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

Note by the UNCTAD secretariat**

Summary

The far-reaching socioeconomic ramifications of the coronavirus pandemic have been compounded, and in certain respects marginalized, in the Occupied Palestinian Territory by a severe fiscal crisis triggered by the threat of de jure annexation of large areas of the West Bank by the occupying Power. In the context of prolonged and deepening occupation and restrictions on mobility that have continued for decades, these developments combined to make 2020 the worst year for the Palestinian people since the establishment of the Palestinian National Authority in 1994. Despite the severity of the pandemic shock, occupation remains the major impediment to development in the Occupied Palestinian Territory. Economic recovery in 2021 and beyond hinges on actions that will or will not be taken by the occupying Power and the scale of donor support. A slow or inadequate recovery in 2021 will heighten the risk of bankruptcy for small and medium-sized enterprises brought to the brink by the pandemic. The Palestinian National Authority is saddled with responsibilities far greater than the resources and policy space at its disposal. In addition, the economic impact of the recent air strikes on the Gaza Strip and confrontations in the rest of the Occupied Palestinian Territory is expected to be enormous and should be accounted for in future reports by the United Nations. Until occupation is ended, there is no substitute for adequate support from donors and the international community for rebuilding the shattered physical and institutional infrastructure and the fragile health-care system. For international support to translate into genuine progress, all of the restrictions imposed by the occupying Power on the Occupied Palestinian Territory should be lifted.

* The designations employed, maps and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delineation of its frontiers or boundaries. In accordance with the relevant resolutions and decisions of the General Assembly and Security Council, references to the Occupied Palestinian Territory or territories pertain to the Gaza Strip and the West Bank, including East Jerusalem. Use of the term “Palestine” refers to the Palestine Liberation Organization, which established the Palestinian National Authority. References to the “State of Palestine” are consistent with the vision expressed in Security Council resolution 1397 (2002) and General Assembly resolution 67/19 (2012).

** This report should not be quoted by the press before 28 September 2021, 5 p.m. GMT.

I. The pandemic and the permanent crisis of occupation

1. Before the onset of the coronavirus disease (COVID-19) shock, the Palestinian economy was in disarray and the overall politico-economic environment had been moving from bad to worse. The productive base had been battered and was in complete disrepair, geographical and market fragmentations were deepening, restrictions on imported inputs and technology were exacting a heavy toll on productivity, the loss of land and natural resources to settlements continued unabated, fiscal resources were leaking continuously to the treasury of Israel and the regional economy in Gaza had been impacted by a lengthy blockade and military operations.

2. In addition to the COVID-19 shock, in April 2021, violence broke out in response to a threat by Israeli authorities to evict Palestinian families from their homes in East Jerusalem in the Sheikh Jarrah neighbourhood and around the Old City. The conflict soon spread to the rest of the West Bank; 31 Palestinians were killed, 7,516 were injured and 798 were arrested (Office for the Coordination of Humanitarian Affairs (OCHA), 2021a). Most of the fatalities resulted from the use by Israeli security forces of live ammunition in the context of demonstrations or clashes or in response to attacks or attempted attacks; in the West Bank, in May, 1 Israeli was killed and 137 were injured, including 90 members of the Israeli security forces (United Nations, 2021). In Gaza, the impact of the prolonged blockade and restrictions since 2007 was compounded by the destruction of or partial damage to 28 hospitals and primary health-care centres caused by hundreds of air strikes conducted by Israel during the confrontation in May 2021. Furthermore, due to the escalation of hostilities, 256 Palestinians were killed, 1,948 were injured and 8,235 were displaced; 331 buildings were destroyed; 15,129 housing and commercial units were damaged, of which 1,128 were severely damaged; 400,000 people were left with no regular access to safe piped water; and 58 educational facilities were damaged (OCHA, 2021b). It is too early to assess the impact of these events, but they should be accounted for in future reports to the Trade and Development Board.

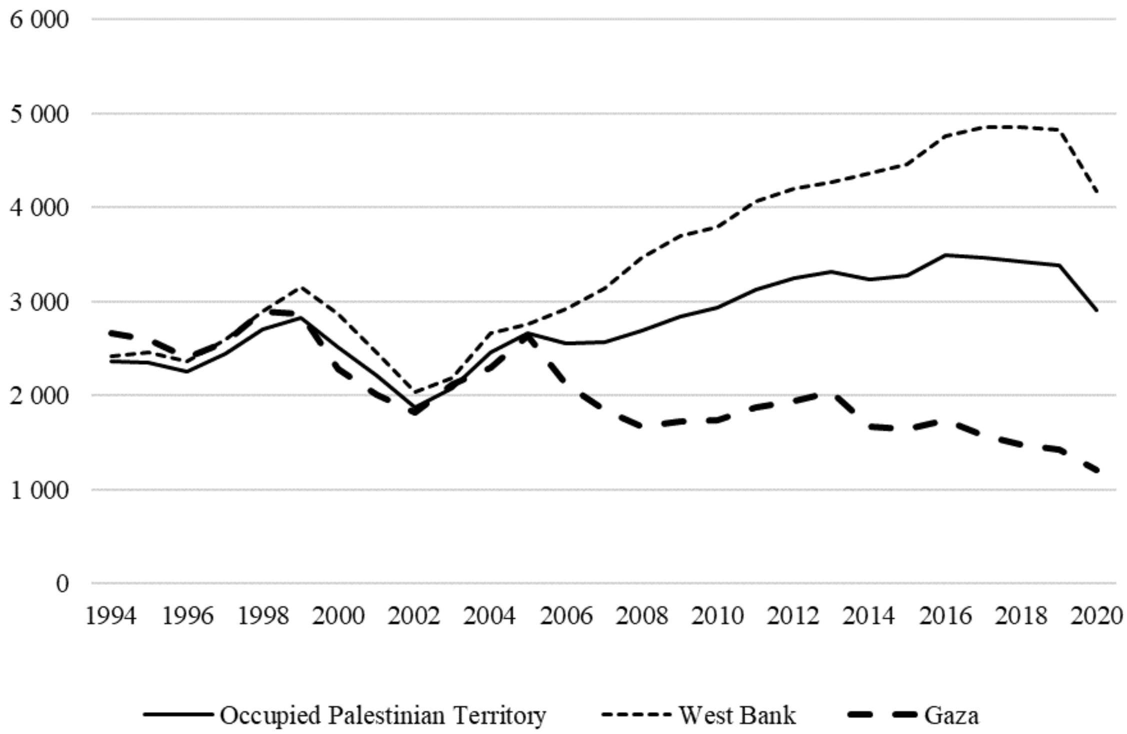
3. The Occupied Palestinian Territory has witnessed several waves of the COVID-19 pandemic. During the first wave, in March–May 2020, the Palestinian National Authority responded by instituting full lockdown measures, and some 150,000 Palestinians lost their jobs. Restrictions were partially eased, then reintroduced as the second wave began in July and again with the onset of the third wave in November.

4. The pandemic spread in early March 2020 and lockdown measures sharply curtailed economic activities during the first quarter; gross domestic product (GDP) contracted by 4.9 per cent compared with the previous quarter and by 3.4 per cent compared with the same quarter in 2019. The worst contractions were seen in the second quarter, in which economic activities declined in all sectors except for public administration, finance and insurance. Compared with the second quarter in 2019, most economic indicators fell sharply: GDP contracted by 18 per cent, as two thirds of establishments shut down completely; unemployment soared to 39 per cent; and investments, exports and imports fell by 37, 18 and 27 per cent, respectively. In addition, the quarter witnessed the loss of 78,000 jobs in the domestic economy and 34,000 jobs in Israel and settlements.

5. In 2020, tourism contracted severely, especially in Bethlehem and Jerusalem. The sector lost 10,000 workers, the equivalent of 23 per cent of its workforce (Palestinian Central Bureau of Statistics (PCBS) and Ministry of Tourism and Antiquities, 2020). The construction sector contracted by 36 per cent, followed by declines of 18, 13 and 9 per cent in the services, industrial and agricultural sectors, respectively. With regard to international trade, exports declined by 7 per cent, to $2.5 billion, and imports contracted by 15 per cent, to $7.1 billion, giving rise to a trade deficit of $4.6 billion, equivalent to 33 per cent of GDP.

6. The Palestinian economy contracted by 11.5 per cent in 2020, the second largest contraction since the establishment of the Palestinian National Authority in 1994. As indicated above, the economy contracted sharply in the first and second quarters of 2020 because of pandemic-related restrictions and a drop in employment in Israel and settlements. The year 2020 had been preceded by successive years of negative economic news. GDP per capita in the West Bank fell by 13.4 per cent in 2020 and in 2019, GDP per capita had registered the lowest growth rate since 2003. In addition, the regional economy in Gaza has been on a declining trend for four years in a row; GDP per capita declined by 13.7 per cent for the second year in a row (figure 1).

Figure 1
Gross domestic product per capita, 1994–2020
(Constant 2015 United States dollars)



Source: UNCTAD calculations, based on data from PCBS.

7. In 2020, as economic activity ground to a halt, more than 66,000 employees lost their jobs and unemployment rose to 26 per cent, even with a decline in the labour force participation rate from 44 in 2019 to 41 per cent in 2020. Had labour force participation held steady, the unemployment rate would have been much higher. In 2020, in the West Bank, unemployment reached 15.7 per cent, compared with 46.6 per cent in Gaza. These numbers, however, obscure the fact that without employment in Israel and settlements, unemployment in the West Bank would have been higher by about 16 percentage points, much closer to its extreme levels in Gaza.

8. Employment in Israel and settlements distorts the domestic economy and undermines its competitiveness by putting upward pressure on domestic wages without commensurate productivity growth and by depriving it of large numbers of skilled and semi-skilled workers attracted by higher wages in Israel and settlements, where they serve as a reservoir of cheap labour. The average daily wage in the West Bank, at $37, is less than half of that earned by Palestinian workers in Israel and settlements ($78) and the daily wage in Gaza, at $18, is less than a quarter of that earned by Palestinian workers in Israel and settlements. Meanwhile, one third of the domestic workforce employed in the private sector receives less than the minimum wage (Palestine Economic Policy Research Institute, 2020).

9. Falling GDP per capita, declining trends in foreign aid and persistent extreme levels of unemployment point to widening and deepening poverty. In this context, Palestinian producers and households have resorted to coping strategies that may entail long-term costs, including using poorer food substitutes, selling valuable assets, returning to subsistence agriculture, reducing investment and using inferior inputs.

10. The lockdown measures in response to the pandemic were instituted on top of long-standing occupation-related restrictions. For decades, the Palestinian people have been locked down one way or another and restrictions on mobility and economic activity have been part of their daily reality. In the aftermath of the second intifada, which broke out in September 2000, Israel introduced a strict closure policy with a complex system of mobility restrictions on the movement of Palestinian people and goods. Palestinians were not allowed to enter East Jerusalem or travel to neighbouring countries, nor could they move between the West Bank and Gaza or between urban and rural centres within the West Bank. These restrictions paralysed economic activity and deepened human suffering and poverty. The 11.5 per cent contraction in 2020 was on par with that in 2002, when GDP fell by 12.5 per cent. The two worst contractions in the Palestinian National Authority era have both been associated with lockdowns; one, politically motivated; the other, precipitated by a once-in-a-century global health crisis.

11. The pandemic has exposed the constraints imposed under occupation on the health system throughout the Occupied Palestinian Territory. A grim situation has been made even worse by the high population density in Gaza and refugee camps, the lack of control by the Palestinian National Authority over its borders, the lack of fiscal space and an overdependence on insufficient and fluctuating foreign aid. In Gaza, the pandemic hit at a particularly difficult time, under prolonged blockade, with a fragile and disintegrating hygiene and public health-care infrastructure, deep poverty, insecurity and recurring military operations by the occupying Power.

12. In April 2020, amid the worst global pandemic in a century, the occupying Power announced plans to annex parts of the West Bank. The Palestinian government responded by declaring itself absolved of all agreements and understandings with the occupying Power, halted all bilateral contact and refused to receive the fiscal (clearance) revenues Israel collects on its behalf from Palestinian international trade. The suspension deprived the Palestinian National Authority of 68 per cent of its fiscal revenues for half the year, until transfers resumed in November.

13. Despite a record decline in economic activity, net revenues declined by 4 per cent in 2020, compared with 2019. Domestic revenues declined by 5 per cent and clearance revenues, by 7 per cent, or $169 million, reflecting a decrease in value added tax receipts associated with lower levels of fuel demand and fewer income tax receipts from Palestinian labour in Israel. Meanwhile, recurrent expenditures rose by 5 per cent because of the increase in pandemic-related transfers and development expenditures decreased by 22 per cent. Consequently, the total deficit reached $1.6 billion, or 10 per cent of GDP (Palestinian Ministry of Finance, 2021).

14. Fiscal, logistical and access-related constraints have limited the ability of the Palestinian government to respond adequately to the public health and economic impacts of the pandemic. The 2020 fiscal crisis further undermined the capacity of the Palestinian National Authority to finance health and relief operations during the second and third waves in the second half of 2020. Meanwhile, all public sector staff, including health-care workers, received half of their salary in May and June and experienced salary reductions up to the end of the year.

15. Even before the outbreak of the pandemic, the Occupied Palestinian Territory had a shortage of health workers, including medical staff in various specialities and related services. The long-standing capacity constraints affecting the entire health-care system added to the difficulties of pandemic-related prevention, detection and control. The pandemic has further stretched the health-care system, as human, fiscal and physical resources have had to be reoriented to deal with COVID-19 infections at the expense of critical care to patients suffering from other ailments.

16. Given the fiscal constraints, expenditure by the Palestinian government on health care has been low relative to needs. Annual per capita spending on health care in the Occupied Palestinian Territory is $280, of which the Palestinian National Authority pays one third and the patient pays half. The challenges have been aggravated by the loss of fiscal revenues caused by the pandemic-induced economic slowdown and the fiscal conflict with the occupying Power from May to November. These combined to reduce the planned spending on health care in 2020 by one quarter (World Bank, 2021).

17. Even before the latest confrontations in East Jerusalem in 2021 and military operations in Gaza, the fiscal outlook for the Palestinian National Authority was precarious. The budget deficit was projected to be $1.2 billion and donor support was expected to be in the range of $300 million. Fiscal prospects are bleaker when factoring in the implications of the additional costs of COVID-19 vaccination and the financial fallout from the events in East Jerusalem and Gaza.

18. To deal with the suspension of clearance revenue transfers and the fiscal impact of the pandemic, the Palestinian National Authority more than doubled its arrears to private suppliers and increased borrowing from the domestic banking system above the limits established by the Palestinian Monetary Authority. Domestic public debt rose by 37 per cent, to $2.3 billion in 2020, or 15 per cent of GDP, and total debt peaked at 23.5 per cent of GDP. Although the debt to GDP ratio is not high by global standards, it is still a matter of concern because the Palestinian National Authority does not have its own currency, has little access to external borrowing and is extremely vulnerable to the policies of the occupying Power and donors (Palestinian Ministry of Finance, 2021).

19. In addition, public employees who received partial salaries due to the fiscal crisis have had to borrow from domestic banks and their debt has risen to $1.7 billion. The exposure of the banking system to the Palestinian National Authority and its employees reached 23 and 17 per cent, respectively, or 40 per cent of total bank credit (World Bank, 2021).

20. Key indicators of the economy of the Occupied Palestinian Territory are provided in the table.

Economy of the Occupied Palestinian Territory: Key indicators

	1995	*1999*	*2002*	*2006*	*2010*	*2014*	*2019*	*2020**
Macroeconomic performance[a]								
Real GDP growth (percentage)	7.1	8.3	-12.5	-1.0	5.8	-0.2	1.4	-11.5
GDP, nominal (millions of dollars)	3 283	4 271	3 556	5 348	9 682	13 990	17 059	15 561
Gross national income (millions of dollars)	3 723	5 025	3 775	5 771	10 281	15 472	19 717	18 107
Gross national disposable income (millions of dollars)	4 122	5 398	4 826	7 062	12 272	17 138	21 726	19 941
GDP per capita, nominal (dollars)	1 427	1 553	1 182	1 578	2 559	3 357	3 641	3 235
Gross national income per capita, nominal (dollars)	1 618	1 827	1 255	1 703	2 718	3 713	4 208	3 765
Real GDP per capita growth (percentage)	-0.2	4.8	-15.0	-4.0	3.1	-2.5	-1.2	-13.7
Real gross national income per capita growth (percentage)	0.7	4.6	-16.4	-2.7	0.6	-1.2	-0.9	-15.1
Population and labour								
Population (millions)[b]	2.34	2.96	3.23	3.61	4.05	4.55	4.98	5.10
Unemployment (percentage)[c]	18.2	12.0	31.2	23.7	23.7	26.9	25.3	25.9
Total employment (thousands)	417	588	452	636	743	913	1 010	956
In public sector	51	103	105	147	178	209	210	201
In Israel and settlements	68	135	42	55	78	107	133	125
Fiscal balance (percentage of GDP)								
Revenue net of arrears/clearance withheld	13.0	23.4	8.2	25.0	19.9	19.7	20.2	21.1
Current expenditure	15.0	22.1	28.0	42.6	31.8	29.2	25.5	29.4
Total expenditure	25.1	29.3	34.2	48.3	36.4	31.0	27.5	31.1
Overall balance (commitment basis)	-12.1	-5.9	-26.0	-23.3	-16.5	-11.3	-7.3	-10.0
Public debt[d]	..	20.0	21.1	20.4	19.4	15.8	16.4	23.5
External trade								
Net current transfers (millions of dollars)	400	373	1 051	1 291	1 991	1 405	1 545	1 628
Exports of goods and services (millions of dollars)	562	752	478	1 046	1 639	2 320	2 631	2 446
Imports of goods and services (millions of dollars)	2 441	3 364	2 234	5 263	5 793	6 929	8 376	7 085
Trade balance (millions of dollars)	-1 879	-2 612	-1 756	-4 218	-4 154	-4 610	-5 746	-4 639
Trade balance (percentage of GDP)	-57.2	-61.2	-49.4	-78.9	-42.9	-33.0	-36.3	-33.1
Trade balance with Israel (millions of dollars)	-922	-1 598	-886	-1 887	-2 737	-2 869	-3 812	-3 574
Trade balance with Israel (percentage of GDP)	-28.1	-37.4	-24.9	-35.3	-28.3	-20.5	-22.3	-23.0
PNA trade with Israel/total PNA trade (percentage)[e]	83.5	67.5	56.9	46.3	59.9	63.0	64.0	66.5
PNA trade with Israel/total Israeli trade (percentage)[e]	4.2	3.8	1.9	2.3	2.7	3.1	3.4	3.3

Sources: PCBS, Palestinian Ministry of Finance and Palestinian Monetary Authority. The source of data on trade with Israel is the Central Bureau of Statistics of Israel.

Abbreviation: PNA, Palestinian National Authority.

* Preliminary estimates.

[a] In 2019, PCBS revised all national accounts data from 2004 onwards.

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

[c] In 2019, PCBS began to apply the guidelines of the nineteenth International Conference of Labour Statisticians. The stability of the unemployment rate in the last few years reflects falling labour market participation.

[d] Includes domestic and external debt but not arrears or Palestinian National Authority debt to the pension fund.

[e] Israeli and Palestinian trade data refer to goods and non-factor and factor services.

A. Occupation thwarts Palestinian infrastructure

21. In 1994, the Palestinian National Authority inherited from the occupying Power a rudimentary, underdeveloped infrastructure. Subsequently, occupation has placed strict limits on the capacity of the Palestinian National Authority to build its human, physical and institutional infrastructure. The development of Palestinian infrastructure has been stunted by fiscal crises, the lack of access to and jurisdiction over Area C (which accounts for more than 60 per cent of the West Bank area), restricted access to imported technology and inputs for domestic production, the confiscation of land and natural resources and recurrent infrastructure destruction during military operations.

22. One result of the stifling of Palestinian infrastructure is the complete dependence on electricity imported from Israel, which supplies the West Bank with nearly all of its electricity and Gaza with more than two thirds of its consumption. In addition, Israel controls 90 per cent of shared groundwater resources in the West Bank and either prevents drilling by Palestinians in Area C or imposes limits on the depth of drilling, which do not apply to settlers (Palestine Economic Policy Research Institute, 2020).

23. In 2016, the Palestinian government adopted the National Policy Agenda: Putting Citizens First, 2017–2022, which emphasized digital transformation for inclusive sustainable development. However, there have been restrictions introduced by the occupying Power on the development of the Palestinian information and communications technology (ICT) sector, including the following:

(a) Control by Israel over the spectrum allocation for third-generation (3G) to fifth-generation mobile broadband;

(b) Restrictions on building or maintaining ICT infrastructure in Area C;

(c) Restrictions on importing critical equipment and technology; for example, fixed network equipment imported by Palestinian companies has been held in Israeli ports since 2016 and 2018 (Office of the Quartet, 2020);

(d) The ability of Israeli operators to attract high value customers and their capture of 20–30 per cent of the West Bank market (World Bank, 2016; World Bank, 2020);

(e) The requirement for Palestinian operators to go through an Israel-registered company to access international links;

(f) The lack of implementation in the ICT sector of the relevant articles of the Oslo Accords.

24. These restrictions have undermined technological development in the Occupied Palestinian Territory in an extremely important sector. Mobile broadband services arrived late and were deployed in the West Bank only in 2018, a decade after the initial request, rendering the Occupied Palestinian Territory one of the last in the world to deploy 3G cellular technology. Meanwhile, Gaza is still limited to the use of outdated 2G technology.

25. The result is an inadequate telecommunications infrastructure, incapable of underpinning a modern economy. The World Bank (2020) states that constraints of occupation on the Palestinian ICT sector have cost the economy hundreds of millions of dollars annually in lost income and fiscal revenue. However, the sector still accounts for 7 per cent of Palestinian GDP and there is much room for further growth to meet growing demand from all sectors of the economy.

B. Occupation and human capital formation

26. Educational challenges have multiplied during the pandemic, with schools closed for months and the electronic learning infrastructure severely limited. Horizons for electronic learning have been limited by the constraints imposed under occupation on the development of the Palestinian infrastructure, especially the ICT sector, which have led to unreliable Internet networks and power shortages.

27. With regard to lockdown measures, roughly half of all households lack the Internet connectivity needed for electronic learning activities and two thirds of households lack the computer equipment needed for electronic learning and telecommuting. In Gaza, 70 per cent of households lack computers and, as noted, the region operates on 2G technology. The Occupied Palestinian Territory ranks at 123 on the ICT Development Index, well below the regional and global averages (World Bank, 2020).

28. Furthermore, regular violence undermines human capital formation by reducing both the quality and quantity of education. Brück et al. (2019) suggest that violent conflict in the Occupied Palestinian Territory is associated with reduced test scores and with the reduced probability of passing examinations and being admitted to university.

29. Chronic conflict undermines educational achievement via damage to schools and classrooms, greater student density per classroom, inferior quality learning environments and a lower quality of teaching, as well as school closures and student and teacher absenteeism. Much damage to schools has been inflicted through the recurrent military operations in the West Bank and Gaza; and the lack of access to Area C, the leakage of fiscal resources to Israel and the chronic fiscal crisis all weaken the capacity of the Palestinian National Authority to expand or maintain existing schools or build new ones to meet the needs of a young and growing population.

30. Youth exposure to violence, directly or through media, negatively impacts school performance by fostering an inability to concentrate, anxiety, depression, fear, psychosocial distress and post-traumatic stress disorder. In addition, adult exposure to violence undermines psychological well-being and may impact the quality of parenting at home and teaching at schools.

31. Educational achievement is a predictor of future access to decent jobs and greater earnings at the individual level and a better-quality labour force and better development prospects at the macro level. Occupation and related violence therefore impose significant, long-lasting socioeconomic costs by hampering human capital accumulation and undermining personal and societal development prospects.

C. Demolition of Palestinian structures and expansion of settlements

32. The expansion of settlements requires clearing the necessary space. Over the years, the demolition and seizure of Palestinian structures and the human displacement this entails have become routine. Another aspect of settlements is the ensuing coercive environment that pushes out Palestinians. Schools, water pipes or donor-funded humanitarian structures are not exempt from demolitions and seizures. Since 2009, Israeli authorities have demolished 1,343 donor-funded structures (PCBS, 2021).

33. Palestinians are only allowed to build on less than 1 per cent of their land in Area C (which accounts for more than 60 per cent of the West Bank area). At the same time, it is extremely difficult for them to obtain permits from Israel to build residential structures or structures for economic activities or to develop infrastructure such as roads and networks for water and power. If a structure is built without a permit, as is often the case, the occupying Power demolishes it at the owner’s expense.

34. The year 2020 registered the greatest number of displaced people and demolitions in recent years. The occupying Power targeted for demolition or confiscation 848 Palestinian-owned properties across the West Bank, the highest number on record since 2009, except for in 2016, when 1,094 structures were demolished or seized. In 2020, demolitions and seizures displaced 996 Palestinians, more than half of whom were children (OCHA, 2020).

35. The toll of displacement has been magnified by the impact of the COVID-19 pandemic and associated requirements, such as for shelter, social distancing and access to medical and other services.

36. The targeting of Palestinian structures accelerated in early 2021. In the first quarter, Israeli authorities demolished or seized at least 292 Palestinian-owned structures in the West Bank, displacing 450 people, including 246 children. This constituted a 126 per cent increase in the number of people displaced and a 121 per cent increase in the targeting of structures, compared with the corresponding quarter in 2020. Furthermore, in the first quarter of 2021, the monthly average of targeted structures, at 97, was 37 per cent higher compared with the monthly average in all of 2020 (OCHA, 2021c).

37. Owners need to demolish their own property, at their own expense, to avoid paying the cost of demolition by the occupying Power, which may include additional fines on top of the cost of demolition. In addition to the social and economic costs, the demolition of houses and the threat of eviction result in homelessness and spread uncertainty and fear.

38. Recently, both demolition and “self-demolition” have been increasing. For example, in 2020, 175 structures were demolished or seized in East Jerusalem; self-demolition

accounted for 47 per cent of the total, up from 16, 24, 19 and 26 per cent in 2016, 2017, 2018 and 2019, respectively. It is estimated that since 2009, in the West Bank, including East Jerusalem, over 11,000 people have been displaced from their homes, some more than once, and 7,400 Palestinian-owned structures have been destroyed (OCHA, 2021d).

II. Dispossession through settlements and outposts

39. In 1967, Israel launched a long-term policy for the establishment of settlements in the occupied West Bank. Settlements had also been built in Gaza, but this was terminated in 2005 as the occupying Power withdrew from the Strip. However, the United Nations, in several resolutions, including the Security Council in its resolution 2334 (2016), has reaffirmed that the establishment of settlements constitutes a flagrant violation under international law and that the acquisition of territory by force is inadmissible and has condemned all measures aimed at altering the demographic composition of the Occupied Palestinian Territory, including, among others, the transfer of settlers and the displacement of Palestinian civilians.

40. Over the years, the occupying Power has spent billions of dollars in building modern infrastructure to encourage the expansion of settlements, including road, water and sewage systems, communications and power systems, security systems and educational and health-care facilities. In recent years, the occupying Power has promoted plans to invest significant additional funds to pave hundreds of kilometres of bypass roads in the West Bank, which encourage the expansion of settler populations through the provision of means for exclusive, safer and faster travel between Israel and settlements (Peace Now, 2021). Furthermore, Israel provides generous incentives to settlers and entrepreneurs, notably underpriced land taken from Palestinians, cheap land fees for investors, tax benefits, housing benefits, business subsidies, industrial zone subsidies and employment subsidies. In some areas, corporations pay one third of the tax rate paid elsewhere. In addition, generous support is provided for farming cooperatives to assimilate new farmers; in some areas, farmers are exempt from the levy on employing migrant workers; and new farmers are provided with financial subsidies of up to $307,000 and up to $25,000 per herd for open field livestock grazing (B’tselem, 2021). In addition, the Government of Israel encourages teachers in key subjects to move to designated national priority areas by offering a wage increase of up to 70 per cent for several years. Such incentives and benefits have resulted in the significant expansion of industrial zones and of investment in agricultural production. By 2019, there were 11 Israeli industrial complexes in Area C.

41. The ongoing expansion of settlements has been picking up steam in recent years, with significant incentives to facilitate industrial and agricultural ventures and encourage hundreds of thousands of Israeli citizens to move to subsidized settlements in the West Bank, where they have standards of living higher than those prevailing in Israel. By early 2021, Israel had established more than 280 settlements in the West Bank, including East Jerusalem. The settler population rose from 198,315 in 2000 to 311,136 in 2010 and more than 650,000 in early 2021 (B’tselem, 2021).

42. In addition to settlements, the occupying Power allows, tolerates and encourages the establishment of outposts. In the first half of 2021, there were 150 outposts, mostly devoted to agricultural and animal production. Outposts are illegal even under Israeli laws, yet they receive public and State support through various direct and indirect means. They are often integrated into the infrastructure networks serving settlements, which enables them to receive water and electricity, among other vital services, and settlers in outposts have access to mortgages, roads and, in some cases, schools and other facilities. Outposts establish “facts on the ground” as settlers take over agricultural and pastural land, with the reasonable belief that they will be allowed to stay. Once outposts have been established, it is common for the occupying Power to retroactively regularize and integrate them into official settlements. For example, in 2020, plans were advanced to retroactively authorize four outposts as neighbourhoods of existing settlements (Peace Now, 2021).

43. Settlements and outposts dispossess the Palestinian people of their inalienable right to development, entrench occupation and pre-empt a meaningful, sustainable two-State

solution leading to the establishment of a viable, contiguous, sovereign Palestinian state in the West Bank, including East Jerusalem, and Gaza along the internationally recognized 1967 borders.

A. Settlements, environmental degradation and obstacles to Palestinian development

44. Settlements constrain the space for Palestinian socioeconomic development. They impoverish the Palestinian people by dispossessing them of their land and natural resources, and additional Palestinian land is confiscated for the infrastructure and road networks of settlements. Much harm stems from an array of additional measures taken to facilitate settlements and the interests of settlers, including the demolition of Palestinian assets, structures and trees to maximize the land available for settlements, which leads to environmental degradation. Settlements disfigure the West Bank geography and fragment Palestinian markets and communities. They erode hope for meaningful economic development, which is inconceivable without land and natural resources.

45. Settlements create a structured system for dispossession and determine the land Palestinians cannot use and the roads they cannot travel, the route of the separation barrier and the location of checkpoints and other impediments to the movement of Palestinian people, workers and goods. Palestinians do not have equal rights with settlers in the territory controlled by the occupying Power. Entirely separate legal systems and sets of institutions are in place for each group of people, although they live in the same territory. Glaring differences in rights include unequal access to factors of production, land, roads, infrastructure, water resources and basic services (United Nations, 2020a).

46. One of the direct consequences of the expansion of settlements is settler violence, which has a direct economic impact. Violence peaks during the olive harvest season and includes physical attacks, shooting and the burning and uprooting of trees and theft of crops (United Nations, 2020b). According to OCHA, despite significant pandemic-related lockdown measures and restrictions, settler violence and damage to Palestinian property increased in 2020. Violence, demolitions and the threat of demolition of homes, schools and other economic assets, as well as the lack of access to land, services and infrastructure, have created a coercive environment that pressures Palestinians to leave their communities (OCHA, 2019). The occupying Power has consistently fallen short of fulfilling its duty under international law to protect Palestinians against acts or threats of violence.

47. The costs of occupation include the transfer of large amounts of hazardous waste produced in Israel to the West Bank. The stringent environmental regulations in Israel and the high cost of waste disposal have prompted Israel to use the West Bank as a “sacrifice zone” for waste treatment facilities. Hazardous waste produced in Israel and transferred to the West Bank includes sewage sludge; infectious medical waste; used oils; solvents; metals; and batteries (UNCTAD, 2019).

48. Furthermore, Israel transfers thousands of tonnes of electronic waste each year for processing in the West Bank, where regulations and monitoring by Israel are less stringent than those applied within the borders of Israel. Pollution from the informal electronic waste sector and unregulated industries affects human health, especially of children (United Nations Environment Programme, 2020).

49. The Occupied Palestinian Territory is a small area with a growing Palestinian population, and the rapid growth of settler populations adds further environmental stress. A high level of population growth in a given area necessarily exacerbates pressure on the environment, as it implies higher levels of consumption, more pollution and the faster depletion of water and other natural resources.

50. Administrative fragmentation of the Occupied Palestinian Territory impedes sound environmental governance and limits the capacity of the Palestinian National Authority to institute best practices and efficient natural resource management. The Occupied Palestinian Territory is subject to three governing systems, namely, the occupying Power, which fully controls more than 60 per cent of the West Bank in Area C; the Palestinian

National Authority, which has partial control over the remainder; and the separate authority in Gaza, which has been in place for a decade and a half.

51. The capacity of the Palestinian National Authority to launch effective, sustained interventions to protect the integrity of the environment is further constrained by the chronic shortage of fiscal resources and by recurrent humanitarian and political crises, which undermine its balance sheet on both the revenue and expenditure sides. As with other Palestinian institutions, the Environment Quality Authority lacks resources and has a mandate and responsibilities beyond its means.

52. Over the years, to maximize space for settlements and related infrastructure, the occupying Power has confiscated land and destroyed millions of olive and other trees. The shrinking space has concentrated Palestinians in disconnected enclaves with a high and rising level of population density and greater pressure placed on natural resources. Palestinians therefore need to intensively use the limited accessible land and natural resources for, among other purposes, residential, quarrying, agricultural, herding and grazing purposes. In addition, the dual-use list restrictions on imported agricultural inputs have led Palestinians to significantly rely on chemical fertilizers and pesticides, which pollute soils and groundwater (United Nations Environment Programme, 2020).[1]

B. The high cost of the separation barrier and mobility restrictions

53. In the West Bank, the occupying Power deploys a series of administrative and physical mechanisms that control Palestinian resources and pedestrian and vehicular movement. The multilayer control system includes a stringent permit regime, bureaucratic controls and hundreds of permanent and flying checkpoints, gates, earth mounds, roadblocks and trenches. Such restrictions obstruct productive activities and access to services, undermine social lives and impede the delivery of humanitarian assistance.

54. Restrictions on movement have increased the travel time between all Palestinian major population centres by a median of 51 per cent and the cumulative economic cost of longer travel time is substantial. For example, before the erection of the separation barrier, Palestinians travelled from Ramallah to Hebron, through East Jerusalem, over a 50 km road. The restrictions have lengthened the road to 80 km, which, together with the checkpoints, has doubled the average travel time from 55 to 107 minutes. Delays on the movement of the Palestinian workforce caused by longer roads and procedural restrictions are estimated to have cost the economy $274 million annually, or 1.7 per cent of GDP in 2018. The environmental costs of longer travel and vehicular delays at gates and checkpoints are self-evident (Applied Research Institute–Jerusalem, 2019).

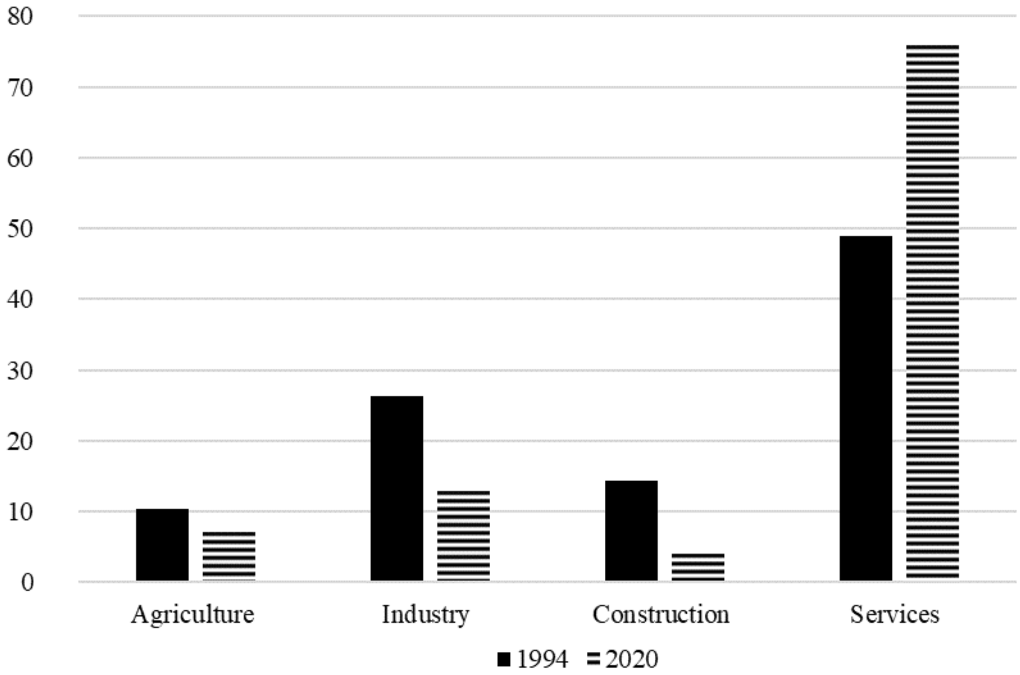
55. Restrictions on access to imported inputs force firms to adjust input usage by substituting inferior quality inputs and domestically produced materials for imported ones. Such adjustments distort the marginal product of inputs, leading to the misallocation of factors of production across firms. Distortions in the input mix ultimately diminish total output and result in lower labour productivity (output per worker), higher unit costs of production and impaired competitiveness in domestic and foreign markets (Amodio and Di Maio, 2014).

56. Most Palestinian sectors are affected by the dual-use list, yet impacts tend to be greater in the sectors with higher productivity levels, including food and beverages, pharmaceuticals, textiles, ICT, agriculture and metal processing. The impacts of Israeli restrictions, including the dual-use list restrictions, are disproportionately felt in the agricultural and industrial sectors and thereby distort the economy by putting the share of GDP of these sectors on a declining trend. Figure 2 depicts the deindustrialization and de-agriculturalization precipitated by the restrictions imposed on the Palestinian economy by the occupying Power since the establishment of the Palestinian National Authority. The

[1] Dual-use items are importable production inputs, machinery and technology that Israel does not allow Palestinians to import because they have potential military applications.

relative dominance of the services sector is most likely the result of this structural distortion and not necessarily a reflection of a thriving services sector unleashed by economic forces.

Figure 2
Shift in sectoral shares of gross domestic product, 1994–2020
(Percentage)



Source: UNCTAD calculations, based on data from PCBS.

57. Construction of the separation barrier began in 2002. The barrier has encroached deeply into Palestinian land; 85 per cent of the barrier will be built on Palestinian land and not along the internationally recognized border, as can be seem from the fact that, at 712 km, it will be more than two times longer than the internationally recognized border (320 km), rendering it, for all intents and purposes, an annexation wall.

58. The separation barrier traps 11,000 Palestinians in the area between the barrier and the Green Line (corresponding to the June 1967 border), or seam zone. This population is not allowed to enter Israel and lacks basic services such as health-care centres, schools and shops. They must pass through gates and checkpoints to access essential services, maintain family relations and carry out social functions in the West Bank, as entry to the zone is restricted to their kin.

.59 In addition, Palestinian farmers must obtain special permits to access their farmland in the vicinity of settlements and in the seam zone. However, the occupying Power sets limits on the number of days in a year on which farmers can access their land, based on the size of the plot and the nature of the crop. Furthermore, farmers face significant difficulties in obtaining permits for the workers required to carry out essential agricultural activities. The recurrent labour shortages raise production costs, undermine productivity and erode competitiveness.

60. Farmers face daunting challenges in accessing olive groves located on the other side of the separation barrier or in the vicinity of settlements, which require special permits or prior coordination with the occupying Power. Olive productivity and value have been undermined by restrictions and the barrier, which limit the capacity of farmers to carry out essential year-round agricultural work. As in previous years, in 2020, the yield of olive trees in the seam zone fell to 40 per cent of equivalent trees in areas outside the zone that are accessible all year round.

61. The olive harvest in 2020 was exceptionally poor due to natural reasons, as well as occupation and settler violence (OCHA, 2021e). In the October–November olive harvest season, 40 incidents of settler violence resulted in injuries to 26 Palestinians, 1,700 vandalized trees and 1,870 trees believed to be harvested by settlers. In one incident, 600 Palestinian olive trees were burned. In addition, Palestinian land is sometimes flooded by sewage from settlements causing, among other injuries, damage to productive trees (OCHA, 2021e). In 2020, settler violence against Palestinians and their property increased by 9 per cent compared with 2019 and included uprooting, destroying or burning 8,925 trees (PCBS, 2021).

62. The negative impact of restrictions and conflicts on investment and aggregate economic activity is well documented in the literature. Israeli security measures and cumbersome customs procedures have imposed extremely high transaction costs on Palestinian exporters and importers and undermined performance by increasing the risk and uncertainty associated with investment. Restrictions impact both the level and composition of exports; they also change the import mix and may deepen dependence on imported final goods.

.63 Amodio et al. (2021) empirically show that restrictions by Israel on Palestinian trade undermine the manufacturing subsectors that rely on restricted imported inputs. They suggest that, in the period 2008–2012, in the West Bank, these sectors have lost employment and that annual aggregate output would have been 4.6 per cent higher in the absence of the dual-use list restrictions.

C. De jure annexation on hold; de facto annexation accelerating

64. On 20 April 2020, the Government of Israel announced plans to formally annex parts of the West Bank. As reaffirmed by the Security Council in its resolution 2334, “the establishment by Israel of settlements in the Palestinian territory occupied since 1967, including East Jerusalem, has no legal validity and constitutes a flagrant violation under international law and a major obstacle to the achievement of the two-State solution and a just, lasting and comprehensive peace”.

65. Although formal annexation was postponed in August 2020, following international expressions of concern, the reality on the ground has not changed. The occupying Power continues to treat settlements as practically part of its sovereign territory, as evidenced by the intensification of the construction of settlements to levels not seen in a decade.

66. De facto annexation continues to accelerate, expand and deepen, as Israel continues the extensive development of infrastructure to serve settlements. In 2020, Israel approved or advanced more than 12,150 homes in settlements, the highest rate since 2012; more than 5,000 of these housing units were approved in mid-October alone. In November, the occupying Power opened a bidding process for the construction of 1,200 housing units in East Jerusalem and advanced plans for more units (United Nations, 2020c). The growing investment in settlements and related infrastructure may suggest that the occupying Power is intent on annexation one way or another.

III. UNCTAD assistance to the Palestinian people

A. Framework and objectives

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

68. The UNCTAD programme of assistance to the Palestinian people responds to paragraph 55 (dd) of the Nairobi Maafikiano, which requests UNCTAD to “continue to assess the economic development prospects of the Occupied Palestinian Territory and

examine obstacles to trade and development... as part of the international community's commitment to building an independent Palestinian State, and with a view to alleviating the adverse economic and social conditions imposed on the Palestinian people". The programme is also guided by paragraph 31 (m) of the Doha Mandate, paragraph 44 of the Accra Accord and paragraph 35 of the Sao Paulo Consensus. Furthermore, the United Nations General Assembly, in seven resolutions (69/20, 70/12, 71/20, 72/13, 73/18, 74/10 and 75/20), requests UNCTAD to report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people.

69. The UNCTAD programme, which aims to build and strengthen the institutional capacities of the Palestinian public and private sectors, addresses the constraints to and evolving needs of the Palestinian economy through the following four clusters:

(a) Trade and macroeconomic policies and development strategies;

(b) Trade facilitation and logistics;

(c) Finance and development;

(d) Enterprise, investment and competition policy.

B. Operational activities under way

70. In response to the above-mentioned resolutions, in 2020, UNCTAD submitted a report to the General Assembly on the economic costs of occupation, focusing on the economic impact of the blockade on Gaza (United Nations, 2020d). Estimates were provided in the report of the additional rate of poverty due to the blockade and military operations in terms of the following: rate and gap of poverty at the household level; minimum cost of eliminating poverty; and potential economic growth that could have been realized if the closure, restrictions and military operations had not occurred.

71. In 2020, UNCTAD published a study titled *The Economic Costs of the Israeli Occupation for the Palestinian People: The Impoverishment of Gaza under Blockade*. The detailed study sheds light on the critical situation in Gaza and an estimate is provided of the economic costs of closure, restrictions and military operations, with a particular focus on socioeconomic conditions.

72. In March 2021, UNCTAD published a study titled *Integrated Simulation Framework II Model for Palestinian Economic Policy*. The study is the result of continuous efforts by UNCTAD to enhance and update its macro-econometric model of the Palestinian economy. The updated framework factors in recent structural changes in the economy and explores alternative methodologies and techniques. The updated model will be shared with the Palestine Economic Policy Research Institute and PCBS, as was done with the first model developed by UNCTAD. This will enable both entities to forecast the prospects for the Palestinian economy and provide policymakers and the private sector with practical tools to evaluate key aspects of the Palestinian economy, assess alternative policy options and scenarios and assist in formulating economic development strategies in pursuit of the Sustainable Development Goals.

73. In 2020, UNCTAD continued to provide technical advisory services to the Forecasting Unit of PCBS, which uses the UNCTAD macro-econometric model of the Palestinian economy and is operated by professional staff trained by UNCTAD. PCBS forecasts are used by the Palestinian Ministry of Finance for budget preparations and by other Palestinian agencies for forecasting and scenario analysis. Most recently, the model was used by PCBS to estimate the economic and fiscal impact of the COVID-19 pandemic.

74. In addition, in 2020, UNCTAD provided the Palestine Economic Policy Research Institute with a series of technical assistance and advisory services on modelling and assessing the economic impact of the pandemic.

75. Finally, in late 2020, UNCTAD received a grant from the Government of Saudi Arabia to sustain the professional capacity required at UNCTAD to maintain its technical cooperation activities and its support to the efforts of the Palestinian people to achieve the

Sustainable Development Goals and facilitate a just and lasting peace in the Occupied Palestinian Territory and the Middle East.

C. Coordination, resource mobilization and recommendations

76. In 2020 and early 2021, despite adverse and increasingly difficult field conditions, UNCTAD continued its support to the Palestinian people in coordination with the Palestinian National Authority, civil society, international organizations, donors and the United Nations country team, with the goal of rehabilitating the Palestinian economy and pursuing the achievement of the Sustainable Development Goals.

77. The shortage of extrabudgetary resources continues to limit the ability of UNCTAD to meet the growing needs of the Palestinian National Authority, the private sector and civil society for capacity-building and technical assistance. Therefore, member States are invited to consider extending additional resources, to enable UNCTAD to fully deliver on the requests in the Nairobi Maafikiano and the resolutions of the General Assembly.

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