 2015, high unemployment persisted despite a low labour force participation rate of 46 per cent. This means that if discouraged workers who dropped out of the labour force are taken into account, the official rate of unemployment is much higher. The unemployment rate in the Occupied Palestinian Territory was 26 per cent in 2015, compared to 12 per cent in 1999, prior to the tightening of restrictions on movement and access of Palestinian labour and goods (table 1). According to the Palestinian Central Bureau of Statistics (PCBS), a modest reconstruction process boosted the labour market in Gaza, and unemployment declined by 9 percentage points to the still high level of 38 per cent in 2015. In the West Bank, due to weak growth, unemployment increased by one percentage point to 19 per cent.

6. Full control of Area C (61 per cent of West Bank area) by Israel, other restrictions and the blockade imposed on Gaza have generated a permanent unemployment crisis in the Occupied Palestinian Territory. Lack of employment opportunities in the domestic economy forces thousands of unemployed Palestinians to seek employment in Israel and in settlements in low-skill, low-wage manual activities. In 2015, nearly 12 per cent of employed Palestinians worked in Israel and in settlements (table 1). Employment in Israel and Israeli settlements accounted for 16 per cent of the employed population in the West Bank. However, this figure is problematic, as a significant number of Palestinians

working in Israel are not able to obtain a work permit and therefore lack legal protection. Without the employment in Israel and Israeli settlements, unemployment in the West Bank would be in the range of 35 per cent, a rate as high as that in Gaza. This forced dependence on employment in Israel and in settlements magnifies the vulnerability of the Palestinian economy to political shocks, as Israel can at any time bar Palestinian workers, even those with Israeli permits, from entering Israel and settlements.

7. Weak economic growth and high unemployment have deepened chronic food insecurity. Recent data show that two thirds of Palestinians are affected by food insecurity, with 33 per cent food-insecure, 21 per cent marginally secure and 13 per cent vulnerable to insecurity (Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO), 2016). In 2016, 1.1 million people (21 per cent of the population) in the West Bank and 1.3 million people (73 per cent of the population) in Gaza need some form of humanitarian assistance.

8. House demolition continued in 2015 and accelerated in early 2016, with 587 Palestinian structures demolished between September 2015 and April 2016, while construction of 1,800 housing units in Israeli settlements was initiated and greater expansion planned for 2016. The long-term trend of annexation of Palestinian land also continued. In March 2016, Israel declared 2,342 dunums of land south of Jericho as State land (UNSCO, 2016).¹ At present, there are approximately 142 settlements in the West Bank, which brings the number of Israeli settlers to about 21 per cent of the Palestinian population of the West Bank (PCBS, 2016).

9. In April 2016, the Secretary-General of the United Nations advised the Security Council that demolition of Palestinian homes and businesses in the West Bank was continuing at an alarming rate. By early April, the number of Palestinian structures demolished had exceeded the total of those destroyed in 2015, displacing 840 people, while accelerated settlement activity created facts on the ground and cast doubt on Israel's commitment to a two-State solution (United Nations, 2016).

B. Fiscal sustainability is unlikely without rolling back occupation

10. In 2015, PNA continued its ongoing efforts (since 2008), to narrow the budget deficit. These efforts have been implemented in an unfavourable politico-economic environment characterized by recurrent and costly confrontations, a small tax base, lack of sovereignty over 60 per cent of the West Bank, an unfavourable fiscal situation in Gaza and the leakage of hundreds of millions of dollars of Palestinian fiscal revenues to Israel (UNCTAD, 2014a).

11. In 2015, PNA succeeded in reducing the overall fiscal deficit to 11 per cent of GDP, down from 27 per cent in 2006 (table 1). Total revenue grew by 9 per cent, to 22 per cent of GDP. However, the potentially positive effects of revenue growth were offset by a 30 per cent decline in donor aid. The \$800 million in donor aid received covered 55 per cent of the \$1.45 billion budget deficit and PNA financed the ensuing \$650 million gap through the accumulation of arrears. Its net borrowing from domestic banks increased by \$163 million, inflating total domestic and external debt to \$2.5 billion by the end of 2015. This will add pressure on future PNA budgets as arrears, loans and interest fall due.

12. Following recent trends, donor aid was mainly used for budget support, with near total neglect for development support. Only 11 per cent of donor aid financed development expenditure (World Bank, 2016a). Consequently, PNA was unable to reverse the downward trend of public investment, which has recently been around 2 per cent of GDP.

¹ One dunum equals 1,000 square metres.

Table 1
Economy of the Occupied Palestinian Territory: Key indicators^a

	1995	1999	2002	2006	2010	2013	2014*	2015*
Macroeconomic performance								
Real gross domestic product growth (percentage)	7.1	8.3	-12.5	-3.9	8.1	2.2	-0.2	3.5
Gross domestic product nominal (millions of dollars)	3 283	4 271	3 556	4 910	8 913	12 476	12 716	12 677
Gross national income (millions of dollars)	3 723	5 025	3 775	5 333	9 512	13 636	14 198	14 059
Gross national disposable income (millions of dollars)	4 122	5 398	4 826	6 624	11 503	14 825	15 388	15 250
Gross domestic product per capita nominal (dollars) ^a	1 427	1 553	1 182	1 449	2 339	2 992	2 960	2 866
Gross national income per capita nominal (dollars)	1 618	1 827	1 255	1 573	2 496	3 271	3 305	3 178
Real gross domestic product per capita growth (percentage)	-0.2	4.8	-15.0	-6.8	5.0	-0.8	-3.1	0.5
Real gross national income per capita growth (percentage)	0.5	4.7	-16.1	-5.4	2.7	0.5	-1.9	-0.2
Population and labour								
Population (millions) ^b	2.34	2.96	3.23	3.61	4.05	4.42	4.55	4.68
Unemployment (percentage)	18.2	12.0	31.2	23.7	23.7	23.4	26.9	25.9
Total employment (thousands)	417	588	452	636	743	883	913	959
In public sector	51	103	105	147	178	203	209	211
In Israel and settlements	68	135	42	55	78	99	107	112
Fiscal balance (percentage of gross domestic product)								
Revenue net of arrears/clearance withheld	13.0	23.4	8.2	25.0	21.6	18.5	22.1	22.2
Current expenditure	15.0	22.1	28.0	46.4	34.5	29.6	32.5	31.8
Total expenditure	25.1	29.3	34.2	52.1	39.6	31.1	34.6	33.6
Overall balance (commitment basis)	-12.1	-5.9	-26.0	-27.1	-17.9	-12.6	-12.5	-11.4
External trade								
Net current transfers (millions of dollars)	400	373	1 051	1 291	1 991	1 189	1 190	1 191
Exports of goods and services (millions of dollars)	562	752	478	736	1 367	2 072	2 172	2 323
Imports of goods and services (millions of dollars)	2 441	3 364	2 234	3 683	5 264	6 804	7 209	7 501
Trade balance (millions of dollars)	-1 879	-2 612	-1 756	-2 947	-3 897	-4 732	-5 037	-5 179
Trade balance (percentage of gross domestic product)	-57.2	-61.2	-49.4	-60.0	-43.7	-37.9	-39.6	-40.8
Trade balance with Israel (millions of dollars)	-922	-1 598	-886	-1 887	-2 737	-3 167	-2 920	-2 748
Trade balance with Israel (percentage of gross domestic product)	-28.1	-37.4	-24.9	-38.4	-30.7	-25.4	-23.0	-21.7
Palestinian National Authority trade with Israel/total Palestinian National Authority trade (percentage) ^c	83.5	67.5	56.9	64.4	66.6	60.4	56.7	55.3
Palestinian National Authority trade with Israel/total Israeli trade (percentage) ^c	4.2	3.7	1.8	2.2	2.7	2.9	2.9	3.1

Sources: Israel Central Bureau of Statistics; PCBS; Palestinian Ministry of Finance.

* Preliminary estimates.

^a While the new sheqel value of nominal GDP increased in 2015, its dollar value does not show this increase due to changes in the dollar-new sheqel exchange rate.

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

^c Israeli and Palestinian trade data refer to goods and non-factor and factor services.

13. Despite the repeated withholding of Palestinian clearance revenue (see paragraph 16) by Israel since 1994, the heavy fiscal cost of occupation and the reorientation of public expenditure to meet emergency and humanitarian needs, PNA has managed to consistently narrow the deficit-to-GDP ratio. This suggests that its fiscal management is relatively sound and that the chronic fiscal crisis is mainly caused by occupation. However, this is not recognized by PNA development partners, who continue to implicitly, and at times explicitly, suggest that PNA reforms alone can achieve fiscal sustainability.

14. UNCTAD analysis of the Palestinian fiscal crisis continues to set the agenda of the Palestinian economic policy discourse. Pioneering research on Palestinian fiscal leakage to Israel by UNCTAD (2011a; 2012; 2014a) has been most recently cited by the International Monetary Fund (2016), Office of the Quartet Representative (2016) and World Bank (2016a). These three agencies formed a task force to study this problem and facilitate a resolution. UNCTAD work also led to the commencement of negotiations between Israel and PNA on this problem. An agreement was reached whereby Israel will transfer \$128 million to cover some of the losses accumulated over the years by the Authority. Furthermore, the Palestinian fiscal leakage was a prominent topic at the April 2016 meeting of the Ad Hoc Liaison Committee (see <http://www.lacs.ps/article.aspx?id=6>), and its chair's summary emphasized the great potential in Israel and PNA closing fiscal leakages and addressing revenue losses under the current arrangements (Ad Hoc Liaison Committee, 2016).

15. The combination of stricter occupation and declining donor aid constrain economic growth and may roll back PNA achievements in building the institutions required for a well-functioning economy to underpin a viable future State. Fiscal compression, under conditions of worsening occupation, necessitated by declining donor aid, could lead to painful and unpredictable consequences.

C. Excessive handling fees on Palestinian imports

16. In accordance with the Protocol on Economic Relations signed in Paris in 1994 (Paris Protocol), Israel collects value added tax on Palestinian imports from Israel, and clears Palestinian imports transiting through Israel's ports, collects customs and value added tax on these imports and transfers (clears) this tax revenue to PNA. Israel's control of clearance revenue, which accounts for about three fourths of PNA revenue, enables it to exercise undue control over Palestinian fiscal affairs. UNCTAD reports and studies have highlighted the consequences of Israel's recurrent withholding of Palestinian clearance revenue; the last such withholding occurred in the first four months of 2015 following the PNA decision to join the International Criminal Court. This clearance arrangement also results in the annual leakage of hundreds of millions dollars of Palestinian fiscal revenue to Israel (International Monetary Fund, 2016; UNCTAD, 2014a; World Bank, 2016).

17. This process also involves unjustifiably high handling fees charged by Israel for collecting taxes on Palestinian imports on behalf of PNA. The administrative handling fee was set in 1995 at 3 per cent of clearance revenue, to be deducted before Israel transfers the remainder to PNA. However, while Palestinian imports recently represented 6 per cent of all imports handled by the customs and value added tax department of Israel, fees deducted by Israel financed one third of the department's budget. If the handling fees were proportional to the share of Palestinian imports in total imports handled by the department, they would drop from 3 to 0.6 per cent of total clearance revenue and would have prevented \$50 million (1.7 per cent of Palestinian revenue) worth of overpayment to Israel in 2014 (World Bank, 2016).

D. Massive trade deficit with Israel

18. In 2015, the exports-to-GDP ratio increased from 17 to 18 per cent, while the imports-to-GDP ratio jumped from 56 to 59 per cent despite the dampening effects of slow GDP growth and lower global fuel prices (table 1). Consequently, the trade deficit expanded to \$5.2 billion, or 41 per cent of GDP, reflecting a weakened tradable goods sector and deep dependence on imports, especially those from Israel.

19. Despite restrictions on trade, the Palestinian economy remains highly open, with total trade accounting for 77 per cent of GDP. However, this openness is largely with Israel, which alone accounts for 55 per cent of total Palestinian trade. On the other side of this asymmetric trade dependence, the Occupied Palestinian Territory accounts for a modest 3 per cent of total Israeli trade.

20. The one-sided customs union, enshrined in the Paris Protocol, and obstacles to trade and productive activities effectively render the Occupied Palestinian Territory a captive market for exports from Israel. In recent years, Israel accounted for more than 70 per cent of Palestinian imports and absorbed about 85 per cent of Palestinian exports. In 2015, the Palestinian trade deficit with Israel accounted for 54 per cent of the total Palestinian trade deficit and stood at 230 per cent of net current transfers.

21. The efficacy of international aid to the Palestinian people has been nullified by occupation, which either eliminates Palestinian productive activities or renders them uncompetitive by elevating production and transaction costs. However, there exists a strong correlation (0.71) between donor aid and Israel's trade surplus with the Occupied Palestinian Territory (Hever, 2015). Israel's large trade surplus with the captive market of the Occupied Palestinian Territory (table 1) is largely financed by donor aid, remittances and the income of Palestinians working in Israel and in settlements.

E. Slow reconstruction in Gaza and disregard for the productive base

22. Israel's blockade of Gaza, in its ninth year, continues to exert a heavy toll. The population of Gaza is locked in, denied access to the West Bank and the rest of the world. Even people in need of medical treatment are not allowed to travel to obtain essential health care. The blockade has affected Gaza's once vibrant export sector. In 2015, a monthly average of 113 truckloads of goods were allowed to exit, equivalent to 27 per cent of monthly exports from Gaza in 2006, before the blockade was tightened (UNSCO, 2016).

23. A prominent element of Israel's restrictions on Palestinian productive activities is the dual-use list, which prohibits the importation of civilian goods deemed by Israel as potentially having other, harmful uses. The list includes essential factors of production, raw materials, agricultural fertilizers, telecommunications equipment, steel, pipes, spare parts and other capital goods. Recently, more items have been added to the list, and the thickness of wood classified as dual-use has been reduced from 5 to 3 cm, then to 1 cm. This has far-reaching implications for Gaza's furniture industry, among other harmful effects. Enforcement of the stringent dual-use restrictions obstructs reconstruction efforts, raises production costs and forces Palestinian firms out of business.

24. The Cairo Conference on Palestine – Reconstructing Gaza was convened in October 2014 to address the devastation of the Israeli military operation that took place during the conflict in July and August 2014. However, the pace of reconstruction has been disappointing. Of the \$3.5 billion in pledges made by donors at the conference, only 40 per cent had been disbursed by April 2016. As a result of the slow pace of disbursements, and Israel's restrictions on imports, 91 per cent of the houses destroyed

during the operation have not been rebuilt and 75,000 people remain displaced nearly two years after the end of the operation.

25. A shocking indicator of the grim situation in Gaza is the rising infant mortality rate, one of the best indicators for the health of a community. Infant mortality has risen for the first time in 50 years. The rate of neonatal mortality has also risen significantly, from 12 per 1,000 live births in 2008 to 20.3 in 2013. According to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (2015), progress in combating infant mortality does not usually reverse. The trend in Gaza is unprecedented and rarely observed outside communities affected by HIV epidemics.

F. Darkness falls upon Gaza

26. As a result of damage to Gaza's sole power plant during the Israeli military operation in 2014, as well as restrictions on the importation of critical inputs and spare parts, the power plant has been operating at less than half its capacity of 200 MW, while current demand is 450 MW (Office of the Quartet Representative, 2016).

27. In 2015, Gaza's electricity crisis deepened and took a toll on every aspect of public and personal life. The United Nations Office for the Coordination of Humanitarian Affairs (2015) highlighted some consequences of the energy crisis, including the following:

- (a) Up to 90 million litres of partially treated sewage is discharged daily into the Mediterranean Sea;
- (b) Waiting time for some surgeries can be as long as 18 months;
- (c) Malfunctioning of sensitive and life-saving medical equipment is recurrent;
- (d) More than 70 per cent of households are supplied with piped water for only 6–8 hours every 2–4 days, resulting in serious distress to households, not least due to the fact that essential housework must be completed during the erratic times when electricity and water are supplied.

28. Full recovery of the Gaza Strip is challenging without a lifting of the blockade, which collectively negatively affects the entire 1.8 million population of Gaza and deprives them of their economic, civil, social and cultural rights, as well as the right to development.

II. Economic cost of occupation for the Palestinian people

29. It must be emphasized that any estimation of the economic cost of occupation should not be perceived as an attempt to put a price tag on occupation or set a substitute for ending occupation. Furthermore, not all occupation-related costs can be evaluated monetarily. No monetary value can be assigned to the distress caused by the destruction and loss of life, community, culture, shelter and homeland. Therefore, assessment of the economic cost of occupation for the Palestinian people is, at best, a partial measurement of losses incurred since the onset of occupation and an essential step towards ending the occupation and reversing its distortions.

30. In its note to the General Assembly in 2015, UNCTAD indicated that military occupations typically involve the exploitation, impoverishment, marginalization and displacement of the occupied people, as well as the destruction of their assets and appropriation of their resources.² Equally damaging are measures and policies by the

² A/70/35, annex I – economic costs of the Israeli occupation for the Palestinian people, pages 28–32.

occupying Power that undermine the capacity of occupied people to access and utilize their resources, move freely within their homelands and conduct normal trade, economic and social transactions with neighbours and trading partners.

31. Such measures may not only deprive a people under occupation of their freedom, land and resource, but also of their internationally recognized human right to development and the ability to produce, and thus force them to consume products produced by the occupying Power. The denial of the right to development of a current generation of occupied people also entails denial of the rights of future generations to safe water, food security, education, work and many other basic human and economic rights.

32. In the Occupied Palestinian Territory, following the onset of occupation in June 1967, Israel assumed full control of the Palestinian economy until the establishment of PNA in 1994. However, PNA and the Palestinian people have not had full sovereign control over their economy, due to many reasons, chief among which are the following two factors:

(a) The Gaza Strip and West Bank, including East Jerusalem, remain under occupation, with tight restrictions on the movement of people and goods; systematic erosion and destruction of the productive base; losses of land, water and other natural resources; a fragmented domestic market and separation from international markets; a tight blockade on Gaza since 2007; the expansion of Israeli settlements; construction of the Separation Barrier and closure policy in the West Bank; and the isolation of East Jerusalem from the rest of the Occupied Palestinian Territory;

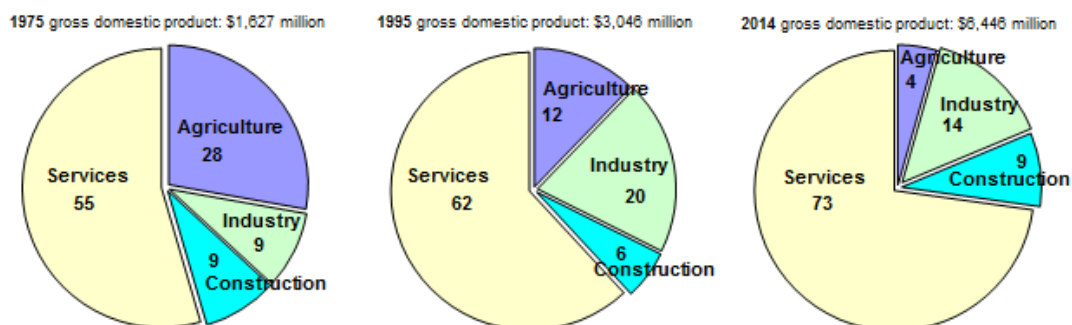
(b) The Paris Protocol was intended to define the Palestinian economic policy framework for the five years (interim period) following the establishment of PNA in 1994, yet two decades on, the Protocol continues to restrict the policy space available to Palestinian policymakers (UNCTAD, 2009), reinforce a quasi customs union and ensure Palestinian economic dependence on Israel.

A. Deformation of the economic structure and low productivity

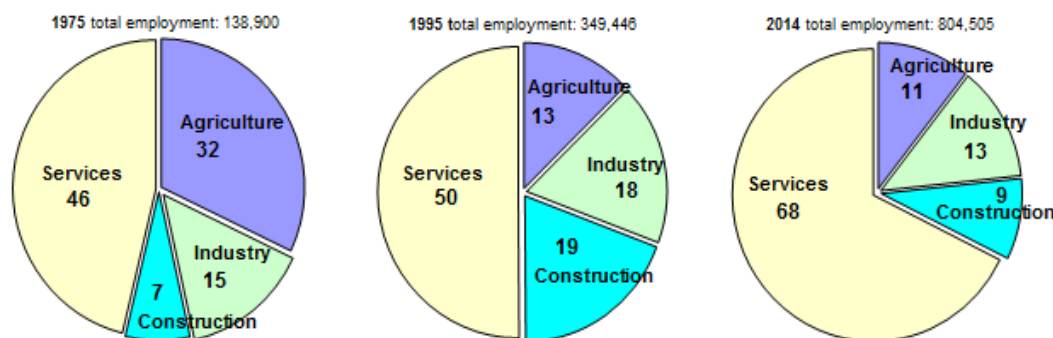
33. Such constraints have placed Palestinian agricultural and industrial producers at marked disadvantage in Palestinian and external markets (UNCTAD, 2011b) and set in motion a continuous process of de-agriculturalization and de-industrialization, thereby depriving the Palestinian people of their ability to produce, and cultivating dependence on aid and on Israel's economy. The structural deformation of the economy of the Occupied Palestinian Territory in the past four decades is shown in figure 1; in 1975–2014, the contribution of the tradable goods sector (agriculture and industry) to GDP dropped by half, from 37 to 18 per cent, while its contribution to employment decreased from 47 to 23 per cent. This may be explained by the fact that the agricultural and industrial sectors are comparatively more vulnerable to the confiscation of Palestinian land and natural resources and Israel's restrictions on the movement of labour and goods.

Figure 1
Structural deformation of the economy of the Occupied Palestinian Territory, 1975–2014
 (Percentage)

Sectoral share of the economy: Real gross domestic product at factor cost (base year=2004)



Sectoral share of total employment



Source: UNCTAD secretariat calculations, based on data from PCBS.

34. Since the onset of occupation in 1967, the Occupied Palestinian Territory has lost access to more than 60 per cent of West Bank land and more than two thirds of grazing land. In Gaza, half of the cultivable area and 85 per cent of fishery resources are inaccessible to Palestinian producers. Furthermore, Israel has been extracting water above the level determined in article 40 of appendix I of the Oslo II Accord, signed on 28 September 1995 (see <http://www.mfa.gov.il/mfa/foreignpolicy/peace/guide/pages/the%20israeli-palestinian%20interim%20agreement%20-%20annex%20iii.aspx>), and confiscates 82 per cent of Palestinian groundwater for use inside its borders or in its settlements, while Palestinians must import from Israel over 50 per cent of their water (UNCTAD, 2015a). The World Bank (2009) has noted that only 35 per cent of irrigable Palestinian land is actually irrigated, costing the economy 110,000 jobs and 10 per cent of GDP. Agricultural activities have therefore become less viable, and many farmers have been forced to abandon cultivation.

35. In the industrial sector, occupation and related uncertainty, and the restrictions on movement and access, have stifled investment and limited the Palestinian private sector to small-scale operations with low capital intensity and efficiency. The World Bank (2014) has indicated that microenterprises and small enterprises dominate Palestinian business, with 90 per cent of firms employing fewer than 20 workers. The small size of firms is correlated with capital intensity and low labour productivity. Labour productivity in small

firms, at \$10,000, is only one third of that of large firms. In 1994–2010, the economy of the Occupied Palestinian Territory experienced a steady technological regression, with a 0.5 per cent annual decline in total factor productivity. Had the pre-Oslo Accords growth trend continued, real GDP per capita in 2010 might have been 88 per cent higher (International Monetary Fund, 2011). In 2013–2015, the industrial sector witnessed further deterioration, indicated by a 9 per cent drop in the PCBS industrial production index.

36. The impact of occupation on productivity is illustrated by comparing the productivity levels of Palestinian firms in the West Bank, Gaza Strip and East Jerusalem. Productivity is highest in East Jerusalem as, under an effective annexation, its firms face comparatively lower levels of restrictions on access to markets and have a better supply of electricity and other inputs. Productivity per worker of the median Palestinian firm is \$23,000 in East Jerusalem, \$10,000 in the West Bank and \$6,800 in Gaza (World Bank, 2014). Save for the blockade and the systematic destruction of its infrastructure, there is no other plausible reason for firms in Gaza to be one third less productive than firms in East Jerusalem. The same reasoning applies to the productivity of firms in the West Bank, which is less than half of firms in East Jerusalem.

37. Palestinian economic indicators have deteriorated in the last two decades, with serious ramifications for the welfare of the Palestinian people. In 1995–2014, the population grew by 3.6 per cent annually, while real GDP per capita grew by only 1 per cent (table 2). In addition, productivity failed to grow and unemployment increased by 9 percentage points to 27 per cent. The trade deficit, at 40 per cent of GDP, continued to be extremely high, while economic dependence on Israel increased, as reflected in the greater share of Israel in the Palestinian trade deficit, which increased from 49 per cent in 1995 to 58 per cent in 2014 (see table 1). Despite efforts by PNA to reduce expenditure and undertake serious fiscal reforms, the budget deficit has not improved in the last 20 years. Reliance on donor support continued to be heavy, as reflected by the high level of current transfers, which currently hover around 10 per cent of GDP.

Table 2
Economy of the Occupied Palestinian territory: Long-term changes, 1995–2014*

	<i>Real GDP per capita (real 2004 dollars)</i>	<i>Population (million)</i>	<i>Real average productivity (dollars)</i>	<i>Unemployment rate (percentage)</i>	<i>Trade deficit (percentage of GDP)</i>	<i>Trade deficit with Israel (percentage of trade deficit)</i>	<i>Budget deficit (percentage of GDP)</i>	<i>Net current transfers (percentage of GDP)</i>
1995	1 435	2.34	7 914	18.2	-57.2	49.1	-12.1	12.2
2014	1 737	4.55	8 123	26.9	-39.6	58.0	-12.5	9.4
Average annual change (percentage)	1.0	3.6	0.1					
Period change (percentage)				8.7	17.6	8.9	-0.4	-2.8

Source: UNCTAD secretariat calculations, based on data from PCBS.

* Except for the population figures, all data exclude East Jerusalem, due to the fact that PCBS has no access to the city.

38. Structural deformation is only one aspect of the economic cost of occupation for the Palestinian people. A comprehensive assessment of this cost requires a complicated, detailed, integrated and multisectoral process with various methodologies. It should be capable of estimating the direct and indirect economic costs of a number of losses

including, but not limited to, the following: physical; water and other natural resources; opportunity and economic; microeconomic, macroeconomic and fiscal; human capital; community and neighbourhood; psychosocial. However, to date, all efforts made to quantify the economic cost of occupation have been done on ad hoc basis, mostly by UNCTAD. The following paragraphs note some of the salient points in the literature.

39. UNCTAD (2015b) indicated that in 2014, 9,333 productive Palestinian trees had been destroyed or vandalized, while in January 2015 alone another 5,600 trees had been vandalized. The same study noted that the direct damages of the three Israeli military operations that took place in Gaza between 2008 and 2014 had been at least three times the size of the GDP of Gaza. The total cost of these military operations was much higher if the indirect costs arising from lost human capital and the loss of future income streams from destroyed or damaged productive assets were taken into account.

40. UNCTAD (2014a) estimated Palestinian revenue leakage from taxes on imports and fiscal losses incurred by smuggling goods from Israel into the Occupied Palestinian Territory at \$305 million each year, or about 3.6 per cent of GDP or 17 per cent of total Palestinian public revenue. The study showed that, if captured, the leaked revenue could expand the fiscal policy space available to Palestinian policymakers and thereby increase annual GDP by about 4 per cent and generate about 10,000 additional jobs per year. The study emphasized the need for further research to estimate fiscal losses from other sources that remained to be investigated, such as the following:

(a) Leakage of revenue from taxes levied by Israel on incomes of Palestinians working in Israel and in settlements (under the Paris Protocol, Israel is required to transfer social security and other tax revenue to PNA);

(b) Seigniorage loss due to use of the currency of Israel in the Occupied Palestinian Territory, estimated to be between 0.3 and 4.2 per cent of gross national income;

(c) Revenue loss from underpricing of imported goods on invoices, owing to the lack of Palestinian control over borders and lack of access to proper trade-related data;

(d) Revenue loss related to lack of control over land and natural resources;

(e) Financial resources loss related to goods and services imported through the Palestinian public sector, such as petroleum, energy and water;

(f) Loss of customs revenue as a result of World Trade Organization rules of origin, on goods finished in Israel but with less than 40 per cent Israeli content, not being applied;

(g) Fiscal loss as a result of the smaller tax base caused by the decimation of the productive base and loss of natural resources to occupation.

41. The World Bank (2016a) followed up on UNCTAD (2014a) by estimating some other sources of Palestinian revenue losses. The study suggested a loss of \$285 million (2.2 per cent of GDP) from seven sources in a single year. However, the overlap between UNCTAD and World Bank estimates stands at about \$55 million.³ Adding UNCTAD and World Bank estimates (excluding overlapping items) suggests an annual loss of at least 5 per cent of GDP (equivalent to \$640 million in 2015). The World Bank stated that Israel also retained a stock of \$668 million worth of Palestinian revenue (5.3 per cent of GDP).

³ This overlap is the sum of \$24.4 million estimated by UNCTAD as a loss from value added tax on imports (table 7, UNCTAD, 2014a) and \$30.6 million in losses from taxes on direct imports (table 2, World Bank, 2016a).

However, this was a conservative estimate that did not take into account the impact of inflation and interest earnings over time.

42. UNCTAD has continued to assess different aspects of the economic and employment costs of occupation, and estimates the following:

(a) In 2000–2005, cumulative GDP loss was \$8.4 billion (real 1994 dollars) or twice the size of the Palestinian economy;

(b) By 2005, at least one third of the pre-2000 physical capital of the Occupied Palestinian Territory had been lost;

(c) Losses caused by Israeli military operations in Gaza in December 2008 and January 2009 were half the size of the Occupied Palestinian Territory economy (\$4 billion (real 2004 dollars); UNCTAD, 2015b);

(d) More than 2.5 million productive trees (including 800,000 olive trees) have been uprooted since 1967;

(e) Only 35 per cent of irrigable Palestinian land in the Occupied Palestinian Territory is actually irrigated, costing the economy 110,000 jobs per year and 10 per cent of GDP;

(f) At least 10 per cent of the most fertile land in the West Bank has been lost due to construction of the Separation Barrier;

(g) PNA and Palestinian farmers are prohibited from maintaining or constructing water wells;

(h) Fishing off the coast of Gaza is restricted to 3 nautical miles and was only recently extended to 6 nautical miles, instead of the 20 miles stipulated in the Oslo Accords.

43. UNCTAD (2009) assessed the cost of shrunken economic policy space due to occupation and the Paris Protocol, using an UNCTAD macroeconomic model of the Palestinian economy to simulate the prospects of the economy under various policy options. The study assessed the impact of an integrated policy alternative that included features of expanded fiscal, exchange rate, trade and labour policies, and demonstrated that if PNA were empowered with relevant policy instruments, annual GDP could increase by 24 per cent and unemployment could drop by 19 per cent point (figures 2 and 3).

Figure 2

Impact of policy space on gross domestic product per capita, 2000–2014

(Real 1997 dollars)

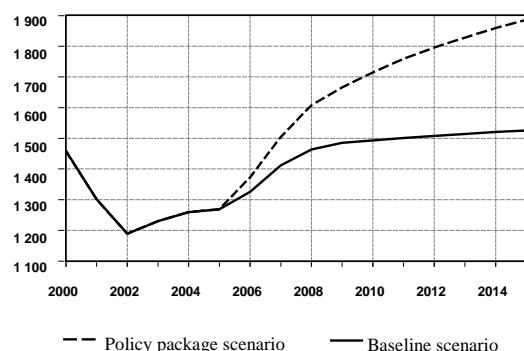
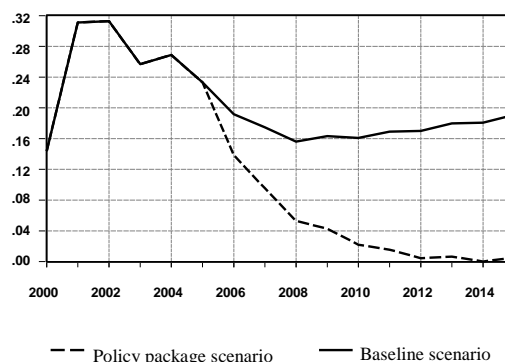


Figure 3

Impact of policy space on unemployment rate, 2000–2014

(Percentage)



44. The World Bank (2013) has provided partial estimates of the cost of occupation in Area C by constructing a counterfactual scenario assuming no physical, legal or regulatory constraints on the ability of Palestinian economic agents to invest, produce and sell in Area C. The study estimated the direct and indirect economic costs in specific sectors, including agriculture, Dead Sea minerals exploitation, stone mining and quarrying, construction, tourism, telecommunications and cosmetics. The study estimated the potential additional output in Area C as 23 per cent of GDP (\$2.9 billion in 2015) in direct costs plus 12 per cent of GDP (\$1.5 billion in 2015) in indirect costs, giving a total cost of 35 per cent of GDP. Furthermore, the fiscal cost was estimated at \$800 million, equivalent to 50 per cent of the Palestinian fiscal deficit if the occupation of Area C ended. The study stated that Palestinian employment could rise by 35 per cent.

45. A recent study by the World Bank (2016b) of the Palestinian telecommunications sector concluded that the total revenue loss for the Palestinian mobile telephone sector in 2013–2015 was in the range of \$436 million to \$1,150 million, including value added tax fiscal loss for PNA of between \$70 million and \$184 million. The direct cost was in the range of 1.0 per cent of annual GDP.

46. In 2007, General Assembly resolution ES-10/17 established the United Nations Register of Damage Caused by the Construction of the Wall in the Occupied Palestinian Territory, with its main focus on the damage emanating from construction of the Separation Barrier in the West Bank, not covering any other measure taken by the occupying Power. Its mandate is to serve only as a record, in documentary form, of the damage caused to all natural and legal persons concerned as a result of construction of the Separation Barrier, including in and around East Jerusalem. As at February 2016, the Register of Damage had completed the records of damage claims in seven of nine affected Palestinian governorates; 52,870 claim forms and over 300,000 supporting documents had been collected in 233 Palestinian communities, with a population of 946,285. Of the total number of claims, 20,459 have been processed and reviewed by the Register of Damage Board for inclusion in the register. Damages are grouped into the following six categories: agriculture (A); commercial (B); residential (C); employment (D); access to services (E); public resources and other (F). The vast majority of claims are categorized as agriculture losses (A).

47. The Palestinian Ministry of National Economy and the Applied Research Institute – Jerusalem (2011) estimated the cost of occupation in 2010 at about \$6.9 billion, or 85 per cent of GDP. This cost did not include the impact of Israel's security measures but focused mainly on the impact of the tight restrictions imposed on the Palestinian people and on their lack of ownership and access to natural resources, most of which are exploited by Israel. The estimated cost included the impact of the blockade on Gaza, restrictions on water and natural resources (including natural gas fields) and mobility and other restrictions on people and domestic and international trade, as well as loss of Dead Sea tourism, uprooted trees and public utility costs.

48. The Applied Research Institute – Jerusalem (2015) assessed the direct cost and foregone revenue due to restrictions imposed by Israel on the mobility of people and goods in the West Bank, as well as restrictions on access to and development of the natural gas, fishery, irrigation water and agricultural sectors. The assessment also calculated the direct cost of the destruction of Palestinian infrastructure, house demolition in the West Bank and the military operation in Gaza in 2014 and estimated that such costs were 74 per cent of GDP (\$9.95 billion). However, the study covered only the direct cost of some constraints imposed by occupation, not all, and therefore significantly underestimated the total direct and indirect costs.

49. Mustafa (2016) focused on Israel's restrictions on Palestinian activities related to natural resources in the Occupied Palestinian Territory, including building stone, sand in the Gaza Strip, phosphate and mineral resources in the Dead Sea, petroleum and natural

gas. The study indicated that expropriation of building stone in Area C by Israel was estimated at about \$900 million annually (0.7 per cent of GDP in 2015), and stated that “Israel has illegally seized Gaza’s sea basin and denied Palestinians the right to explore for oil and gas resources in the West Bank and the Gaza Strip”.

50. In line with General Assembly resolution 194, which stipulates refugees’ right to return and compensation, Kubursi (2001) studied Palestinian losses in 1948 and elaborated on the rights of refugees in terms of restitution of property and compensation for lost opportunity. The assessment focused on the human capital and property losses of Palestinian refugees, and indicated that from 1948 to 2000, the cumulative value of human capital and material losses suffered by the Palestinian refugees totalled \$275 billion and \$173 billion, respectively, in real 2000 dollars.

B. A single comprehensive framework for assessment is needed

51. All of the estimates surveyed in the previous section were performed on an ad hoc basis and not within a single comprehensive framework that could add the different types of costs while reconciling and taking into account interconnectivity between direct and indirect costs in all economic sectors. These studies have merely scratched the surface of the much larger economic cost of occupation for the Palestinian people. Without occupation, the economy of the Occupied Palestinian Territory could produce twice the GDP it currently generates; chronic trade and budget deficits, as well as poverty and unemployment, could recede; and economic dependence on Israel could end.

52. It is therefore important to establish a systematic, rigorous, comprehensive and sustainable framework to assess, on a periodic basis, the economic costs and consequences of measures taken by the occupying Power. This need was recognized by the General Assembly in resolution 69/20 and resolution 70/12, which request UNCTAD to report to the General Assembly on the economic cost of occupation for the Palestinian people. The two resolutions also highlight the proven expertise of UNCTAD with regard to the Palestinian economy and to its capacity to lead and coordinate the work of other United Nations entities to implement such an important task.

53. The examination of such costs, and other obstacles to trade and development, is essential to identify the policies required to place the Palestinian economy on a path of sustainable development and, more importantly, to facilitate future negotiations for a just settlement to the Israeli-Palestinian conflict and for a lasting peace in the Middle East.

III. UNCTAD assistance to the Palestinian people

A. Framework and objectives

54. In 2015, UNCTAD continued to extend technical assistance to the Palestinian people to build its economic and institutional capacities. Numerous institutions benefited from UNCTAD initiatives, research findings, advisory services and recommendations. Guided by paragraph 35 of the Sao Paulo Consensus, paragraph 44 of the Accra Accord and paragraph 31 (m) of the Doha Mandate, and in line with the United Nations Strategic Framework for 2014–2015, the UNCTAD programme of assistance to the Palestinian people was centred on 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

55. Since 2006, UNCTAD has been contributing significantly towards enhancing Palestinian capacities for trade facilitation. In 2015, with support from Canada, UNCTAD successfully completed a \$2.1 million project to develop the trade facilitation capacity of the Palestinian private sector; enhance the knowledge of shippers (exporters and importers) and increase their awareness of best practices in trade facilitation; and provide specialized training to the private sector and policymakers.

56. Major achievements included building the managerial capacity and organizational structure of the Palestinian Shippers Council and enhancing its capacity for servicing the shipper community and private sector at large. In addition, UNCTAD, with the Palestinian Ministry of National Economy, Palestinian Shippers Council and Birzeit University, developed a professional training programme on international trade management and logistics entitled Supply Chain Management Diploma. Efforts for accreditation of the diploma by the Palestinian Ministry of Education and Higher Education are under way.

57. Numerous studies on trade facilitation were conducted, covering relevant topics such as smuggling, the environmental dimensions of trade facilitation and the Agreement on Trade Facilitation of the World Trade Organization. Such studies form the background for Palestinian positions on national and international trade facilitation issues.

58. UNCTAD has a rich history of cooperation with PCBS in the area of economic modelling and forecasting. For example, UNCTAD transferred ownership of its macroeconomic model of the Palestinian economy to PCBS and trained Palestinian staff on using the model for economic forecasting and for evaluating alternative economic scenarios. Such cooperation led to the establishment of the PCBS Economic Forecasting Unit. In 2015, UNCTAD provided advisory services to this Unit for the construction and estimation of a regionally disaggregated macroeconomic model for the Occupied Palestinian Territory. UNCTAD followed up with a review and interpretation of the econometric results. UNCTAD also provided advisory services to the newly established Palestinian International Cooperation Agency of the Ministry of Foreign Affairs, and the United Nations Country Team in the Occupied Palestinian Territory.

59. UNCTAD has published the following three policy documents: *Trade Facilitation in the Occupied Palestinian Territory: Restrictions and Limitations* (UNCTAD, 2014b); *The Besieged Palestinian Agricultural Sector* (UNCTAD, 2015a) and *The 2013 World Trade Organization Agreement on Trade Facilitation: Israel's Obligations towards Palestinian Trade* (UNCTAD, 2015c). In addition, UNCTAD continued to build the capacity of professional staff from the Palestinian private and public sectors by providing training in key economic policy areas such as non-tariff measures, gender and trade facilitation and multilaterally agreed equitable principles and rules for the control of restrictive business practices.

60. The recognition by member States, in paragraph 9 of General Assembly resolution 69/20, of UNCTAD as the United Nations focal point for Palestinian trade and development was reaffirmed in 2015 in paragraph 9 of resolution 70/12. The resolutions request UNCTAD to exert all efforts to secure the resources necessary to report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people.

C. Coordination, harmonization and resource mobilization

61. In 2015, UNCTAD continued its development support to the Palestinian people in coordination with PNA, Palestinian civil society, the United Nations and other international agencies and the donor community. UNCTAD continued to work closely with the United Nations Country Team and contributed to the common country assessment and to numerous reports by the United Nations and other agencies.

62. The implementation of General Assembly resolutions 69/20 and 70/12 requires significant additional resources. Securing such resources is necessary to establish a systematic, rigorous, comprehensive and sustainable framework for assessing the ongoing and historical cost of occupation for the Palestinian people.

63. UNCTAD continues to provide substantial assistance to the Palestinian people. However, a shortage of resources may limit the ability of UNCTAD to deliver urgently needed technical cooperation support. Due to support from Qatar, UNCTAD will be able to maintain (for 18 months) a third professional post in the Assistance to the Palestinian People Unit. However, securing additional resources remains crucial for long-term retention of this post and to implement three projects that remain without funding.

64. Finally, difficult field conditions and political volatility negatively impact the delivery of UNCTAD support to the Palestinian people. The arrangement and conduct of a two-day mission to Gaza in April 2016, to assess conditions on the ground and meet with United Nations agencies and non-governmental organizations, was difficult and costly. UNSCO (2016) has noted that United Nations and non-governmental organization staff members who are Palestinian with Israeli citizenship have been entirely prohibited from accessing the Gaza Strip. Restrictions on the entrance of personnel represent an impediment to the delivery of urgently needed humanitarian and development support to Gaza.

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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

Corrigendum

The corner notation on document TD/B/63/3 should read as above.

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