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INFORMATION NOTE ON THE ECONOMY OF THE OCCUPIED PALESTINIAN TERRITORY (WEST BANK AND GAZA)

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I. Preface

On the occasion of the participation of Palestine, for the first time in a United Nations Conference on the Least Developed Countries, the Ministry of Economy and Trade of the Palestine National Authority (PNA) has prepared this Information Note.

The Note is intended to brief the Conference on the particular development challenges facing Palestine at a crucial moment in its history, and the constraints that continue to impair long-term prospects. The Note provides an overview of the economic policy and foreign trade regime of the Palestinian National Authority in the occupied Palestinian territory (West Bank and Gaza Strip), as it evolved between 1994 and 2000. It is introduced by an account of the geographic setting and main population indicators, followed by a review of the aggregate and sectoral economic performance during that period, with reference to the most recent available official Palestinian statistics. Internal and external constraints hampering the economy's sustained development are also examined, in order to identify the main policy issues that need to be addressed in the coming years.

Although the Palestinian economy’s performance indicators in recent years rank it within the category of middle-income developing countries, its sustained development is obstructed by structural impediments, many of which are common to Least Developed Countries (LDCs). Most notable in this respect is the poor infrastructure, coupled with a still-weak institutional set-up, and an underdeveloped industrial base. These impediments work against developing the Palestinian economy’s productive capacity, which is considered as the bedrock of economic growth and development and the basis for expansion of trade. This is not an attempt to argue in favor of ranking the Palestinian territory within the list of LDCs. Rather, the aim here is to draw attention to the relevance of the problems of LDCs for the Palestinian territory, which is striving to assume an active role at the regional and global levels after surviving long years of occupation.

A special status was granted by the General Assembly of the United Nations, in its resolution 43/178 of 20 December 1988 on Assistance to the Palestinian people. The General Assembly then decided "to extend to the occupied Palestinian territory the same preferential treatment accorded the least developed countries, pending the elimination of the Israeli occupation and the assumption of full control by the Palestinian people over their national economy without external interference".

While adverse developments since September 2000 have led to a major contraction in economic activity and serious disruption to trade and financial flows, they have not affected the legal, regulatory and policy framework adopted by the PNA since 1994. Nor have the serious setbacks experienced in relations with Israel since 2000 diminished the Palestinian National Authority’s declared commitment to establishing a rule-based, market-driven economy, in harmony with national interests, global trends and the strategic development potentials of the Palestinian economy.

II. The setting: an emerging state

Palestine is yet to find her place on the world's map as an independent State after long years of conflict and military occupation that forced around 60% of the population to seek refuge in other countries. In 1948, thousands of Palestinians were forced to flee to neighboring Arab countries following the establishment of the State of Israel and the war that ensued. Following the 1967 war, Israel occupied the West Bank and the Gaza Strip and annexed Arab Jerusalem to its territories. The Israeli-Palestinian conflict developed a new dimension in 1987 upon the outbreak of the first Palestinian *intifada*, which paved the way for the 1991 Middle East Peace Conference, for recognition by the two sides of their mutual right to exist and their decision to resolve the conflict through negotiations.

This commitment to peace was translated into a set of confidence building measures in September 1993 upon the signing of the "Declaration of Principles on Interim Self- Government Arrangements between Israel and the PLO, representing the Palestinian People" (DOP). Considered as a focal point of reference for the Palestinian/ Israeli relations, the DOP stipulates an "interim" period that would set the stage for the establishment of an independent Palestinian State in a phased manner postponing to a later stage a final agreement on the borders of the Palestinian State, along with other issues, such as the status of Israeli settlements, the disposition of Jerusalem and the return of Palestinian refugees. The two sides signed a series of transitional agreements, according to which Israeli military forces withdrew from some parts of the occupied territories and the PNA was created to assume the tasks of government in these areas.

The Middle East peace process since 1993 generated high hopes of accelerated economic growth based on a strong belief that the PNA, through its commitment to liberalization, would succeed in providing a more favorable environment for restructuring the economy. The creation of a developed financial sector was expected to induce enough savings leading to financial deepening, especially through attracting sizeable capital inflows from the overseas Palestinian community. Furthermore, local and foreign investors were expected to respond positively and play a major role in strengthening the economy's industrial base and developing the services sector. Optimism in the future of the economy was fuelled by the donor community's commitment to support the PNA's efforts through financial and technical assistance.

Unfortunately, the incomplete implementation of signed agreements and the slow disbursement of donor funds contributed to frustrating these hopes. To this may be added, with a special emphasis, the recurrent closure of Palestine's main border crossings by Israeli authorities for security reasons isolating the country from the rest of the world. Border closure measures are often accompanied by internal closure, whereby Israel seals off the main entrances to Palestinian cities and villages turning these areas into isolated islands.

At present, the area of lands under the PNA jurisdiction is limited to 80% of the Gaza Strip along with the town of Jericho and 3% of the rest of West Bank areas. The economy continues to suffer from the same structural weaknesses that existed during the pre-Oslo period, while the current crisis is draining the economy inducing losses that are estimated to have exceeded $2.2 billion during the six months period October 2000-March 2001, equivalent to a third of Palestinian

Gross National Income. So strong is the magnitude of these losses that the economy will need at least two years to recover.

Notwithstanding the current conflict, the interim period has entailed irreversible steps towards the establishment of a Palestinian State. Aware of this, the international community has welcomed Palestine's participation in a number of international and regional organizations. At present, Palestine is a full member of the Asian Group of the United Nations, the Global System of Trade Preferences among Developing Countries (GSTP), Group of 77 and China, the League of Arab States (LAS), the Non-Aligned Movement (NAM), the Organization of African Unity (OAU), the Organization of the Islamic Conference (OIC), and the United Nations Economic and Social Commission for Western Asia (UNESCWA). Moreover, Palestine has maintained Observer status with the United Nations and all specialized agencies, in accordance with General Assembly resolutions since 1974.

Furthermore, in 1994, the Palestinian Liberation Organization (PLO) established the PNA that proceeded to develop the three main functions of government, as follows:

A. Legislative

The Palestinian Legislative Council (PLC) is comprised of eighty-eight democratically elected representatives chosen in electoral districts established in accordance with regional population distribution. The current PLC was elected on 20 January 1996 for a five-year term, which has since been renewed for two years. The PLC is vested with the power of enacting legislation and monitoring the performance of the executive. The PLC has twelve standing working committees with the power of legislative review as well as the power of granting confidence in the executive. All meetings of the PLC and of its committees are open to the public.

B. Executive

Executive powers are fully vested in the President of the Palestinian National Authority, elected directly by popular vote. The President is responsible for nominating the Council of Ministers, eighty per cent of whom should be members of the PLC and should be approved by it. Currently the Council of Ministers is comprised of thirty-two Ministers responsible for different portfolios, including eight Ministers of State.

Ten PNA Ministers are concerned directly with economic development and trade-related issues:

Minister of Economy and Trade
Minister of Industry
Minister of Agriculture
Minister of Supply
Minister of Finance
Minister of Labor
Minister of Transportation
Minister of Tourism
Minister of Public Works

Minister of Communications

In addition, a number of other governmental agencies are concerned with economic and trade issues, such as:

Palestinian Economic Council for Development and Reconstruction;
Palestinian Environmental Authority;
Palestinian Industrial Estates and Free Zones Authority;
Palestinian Monetary Authority, Palestinian Central Bureau for Statistics;
Palestinian Civil Aviation Authority;
Gaza Sea Port Authority.

C. Judiciary

There are three levels of courts under PNA jurisdiction. All towns and villages have a Magistrate Court that deals with small claims issues. At the second level there are the District Courts that resolves in cases of larger claims. There are two Districts Courts in the Gaza Strip and one in each of the following cities: Jericho, Nablus, Hebron and Ramallah. There are two High Courts. One in Gaza that reviews appeals from the Districts Courts of Gaza and Jericho, and one in Ramallah that reviews appeals from the rest of District Courts.

III. Geography, Population, Labour and Poverty

A. Location: a land-locked economy

The Palestinian territory of the West Bank and Gaza Strip is located on the western edge of the Asian continent and the eastern extremity of the Mediterranean Sea. It is small in area covering 6170 square kilometers; thereby constituting 23% of the area of the pre-1948 British Mandate Palestine, and about one third of the area of the State of Israel.

The West Bank is 5,800 square kilometers in area, 130 km long and ranges 40 to 65 km in width; it lies between Israel to the West and Jordan to the east and is divided into three main districts with eight sub-districts. These include the northern region, which comprises the sub-districts of Jenin, Tulkarem, and Nablus; the central region encompassing Jerusalem, Jericho, Ramallah and Bethlehem; and the southern region of Hebron. The Gaza Strip covers 365 square kilometers, running at 45 km length and between 5 and 12 km in width; it borders Israel to the north and east, the Egyptian Sinai Peninsula to the south, and the Mediterranean Sea to the West; and is divided into three districts: Northern Gaza, Central Gaza, and Southern Gaza

The Gaza Strip is mainly coastal plain and sand dune while the West Bank is more diverse, featuring four topographic zones. These include a fertile plain of around 400 sq. km. in the Jordan Valley and the Jordan river; a rocky semi-arid area of 1,500 sq. km. covering the eastern slopes and leading down to the dead sea; the central highlands constituting the largest zone with a total area of 3,500 sq. km. while rising 1000 meters above sea level in places; and the semi-coastal zone consisting of 400 sq. km in the west and north-west.[1]

Although the Palestinian territory does have a seacoast of its own, its location renders it effectively a land-locked economy, since any participation in international trade, especially as regards to movement of goods and people, is impossible unless conducted via its immediate neighbors of Jordan, Egypt and Israel. These stand as Palestine's window to the world, with Israel serving mainly as a gateway to the West, while Jordan and Egypt are considered as transit routes to the Gulf States, Europe, the Arab Mashreq and Maghreb. As is the case of other land-locked economies, Palestine's location poses a serious impediment to economic development because trade expansion is conditioned by the neighboring countries’ readiness to grant the Palestinian industries access to their transport facilities. At present, such an access is hampered by complex security, customs and overland transport procedures.

B. Population: a young nation

The Palestinian population of the West Bank and Gaza Strip is estimated to have reached 3.15 million in 2000, approximately 36% of who live in the Gaza Strip. It is estimated that over 5 million Palestinians live outside the West Bank and Gaza Strip, including those living in Israel.

The youth represent the largest percentage of the population with 47% below the age of 15 years in 1999. The age group (0-4) constitutes the second largest proportion (19%), while the age group (60 and above) constitutes 3.4 percent of the population only (Table I.1). Refugees, who fled to the West Bank and Gaza following the 1948 war, make up a large percentage of the population in Gaza representing 65% of the population, as compared to 26% in the West Bank. Most of the refugees live in over crowded camps with substandard housing and sanitation conditions representing the disadvantaged stratum in Palestine.

The annual rate of population growth is estimated to have reached 5.4% in 2000, however present health indicators signify that population growth is likely to decrease from its 1997 level of 3.97% to 2.21% in 2025. These include fertility rate which stood at 5.93 in 1999 (5.52 in the West Bank and 6.81 in Gaza); infant mortality rate estimated at 25.5 per 1000 (24.4 in the West Bank and 27.3 in Gaza); under five mortality rate of 28.7 per 1000 (27.2 in the West Bank and 31.2 in Gaza); and life expectancy at birth estimated at 69.9 years for males and 73 years for females in 1997. Population density differs markedly between the West Bank and Gaza standing at 342 person per sq. km. in the West Bank, whereas in the Gaza Strip the comparable figure is 2,933(Table I.2).

C. Labour: dependent on external markets

The economically active population (labor force) was estimated at 42% of total population by the end of 2000. Male participation stood at 71% in 1999 as compared to 12% female participation. labour force participation was highest for the age group 35-44 years reaching 57%, with males accounting for 92% of participants within this category. labour force participation for the age group 25-34 years ranked second (55%) with males accounting for 91% of participants. A review of labour force participation by region reveals a much lower participation rate in Gaza (38%) as compared to the West Bank (43%) in 1999.

The full employment rate stood at 83% in 1999 and was higher within the female category at 84%. Overall underemployment rate stood at 12%, and was higher within the female working force at 14%. The West Bank absorbed 53% of the employed working force, while Gaza absorbed 24%, with Israel and the Israeli settlements employing 23% of the Palestinian labour force (Table I.3).

Overall median daily wage is NIS 69 (NIS 60 in the West Bank, NIS 46 in Gaza, and NIS 100 in Israel and settlements: NIS 1= US$ 0.24), with discrepancy between the wage of male employees and female employees in the West Bank (NIS 61 and NIS 50, respectively) and in Gaza (NIS 46 for males and NIS 50 for females). Discrepancy in wages is more pronounced across main activities with the median daily wage for those working in agriculture reaching NIS 50 in Gaza and NIS 30 in the West Bank as compared to NIS 70 in Israel and Israeli settlements. The highest wage for employees in the West Bank is provided by the construction sub-sector (NIS 70), while services and other branches provided the highest wages in Gaza (NIS 50) as opposed to transport, storage and communication in Israel and Israeli settlements ,NIS 108, (Table I.4) .

Since 1967, the Palestinian economy grew to become highly dependent on external labour markets for the employment of a growing part of its working force. Fluctuations in access to those markets have a significant disruptive effect on the overall economy, as experienced most recently in 1996. The employment situation is progressively improving as domestic absorptive capacity grows, however the economy still generates a high rate of unemployment, estimated at 21% of the labour force in 1997. The average annual unemployment rate decreased to 16% in 1998, the lowest since 1995, and had reached 12% by mid-2000. This decline comes despite demographic pressures with a labour force growing at around 7% per year, thereby proving the economy's continued ability to absorb its labour force.

D. Poverty: modest but structural

During the period 1996-1998, the proportion of the population living below the poverty line decreased by 3.5% from 26.9% to 23.2%. However, poverty affected 23.2% of the population in 1998. This figure masks significant differences between the West Bank and Gaza with 37% of the population in Gaza living in poverty as compared to 15% in the West Bank. Poverty rates differ markedly between female and male-headed households (26% and 20%, respectively) though female-headed houses representing 11% of the poor stratum only.

As is the case of many developing countries, poverty rates increase consistently among families with more than two children. Households with the least incidence of poverty (13%) are those with 1-2 children, while those with 7-8 children witness higher incidence of poverty (31%) as opposed to 34% for households with at least 9 children (Table I.7). On the other hand, poverty rates are inversely related with the head of the household's level of education, ranging from 28% for those with less than elementary education to 7% for those with a university degree (Table I.8).

Such high poverty rates are in contrast to GNI per capita indicators that registered an 11% increase during the period 1996-98, thereby reflecting a number of structural weaknesses within the economy. Most notable is a limited capacity to create enough jobs to absorb its labour force as indicated by the modest growth rates of GDP per capita at around 2% during the two years. The high poverty rates are also attributed to the high prices Palestinians face given the economy's integration with its Israeli counterpart, with wage the discrepancy between the two economies increasing the incidence of poverty among the Palestinians.

IV. Economic performance until 2000: chronic vulnerability to external shocks

A. Aggregate performance

In the period since 1994, the Palestinian economy has commenced a process of transformation and modernization. The PNA has been engaged in a process of re-construction and development aimed to upgrade infrastructure and improve the efficiency and productivity of the economy. However, the Palestinian economy remains predominantly based on traditional activities, with preponderance of small cottage industries and sole proprietorship undertakings. This section provides an account of economic developments until 2000, based primarily on statistical series published by the Palestinian Central Bureau of Statistics.

The Palestinian economy experienced a severe contraction in the late 1980's and early nineties, only to revive as of 1992. Following the setbacks of 1996-1997 accompanied by sharp falls in aggregate and per capita income levels, the economic situation has somewhat stabilized. By 1999, GDP of the West Bank and Gaza Strip stood at US$4,5 billion and GNP at US$5.2 billion, with a per capita GDP of US$$1,614 and per capita GNP of US$1,782. Since 1994, GDP has constituted less than 15% of GNP, compared to historic levels of over 25%. Net factor income from abroad in 1997 was around US$600 million, while net transfers in that year equaled US$407 million, and gross national disposable income was US$4,557 million. GDP in 1998 is estimated to have reached over US$3,660 million (Table II.1).

The Palestinian economy grew in real terms by 1% in 1997, and the growth rate for 1998 has been estimated at over 2%. In 1999 and 2000, GDP growth was projected at rates surpassing 6% in current prices. However, these rates are still below historic performance and demonstrated potentials for economic growth, and well below population growth rates. With increasing levels of domestic and foreign investment, and as an outcome of the market oriented policies being implemented by the PNA , the economy had begun by 2000 to demonstrate its potential for even stronger growth rates in the future. Performance in 1999-2000 is reminiscent of 1992-1993 and pre-1988 expansion periods, which were usually followed by steep decline, highlighting the Palestinian economy's vulnerability to external pressures and shocks

In 2000, gross fixed capital formation accounted for 46% of GDP. Construction, mainly in housing, accounts for 80% of total private investment, while private productive activities absorb the balance. The low level of investment in the productive sectors reflects a combination of factors, including uncertainty about regional conditions and insufficient credit facilities, notwithstanding the dramatic expansion of the banking system in recent years. Private consumption expenditure in recent years has been equivalent to around 96% of GDP and government consumption expenditure around 23% of GDP. Imports of goods and services absorbed 83% of GDP, and the Palestinian trade deficit (goods and services) was 65% of GDP in 1997, though this ratio declined somewhat in 1998-1999.

Consumer price increases have moderated in the last several years increasing by 2.5% in average monthly basis during 1999. The general inflation rate, which averaged 12% during the 1993-

1995 period, declined to 7.6% in 1997 and fell to 5.5% by December 1999. Price trends in the Palestinian economy are highly sensitive to external events and the economy is open to such effects through the Israeli Shekel and the Jordanian Dinar, both of which the PNA has adopted as currencies in circulation during the interim period.

B. Sectoral structure

1. Agriculture

Until the late 1980s, the agricultural sector’s contribution to Palestinian GDP averaged over 30%. This share has experienced a dramatic reduction during the past decade. In 1990 agriculture still represented 35% of GDP, but declined steadily to an average of around 12% in 1994-1996 and fell further to an historic low of 7% by 2000. Cultivated land in the West Bank covers around 33% of total land, while in Gaza Strip it covers approximately 50% of the area. The agricultural sector accounted for around 14% of the employed work force in 2000, though the potentials of Palestinian agriculture have been constrained by restrictive access to land and water.

2. Industry

The level of industrialization in the West Bank and Gaza was historically low, under 10%. Since 1994, available data has re-estimated (upwards) the annual average share of industry in GDP at around 16% in 2000. In addition to the significant branch of construction-related industries, the principal industrial activities are food processing, plastics, soap, pharmaceuticals, clothing and shoes. The industrial sector employs 9% of the work force in the West Bank and 14% in the Gaza Strip. About 35% of total industrial employment is in the textile, clothing and leather sectors.

3. Services

The Palestinian economy is dominated by services, contributing 54% of GDP in 2000. Wholesale, retail trade and transport account for a substantial portion of service activities (19% of GDP), though the share of public services is also high (at 12% of GDP), and real estate services account for a similar share of GDP (11%). Public administration and defense account for less than 10% of GDP. Construction has traditionally played an important role in the Palestinian economy, contributing over 10% of GDP in previous decades, but has been re-estimated since 1994 at around 10% of GDP.

In 1999, services represented the main field of employment (absorbing 28% of the employed labour force), followed by construction (22%). Services were the main field of employment for the female working force, accommodating 46% of this category, followed by agriculture (providing jobs for 32% of females).

There has been a marked growth in the banking industry, and financial intermediation services account for around 3% of GDP. The number of banks increased from 2 in 1993 to 23 in 1999 with a total of 114 branches in the West Bank and Gaza Strip. Assets and deposits have also surged (see below). The insurance industry has also expanded over the past several years. It is dominated by auto insurance, which is not a source of long-term investment. The PNA Controller of Insurance at the Ministry of Finance is entrusted with developing the requisite legal and regulatory framework and supervises the insurance sector and licenses insurers.

The PNA has recognized the importance of advanced telecommunications networks and moved promptly to develop its infrastructure. Under arrangements with the PNA, the privately owned Palestine Telecommunication Company (PALTEL) is developing this sector on a sound commercial basis, to ensure wide domestic coverage and international connections with modern and diversified facilities. Palestine has been accorded its separate international dialing gateway (970) and has been assigned an independent Internet domain (ps).

Given Palestine's endowment of religious and archaeological sites, tourism remains a sector with high growth potential. This growth has been hampered by the prevailing uncertain conditions in the region and the weak support infrastructure for tourism in the West Bank and Gaza Strip. Nevertheless, some important developments have been achieved in the hotel, travel agency and tourism-related transport and restaurant sectors as a result of domestic private sector investment and some foreign direct investment.

C. External trade and balance of payments

The Palestinian economy has a high degree of exposure to foreign trade, with a ratio of total merchandise trade to GDP at 80% at the end of 1998.[2] This trade openness is accompanied by an import bias manifested in the rising ratio of (merchandise) imports from below 40% in 1990 to approximately 57% in 1998, while the export ratio, which was above 40% in 1980, declined to stagnate at a historically low level of about 10% since 1990.

In 1998, imports amounted to an estimated US$2,375 billion, while exports did not exceed US$495 million. Although manufactured investment goods, utilized in infrastructure projects, accounted for 36% of the value of total imports in 1998 (Table II.2), the growing deficit is mainly attributed to the economy’s heavy reliance on imports to meet local demand reflecting unrestrained consumption and structural weaknesses within the economy. This has had a negative impact on the trade balance, which manifests a persistent deficit, growing from US$1,658 billion in 1996 to US$1,980 billion in 1998. Compared to 1990, trade deficit has grown over 300% from US$ 600 million. Consequently, the ratio of trade deficit to GDP has soared up to well over 50% since 1995 from 27% in 1990.[3]

Palestinian trade is heavily concentrated with one partner, namely Israel, accounting for nearly 80% of total value of trade in 1998. A wide gap separates value of trade with Israel and Jordan, Palestine’s second trade partner that accounted for 2.4% of the total value of Palestinian trade (Table II.3). A breakdown of trade flows reveals a positive shift with the years 1997 and 1998 witnessing growing imports from the rest of the world representing 29% of total imports in 1998 from 12% in 1996. This development reduced Israel’s share of the total value of Palestinian imports from 86% in 1996 to 69% in 1998 (Table II.4). However, on the export side, Israel remains as the main trade partner accounting for 95% of total exports in 1998 compared to 85%

in 1990. Exports to the rest of the world have been declining sharply at levels of US$ 1-4 million annually since 1993[4], thereby accounting for less than 0.5% of total exports in 1998.[5]

It would be misleading to attribute such a performance to limited niche markets for Palestinian produce since these represent a significant share of total exports. A review of the commodity composition of the trade ranks manufactured goods as the largest category of exports with a 42% share of the total value of exports in 1998. Food and live animals ranked as the second largest category of exports (16%), followed by miscellaneous manufactured articles (15.6%), beverages and tobacco, along with chemicals and related products (6% each) and crude materials (4%). Exports of vegetables and fruit reached US$35 million, representing 8% of total exports followed by furniture (US$24 million), iron and steel ($US18 million) and footwear (US$19 million). Meanwhile, stone and marble continue to be the single most significant Palestinian export worth over US$100 million in 1998.

At the same time, manufactured goods also ranked as the largest category of imports (23%), followed by food and live animals (19%), mineral fuels lubricants (17%) and machinery and transport equipment (16%). Other major import items include miscellaneous manufactures (7%), chemicals and related products (6%) and beverages and tobacco (4%).

The current account balance, which was historically in surplus, has acquired a deficit position since 1996, when it was approximately one quarter of GDP, or around US$793 million. By 1998, the current account deficit had reached US$1,256. Exports, net factor income from work in Israel and current transfers from Palestinian expatriates and other non-official sources help to finance the huge import bill. These items, however, are insufficient to balance the current account deficit, which is partially offset by official donor finance. The capital account consists almost exclusively of capital transfers, i.e. unrequited transfers related to capital goods. In 1994, a surplus amounting to US$822 million was recorded in this account, whereby this account had acquired a deficit position of over US$700 million by 1998 (Table II.5).

D. Constraints on Economic Performance

Although the Palestinian economy's main performance indicators rank it within the category of middle-income developing countries, its sustained development is obstructed by structural impediments that are common to Least Developed Countries (LDCs). In addition to the major factor of the impact of prolonged occupation and strife, most notable is Palestine’s poor infrastructure that is coupled with a weak institutional set-up, and an underdeveloped industrial base. Just as the case of the LDCs, these impediments work against developing the Palestinian economy’s productive capacity. Hence, the relevance of these countries’ experiences for the Palestinian economy that is striving to assume a distinct role in line with global economic trends and regional specificities.

Moreover, UNCTAD observations on the economic performance of land-locked states are of clear relevance to the Palestinian economy in that the lack of access to world markets is “aggravated by prohibitive transport costs associated with conditions of inadequate infrastructure, imbalance of trade, inefficient transport organization, poor utilization of assets and weak managerial, procedural, regulatory and institutional systems pos[ing] serious constraints on the trade and economic development”.[6]

1. Internal constraints

a) Political turmoil and uncertainty

The importunate deadlocks in the political process and delayed implementation of signed agreements have resulted in prolonging the interim period increasing the level of uncertainty with regards to the future. The European Union (EU), which is actively involved in the support of the PNA's development efforts, emphasizes the difficulty of proceeding with planned activities under such circumstances:[7]

> "The present situation of the Palestinian Territories is complex: it is a transitory situation from a state of war and revolution, under long and varied foreign rule, towards a state of peace and the rule of law. Indeed, the optimism that permeated at the beginning of the peace process was not translated into increased investments and exports, as investors are simply discouraged by the increasing level of economic and political risks. The high incidence of border closures by the Israeli Authorities has been inflating these risks inducing direct economic losses in the form of declining exports and lost job opportunities in Israel."

The total number of days of imposed closures during the period 1993-1999 reached 469 days, while the estimated induced losses owing to border closures for the period 1993-1996 were US$ 2.8 billion which is close to the GDP for an entire year and to the amount of aid received from donor countries within this period.

Aside from draining the economy, political turmoil has been diverting the PNA's attention away from policy making to emergency needs generated by deteriorating economic conditions. Operating under such circumstances, the PNA has not been able to develop its institutions as planned; "its ministries and administrations are still in their formative stages and therefore do not have clear and definitive administrative procedures and organizational structures", while the economy continues to operate within the absence of well orchestrated financial and legal systems, notes the same report by the EU. The same argument applies to donor funds that are persistently re-channeled for financing emergency programmes aimed at creating new jobs for the unemployed. In addition, there have been repeated delays in the implementation of major development projects, especially in the field of infrastructure as is the case of Gaza Sea Port that has been on the PNA's agenda since the signing of the peace accords in 1993, and even before.

b) Trade Regime

Of particular relevance to Palestinian economic and trade policy is the “Protocol on Economic Relations between the Government of Israel and the PLO representing the Palestinian people”, signed in Paris on 29 April 1994. The Protocol, also known as the “Paris Protocol”, is intended to lay the groundwork for “strengthening the Palestinian economic base and for the PNA to exercise the right of economic decision-making in accordance with its own development plan and priorities”. This framework has enabled the PNA to implement its separate economic and trade policy throughout the territory of the West Bank and Gaza Strip under its jurisdiction. The framework has also provided the basis for organizing trade relations between Israel and Palestine stipulating a trade regime that is something of a mixture between a free trade area and a customs union.

Although the regime allowed the PNA to reap some benefits, its continued enforcement beyond the five-year interim period it was originally conceived for poses increasing obstacles to the development of the Palestinian trade sector, perpetuates distortive policies on the economy and encourages a skewed integration with the much more advanced Israeli economy. This section reviews the current Palestinian trade regime and outlines its built-in limitations that are built in it.

- **Import regime**

The current Palestinian customs duties are a pledge to the Israeli tariff schedule. Under the terms of Paris Protocol, the PNA agreed not to set its customs duties below those of Israel except for limited quantities of commodities from specified sources identified in List A-1 and List A-2 and on imports with no restrictions on quantities in List B. This means that the PNA can determine its own rates of customs duties, purchase tax, levies, excise and other charges on imports included in these lists within the specific quantities, while products not on Lists A-1, A-2 or B, or those on the first two lists but exceeding the quotas will be subject to a minimum of Israeli rates. However, the PNA may decide on any upward charges.

When first negotiated, List A-1 contained some 24 goods whose origin, or at least 30% of their value added stems from an Arab State. Of these, 11 items have to come exclusively from either Egypt or Jordan. List A-2 contains mostly food-related items, which the PNA has the right to import from anywhere in the world, keeping in mind that eleven items on list A-2 also appear on list A-1. List B includes a large number of items needed for investment and development. In mid-2000 the scope of the Lists was expanded to include 1,400 additional tariff line items.

For other imports, such as automobiles and petroleum products, special import regime and standards are adopted. These allow the PNA to impose its own rate of customs and purchase taxes on motor vehicles imported to, and registered with, the PNA. The PNA is also allowed to import used passenger cars up to three-years-old, subject to approval by a joint Palestinian-Israel committee, and is free to determine the price of petrol derivatives, except gasoline, as long as the price derivatives does not exceed 15% of the consumer price in Israel.

The PNA has chosen to adopt the Israeli import classification, evaluation, procedures, licensing and standards policy, which is applicable to all Palestinian imports, except for the quantities agreed upon under Lists A1 and A2. The clearance of customs revenues and fees levied on imports are based on the principle of final destination. This means that collected tax revenues should be allocated to the PNA, even if Israeli importers carried out the importation, when the final destination explicitly stated in the import documentation is a corporation registered by the PNA and conducting business activity in areas under its jurisdiction.

The PNA has not introduced to date, any change to the prevailing custom duties on non-listed goods and therefore the Israeli tariff schedule is being applied to most PNA imports. A direct benefit that the PNA can reap from the existing trade regime is the opportunity to exploit bilateral trade agreements between Israel and other countries since they apply to the PNA. Moreover, adopting the Israeli import classification and standards means that the valuation of all PNA imports is based on the GATT 1994 agreement, while classification of goods for customs purposes is in line with the principles of the Harmonized Commodity Description and Coding System (HS).

- **Export regime**

The Palestinian Ministry of Economy and Trade defines and implements export policy and procedures. No subsidies are available for exporters, nor does the PNA provide subsidies in any productive or service sector. There are neither export restrictions nor licenses required for exporting. When applicable, exporters must submit a certificate of origin obtained from the local Chamber of Commerce. Some products require prior authorization.

c) Built in limitations

- The PNA cannot give preferential or duty-free treatment to imports from most countries, except Jordan and Egypt.
- The Protocol does not address the wide range of subsidies and other non-tariff barriers that benefit some Israeli sectors and products leaving Palestinian industry and agriculture at a disadvantage. Although support measures are gradually being phased out as Israeli trade is liberalized, they continue to operate in some areas with a bearing on the Palestinian similar productive branches.
- While the Protocol calls for free movement of goods between Israel and Palestinian self-rule areas, such movement is subject to the “security measures”, thereby constraining the quantities of Palestinian goods exported to Israel, interrupting the smooth flow of imports and of course preventing Palestinian labour flows to Israel.[8]
- The Protocol limits the PNA's ability to generate revenues since the possibility of the PNA's levying higher tariff (or indirect taxation) rates than Israel is effectively constrained by the absence of provisions preventing the entry of the same goods via Israel, subject to lower rates and thus at lower prices.
- The re-export clause (Article III-15) facilitates fiscal leakage as it does not ensure the PNA's receipt of customs revenues on goods sold in the West Bank and Gaza Strip by Israelis that are not of Israeli origin, but imported from outside Israel. In theory, customs revenues generated from these goods should accrue to the PNA since they are classified as non-Israeli or Israeli re-exports. However, the PNA's inability to adequately monitor imports from Israel has resulted in a fiscal leakage between US$166 million and US$275 million a year during the period from 1994 to 1996.[9]

d) Financial Constraints

The Palestinian private economy suffers from a financial constraint with a saving-investment gap constituting 18% of GNI in 1998. The banking sector provides a limited range of services that are coupled with conservative lending policies, while the capital market is thin on the ground and is inaccessible to the majority of existing enterprises.

- **Financial intermediation**

The Palestinian Monetary Authority (PMA) regulates the Palestinian banking sector, as defined under the terms of Paris Protocol. The PMA's mandate during the interim period empowers it with authorities similar to those enjoyed by most central banks designating the PMA as the supervisor and controller of the financial system, and the banker of the PNA and commercial banks. The PMA is thus entrusted with the job of licensing all banks operating in the Palestinian areas, holding their reserves, and regulating their operations with regard to solvency, liquidity and stability. This includes operating a discount window to advance loans to commercial banks, and acting as a lender of last resort. Moreover, the PMA acts as the PNA's official economic and financial advisor and sole financial agent, both locally and internationally. It also holds and manages the foreign currency reserves of all public sector entities.

However, the PMA's practical power is limited by the absence of a national currency with the Jordanian Dinar (JD), the New Israeli Shekel (NIS), and the US dollar (US$) representing the main currencies circulating in the economy. Consequently, the PMA's ability to ensure the system's safety and stability is undermined since it cannot act as lender of last resort nor can it offer banks discount window lending. The PMA's power is further limited by the absence of preventive prudential regulations that are yet to be enacted including ratios on capital adequacy, liquidity requirements, policies on large exposure to a single customer and currency risk. At present, the PMA regulates the system through a set of discrete resolutions on the minimum capital requirements, liquidity ratios, in addition to reserve and licensing requirements.

The banking sector registered an impressive deposit mobilization record in 1996 following the establishment of the PMA with total deposits growing by around 700% from US$ 219 million in 1993 to US$ 1,707 billion in 1996, excluding deposits of non-residents (US$3,85 million). This was mainly attributed to the opening of new banks encouraging residents to transfer their deposits from abroad into the local banking system. Deposit mobilization continued to increase, albeit at a slow rate, reflecting economic difficulties. Total deposits of residents grew by around 16% in 1998 compared to 1997 and by 18% in 1999 in relation to 1998 to reach US$ 2,832 billion, of which around 70% were generated from term deposits or saving accounts since banks do not issue negotiable securities.

The overall bank credit to the private sector grew by 32% in 1999 as compared to 1998 to stand at US$ 613.8 million, while the overall lending-to-deposit ratio reached 35% up from 31 percent in 1998. Major banks pursue a relatively conservative lending policy as indicated by the low share of total loans to total assets (26%) and total deposits (29%) in 1999. Loans show a relatively short-term credit structure distributed among overdrafts (53%), which have a repayment period of less than one year, and loans with a repayment period of 1-3 years. Commerce activities accounted for 43% of outstanding bank credit in 1999, followed by construction (20%) and manufacturing and mining (17%), reflecting a concentration on financing enterprises' working capital at the best.

Such prudent lending policies can be explained by the high level of political risks perceived by the banks, especially as they continue to operate within the lack of a clear set of commercial laws. Long/term loans are also impeded by a shortage of acceptable collateral resulting from the lack of proper land registration, which could establish property rights clearly, and by the difficulties in estimating accurately the standing of companies and individuals. The salient features of the borrowing enterprise undermine their creditworthiness, thereby impeding the development of the economy's industrial base through boosting the level of capitalization.

- **The Palestinian Security Exchange (PSE)**

Established in 1997, the Palestinian Security Exchange (PSE) represents the Palestinian capital market with a well-established institutional set-up in terms of physical infrastructure, utilized technology and the level of managerial skills. It has competitive listing requirements with a view to attracting foreign investors and facilitating the repatriation of Palestine's dispersed wealth in the Diaspora. In 2000, the PSE market capitalization stood at 766 million with 25 listed companies, while the value of total trading did not exceed US$189 million. The unfavorable investment environment, the lack of clear commercial laws and the limited number of enterprises that can meet the listing requirements help to explain this performance.

PSE: Listing Requirements
• At least 50% of the subscribed capital must be paid-up.
• Subscribed capital must exceed US$ 750,000.
• The number of outstanding common shares must exceed 100,000.
• The company must have at least 100 shareholders.
• At least 25% of common stock must be offered to the public through a public offering of shares.

Source: Palestinian Security Exchange (PSE)

- **Dependency on Foreign Aid**

Operating under such circumstances, the financial market has little to offer to public sector as reflected by the latter's insignificant share of total outstanding credit, not exceeding 6% in 1999 (US$ 62 million). Since the government cannot issue public securities and is confronted with a limited tax base, it is left with no choice but to rely heavily on donor assistance to finance its development projects. Accordingly, the PNA's development plan for the period 1999-2003 "The Palestinian Development Plan 1999-2003" will be almost wholly financed by the donor community, which is intended as a source of US$ 4.3 billion (or 93%) of the total budget. The rest of the budget will be covered by the PNA (US$ 141 million) and through concessional borrowing (US$ 200 million).

Although the proportion of PNA debt to GDP is low compared to other countries (at 14% in 1998), it signifies a new challenge to the government given the short period during which external debt has been accumulated. Indeed, at almost $US 175 per capita, aid to the PNA represents one of the highest levels of per capita official development assistance in the world ranking third after Israel ($US 230- 240 per capita) and Bosnia and Herzegovina ($US 190).

e) Weak Infrastructure

The long years of occupation have left Palestine with an impoverished physical infrastructure that is inadequate to ensure the needed geographic continuity among the Palestinian areas and their integration with regional and global markets.

- **Road networks**

Palestine's road network is 4900 km. long covering a geographic area of around 6000 square kilometers, of which 2500 kilometers are external roads that connect major cities with each other and with border crossings. All main roads consist of two lanes with the exception of around 13 kilometers of 4-lane divided roads around Jerusalem. The width of the main roads ranges between 4 and 7 meters, while the width of the regional roads ranges between 3 and 6 meters and the local roads are 3 meters.

The network is in poor shape, with 56% of the roads requiring rehabilitation, and is characterized by a low level of services; the number of meters of paved roads per 100 people does not exceed 80 compared to 266 meters in Israel (see Table).[10] This is only to be expected since the Israeli occupation investments in this sector were minimal and aimed at ensuring geographic continuity between Israeli settlements and Israel.

- **Airports**

At present, Palestine has only one airport, "Gaza International Airport", which is located in the southern part of Gaza with plans to establish a second one in the West Bank. The airport, which commenced operations in November 1998, has one runway - 3080m length and 60m width and is designed according to ICAO international standards. Accordingly, it is capable of receiving most types of aircraft including the wide-bodied jumbo jet. So far, the airport has been utilized for facilitating the transport of passengers with the *Palestinian Airlines* operating regular flights to Amman, Cairo and Larnaca.

- **Sea Ports**

The PNA is in the process of establishing a seaport of its own five kilometers from the southern border of the Gaza Strip to provide international access to Palestinian traders, particularly to industrial estates in the immediate vicinity. The deep-water seaport, "Gaza Sea Port", will also serve the West Bank and, if economically feasible, Jordan along with other parts of the world, while future plans include the establishment of strategic links with the neighboring ports of Egypt, Ashdod, Beirut and Cyprus.

The PNA decided to proceed with the construction works that are financed by a number of European countries, in three phases in order to avoid financing pressures. Phase One will include the construction of a dam, almost perpendicular to the shore line, with a berth of 600 meter in deep water and an additional petroleum products berth. By the end of the first phase, the port will be able to receive small container vessels with a maximum size of 15,000 DWT, however equipment will be elementary including mobile cranes. Phase Two will entail the construction of a multi-purpose container terminal with the ability to handle much larger vessels. During the third phase, the breakwater will be expanded and a new multi-purpose terminal will be constructed in the center of the harbor basin to handle larger vessels (50,000 to 70,000 DWT) that would enable the port to function as a major transshipment facility.[11]

Site preparation work was to have begun in November 1999 and was scheduled to be completed in 2001. However, construction works were suspended in September 2000 and Israeli authorities have not permitted construction to resume since.

- **Electricity**

Palestine relies on Israel for obtaining electricity power lacking an electrical grid of its own. About 140 villages use small diesel generators given the absence of electrical services and when available these services are interrupted being far from the Israeli electrical grids. Electrical projects in Palestine operate under poor conditions given the lack of proper facilities and technical expertise. Consequently, they suffer from over due maintenance, inducing losses of 20% or more of electricity power, and have inadequate consumer tariffs.

f) Natural Resource Constraints

The scarcity of natural resources needed for productive resources development is evident in limited land resources, gas, and water resources as well as usable mineral deposits. The areas of land and water resources available to the Palestinians during the interim period are limited, notwithstanding a transitional agreement to increase water quotas allocated to Palestinian areas. Moreover, Israel has not fulfilled its commitment to allocate 28.6 MCM of water to the Palestinians per year during the interim period, though Palestine's water needs are estimated at 70-80 MCM per year. Natural gas available to Palestinian industries is also limited with Israel standing as the main supplier, since the PNA is yet to diversify sources of supply to ensure a better fulfillment of domestic needs at lower costs.

g) Limited Capacity to Ensure Sustained Development

The Palestinian economy suffers from a "chronic incapacity to create enough jobs for its labour force, generate savings for financing investments, and produce enough exports to pay for imports". During the period 1997-1998, 43,000 new jobs were created in the West Bank and the Gaza Strip, of which 13,000 jobs were in the PNA. Though the private sector continued to provide the largest share of employment, its importance declined in 1997-1998, registering a 10% increase as compared to 17% and 63% in the public sector and Israel, respectively.[12] This is mainly attributed to the limited level of domestic and foreign direct investment, given the high degree of risks generated by the absence of political stability.

In 1998, private investment was estimated to have reached US$476 million, accounting for 13% of GDP, while gross capital formation represented 35% of GDP up from 29% in 1994. Private investment is heavily concentrated in construction activity, however, with residential construction accounting for 85% of total planned construction areas for the period QI-QIII 1999.

Planned business construction areas increased by 6.8% only in relation to the same period in 1998 as compared to 16% growth in planned residential construction.

In 1999, the number of new registered companies grew by 38%. However, this does not necessarily reflect an improvement in private investment activities given the time lag separating between the company's registration and establishment. More important still, is the minimal capital investment and employment that continued to characterize business investments by small private companies that accounted for 54% of total new registered companies. Approved investment projects by the Palestinian authorities in 1999 (worth US$298 million) do not offer much to address the unemployment issue, despite the 85% increase in their value compared to 1998; once executed, these would create only around 3,000 new jobs.

In such circumstances, the economy continues to rely on the export of its labour services (mainly) to Israel for generating income. Palestinians working in Israel increased from 76,000 in 1997 to 120,000 officially registered worker in 2000, equivalent to 20% of the overall participating labour force. While this represents the same absolute ceiling reached in the pre-1994 era, this number is of course represents smaller proportion of employment (and of national income) than was reached in the occupation period.

While the low level of investment stands as the main reason behind the economy's limited capacity to absorb the labour force, its weak industrial base impedes export expansion being dominated by cottage industries with weak technological capabilities. This is especially the case of manufacturing industries as indicated by their low exports to sales ratio. The total number of manufacturing establishments in 1997 was approximately 14,813, equivalent to 19% of total number of non-agricultural establishments. These are dominated by cottage industries with only 5% employing more than 50 workers as opposed to 90% employing less than 5 workers. The industries are mainly family owned with high sole proprietorship and low average proportion of administrative employees, reflecting informal managerial structures. They have a low level of productivity, measured by average productivity per labor, given their underdeveloped production processes, as indicated by the low capital to labour ratio.

This is mainly attributed to the distorting subcontracting arrangements between the Palestinian and Israeli industries, which delegate labour intensive activities to the Palestinian industries to reap the benefits of lower labour costs. The industries are unable to modernize their production processes, however, as reflected by their low level of capitalization, since they suffer from a paucity of retained earnings (given their low level of profitability) and from the lack of external sources of finance (see section). Moreover, they lack the incentive to invest denied proper access to regional and international markets. The service enterprises, that are essential for improving the industrial sector’s performance, do not fair better, employing less than 5 persons per establishment on average, with low capital to labour ratios and low productivity levels.

2. External Constraints

a) Limited Foreign Investment Flows

Despite the wide range of incentives and privileges offered to foreign investors (see below), foreign direct investment (FDI) remains limited, mainly concentrated in the construction, real estate and tourism (hotel) sector, as well as franchising arrangements with local producers or distributors. In the absence of comprehensive aggregate statistics on the subject, some indicators are available, such as the modest number of foreign firms operating in Palestine. The PCBS industrial survey indicates that foreign companies share the salient features of local companies, characterized by minimal capital and employment. This is to be expected given the high degree of economic and political risks engendered by political turmoil, adverse trade environment, the limited range of services offered by financial institutions and the still-evolving legal framework. The persistent delays in implementing public investment infrastructure projects are another factor discouraging foreign companies to undertake capital-intensive projects.

Private investment flows were slated to experience substantial growth following the Israel-Palestine accords since 1993.The international assistance programme, and the ensuing boost it gave to Palestinian public investment projects for the rehabilitation and development of physical and institutional infrastructures, created an important enabling environment and impetus to private investors. Motivated by strong profit anticipations, and encouraged by major political developments, hundreds of expatriate individual and corporate investors, both Palestinian and foreign, have been allured into visiting the Palestinian territory since 1994 in search of investment opportunities. The influx of visiting investors cuts across a wide range of nationalities, but many were diaspora Palestinians, eager to examine the opportunities for re-establishing themselves and their business in the West Bank and Gaza Strip.

Despite the increasing investment activity since 1994, the volume of foreign private investment actually deployed in the Palestinian territory during the interim period was substantially less than expected. Traditional forms of domestic investment, especially housing and real estate development, recovered and even accelerated since 1994, but the investment climate took several years become adequately clear or secure to permit commencement of full-fledged operations by new investors in non-housing sectors. While generally optimistic about the medium and long-terms, investors continued throughout the period to perceive risks inherent to the political/security and regulatory framework, which demanded careful planning and gradual execution of investment ventures.

The influx of business encouraged by positive developments in the peace process covers a range of enterprises, such as banks, insurance, construction contractors and general trading companies. An early and prominent example was a leading investment firm established in October 1993 under the name of Palestine Development and Investment Limited (PADICO). Owners consist of a conglomerate of individual and corporate diaspora Palestinian investors, mainly based in Jordan and led by the Arab Bank Ltd. The initial share capital of PADICO is $200 million, to be expanded at a later date to one billion dollars. PADICO envisaged managing a total project portfolio of $1.4 billion dollars by the end of the decade.

In order to attain maximum efficiency in its operations, PADICO established three autonomous enterprises catering for construction (based in Gaza), tourism (based in Jerusalem) and industrial projects (based in Nablus). Each is managed by its own board of directors and its own share holders, with PADICO as the major partner represented on respective boards in proportion to its subscribed capital. All three firms and the holding company have managed to establish efficient working relations with the Palestinian Authority. Subsequently, PADICO negotiated contracts with the PNA in fields as diverse as electricity generation, telecommunications and the construction and management of export-processing zones, as well as planning and management of the Nablus security exchange. The PADICO corporate model has been duplicated by a number of holding companies, which have been established during the past two years outside the territory. Such investment firms are owned and financed largely by expatriate Palestinian investors, with tangible input and involvement of the domestic business community. Like PADICO, these firms look forward to playing an important role in industry, construction, tourism and utilities, but they have not yet commenced actual business operations.

In the area of international trade, most foreign investment activities have focused on acquiring and establishing agency rights for transnational corporations, which perceive promising market potentials in the Palestinian territory. This has included, for example, some automobile manufacturing firms, mainly German, French, Korean and Japanese. Trading activities have also included more undocumented forms of business in some areas related to public sector projects.

A notable example of locally financed investment initiatives designed to complement and diversify the emerging corporate structure in the territory is found in a holding company established by a group of West Bank investors. The Palestine Investment and Development Company (PIDCO, not to be confused with PADICO) was started in 1993 with a relatively modest capital base of around $8 million, with the intention of encouraging investment in industry, real estate, tourism, finance and trade. In what appears as an advanced corporate form in the territory, a local insurance company and 34 major shareholders made the initial subscription to half of the 6 million shares of the company, with the rest sold directly to the public by the company (prior to the establishment of the securities exchange market). PIDCO since invested in a range of ventures, in partnership with other individual and corporate investors. This has included a local construction contracting company (in Ramallah), the first Palestinian aluminum processing company producing for the local and export markets (in Al-Bireh), a tourism investment company (in Jerusalem) which aims at developing hotels, tourist sites and resorts and a locally-based investment bank (in Gaza and Jericho).

As is indicated by these developments, a major emerging trend in regard to the organizational modes of investment activities in the Palestinian territory is the growing involvement of Palestinian diaspora businessmen in the rapidly growing enterprise sector. This is especially true in the case of businessmen based in Jordan, and to a lesser extent in Egypt and the Arab countries of the Gulf, mainly because of proximity and easier communications and interaction with the Palestinian territory. The fact that many of these businessmen have numerous acquaintances and family connections in the territory has facilitated their business contacts. The situation since 1994 affecting traffic across border crossings at the bridges and Israeli airports has reinforced motivations to return to the Palestinian territory, even if only for purposes of doing business. Furthermore, this trend gained momentum as a consequence to the resumption of banking activity in Palestine under semi-normal circumstances. In fact, many diaspora investors opted to join forces with newly opened banks when deciding to do business in the territory. Such partnerships afford greater security and institutional clarity to new investors, most of who are unfamiliar with local conditions.

b) Poor Market Access Conditions

So far, Palestinian traders have not been able to exploit the promising opportunities provided by the trade agreements with regional and international partners, confronted with poor market access conditions. This constraint operates both on the trade policy and operational levels. While Palestinian exports have been granted preferential market access by some major partners, these remain subject to a variety of conditions (quotas, seasons, the built-in limitations of the Paris protocol) that render them less than optimal in terms of Palestinian development needs. At the same time, the physical, infrastructure and procedure related constraints affecting the movement of Palestinian merchandise trade complicate and add considerable costs to the process.

One example is the case of the Interim Association Agreement with the European Union offering Palestinians limited quotas well below the potential for exports, especially with regards to agricultural produce. The PNA has raised the issue with their European counterparts on several occasions, presenting detailed lists of the needed quotas for exploiting the potential for agricultural exports but failed to obtain a raise in the original quotas. The EU has pointed out that, according to official statistics, the granted quotas are from being met. These statistics are misleading, however, since agricultural produce is exported through Israeli companies masking Palestinian produce. Since raising the quotas requires going back to member states, the quotas are likely to remain as for quite some time since reaching a consensus among members takes time.

In trade with Jordan and Egypt, market access is hampered by complex customs and overland transport procedures, leaving Palestinian traders with limited room to maneuver. Traders should adhere to specific transport systems, use a specific type of vehicles, and travel through specific routes making it difficult to deliver shipments on time. The absence of coordination mechanism among the region is another factor inflating transport costs for Palestinian traders and impacting negatively on their competitiveness. Transport costs associated with importing from/through Jordan are US$494 per shipment, while those associated with importing from Egypt or exporting to Jordan range between US$600-630.[13]

Transport costs are further inflated by stringent security measures at the main border crossings to neighboring countries, causing prolonged delays and damages to transported goods. These measures also limit the number of trucks crossing the borders, which did not exceed 18,000 truckloads per month during 1997-1998.[14]

c) Economic Vulnerability to External Shocks

The Palestinian economy's heavy reliance on the export of its labour services for generating income, owing to the absence of an internal engine of growth, has made it extremely vulnerable to external shocks. This was pronounced during the early nineties following the gulf war and the mass Jewish emigration to Israel from the former Soviet Union and eastern Europe. The Palestinian economy lost job opportunities in Israel as emigrants opted to accept jobs held by Palestinians so as to stay in Israel. This loss was coupled with the influx of around 30,000 Palestinians who had been working in the Gulf States, inflating unemployment rate by 10% in the West Bank and 4% in Gaza.[15]

Since the signing of the peace accords, Israeli border closures have been standing as the main threat to economic stability given its heavy reliance on Israel as a main trade partner and a main employer of Palestinian workers. In 1996, real GNP and real GDP declined by about 3% and 1.5%, respectively as a result of the prolonged border closure that was imposed for 121 days during the first half of the year. Improved second-half economic performance was unable to eliminate the traumatic effects, inducing significant decline in per capita GNP and GDP estimated at 8.5 and 7.5%, respectively. The need restructure the economy and re-orient it towards more balanced relations with Israel is obvious, and the present crisis has only served to highlight the magnitude of the economy's weaknesses.

d) Aid Effectiveness[16]

Donor assistance for Palestine involves over 50 donor countries and international organizations, along with individual Palestinian ministries, NGOs, municipalities and others. Since 1993, a multifaceted architecture for donor coordination has been put in place to facilitate agenda setting, reduce duplication and foster synergies. The Consultative Group (CG) of Donors and the Ad-Hoc Liaison Committee (AHLC) assumes overall coordination. The CG brings together the PNA and all bilateral and multilateral donors in annual meetings that are chaired by the World Bank during which development priorities are discussed and pledges are mobilized. The AHLC is smaller;[17] it addresses coordination issues in the field, meets less frequently at a more senior level of representation, and is chaired by Norway with the World Bank assuming the role of the secretariat.

Within the overall structure, a number of sub-structures have been formed to ensure aid effectiveness including the Local Aid Coordination Committee (LACC) that was established by the AHLC to facilitate field coordination among major aid agencies and with the PA. It is co-chaired by Norway, the World Bank and the UN and meets at least once a month. In turn, the LACC established twelve thematic Sectoral Working Groups (SWGs), each with one or more PNA ministry as "gravel holder", a donor as "shepherd", and a United Nations agency as "secretariat" (See Annex). A Joint Liasion Committee (JLC) was also established by the AHLC to deal with impediments to prompt delivery of assistance, review the PA's budget performance and assist in setting priorities for technical assistance. It comprises the PNA as the "gavel holder", with Israel, the USA, the EU, the UN and the World Bank as the "secretariat”, and Norway as the "shepherd".
The Palestinian counterpart to the World Bank is the Palestinian Economic Council for Development and Reconstruction (PECDAR) that tracks donor assistance, channeling it to specific projects and supervising implementation. PECDAR works in close coordination with the Palestinian Ministry of Planning and International Cooperation (MOPIC), the Ministry of Finance and other ministries. MOPIC plays a central coordinating role in the aid process by defining the PNA priorities and the overall framework for ensuring the proper allocation of financial assistance.

Aid coordination is also facilitated by agreements committing involved parties to specific targets and actions and brokered by the AHLC. These agreements are based on a tripartite Agenda for Action, addressing constraints to development and assessing responsibilities for the parties involved in the aid process. The most recent agreement is the "Tripartite action Plan on Revenues, Expenditure and Donor Funding for the Palestinian Authority" (TAP) that was signed in 1996 between Israel, the PNA and the donor community represented by Norway in its capacity as the AHLC chair. It includes detailed commitments by contracting parties in such areas as tax clearances, PNA fiscal and expenditure policy, and continued budgetary support by donors.

The donor community has pledged US$ 5,7 billion in assistance for Palestine during the period 1994-June 2000 in the form of grants (82.2% of total pledges) and loans or guarantees (Table III.1), with the PNA standing as the main beneficiary as opposed to the NGOs (Table II.2). To ensure the amelioration of existing structural weaknesses within the economy, funds were allocated in accordance with the "Emergency Assistance Programme" (EAP) that was presented to donors in December 1993 providing the initial blueprint for donor development investment. It addressed four sets of needs including infrastructure rehabilitation, human resource development, maintenance and enhancement of existing services, and institutional development of the Palestinian public sector. In 1998, the PNA presented a comprehensive list of projects in the field of infrastructure and natural resources, institution building, social development, and the productive sectors, as part of the Palestinian Development Plan that is revised periodically (Table II.3).

So far around 80% of total pledges (US$ 4.6 billion) has been committed against specific projects. At the outset, donor assistance was mainly focused on budget support accounting for 31% of total assistance in 1994-1995. The period 1996-1999, witnessed a shift in donors' focus away from budget support to infrastructure development projects that accounted for 39% of total disbursements by the end of QII 1999 up from 19% in 1994-1995, though with no absolute increases. In contrast, budget support was dramatically reduced to less than 4% by mid 1999. Funds allocated to human resources and social development decreased, however, from 33% to 21 percent during the same period, as well as funds allocated to institution building that declined from 20% to 13%.

Assistance efforts have been facing immense challenges, however, given the adverse development environment pronounced by "an underdeveloped economy buffeted by severe external shocks; the need to construct a functioning Palestinian public administration where none existed before: the extraordinary complexities associated with the various Israeli-Palestinian interim agreements; the involvement of more than forty donors, over two dozen multilateral organizations and UN agencies; and hundreds of local and international NGOs in the development effort; political uncertainty and a highly politicized local and international environment; and the difficulties of planning for the future amid ongoing negotiations on the permanent status of the Territories".

Consequently, aid effectiveness is persistently undermined as some of the prevailing challenges are beyond the involved parties’ outreach. A serious impediment to aid effectiveness is the geographic discontinuity within the Palestinian areas, as the safe passage between the West Bank and Gaza is yet to be opened, thereby aggravating the Palestinian economy’s heavy dependence on Israel. Evaluating its assistance program, the EU is skeptical:

> “We are in a situation of an abuse of prevailing economic standing. Since the West Bank and Gaza Strip enjoy no direct transport and communication with the world at large, other than through Israel or subject to Israel control, the consequence is an enormous structural dependence of the Palestinian economy on Israel and vulnerability to Israeli policy... Indeed, whatever the importance, the amount and the nature of financing, it is uncertain whether this will ensure effective economic development as long as the Palestinian economy remains under Israeli control".

The adverse environment is not the only impediment to aid effectiveness, nonetheless, given the complex nature of coordinating mechanisms adopted by the involved parties, henceforth, running the risk of "fragmenting, rather than reinforcing Palestinian capacities". As noted in a recent report prepared by Japan and the World Bank, donors are concerned about the “workload implied by the coordination structure; the lack of a more focused dialogue; inadequate preparation for some meetings; and uncertainty as to PNA responsibilities".

For their part, PNA officials are concerned that donors "tend to follow their own priorities and utilize their own channels; place too much emphasis on technical assistance; and spend too much money on donor country contractors and consultants". Conditionality poses a serious obstacle with certain donors requiring aid to be spent on goods and services from their own nationals and companies limiting the net transfer of capital and technical know-how to the Palestinians. There were also concerns that donors were poor at sharing information, took too long in project preparation and implementation, and had procedures that imposed an excessive administrative burden on the PA. The slow disbursement of committed funds bears witness to this with around US$ 3 billion disbursed since 1994 at an average of US$ 472 million per year.

Indeed, the EU considers these drawbacks as binding forces working against reaping the desired benefits from donor projects. In some cases, project ideas emerged upon the establishment of the PNA but the identified needs have often not been the subject of a precise requirement expressed by the PNA as it was the donor who more or less made the first move. The Palestinian administrations were sometimes "unable to submit to procedural requirements of donors which appear complicated". The result is that overall assistance looks like a disparate and scattered Programme with intricate procedures. In other cases, implementation was impeded by inaccurate cost estimations as the initial figures proved to be overestimated "creating a sudden need for an additional design exercise from conception to tender documents". Moreover, donors should "supplement each other more than they compete putting together resources, know-how and different cultural sensitivities".

The need to simplify coordinating mechanisms and strengthen overall coherence is obvious but more important still, and as pointed out by the World Bank, is their “integration into the Palestinian planning process, with the PA assuming a leading role in aid coordination". Both donors and the PNA would also benefit from improved documentation and transparency of aid management so as to ensure the availability of information to stakeholders and the public. The PNA's weak institutional capacity is seen as another factor causing implementation failure and the duplication of projects requests from the PNA, henceforth, the risk of donor overlap.

Notwithstanding the mentioned challenges and drawbacks, donor assistance has played an important role in “cushioning the impact of mobility restrictions and other external shocks”, providing the economy with an external source of income, in addition to strengthening key institutions and local capacities. The tangible improvements in most areas of infrastructure and services bears witness to this; more than 264 km of new roads, 1775 km of water pipes, 393 km of new sewage lines, 3764 classrooms, and tens of new clinics have been constructed with donor assistance since 1994.

However, sustaining such development efforts is threatened by the prevailing impediments to aid effectiveness. The lack of a “well articulated connection between overall Palestinian development strategy and particular projects” is considered as a serious threat the sustainability of PA services". Continued growth of public sector employment is another risk, inflating the sector's wage bill at a rate that is much faster than fiscal revenue growth, diverting funds away from development projects.

The declining trend of donor assistance (by almost 20 percent from US$ 512 million per year in 1996-7) exacerbates such concerns and highlights the need for developing internal sources for financing development. For, although such a trend can be attributed to the shift in composition of donor assistance to longer -term projects, it reflects the fact that external assistance cannot be maintained at the same level, let alone be relied upon indefinitely.

E. The Crisis of 2000-2001

The widespread economic crisis resulting from Israeli aggression against the Palestinian people since September 2000 has aggravated an already adverse environment, with far-reaching repercussions for Palestinian development. If anything, the crisis has eroded the benefits reaped from development efforts, highlighting the magnitude of the economy’s structural weaknesses. During the period 1 October 2000 - 31 January 2001, there were 93 days of border closures (76% of the time) inducing huge economic losses that stood at US$ 862 million for the months of October-November 2000, according to the PCBS's estimations. Of these, $420 million was accounted for by deteriorating domestic economic activities, including trade; $169 million was due to loss of employment in Israel; and $272 million was damaged infrastructure.[18] As pointed out by UNSCO, GDP in those months was less by 50% than projected GDP for the reported period (assuming no border closure).[19] UNSCO estimates aggregate losses during the period 1 October 2000 - 31 January 2001 at $1,150 million including losses accrued from the decline in GDP ($907 million) and labour income from Israel ($243 million).[20] Per capita gross national income (GNI) is estimated to have declined by at least 16% from a projected $2000 for the year 2000 to an estimated $1,680.[21] Extrapolating these figures forward for the months of February and March implies an aggregate loss of Palestinian national income of around $1.8 billion for the six-month period October 2000 - March 2001. These losses do not include losses incurred as a result of the Israeli destruction of basic infrastructure that are estimated to have reached $200 million by the beginning of January.

Manufacturing and construction activities incurred the highest losses during the period October-November 2000, together accounting for about 40% of the decline in GDP during the period. Internal and external trade activities (wholesale and retail trade, customs duties and net VAT on imports) accounted for nearly 30% of the loss. Agriculture accounted for another 10%. Public administration and publicly owned enterprises combined accounted for about 10% of the decline while the other services, both public and private, contributed about 10% of the loss in GDP. Palestinian exports to Israel registered a decline of 22% during October and November 2000 on a monthly average basis compared to October–November 1999 from $45 million to $35 million. Non-agricultural imports from Israel declined from $147 million to $100 million on a monthly average basis, a drop of 32% compared to the same period in 1999.[22] According to the Palestinian Ministry of Agriculture, agricultural exports during September-December 2000 registered a 43% decline compared to the same period in 1999.

Consequently, the rate of unemployment grew to 47% by early 2001, with more than 260,000 unemployed compared to 11% unemployment rate during the first nine months of 2000. Poverty rate registered over 50% increase during the period 1 October 2000 –31 January 2001 to stand at 32% compared to 21% in September 2000.[23] At present, more than 1 million people, one third of the population, are living below the poverty line of $2.10 per day according to the World Bank, while PECDAR estimates the percentage of people living under poverty line at 45%.[24] This leaves more than 41% of the families without any source of income, as reported by the Palestinian labour Union. So acute is the impact of closure that even with a partial relaxation in the Israeli restrictive measures, poverty rate is expected to reach 44% by the end of 2001. [25] The proposed PNA budget for the year 2001 puts the fiscal deficit at $524 million, while the 2001 deficit is estimated to be at least four times the level anticipated at the onset of the crisis.[26]

In an attempt to curb the ever deteriorating economic indicators, donors and the PNA are persistently forced to redirect attention towards emergency job creating at a time when they had otherwise hoped to maintain an undivided attention to longer-term infrastructure needs. Coupled with ever increasing global and regional competition facing the economy, challenges to development efforts are paramount.

V. A Framework for Economic Management

The PNA has committed itself to the establishment of a free market economy that is stimulated by a vigorous private sector. This commitment is well pronounced in the PA's overall development strategies limiting its role to ensuring a well orchestrated institutional set-up that would empower the private sector through incentives and support institutions and built-in measures mechanisms for ensuring its participation in policy making.

A. The Palestinian Development Plan

The Palestinian Development Plan (PDP) for 1999 to 2003 constitutes an initial framework for the development of the Palestinian economy. It has served as the principle instrument for linking Palestinian reconstruction needs and development programs with international donor resources. The PDP is based on several principles, which together constitute short- and medium-term goals, summarized as follows:

1) The Palestinian economy is private sector driven and market based. The role of the public sector is limited to establishing an enabling economic environment through the legislative framework and the rule of law, as well as the management of institutions providing services to the private sector.

2) As a direct result of the small size of the of the Palestinian market and the changing regional and international economic environment, growth in the Palestinian economy relies on the creation of an open market, and the capability of accessing new markets for Palestinian products and services.

3) The Palestinian development strategy gives priority to the development of human resources, as a pivotal factor in the economy. This is achieved through the creation of employment opportunities, the reduction of dependence on the external labour markets, as well as the creation of sectoral development strategies, including training in the trade in services and information technology.

4) The utilization of the special assets relating to the geographical and historical position and tourist attractions, to enhance the tourism industry of the PA.

5) The enhancement of the role of the Palestinian economy both regionally and globally in order to integrate it into the multilateral trading system.

6) Improvement in the competitiveness of the Palestinian economy through the development of higher technology to achieve international standards.

B. Economic Policy Framework

A key step on the path to improved management of public finances was taken with the establishment in January 2000 of the Higher Council for Development, grouping the President and the Ministers of Economy and Trade, Finance and Planning and International Cooperation. The Council was entrusted with a clear and unequivocal reform mandate, as presented to the donor community in mid-2000 under the "Economic Policy Framework" (EPF), developed in collaboration with the International Monetary Fund.

The Council’s work Programme includes consolidation of all public revenue in one central account, enhanced public investment policy, strategies and instruments, a commitment to privatize PNA commercial holdings and enhanced oversight of public debt operations. These functions to be implemented by the respective Ministries will be subject to full accountability and transparency, while also benefiting from policy coordination at the highest levels of the Palestinian Authority, as well as with donors and multilateral institutions.

The overall objective of the EPF is to ensure that economic policies over the coming years make a positive and significant contribution to overcoming the challenges facing the Palestinian economy. In its first stage of work, the EPF was intended to focus sharply on policies to strengthen fiscal management, enhance transparency and governance in the PNA commercial and financial operations, improve banking supervision and strengthen the legal and regulatory framework. By mid-2000, significant progress had been made in revenue consolidation, as well as disclosure of PNA commercial holdings.

C. National Economic Dialogue

The PNA attaches great importance to promoting the private sector's participation in policy making for ensuring the articulation of responsive policies tackling the major impediments to growth. The fact that the PNA is often forced to respond to emerging obstacles on an ad hoc, case by case basis, impeded by the adverse political environment only increases the importance of ensuring a better incorporation of the private sector's interests into public policies, programs, and projects. Within this context, the National Economic Dialogue was launched in 1999 with a view to enhance a progressive dialogue between the private sector and the PA. Administered by PECDAR and the World Bank with PALTRADE as the executive body, the project aims at reducing fragmentation in policy making, identifying and prioritizing the private sector's interests, and suggesting recommendations with regards to key policy issues.

The project was implemented in a phased manner whereby the first phase entailed the formulation of a priority list for policy makers through workshops including representatives from the private sector and research institutes. After a series of workshops conducted during 1999, participants formulated a comprehensive priority list including 25 policy issues categorized in 4 major groups including issues pertaining to Israeli restrictions, local government practices and policies, economic uncertainties, and issues pertaining to the challenges stemming from the wide spread of globalization policies. The second phase entailed formulating white papers on major policy issues. These were discussed during a Conference convened in mid-2000, bringing together PNA officials and representatives of the private sector, before being submitted to the PNA through the Ministry of Economy and Trade.

D. Operational Policies

1. Fiscal policy

Maintaining a low, or at least sustainable budget deficit stands as a major impediment to ensuring comprehensive public services in terms of their variety and outreach, let alone ensuring their sustainability. This does not indicate flaws in fiscal policies, however, in as much as it reflects the binding factors impeding self-sufficiency. Most notable is the difficulty of expanding the tax base beyond the present level of 70,000 taxpayers, given the structural weaknesses within the economy. On the expenditure side, the PNA is faced with limited capacity to ensure an efficient allocation of revenues and service delivery. Consequently, the PNA should be evaluated against "performance in the real world, not the ideal one. It has achieved levels of service delivery, revenue mobilization, financial accountability, and utilization of international assistance that are at least commensurate with, and in some aspects exceed, those in countries with comparable development and income".[27] Though there remains much room for improvement, the previous achievements gain much importance reflecting the significant steps the PNA has taken to improve financial management.

- **Revenues**

In order to increase government revenue and finance reconstruction expenditures and investment, the PNA has introduced a number of improvements in its administrative and financial structures. Tax collection procedures have been modernized and a new income tax regime has been introduced, reducing income tax for the top bracket from 38% to 18%. Customs procedures and administration have been examined to upgrade them so as to adhere to international standards. Indirect revenues (value-added tax, customs and excise) provide the greater proportion of public revenues. Domestic tax collection capacity has showed steady improvement since 1995, owing to concerted efforts of the Ministry of Finance, including training of tax collection staff, public awareness campaigns and improved ability to identify potential taxpayers and to detect tax-fraud.

- **Government budget**

The PNA achieved a balanced budget in 1998 with a surplus of US$60 million on a cash basis. In addition, for the first time since its inception, the PNA financed all current expenditure using its own resources without resort to donor support. The budget for 2000 grew to $1,363 million, 70% of which is devoted to payroll and operating expenditures. Development expenditures remain largely dependent on donor finance, which is increasingly made available in the form of loans. The ratio of official development assistance (ODA) to GDP has declined from around 20% in 1995 and 1996 to around 13% by 1998-1999.

The budget deficit, which had reached around 3% of GDP in 1996, has been reduced since 1997, as deficits accruing from current expenditures have declined. Since then, the bulk of the deficit was generated by capital expenditures, which have been financed by grants from the donor countries, and from short-term commercial bank overdraft. The budget deficit should be eliminated as of 2000, but arrears remain from previous years. It should be noted, however, that owing to donor assistance the effective deficit was not a large proportion of the total expenditure budget. The deficit was projected at $52 million for 2000, which was less than 5 percent of the total expenditure budget for that year.

In order to enhance efficiency and transparency, the Ministry of Finance has established a Public Debt Directorate, which will operate a computerized debt management and financial analysis system (DMFAS) provided through UNCTAD.

2. Investment Policy

The PNA is implementing an open investment policy with the aim of attracting foreign investment and re-orienting domestic savings and investment to augment Palestinian development efforts.

- **Investment Law**

Owing to the national commitment of encouraging investors and building a modern market economy, the 1998 Law on the Encouragement of Investment superseded the 1995 Law. The new Law has wide sectoral coverage based on a negative list. It offers guarantees to all new investors and stipulates a series of incentives of different duration, based on the capital invested and the labour employed. The Law also allows different benefits to investors and national treatment for all investors.

- **Industrial Estates and Industrial Free Zones Law**

The Law on Industrial Estates and Industrial Free Zones was ratified in November 1997. The law designates certain areas as free zones to facilitate the establishment of regional and international export centers. The Palestinian Industrial Estate and Free Zone Authority was established as an autonomous body to oversee the implementation of estates and free zones, and create an enabling and regulatory framework for the success of their operations.

- **Investment Guarantee Regime**

Upon the request of the PNA, the Multilateral Investment Guarantee Agency (MIGA) created the West Bank and Gaza Investment Guarantee Trust Fund. The Trust Fund provides guarantees for eligible foreign investors against major political risks such as expropriation as well as war and civil disturbance in member countries. This Trust Fund helps to attract foreign direct investment in the Palestinian economy.

3. The Legal Framework

The following laws with a direct bearing on economic and trade activity have been published in the Official Gazette:

- Public Works and Bidding Law
- Public Procurement Law
- Natural Resources Law
- Amendment of Money Changers Law
- Supervision and Stamp of Gold and Precious Metals Law
- Industrial Zones Law
- Labour Law
- Encouragement of Investment Law
- Environment Law
- Palestinian Monetary Authority Law

- Law for the Formation of the Insurance and Pensions Fund
- Commercial Agency Law
- Law for the Establishment of the Palestinian Energy Authority
- Apartments Condominiums and Stores Ownership Law
- Law for the Establishment of the Palestinian Water Authority
- Communication and Telecommunication Law
- Animal Husbandry Law
- Public Budget and Financial Affairs Law

- **Intellectual property rights**

The Ministry of Industry is responsible for the implementation of intellectual property legislation. The prevailing Laws on intellectual property rights are the Civil Ordinance of 1933, applicable in the Gaza Strip, and the Jordanian Merchandise Ordinance No 19 of 1953, the Patent Ordinance No 22 of 1953 and the Trade Mark Ordinance No 33 of 1942 regarding registration of intellectual property. To accommodate the commercial developments, the PNA is actively working on enacting new legislation to ensure adequate protection to all categories of intellectual property rights. New legislation is being drafted conforming to international standards and in line with WIPO guidelines.

4. Commitment to Good Governance

The PNA is committed to enhancing the rule of law given the pivotal role it plays in ensuring sustainable development. It strongly believes that this could not be achieved without a basic law that incorporates internationally-recognized human rights, empowers an independent judiciary, defines and limits the powers of government, and outlaws discrimination and protects minorities. The PNA also attaches great importance to establishing and maintenance of a strong and fair electoral system, and the creation of a broad framework of laws and policies, which protect human rights, fundamental freedoms and democracy and strengthen the judiciary.

Within this context, the PNA has created a strategic framework development scheme, "Rule of Law Strategic Development Plan", with a view to identify and prioritize needs within each of the sub-sectors of the rule of law domain. It has also created a rule of law core group, the "Core Group on the Rule of Law", to focus specifically on the continuing needs in this sector, to develop and propose plans of actions to address these needs, and to monitor progress made.

Twenty-four donors and thirteen United Nations agencies and Programmes, along with numerous independent international and Palestinian NGOs, currently support the rule of law sector. Each of these development partners are working with the Executive branch, through, *inter alia*, the Ministries of Interior, Justice, Planning and International Cooperation and Local Government; with the Judiciary, through Palestinian judges at all levels and with court staff; with the Legislative branch, through the Palestinian Legislative Council; with the Palestinian Independent Commission for Citizens’ Rights; and with civil society, through the many Palestinian NGOs present in the West Bank and Gaza Strip.

Moreover, some national plans of action (e.g., for Children, for Human Rights) have either been initiated or are anticipated. NGOs, as well as the Palestinian Independent Commission for Citizen's Rights, have received much-needed support from the international community.

5. Strengthening Public Institutions

The PNA has succeeded in taking over and operating the Israeli-run Civil Administration as well as in absorbing the numerous NGOs actively involved in the provision of public services. However, it is persistently challenged a growing population and limited resources triggering a series of initiatives to reform public administration. The first initiative took the form of establishing a "Core Group for Public Administration" (CGPA) within the PNA acting as a counterpart of the donor community's "Sector Working Group on Institutional Building" in order to set forward public administration development plan. The CGPA, which includes six key public institutions, submitted its first development strategy and targets to the Palestinian Development Plan in August 1997.

In May 1998, a new civil service law was enacted setting new standards for recruitment, promotion and evaluation so as to motivate employees and ensure transparency. The following month witnessed other initiatives with the establishment of the "Public Administration Development Unit" attached to the PNA cabinet and the establishment of a "Public Sector Reform Committee" at the ministerial level.

In August 1999, an independent committee, the "Higher National Committee for Institutional Development" (HNCID) was established in accordance with a presidential decree initiating the process of administrative reform. The committee was mandated with the task of developing public institutions, following up on all domestic and international reports on Palestinian institutional reform, and present to the cabinet operational measures for ensuring a successful reform. In turn, the HICID established six sub-committees to ensure a comprehensive coverage of different factors affecting public institutions' performance. Each committee is mandated with the task of conducted a gap analysis identifying major obstacles and suggesting appropriate reform measures and action plans that are feasible, visible and capable of ensuring maximum impact. The sub-committees were given two months to formulate individual action plans and another four months for implementing the first phase of the devised action plans. Measures taken by the ministries and the cabinet as well as legislation passed by the PLC will then be ratified to facilitate and speed up the reform process. In February 2000, an independent body, the "Administrative Improvement Unit" (AIU), was established to act as the executive arm of the HNCID managing and integrating activities initiated by the later.

6. Trade Promotion Institutions

Palestinian private sector and trade-promotion organizations are involved in efforts to improve market access for Palestinian products, obtain and disseminate global and regional market information and promote e-commerce. These include:

- Palestinian Center for Trade Development (PALTRADE);
- Federation of Palestinian Chambers of Commerce (FPCC);
- European Palestinian Chamber of Commerce (EPCC);

- Palestinian American Chamber of Commerce (PACC); and
- Palestine World Trade Center (PWTC).

7. Human Resources

The wealthy and educated Palestinians in the Diaspora, having accumulated rich experiences throughout their career lives, significantly offset the lack of natural resources. These are relied upon to play a significant role in developing the economy once peace is achieved. The young generation is another important asset as indicated by the overall literacy rate (for males and females aged 15 years and above) standing as among the highest in the region at 89% in 1999. Though this rate varies between males and females, (92.2% for males and 79.7% for females), and between urban and rural areas (87.6% and 83.1% in 1997, respectively). Net enrollment ratio for males and females registered substantial increase during the period 1994-1998 across basic and secondary grades, while drop out rate for males registered a slight increase during this period as compared to females drop out rate. By and large, there exists a tendency to ensure equal opportunities in education for males and females as reflected in the distribution of classes by stage and gender. The gap between the number of male and female classes in the elementary stage is paralleled by persistent increases in the number of coeducation classes. Arabic is the official language, though English, French and Hebrew are also spoken.

8. Economic, Trade, and Transport Agreements

- The Palestinian Liberation Organization, the representative of the Palestinian people, signed the Protocol on Economic Relations on April 29, 1994 with the Government of Israel.

- The Palestinian Liberation Organization for the benefit of the PNA of the West Bank and Gaza Strip signed the Economic and Technical Cooperation Agreement with the Arab Republic of Egypt on January 25, 1995.

- The PNA signed a Trade Agreement with the Government of the Hashemite Kingdom of Jordan on January 26, 1995.

- On October 3, 1996, the President of the United States issued a presidential decision granting duty free treatment to products of the West Bank and Gaza Strip entering the United States market. The PNA reciprocated unilaterally and granted United States products duty free treatment upon entering the West Bank and Gaza Strip.

- On February 27, 1997, The Palestinian Liberation Organization for the benefit of the Palestinian Authority of the West Bank and Gaza Strip signed the Euro Mediterranean Interim Association Agreement on Trade and Cooperation with the European Community.

- On November 30, 1998, The Palestinian Liberation Organization for the benefit of the Palestinian Authority of the West Bank and Gaza Strip signed the Interim Free Trade Agreement with the EFTA states.

- In 1998, the Palestinian Liberation Organization, for the benefit of the Palestinian National Authority signed a Protocol on Trade Relations with the Arab Republic of Egypt.

- On February 27, 1999, The Palestinian Liberation Organization for the benefit of the Palestinian Authority of the West Bank and Gaza Strip signed the Joint Canadian Palestinian Framework for Economic Cooperation and Trade.

- On the 4th of July 2000, the Palestinian Liberation Organization, for the benefit of the Palestinian National Authority, signed an agreement with the Government of the Hashemite Kingdom of Jordan for the purpose of establishing a joint Free Trade Area (FTA) in the Jordan Valley. Construction works will proceed in a phased manner with a view of operating the FTA by the year 2007.

- In July 2000, the Palestinian Liberation Organization, for the benefit of the Palestinian National Authority signed a transport agreement with the Government of the Hashemite Kingdom of Jordan, according to which the two sides adopted the "door-to-door system" as of the 1st of August 2000.

- On the 18th of January 2001, the Palestinian Liberation Organization, for the benefit of the Palestinian National Authority signed a cooperation agreement with the Government of the Hashemite Kingdom in the field of customs. Considered to be the first of its kind between the PNA and members of the Arab world, the agreement envisages a cooperation that includes the exchange of administrative and technical expertise, the rationalization and harmonization of customs procedures, along with curbing the smuggling of goods through the borders.

9. Conducive Environment for Re-Orienting the Palestinian Economy

Until a few years back, governments throughout the Middle East were more committed to global integration as opposed to regional integration. However, the ever increasing role regional economic blocks play in shaping global policies triggered a shift in these governments' focus towards regional integration underscored by common frameworks for coordinating development efforts.

The peace process encouraged governments to take further steps towards this end in the form of regional conferences and investment in infrastructure. Roads, railways, harbors and airports are receiving priority treatment in budgetary allocations, while future plans entail proposals to link the Egyptian, Israeli, Lebanese and Syrian rail and road grids.[28] A proposal to establish a free trade area comprising Palestine, Jordan and Israel has also been suggested with a view of extending the area's membership to include Egypt, Lebanon and Syria in the future. This is coupled with plans to construct new coastal roads on the eastern coast of the Mediterranean to link the southern and western areas, thereby enhancing integration among Lebanon, Palestine, Israel, Syria, Egypt and Turkey.

Aside from reducing transaction costs associated with trade activities, the stipulated integration will provide the economy with an additional source of income since Palestine stands as a transit corridor for other countries in the sub-region. For example, Jordanian traders currently using *Aqaba* port, over 300 kilometers south of Jordan's capital-Amman, to import goods from Europe and North America can reduce transport costs through using Gaza port that is situated only 200 kilometers west of Amman.

VI. Palestine's Expectations for the Decade 2001-1010 in the Context of the Third United Nations Conference on the Least Developed Countries

The experience of other countries emphasizes the importance of looking beyond an economy's main economic indicators when assessing its performance. Economic indicators may mask structural weaknesses and incidences of policy failure including the marginalization of the under-privileged from development programs. In fact, unless development efforts proceed with a clear understanding of the main forces affecting economic performance, policy makers may run the risk of confusing the main problems with their symptoms, thereby leaving the causes of these problems unattended. The need to maintain a clear perspective on the basic economic and political dynamics at play is essential when dealing with the Palestinian economy, whose main features militate against exploiting the potentials provided by international trade agreements. Provisions for differential and more favorable treatment of least-developed countries are not yet applied to Palestine, despite the fact that it stands to benefit greatly from such provisions.

The League of Arab States has officially classified Palestine within the list of Least Developed Arab Countries, granting it preferential and more favorable treatment in the implementation of trade and economic agreements. Although Arab markets provide significant opportunities for expanding Palestinian trade, alone they cannot provide sufficient stimulus for accelerating growth, given the common trade patterns among Arab countries. Accordingly, Palestine remains in need of better access conditions in developed countries' markets for ameliorating supply and demand side constraints. Palestine also needs technical assistance in trade policy, infrastructure management and structural reforms, as outlined in the following concluding sections.

A. Better Access to Markets of Developed Countries

Unless efforts to improve the Palestinian economy's supply capabilities are coupled with better market access conditions, the economy will continue to suffer from the same structural weaknesses. WTO Ministerial Declarations to provide least-developed countries with more favorable market access conditions reflects growing concerns over the adverse consequences the present situation will induce if further extended. The "Decision on Measures in Favor of Least-Developed Countries" agreed that "expeditious implementation of all special and differential measures taken in favor of least -developed countries including those taken within the context of the Uruguay Round shall be ensured through, *inter alia*, regular reviews". However, WTO members continue to impose tariff and non-tariff barriers on their imports from least-developed countries, thereby making it difficult for these countries to develop their economies or even obtain tangible benefits from technical assistance programs in the field of trade policy.

In the case of Palestine, exempting Palestinian exports from quotas, duties and the complex rules of origin has paramount importance for stimulating economic development. At present, poor market access conditions aggravate the structural weaknesses within the economy, discouraging enterprises from modernizing production processes and enhancing their presence in virtual markets. These conditions also discourage investors from undertaking major projects in Palestine, hence obstructing the flow of FDI into the economy. In a causal-effect relation, the present situation is working against the development of the financial sector. Banks are hesitant to invest in developing sophisticated services given the enterprises' salient features, while the PSE is confronted with a weak demand on its services since only a few enterprises capable of meeting the listing requirements.

B. Better Access to Transit Transport Facilities

Palestine's disadvantaged geographical location poses a serious impediment to trade expansion given its heavy reliance on regional transport facilities and routes for increasing its participation in global trade. Palestinian traders are denied proper access to these facilities, however, given Israel's restrictive measures and recurrent closure of Palestine's main borders. Granting Palestine preferential transit rights through the territories of its neighboring countries is essential for trade expansion, as well as exempting it from customs duties, taxes and other transit transport charges given the prohibitive transport costs Palestinian traders currently face. Palestine also stands as a main potential beneficiary from the provisions for more favorable and differential treatment provided for Land-Locked States under the terms of The United Nations Convention of the Law of the Sea (1982) including the exclusion of application of the most favored-nation clause (article 126), free zones and other customs facilities (article 128), co-operation in the construction and improvement of means of transport (article 129), measures to avoid or eliminate delays or other difficulties of a technical nature in traffic in transit (article 130), equal treatment in maritime ports (article 131), and granting of greater transit facilities (article 132)

C. Access to Modern Production and Telecommunication Infrastructures

As explained earlier, Palestine's limited exports reflect structural weaknesses within the industrial base dominated by under-developed SMEs sharing the features of cottage industries. The need to strengthen these enterprises' supply capability is obvious but more important still, is setting the stage for the establishment of new generations of SMEs and large enterprises that are capable of competing in global markets.

Active participation in international trade is hampered by the Palestinian industries' weak technological capabilities specialized in labor-intensive and agricultural products, thereby undermining the possibility of trade diversification. The industries are discouraged from exploiting the Internet for extending their outreach faced by high user fees, while the ever-increasing spread of e-commerce means greater market shares for TNCs and foreign companies at the expense of local enterprises. This is so because the PA's commitment to create an e-commerce enabling environment is challenged by expensive telecommunication infrastructures and networks. Although infrastructure related the donor community currently finances development projects, the decreasing trend of donor funding over the last few years requires granting Palestine access to modern production and telecommunication infrastructures at lower costs.

Under the terms of GATS, WTO members agreed to "facilitate" an increasing participation of developing country members in world trade through "negotiated specific commitments" relating to the "strengthening of their domestic services capacity and its efficiency and competitiveness *inter alia* through access to technology on a commercial basis" (Article IV: 1). Members are to give "special priority to least-developed country Members in implementing this article" while taking "particular account of the serious difficulty of these countries in accepting negotiated specific commitments in view of their special economic situation and their development, trade and financial needs"(Article IV:3). However, the technological divide between the developed and developing countries is increasing, as developed countries have yet to translate these agreements into specific commitments. In the case of Palestine, a failure to obtain access to modern production and telecommunication infrastructures at low costs runs the risk of inducing sluggish growth, working against the development of an internal engine of growth to substitute the export of labor services.

D. Technical Assistance

Although the Palestinian trade sector's disappointing performance record is mainly attributed to poor market access conditions, it is also underscored by competency shortfalls. These include limited experience in trade policy, trade facilitation and handling multi-lateral trade negotiations at the government level, henceforth, undermining Palestine's ability to enhance trade opportunities and exploit trade agreements with other countries. The PNA has committed itself to institution building establishing the needed mechanisms for improving policy making and service delivery including institutionalized public/private partnerships. This is insufficient, however, given its intention to accede the WTO, a process which will require concerted efforts to enhance its capacities to formulate trade policies and laws compliant with WTO rules.

Within this context, Palestine can certainly benefit from the "Integral Framework for Trade-Related Technical Assistance, including for Human and Institutional Capacity-Building, to Support Least-Developed Countries in Their Trade and Trade-Related Activities" endorsed by "The High-Level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development convened by the WTO in 1997". The need to improve the private sector's productive capacity gains paramount importance for improving the enterprises' competitiveness in global markets. An extension to this is the need to strengthen trade support services including trade finance, infrastructure services, information technology, and market information. Palestine also needs technical assistance for increasing the level of private investments, attracting FDI, and mobilizing public and private saving.

Although technical assistance programs form an integral component of nearly all donor funded projects, they tackle technical drawbacks in as much they relate to the funded projects. This should not be understood as an attempt to negate the importance of such technical assistance programs, rather the aim is to emphasis the need for a comprehensive and systematic approach that ensures a balanced treatment of the prevailing technical impediments to trade expansion.

The PNA also needs technical assistance in the field of infrastructure development and management to ensure effective response to present and future needs. The PNA's commitment to open infrastructure sector for foreign direct investment and the donors' active involvement in financing related development projects will certainly ensure improving the quality of services at lower costs. However, unless monitored and coordinated these projects will not guarantee the amelioration of prevailing bottlenecks, let alone ensure their sustainability.

More important still, is the need for technical assistance in developing a well-articulated "National Action Program" for translating development strategies into increased economic growth. The PNA needs to incorporate the least-developing countries' experience into national development strategies, policies, administrative reforms, and projects needed for ameliorating supply side and demand side constraints. The experience of these countries is also important for avoiding implementation failure and ensuring sustainable development that is not dependent on foreign aid.

Accordingly, Palestine believes that the Third Conference on Least Developed Countries can take concrete measures, recalling paragraph 9 of General Assembly resolution 43/178, and in the light of the special circumstances still faced by the Palestinian people. In particular, this could include extending to Palestine the same preferential treatment and assistance accorded to least developed countries during the transition period to statehood and beyond, as well as including Palestine in all technical assistance programmes and activities interned for the LDC group. UNCTAD secretariat could play a valuable role in coordinating such assistance, beginning with the preparation of the "Palestine National Action Program for Development, 2001-2010".

Annex I: Population, Labor and Poverty

- **Population**

(TableI.1) Projected Mid-Year Population in Palestine by Age, Sex and Region, 1999

Age Group	West Bank			Gaza Strip			Palestinian Territory		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4	175,792	169,195	**344,987**	110,293	106,937	**217,230**	286,085	276,132	**562,217**
5-9	145,842	140,914	**286,756**	93,126	90,832	**183,958**	238,968	231,746	**470,714**
10-14	121,040	115,784	**236,824**	74,415	71,427	**145,842**	195,455	187,211	**382,666**
15-19	102,939	97,103	**200,042**	58,236	55,691	**113,927**	161,175	152,794	**313,969**
20-24	89,082	84,878	**174,906**	46,608	45,604	**92,212**	135,636	130,482	**266,118**
25-29	77,739	74,503	**152,242**	36,434	35,981	**72,415**	114,173	110,484	**224,657**
30-34	64,916	61,604	**126,520**	31,994	29,879	**61,873**	96,910	91,483	**188,393**
35-39	53,036	50,071	**103,107**	26,885	24,253	**51,138**	79,921	74,324	**154,245**
40-44	38,579	36,856	**75,435**	19,150	17,904	**37,054**	57,729	54,760	**112,489**
45-49	26,480	26,117	**52,597**	14,362	14,462	**28,824**	40,842	40,579	**81,421**
50-45	20,006	22,415	**42,421**	10,069	11,247	**21,316**	30,075	33,662	**63,737**
55-59	16,011	19,465	**35,476**	6,603	9,043	**15,646**	22,614	28,508	**51,122**
60-64	13,730	17,608	**31,338**	6,283	8,295	**14,578**	20,013	25,903	**45,916**
65-69	11,549	14,992	**26,541**	5,421	7,097	**12,518**	16,970	22,089	**39,059**
70-74	8,703	11,0098	**19,801**	3,729	5,134	**8,863**	12,432	16,232	**28,664**
75-79	5,532	6,916	**12,448**	2,195	2,873	**5,068**	7,727	9,789	**17,516**
80+	5,836	6,360	**12,196**	2,088	2,517	**4,605**	7,924	8,877	**16,801**
Total	**976,758**	**955,879**	**1,932,637**	**547,891**	**539,176**	**1,087,067**	**1,524649**	**1,495055**	**3,019704**

Source: PCBS, "Population in the Palestinian Territory: 1997-2025", Palestine

- **Labor Force and Wages**

Table (I.3): Changes in the Labor Force Indicators During 1995-2000

Variables	1995	1996	1997	1998	1999
Labor Force participation Rate	39.0	40.0	40.5	41.4	41.6
Full Employment Rate	60.7	64.3	70.4	79.1	82.8
Underemployment Rate	21.1	11.9	9.3	6.5	5.4
Unemployment Rate	18.2	23.8	20.3	14.4	11.8
Employed in Agriculture	12.7	14.2	13.1	12.1	12.6
Employed in Construction	19.2	16.8	18.4	22.0	22.1
Employed in Manufacturing	18.0	16.8	16.4	15.9	15.5
Employed in Services	25.6	29.2	28.2	27.1	28.1
Elementary Occupation Workers	18.3	28.7	28.9	31.0	29.7
Craft and Related Trade Workers	27.5	24.0	24.6	24.7	22.7
Employed in Israeli Settlements	16.2	14.1	17.1	21.7	23.0
Employers	6.9	5.5	5.3	5.8	5.5
Self- Employed	21.2	22.3	22.9	21.0	18.7
Wage Employees	61.7	61.4	62.0	65.3	67.8
Unpaid Family Members	10.2	10.8	9.8	7.9	8.0
Median Daily Net Wage (NIS)*	46.3	46.2	50.0	57.7	69.2

Source: "Labor Force-Current Main Indicators", Palestinian Central Bureau of Statistics (PCBS), Palestine

*Including workers in Israel and Israeli Settlements

Table (I.4): Wage Discrepancy Among Places of Work by Sex and Economic Activity, 1999

Economic activity and Sex	**Median Daily Wage for workers in the West Bank**	**Median Daily wage for workers in Gaza Strip**	**Median Daily Wages for workers in Israel and Israeli Settlements**
Both Sexes			
Agriculture, Hunting and Fishing	50.0	30.0	70.0
Mining, Quarrying and Manufacturing	50.0	38.3	100.0
Construction	70.0	40.0	100.0
Commerce, Hotels and Restaurants	57.7	30.8	100.0
Transportation, Storage and Communication	65.4	46.2	107.0
Services and Other Branches	57.7	50.5	100.0
Total	**60.0**	**46.2**	**100.0**
Males			
Agriculture, Hunting and Fishing	50.0	30.0	70.0
Mining, Quarrying and Manufacturing	60.0	38.5	100.0
Construction	70.0	40.0	100.0
Commerce, Hotels and Restaurants	57.7	30.8	100.0
Transportation, Storage and Communication	65.4	46.2	107.0
Services and Other Branches	61.5	50.0	100.0
Total	**61.5**	**46.2**	**100.0**
Females			
Agriculture, Hunting and Fishing	40.0	-	64.3
Mining, Quarrying and Manufacturing	30.0	20.0	46.6
Construction	50.5	-	90.0
Commerce, Hotels and Restaurants	50.5	-	115.4
Transportation, Storage and Communication	57.7	-	-
Services and Other Branches	55.8	53.8	113.1
Total	**50.5**	**50.0**	**80.0**

Source: "Labor Force Survey Annual Report-1999", PCBS, Palestine

Note: (-) denotes the lack of observations

- **Health Indicators**

Table (I.2): Main Health Indicators, 2000

Indicator	Percentages
Under -five mortality rate (1995-1999)	28.7 per 1000
Infant mortality rate (1995-1999)	25.5 per 1000
Underweight prevalence	2.5
Stunting prevalence	7.5
Wasting prevalence	1.4
Use of safe drinking water	96.2
Use of sanitary means of excreta disposal	99.6
Antenatal care	95.6
Contraceptive prevalence	51.4
Childbirth care	97.4
Birth weight below 2.5 kg.	8.6
Iodized salt consumption	37.4
Children receiving Vitamin A supplementation	15.5
HIV/AIDS incidence (1999)	0.14 per 100,000
AFP incidence rate (1999)	1 per 100,000
Viral Hepatitis A incidence (1999)	87.3 per 100,000
Viral Hepatitis B incidence (1999)	3.2 per 100,000
Viral Hepatitis C incidence (1999)	4.3 per 100,000
Knowledge of preventing HIV/AIDS	33.9
DPT immunization coverage	88.5
Measles immunization coverage	92.9
Polio immunization coverage	96.8
Tuberculosis immunization coverage	74.7
Children protected against neonatal tetanus	27.5
ORT use	20.6

Source: "Health Survey-2000: Main Findings", Ministry of Health, Palestine; for 1999 "The Status Of health in Palestine: Annual Report 1999", Ministry of Health, Palestine.

- **Education**

Table (I.5): Net Enrollment by Grade 1996/1997-1998/1999

Grade	1996-1997			1997-1998			1998-1999		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
1st	80.17	78.05	**79.13**	89.75	85.66	**87.74**	83.03	80.20	**81.64**
2nd	77.57	74.71	**76.17**	85.45	82.84	**84.16**	85.33	81.83	**83.61**
3rd	74.81	71.91	**73.39**	81.25	78.94	**80.11**	82.08	77.83	**79.99**
4th	66.74	65.67	**66.22**	74.54	73.72	**74.13**	78.19	75.01	**76.63**
5th	65.11	63.43	**64.29**	66.43	65.04	**65.75**	73.26	70.87	**72.09**
6th	61.68	60.54	**61.12**	62.50	62.57	**62.54**	64.60	63.55	**64.08**
7th	52.71	54.33	**53.50**	56.08	58.53	**57.27**	60.73	60.43	**60.58**
8th	47.70	47.42	**47.56**	50.68	53.30	**51.95**	54.58	56.57	**55.55**
9th	42.21	45.72	**43.92**	44.24	46.35	**45.27**	48.23	49.73	**48.96**
10th	37.42	38.51	**37.95**	39.53	42.89	**41.17**	40.80	44.06	**42.39**
11th	32.02	32.90	**32.45**	33.67	34.42	**34.04**	33.63	39.02	**36.25**
12th	30.82	28.20	**29.55**	30.69	30.04	**30.37**	30.23	30.10	**30.16**
Basic Stage	87.72	88.07	**87.89**	89.56	90.10	**89.92**	90.58	91.31	**90.94**
Secondary Stage	**40.24**	**38.74**	**39.52**	**40.02**	**40.28**	**40.15**	**40.24**	**44.04**	**42.09**

Source: "Education-Current Main Indicators", PCBS, Palestine

Table (I.6): Distribution of Classes by Stage and Gender 1994/1995-1998/1999

Year	Basic				Secondary			
	Male	Female	Co-education	Total	Male	Female	Co-Education	Total
1994/1995	6326	5832	3278	**15436**	739	587	176	**1502**
1995/1996	6624	6227	3485	**16336**	799	663	207	**1669**
1996/1997	7163	6728	3727	**17618**	885	771	211	**1867**
1997/1998	7669	7369	3833	**18871**	954	868	225	**2047**
1998/1999	8041	7765	4281	**20087**	995	954	233	**2182**

Source: "Education-Current Main Indicators", PCBS, Palestine

- **Poverty Indicators**

Table (1.7): Poverty Rates by Number of Children, 1998

Number of Children	Poverty	Poverty Gap	Deep Poverty
0	20.0	6.1	13.3
1-2	12.9	2.9	6.6
3-4	16.2	4.2	9.1
5-6	23.9	6.8	15.7
7-8	30.5	7.6	19.0
9+	33.6	9.7	23.4
Total	**20.3**	**5.5**	**12.5**

Source: "Poverty in Palestine: January-December 1998", Ministry of Health, Palestine

Table (1.8): Poverty Rates by the Head of the Household's Level of Education

Household's Level of Education	Poverty	Poverty Gap	Deep Poverty
Less than elementary	27.8	7.7	17.2
Elementary	20.5	5.6	13.0
Preparatory	20.1	5.5	12.9
Secondary	16.2	4.3	10.0
Diploma	7.4	1.6	4.6
Bachelor or more	7.3	1.1	2.6
Total	**20.3**	**5.5**	**12.5**

Source: "Poverty in Palestine: January-December 1998", Ministry of Health, Palestine

Annex II Economic performance until 2000

- **Aggregate Indictors**

Table (II.1): Palestine:[a] key economic indicators, 1994 and 1996-1998

Indicator/Units	1994	1996	1997	1998	PREL. 1999
National accounts					
Gross domestic product - GDP (million US$)	2 624	3 413	4 173	4 484	4 570
Gross national income - GNI (million US$)	3 096	3 864	4 906	5 475	5 196
GDP per capita (US$)	1 274	1 497	1 500	1 548	1 614
GNI per capita (US$)	1 503	1 695	1 763	1 890	1 782
Expenditure on GDP					
Private consumption, including non-profit institutions (percentage of GDP)	105	106	100	98	-
Government consumption (percentage of GDP)	13	20	23	24	-
Private investment, including changes in inventories (percentage of GDP)	23	26	33	29	28
Government investment (percentage of GDP)	6	7	7	6	5
Goods and services trade balance (percentage of GDP)	-51	-59	-65	-60	-
Balance of payments					
Goods and services balance (million US$)	-977	-1 856	-2 074	-2 439	-2658
Net factor income - NFI (million US$)	575	469	606	828	914
Net current transfers - NTR (million US$)	559	594	385	354	385
Current account balance: goods, services, NFI, NTR (million US$)	157	-793	-1 083	-1 256	-1358
Donor finance (million US$)	665	735	716	549	594
Net capital movements, errors, omissions and statistical Discrepancies	822	-58	-367	-707	-
Population (thousands)	2 060	2 279	2 782	2 896	3 019
Unemployment (percentage of labour force)	15	24	20	15	11.8
Employment in Israel (percentage of total employed)	18	14	17	21	23.0

Sources: National accounts, population and employment: (a) Palestinian Central Bureau of Statistics (PCBS) and (b) Palestine Economic Policy Research Institute (MAS), MAS Economic Monitor, No. 6, April 2000.

- **External Trade**

Table (II.2): Value of Registered Palestinian Merchandise Imports by Main Types,1998

In $ thousands

Main Types	Absolute Values	Shares
Raw Materials	697,209	29%
Agricultural Products	228,883	10%
Processed Food	237,750	10%
Manufactured Consumption Goods	344,238	15%
Manufactured Investment Goods	865,024	36%
Total Imports	**2,373,104**	**100%**

Source: UNSCO estimates based on PCBS, Foreign Trade Statistics –1998, in

Table (II.3): Main Trade Partners of the Palestine
by Total Value of Registered Merchandise Transactions, 1998

In $ thousands

Country	Total Value of Trade Transactions	Share of total Trade Transactions
Israel	2,214,638	79.98%
Jordan	66,124	2.39%
Italy	57,812	2.09%
Turkey	48,399	1.75%
Spain	36,422	1.32%
Germany	34,126	1.23%
China	33,789	1.22%
United States	33,430	1.21%
Egypt	27,728	1.00%
United Kingdom	25,357	0.92%
Main Partners' Trade	2,577,825	93.10%
Total Trade	2,768,948	100%

Source: PCBS, "Foreign Trade Statistics, 1998:Main Results"

Table (II.4): Regional Structure of External Trade

Subject	1990	1991	1992	1993	1994	1995	1996	1997	1998
Imports ***$million***	843	1139	1260	1173	1075	1690	2017	2164	2375
Israel (%)	84.7	85.7	87.7	86.5	85.6	90.0	86.4	83.3	69
Jordan (%)	1.1	0.8	0.8	0.8	0.6	0.5	0.4	1.4	1.4
Egypt (%)	-	-	0.1	0.1	0.1	0.3	0.9	1.2	0.9
ROW (%)	14.3	13.5	11.4	12.6	13.7	9.2	12.3	14.1	28.7
Exports ***$million***	231	247	292	234	243	326	340	381	395
Israel (%)	78.4	76.9	85.2	76	84.3	93.3	93.8	93.9	94.8
Jordan (%)	13.9	15.6	10	22.4	12.8	4.5	5.3	4.9	4.9
Egypt (%)	-	-	-	0.1	-	0.2	0.3	-	-
ROW (%)	7.7	7.5	4.8	1.5	2.9	1.4	0.6	1.2	0.3

Sources: For 1990-1991, Axel J. Halbach, "New potentials; for 1992-1995, UNCTAD secretariat estimates (see UNCTAD/GDS/SEU/2); for 1996-1998, PCBS-foreign trade statistics.

Table (II.5): Fiscal Operations of the Palestinian Authority, 1996 – 2000

	1997	1998	Prel. 1999	**Projection 2000**
Revenue	2,848	3,280	4,093	4,135
Domestic	1,136	1,220	1,508	…
Tax	728	852	1,037	…
Nontax	408	368	472	…
Revenue clearance	1,712	2,060	2,584	…
Current expenditure (on a commitment basis)	2,994	3,196	3,902	4,232
Wage bill	1,622	1,774	2,147	2,615
Nonwage	1,352	1,412	1,732	1,617
Foreign financed	20	10	23	…
Recurrent balance (commitment basis)	-146	83	191	-97
PA financed capital expenditure	0	0	0	50
Recurrent balance plus PA financed Capital expenditure (commitment basis)	- 146	83	191	-147
Change in the stock of arrears	18	288	42	-348
Recurrent balance plus PA financed Capital expenditure (cash basis)	- 128	372	233	-495
Foreign financed capital expenditure	905	896	874	941
Overall balance (cash basis)	-1,033	-525	-641	-1,436
Financing	1,033	525	641	1,436
Banking system, net	-183	213	-33	0
Foreign financing	1,043	907	897	941
Net revenue diversion	…	-329	-325	-105
Excise revenues diverted	548	598	616	152
Excise revenue transferred back	…	269	290	47
Other non-bank financing	…	…	…	…
Residual/financing gap	…	-266	102	601
Memorandum items:				
Stock of arrears (excl. arrears on VAT refunds)	18	306	348	0
PA employment	83,114	92,367	103,554	112,511
Current expenditure, cash basis	2,957	2,898	3,836	4,580
Nonwage, current expenditure, cash basis	1,335	1,124	1.690	1,965

Annex III : Donor Assistance to Palestine

- **Countries and International Organizations Involved in Assisting the PA**

International Community
Australia, Austria, Belgium, Canada, China, Czech Republic, Denmark, Egypt, European Commission, Finland, France, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Korea, Kuwait, Luxembourg, Morocco, Netherlands, Norway, Oman , Portugal, Qatar, Romania, Russia, Saudi Arabia, South Africa, Spain, Sweden, Switzerland, Tunisia, Turkey, United Kingdom, United states of America.
The United Nations
CICP, ECOSOC, FAO,HABITAT (UNCHS), IAEA,ICAO, IFAD, ILO, IMO, ITC, ITU, OHCHR, UNCTAD,UNDCP,UNDP,UNEP, UNESCO, UNFPA,WFP, WHO, WIPO, UNICEF, UNIFEM,UNITAR, UNSCO, UNRWA,UNV
International Financial Institutions
Arab Fund for Economic and Social Development, European Investment Bank, World Bank group, International Financial Corporation, Multilateral Investment Guarantee Agency, International Monetary Fund.

Table (III.1): Breakdown of donations by Type for the Period 1994-June 2000

In US$

Type of Donation	Total Commitments	Total Disbursements
Loans	817,937,000	454,696,000
Grants	3,783,075,000	2,614,949,000
Total	4,601,012,000	3,069,645,000

Source: Ministry of Planning and International Cooperation (MOPIC), Palestine

Table (III.2):Financial Assistance to the PA During the Period 1994-June 2000

Recipients	Total Pledges US$	Total Commitments US$	Total Disbursements US$
	5,730,303	4,601,012	3,069,645
PNA		4,251,258	2,788,951
NGOs		349,754	280,694

Source: Ministry of Planning and International Cooperation (MOPIC), Palestine

Table (III.3): Distribution of Donations among Main Development Sectors for the Period 1994-June 2000

In US$ 1000

Sector	Total Commitments	Total Disbursements	Total Disbursements as % of Commitments
Infrastructure	1,863	1,055	56.6
Productive	521	299	57.3
Social	1,167	858	73.5
Institution Building	1,026	797	77.6
Total	4,6 Billion	3,009 billion	

Source: Ministry of Planning and International Cooperation (MOPIC), Palestine

ENDNOTES

[1] Palestinian Academic Society for the Study of International Affairs (PASSIA), Yearbook, Jerusalem, 1996

[2] UNSCO, “Report on the Palestinian Economy with Special Report on Palestinian Merchandise Trade, Spring 2000”, Gaza

[3] United Nations Conference on trade and Development, "Cooperation Between the Palestinian Authority, Egypt and Jordan on Trade-Related Services", (UNCTAD/GDS/SEU/3)

[4] Ibid.

[5] Palestinian Central bureau of Statistics (PCBS), " Foreign Trade Statistics, 1998: Main Results", Palestine.

[6] UN GAOR (Agenda Item 7) 7, UN Doc. A/10203 (1975)

[7] "Evaluation of European Community Assistance to the West Bank and Gaza Strip", January 1999

[8] See Paris Protocol, Annex 1, Articles IX and X.

[9] United Nations Conference on Trade and Development, “Palestinian Merchandise Trade in the 1990s: Opportunities and Challenges"”(UNCTAD/GDS/SEU/1).

[10] World Bank (1994) "The World Development Report: Infrastructure for Development". New York: Oxford University Press.

[11] The Palestinian National Authority (1995)

[12] " Poverty in the West Bank and Gaza", a report by the World bank, January 2001, Gaza.

[13] See UNCTAD/GDS/SEU/3

[14] "Economic and Social Conditions in the West Bank and Gaza Strip", a quarterly report by UNSCO, Spring 1998, Gaza.

[15] However, these figures underestimated rates of unemployment in the Palestinian territory, owing to flaws in the chosen sample. UNCATD, "Review of labor and Employment in the West Bank and Gaza Strip", UNCTAD/EDEC/SEU/9

[16] This section draws on the following: "Aid Effectiveness in the West bank and Gaza", a report by the World Bank, June 2000; "Evaluation of European Community Assistance to the west bank and Gaza strip", a report by the European commission, January 1999; "Development Assistance to the West bank and Gaza: An overview", Palestinian Development Infonet (www.arts.mcgill.ca), March 1997.

[17] AHLC includes of the United states of America, Russia, the European union, Japan, Canada, Saudi Arabia, and Norway, with the PA, Israel, Egypt, Jordan, Tunisia and the UN as associate members.

[18] PCBS, “Direct Losses accrued induced on the Palestinian Economy by the Israeli Siege”, December 2000.

[19]UNSCO, “ The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001”, Gaza.

[20]UNSCO, “ The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001”, Gaza. According to the Palestinian Ministry of Labor, there was about 120,000 Palestinian worker in Israel on the eve of the crisis, earning a daily wage of $27.50 per person. See PCHR, “Closure Update No.31”, 8 January 2001.

[21]UNSCO, “ The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001”, Gaza.

[22] UNSCO, " The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001", Gaza
[23] See UNSCO, " The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001", Gaza and the World Bank Group, "The Impact of Prolonged Closure on Palestinian Poverty", Gaza 1 November 2000.
[24] "Poverty in the West Bank and Gaza Strip", a press release issued by the World Bank, 5 February 2001.
[25] See UNSCO, " The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closure, 1 October- 31 January 2001", Gaza and the World Bank Group, "The Impact of Prolonged Closure on Palestinian Poverty", Gaza 1 November 2000.
[26] "Crisis in Faith", Second Submission of the Palestinian Liberation Organization to the Sharm El-Sheikh Fact- Finding Committee, 30 December 2000.
[27] "Strengthening Palestinian Public Institutions", a report by the Council on Foreign Relations, 28 June 1999.
[28] These projects were proposed by representatives of the private sector in the region during the Middle-East and North Africa (MENA), held between 1994-1997 under the sponsorship of the World Economic Forum. The conferences were held for the purpose of enhancing the peace process through the promotion of regional economic co-operation with Israel as a main partner. During these conferences, the transport sector enjoyed far more activity than other sectors in terms of the number of projects proposed, investments and the rate of implementation. "Monitoring and Assessment of the Middle-East and North Africa (MENA) Economic Conferences: Industry and Transport", A report by the Economic and Social Commission for Western Asia , New York: the United Nations, 2000.