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REPORT ON UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

Prepared by the UNCTAD secretariat

Executive summary

This report marks two decades of UNCTAD's programme of assistance to the Palestinian people, which has evolved in line with Palestinian development needs and changing circumstances in the region, in particular the establishment of the Palestinian Authority and the launching of an international programme of assistance to the Palestinian people. A lasting lesson from prolonged, intimate involvement in this complex issue is that although action on pressing economic policy issues may be postponed by the weight of events on the ground, those issues will not resolve themselves. Without deliberate and sustained action leading to concrete policy measures, the range of persistent challenges to Palestinian economic development will undermine any prospects for economic recovery, much less sustainable development.

The free fall of the Palestinian economy during the period 2000-2002 has been interrupted. Last year's positive growth rates are indicative of the persistence of that economy and its ability to rejuvenate itself. However, the sustainability of such growth is uncertain without movement towards ending Israeli occupation of the Palestinian territory and concrete steps towards implementation of the two-State solution. UNCTAD's assistance to the Palestinian people can be most effective to the extent that it contributes to creating synergies between relief, rehabilitation and development efforts. It is equally necessary that the Palestinian Authority and related international assistance factor this dynamic link into policies, strategies and programmes.

Since the start of UNCTAD's technical cooperation with the Palestinian Authority in 1995, research and operational activities have expanded into new areas within UNCTAD's sphere of competence, with tangible successes, even under difficult field conditions. While some progress has been made in resource mobilization since 2003, UNCTAD has also suffered notable setbacks. As called for in the São Paulo Consensus, adequate resources are required in order to enable the secretariat to respond fully to its mandate. In order to capitalize on the secretariat's long experience, it is now necessary to secure more predictable resources for its work in this area.

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* The late submission of this document was caused by the secretariat's workload in the period following UNCTAD XI.

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Introduction

FROM BELGRADE TO SÃO PAULO: TWO DECADES OF UNCTAD ASSISTANCE TO THE PALESTINIAN PEOPLE

1. In 1983, the sixth UNCTAD Conference adopted resolution 146(VI), which established a special economic unit in the secretariat to monitor and investigate Israeli policies hampering the development of the economy of the occupied Palestinian territory.¹ Over the next 20 years, the secretariat's work programme evolved in line with Palestinian development needs and changing circumstances in the region, in particular the establishment of the Palestinian Authority (PA) and the launching of an international programme of assistance to the Palestinian people. Recently, while international assistance has been geared primarily to responding to the humanitarian emergency in the occupied territory, a new imperative has begun to shape PA and donor efforts: the prospect of establishing an independent, democratic and viable State of Palestine, as envisioned in United Nations Security Council Resolution 1397 (2002) and the international community's "Performance-based Road Map to a Permanent Two-State Solution to the Israeli–Palestinian Conflict". Accordingly, UNCTAD's mandate in this area of its work has been reaffirmed in line with the new perspectives, as indicated in the Bangkok Plan of Action and in the São Paulo Consensus adopted at the eleventh UNCTAD Conference in June 2004. Paragraph 35 of the latter document welcomed UNCTAD assistance to the Palestinian people in the areas of capacity building, trade policy, trade facilitation, financial management, development strategies, and enterprise development and investment, and called for it to be strengthened with adequate resources.

2. These mandates and regular endorsement by the Trade and Development Board have guided the secretariat's work programme in the framework of a development partnership with Palestine and PA technical cooperation counterparts, closely attuned to the efforts of other international agencies and the concerns of the donor community. But above all, UNCTAD has consistently addressed this issue from the vantage point of the prerequisites for development and interdependence with trade and finance. Although UNCTAD's policy research on this issue has not always led to findings with which all parties could agree, its technical assistance programme has remained focused since its inception on areas clearly linked to the Palestinian development agenda, even as economic and humanitarian crises have engulfed the occupied territory since 2000. In retrospect, and despite an ongoing Palestinian economic calamity, UNCTAD's substantive and technical contributions are today more relevant than

ever.

3. UNCTAD's analysis of the Palestinian economy under Israeli occupation until 1994 revealed persistent underlying structural and policy factors, which stunted its growth and prospects for development. Some key elements of UNCTAD's conclusions from that period of its work have become in recent years integrated into mainstream policy documents, public debates and research on the subject. Indeed, recent international evaluations of Palestinian economic performance highlight for the first time, and add greater credibility to, policy research findings that UNCTAD has stressed for many years but which were dismissed by some as either politically imbalanced before 1993 or irrelevant in the "boom years" of the interim period (1994–2000). These include pivotal issues such as the structural impact on the economy of prolonged occupation, the extent to which dependence on Israel has curtailed Palestinian development prospects and the increasingly glaring deficiencies of the interim period trade and economic policy regime adopted by Palestine since 1994.

4. The findings and recommendations of UNCTAD's reports since 2001 have incorporated the new economic, geographical and political realities created by continuing war and instability. UNCTAD's analysis of the Palestinian development predicament has found growing resonance in the evolving debate in concerned Palestinian and international circles on the prospects and prerequisites for development under, and after, occupation. It is now apparent that a resumed Road Map process and a concrete shift towards ending occupation will entail a range of economic rehabilitation and reconstruction measures that will have to be rapidly implemented if the political process has a chance to succeed. Furthermore, a coherent policy response is needed to address the structural impact of prolonged occupation on the war-torn Palestinian economy, which has been obliged to adapt to a process of "dedevelopment", albeit at a significantly reduced level of operation and with an increasingly debilitated human and financial capital base. A third challenge, which UNCTAD stressed even before 2000, is that successful transition to a post-conflict situation will require that the envisioned State of Palestine be equipped with a systematic and realistic development vision.

5. UNCTAD's understanding of these realities and imperatives led the secretariat as from 2000 to ensure that its commitment to Palestinian development was maintained through the range of technical assistance capacities it could deploy, subject to access to donor resources. As is elaborated in the following sections of this report, UNCTAD's current and future assistance to the Palestinian people can be most effective to the extent that it can contribute to creating synergies between Palestinian relief, rehabilitation and development efforts. Indeed, it appears equally necessary that Palestinian economic policy makers and the related international assistance effort factor this dynamic link into policies, strategies and programmes currently being elaborated. If there is any lasting lesson from 20 years of intimate involvement in this complex and unique issue, it is that although action on pressing economic policy issues may be postponed by the weight of events on the ground, those issues will not go away or resolve themselves. Without deliberate attention and sustained action leading to concrete policy measures, the range of persistent challenges to Palestinian economic development will undermine the prospects for economic recovery, not to mention anything resembling a virtuous path towards sustainable development.

Chapter I

THE PALESTINIAN ECONOMY FROM RELIEF TO DEVELOPMENT

A. Aggregate performance: Low-level stabilization amidst persistent imbalances

6. Economic indicators for 2003 suggest that the free fall of the Palestinian economy during the period 2000–2002 has been interrupted amidst hesitant indicators of stabilization. Although in technical terms the estimated real economic growth of 4.5 per cent in 2003 could be considered a "recovery", it is a far cry from the state of the economy in 1999, which was 28 per cent larger than in 2003 (table 1).² At best, the growth estimated for 2003 is a rebound from, and adjustment to, a very depressed economy. However, the sustainability of this upward trend is uncertain and will depend on political developments and ending Israeli measures imposed on the occupied Palestinian territory.

7. Almost four years of Israeli restrictions on the mobility of people and goods, destruction of infrastructure and the public and private economic base, and the tight internal and external closure policy imposed on the West Bank and Gaza have all taken a dramatic toll on the Palestinian economy and the welfare of its people.³ Even with the positive growth estimated for 2003, real gross domestic product (GDP) and gross national income (GNI) contracted by 21.6 and 29.2 per cent, respectively, between 2000 and 2003. The impact on the welfare of the Palestinian people was more severe, with real GNI per capita falling by 41 per cent from \$1,750 in 1999 to an estimated \$1,040 in 2003. Consequently, poverty continues its steep upward trend. In the fourth quarter of 2003, 72 per cent of Palestinian households (66 per cent in the West Bank and 83 per cent in Gaza), or 2.9 million Palestinians, were living below the poverty line of \$3.6 per day per household of four people⁴ - an almost complete reversal of the 20 per cent poverty registered only five years earlier.

8. The economic opportunity cost of the crisis is substantial, as the economy of the West Bank and Gaza has lost potential income since 2000 of about \$6.3 billion.⁵ The cost to the Palestinian economic base is also enormous. For example, since September 2000, Israeli forces have destroyed 1,497 buildings (mainly homes) in Rafah (Gaza Strip) alone, leaving over 15,000 people homeless.⁶ The World Bank estimates the physical damage caused by the destruction of private and public infrastructure and property during the period from October 2000 to December 2002 to be in the region of \$1.7 billion.⁷ With the addition of the damage inflicted in 2003 and the first half of 2004, the total accumulated physical damage since October 2000 is estimated at more than \$2.2 billion.⁸ This represents almost 19 per cent of the estimated Palestinian capital stock in the West Bank and Gaza in 1998.⁹ In other words, the occupied Palestinian territory has lost at least one fifth of its economic base over the last four years as a consequence of war and occupation.¹⁰

9. Indeed, the economic attrition recently experienced in the occupied Palestinian territory could be historically unprecedented, at least since the Second World War,¹¹ and was of a rapidity that would have threatened the fabric of any society. However, social solidarity, innovative safety nets, coping strategies, and above all the Palestinian people will to survive have forestalled social disintegration and economic collapse. Another factor contributing to social cohesion and economic resilience is the survival of the Palestinian Authority (PA), which accounts for more than 22 per cent of total employment, largely as a result of almost \$1 billion a year in donor assistance for emergency relief and PA budgetary support.

Table 1
Palestinian economy (West Bank and Gaza Strip): Key indicators – Selected years*

	1995	1999	2000	2001	2002 ^{Est}	2003 ^{Est}
Macroeconomic performance						
Real GDP growth (%)	6.1	8.6	-5.6	-7.0	-14.5	4.5
GDP – million US\$	3225	4201	4108	3665	2903	3179
GNI – million US\$	3699	4932	4793	3992	3090	3363
GDP per capita US\$	1299	1391	1304	1111	842	884
GNI per capita US\$	1490	1633	1522	1210	896	935
Real GNI per capita growth (%)	7.9	4.1	-10.7	-16.4	-20.0	-0.4
Domestic expenditure (% of GDP)	151.8	163.0	155.4	149.2	159.6	159.1
Inflation (CPI – annual %)	10.8	5.5	2.8	1.2	5.7	1.0
Population and labour						
Population (millions)	2.48	3.02	3.15	3.30	3.45	3.60
Unemployment (% of labour force)**	26	21.7	24.6	36.2	41.2	33.4
Total employment (thousands)	417	588	597	508	486	591
In public sector	51	103	115	122	125	128
In Israel and settlements	50	127	110	66	47	53
Fiscal balance (% of GDP)						
Government revenue	13.2	23.8	23.1	7.4	11.6	23.5
Current expenditure	15.3	22.5	29.1	29.8	36.2	34.4
Total expenditure	25.5	29.8	34.9	35.5	43.0	41.1
Recurrent balance	-2.1	1.3	-5.9	-22.4	-24.6	-10.9
Overall balance	-12.3	-6.0	-11.8	-28.1	-31.5	-17.6
External balance						
Exports of goods and services (million US\$)	499	684	657	534	423	459
Imports of goods and services (million US\$)	2176	3353	2926	2336	2155	2338
Trade balance (% of GDP)	-52.0	-63.6	-55.2	-49.2	-59.6	-59.1
Current account balance (% of GNI)	-21.7	-31.7	-20.9	-7.6	-4.5	-11.2
Trade balance with Israel (million US\$)	-1,388	-1,644	-1,506	-1,188	-991	-1,116
Trade balance with Israel (% of GDP)	-43.0	-39.1	-36.7	-32.4	-34.1	-35.1
Current account balance with Israel (% of GNI)	-24.7	-18.5	-17.1	-21.6	-26.0	-27.7
Imports from Israel /PA private consumption (%)	56.5	52.4	50.7	43.3	40.3	41.5
Total PA trade with Israel/total Israeli trade (%) §	3.7	3.6	2.8	2.3	1.9	1.9
PA trade with Israel/total PA trade (%) §	78.8	67.1	71.2	66.9	60.6	60.2

Sources: Historical data from the Palestinian Central Bureau of Statistics; data for 2002–2003 are estimated by the UNCTAD secretariat on the basis of recently released PCBS trade data, and growth estimates from the PA MoF (www.mof.gov.ps/english-bud/economics/general-tabel.htm), which agree with those of the IMF of the Israeli Central Bureau of Statistics (2003).¹² Israeli trade data are obtained from the Monthly Bulletin of Statistics.* All data exclude east Jerusalem.

** Unemployment rates include discouraged workers following the relaxed definition of unemployment.

§ Total Palestinian and Israeli trade data refer to goods, and non-factor and factor services.

10. The adjustment of the economy to the crisis is reflected in an increase in the share of private consumption in GDP, which jumped from 93 per cent in 1999 to 104 per cent in 2003. In the meantime, the share of investment in GDP dropped by one third, from 43 per cent in 1999 to 15 per cent in 2003. These shifts suggest that while aggregate consumption is substantially less than three years ago, Palestinians are consuming more than they are producing, while also shifting expenditure away from investment towards consumption.

11. Domestic expenditure (private and public consumption plus investment) is estimated to have increased from 152 per cent of GDP in 1999 to 159 per cent in 2003; this suggests that the Palestinian economy spends about 60 per cent more than what it produces domestically. This excess spending is offset by increased imports net of exports. Compared with 2002, the trade deficit is estimated to have widened from \$1,732 million to \$1,880 million in 2003, but narrowed slightly as a percentage of GDP from 59.6 per cent to 59.1 per cent, about 5 percentage points above the average for 1995–1998. As for the current account deficit, it widened from \$140 million in 2002 to \$376 million in 2003 or from 5 per cent of GNI to 11 per cent. The movement of the exchange rate of the new Israeli shekel from depreciation in the first half of 2002 to appreciation in 2003 did not have a noticeable impact on Palestinian imports in terms of trading partners.¹³ This is another economic ramification of occupation, as modified in 1994 by the Israeli–Palestinian Economic Protocol, which provides no possibility for the Palestinian economy to change trading partners in order to take advantage of currency movements or exchange rate policies.

12. It is estimated that the PA trade deficit with Israel accounts for almost 60 per cent of the total PA trade deficit in 2003, which is less than the average for 1995–1998. While PA imports from Israel represent 42 per cent of Palestinian private consumption, the trade deficit with Israel represents 35 per cent of Palestinian GDP. The figures in table 1 indicate that while Palestinian trade plays a marginal role in total Israeli trade, the latter is very significant in the former. In 2003 only 2 per cent of Israeli trade was with the PA, whereas 60 per cent of PA trade was with Israel. These indicators confirm the vulnerability of the Palestinian economy, its persistent dependence on the Israeli economy and the urgency of re-examining the prevailing Israeli–Palestinian trade regime.

13. As for the fiscal conditions, the PA fiscal policy space, if any, continues to be very limited. The PA is almost incapable of financing any capital expenditures, which represented less than 3 per cent of total expenditure in 2003 (\$36 million). The largest single expenditure item was the public sector wage bill of \$743 million, representing 57 per cent of total public spending. Other essential current expenditures represented 27 per cent of total spending. Despite this narrow scope, the PA managed to improve its fiscal balance in 2003, with the budget deficit declining from 32 per cent of GDP in 2002 to 17.6 per cent (\$558 million) in 2003. This improvement was mainly due to widened revenue collection, increased transfers from public enterprises and resumption of transfers of tax clearance revenue by Israel. While 41 per cent of the 2003 deficit was financed by budgetary support from donors, the remainder was covered through the release of withheld clearance revenues by Israel (a one-time source of financing), and to

a lesser extent from domestic lending.

14. Employment figures in table 1 reveal that the economy in 2003 managed to employ domestically more workers than in 1999. While domestic employment increased from 461,000 in 1999 to 538,000 in 2003, Palestinian employment in Israel declined from 127,000 to 53,000. Although this shift was involuntary and was at lower pay and productivity, it shows that the Palestinian economy absorbed more than 60 per cent of the peak of Palestinian employment in Israel: 77,000 workers, of whom 52,000 were employed by the private sector, with the remainder absorbed into public services. It also reflects the fact that in the face of harsh conditions the Palestinian economy was able to adjust and increase employment to redistribute whatever income it was able to accrue under economic siege. Now the challenge facing the Palestinian economy with the support of the international community is how to increase productivity and the wages of the domestically absorbed work force, and to sustain its growth as well. Nonetheless, unemployment is still high, although it has declined from the 2002 level. According to the ILO relaxed definition (that is most relevant in the Palestinian situation), the unemployment rate in the West Bank and Gaza was 33.4 per cent in 2003, down from 41.2 per cent in 2002. The figures for the first quarter of 2004 indicate a rate of 32.3 per cent - 31.0 per cent in the West Bank and 35.1 per cent in Gaza.¹⁴

15. Structural changes in the Palestinian economy in response to the crisis are outlined in table 2. Shrinking GDP and rising unemployment means falling productivity. The sectors absorbing most employment have formed the economy's safety net in the past three and half years. They should be granted priority status under any future development strategy to recoup its productivity and wage levels. In this regard, the agriculture sector is a perfect candidate. It increased its shares both in output and in employment. The latter increased from 12.6 per cent of total 1999 employment to 15.7 per cent in 2003. Accordingly, agriculture drove 25 per cent of the increase in employment in the four-year period. From this angle, "services and others" could be another priority sector.

Table 2
Structural changes in the Palestinian economy: 1995–2003

Economic sector	Employment structure			Economic structure		
	% of total employment			% of GDP		
	1995	1999	2003	1995	1999	2003*
Agriculture and fishing	12.7	12.6	15.7	11.9	11.0	12.1
Mining, manufacturing, electricity and water	18.0	15.5	12.5	21.3	16.1	14.7
Construction	19.2	22.1	13.1	9.2	11.8	4.7
Commerce, hotels & restaurants	19.6	17.0	20.0	18.2	14.5	12.3
Transportation, storage & communications	4.9	4.7	5.8	4.6	5.1	7.4
Services & others (including public admin.)	25.6	28.1	32.9	34.9	41.6	48.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: Palestinian Central Bureau of Statistics.

* Estimated by UNCTAD on the basis of recent sectoral labour productivity trends.

16. Another major factor that has begun to have an adverse impact on the Palestinian economy is the construction of the separation barrier by Israel. Only 10 per cent of the 630 km planned route of the barrier follow the Green Line (1967 borders). The remainder penetrates up to 22 km into the West Bank, affecting about 975 sq. km or 17 per cent of its area, and encompassing around 20 per cent of the population of the West Bank. The Israeli authorities expropriated 2,800 hectares (28 sq. km) for the construction of the barrier. The impact on Palestinian agriculture in particular is enormous: land confiscated for the construction of the wall/barrier is among the richest and most productive agricultural land in the northern West Bank, and access to some of the best water sources in the West Bank will be lost. The barrier will also severely constrain the commercial exchange of agricultural factors of production and output, raising substantially already high transaction costs, and therefore dampening investment. In total 238 sq. km of land, or about 13 per cent of cultivated area in the West Bank and Gaza,¹⁵ will be isolated between the Green Line and the barrier.¹⁶ When the above factors are combined, the economic impact of the barrier on Palestinian agriculture could be a reduction of at least 20 per cent of the sector's productive capacity.

17. To sum up, the positive growth estimated for income and employment in 2003 is indicative of the persistence of the Palestinian economy and its ability to rejuvenate. However, the sustainability of such growth is uncertain without concrete and sustained steps towards implementation of the Road Map and serious perspectives for establishing the envisioned State of Palestine. Economic resilience in 2003 was driven by four factors: (i) social solidarity, which allowed the economy to adjust and adapt to the crisis; (ii) survival of the PA; (iii) relatively fewer mobility restrictions and reduced policy; and (iv) donor support of about \$1 billion a year in 2001–2003. In the context of possible disengagement towards the establishment of two States, the World Bank recently recommended a donor-supported package of \$1.5 billion for two years to turn the Palestinian economy around and support the sustainability of any political settlement.¹⁷ As the following section stresses, such an intervention should be based on a Palestinian socio-economic vision that takes Palestinian specificity into consideration and aims at linking donor support (be it emergency relief, rehabilitation or development) to Palestinian developmental objectives

B. Bridging relief and development: A policy framework for sustainable recovery

18. The concept of linking relief and rehabilitation to development has regained importance in recent years for the purpose of addressing recovery needs in countries emerging from war and conflict. While this approach remains to be fully elaborated, it could not be more relevant than in the Palestinian case. The following paragraphs build upon UNCTAD's previous reports and its recent contributions to related efforts by other international agencies (UNRWA and UNESCWA) to develop a feasible framework for the linking process in the Palestinian context. This should draw on the specificities of those constraints that increase its dependence on the Israeli economy. These may be summarized in five main points:

- Sustained economic contraction, possibly bottoming out in 2003;
- Reduced productivity, and increased and fluctuating unemployment;
- Noticeable contractions in domestic productive capacity, while some sectors were able to adapt and continue to generate employment and subsistence incomes;
- Increased dependence on the Israeli economy, especially through trade; and
- Prohibitive increase in transport and transaction costs.

1. Donor support

19. Data available on donor support for the Palestinian people until 2002 indicate an increase from an average of \$500 million a year in the period 1999–2000 to slightly more than \$1 billion a year in 2001 and 2002 to meet the emerging crisis.¹⁸ Donor support declined by about 10 per cent in 2003 to \$900 million - from 35 per cent of GDP to 30 per cent. The largest single source of support during 2001–2002 was budgetary support funded by the League of Arab States, which amounted to more than \$0.8 billion or 36 per cent of the \$2 billion received. In the meantime, the type and pattern of donor support have shifted from development assistance to humanitarian relief and PA budget support. The share of development assistance dropped from 88 per cent of total international aid to 26 per cent after 2000. Even with this sharp decline, most of what was categorized as development assistance in 2001–2002 was actually emergency assistance in infrastructure and some of the social sectors, especially health.¹⁹

20. Within the category of development assistance, the share of productive sectors declined from 14 per cent to 9 per cent after 2000. In this regard, it is important to highlight the trivial share received by agriculture. This strategic and capable sector, which contributes annually between 10 and 15 per cent of GDP and employment, and

which has suffered major losses since 2000 in land, infrastructure and markets, received a meagre 1 per cent of total international support before and after 2000.

21. When international support is looked at from another angle, it can be said that it represented more than 35 per cent of the West Bank and Gaza GDP in 2002. The important question here is whether these Palestinian national resources (albeit provided by external sources) are being allocated in a way that serves the war-torn economy under the present circumstances. Are there unexplored avenues for directing more of donor funding to protecting the productive economic base and employment from further attrition? The foreign aid experience of many developing countries suggests that without a clear national vision as to where external resources should be allocated, there is no guarantee that the objectives of the donors would coincide with those of the recipient in the short, medium or even the long term.

22. This highlights a sixth constraint shaping Palestinian economic prospects, namely the extent to which priorities and interests driving donor support correspond with the Palestinian development agenda and concerns. This is especially critical in a situation where donors with different expectations compete for the attention of a weakened institutional capacity and a relatively inexperienced public administration, which since 2002 has been in the throes of a still-inconclusive reform process, actively promoted by donors themselves.

2. Linking relief to development: Policy considerations

23. The concept of linking relief to development calls for the allocation of the relief and emergency assistance in a manner that aims to achieve persistent development accumulation, no matter how slow or intermittent, through distinct and sequential efforts. In other words, emergency relief, including donor support, should be framed by a developmental vision for both the medium and long terms to permit movement along a continuum from relief through rehabilitation to development.²⁰

24. Since September 2000 most of the international assistance to the Palestinian people has been reoriented to relief, fully justified by the humanitarian emergency. This shift could be explained by an argument that under conditions of occupation, destruction and poverty, the Palestinian economy is not capable of absorbing development assistance owing to the collapse of its institutional arrangements and the dislocation of economic activity. Therefore, the focus should be on relief to maintain the essential needs of the community. And is only after the withdrawal of occupation forces and the end of the closure policy that resources could be refocused on development.

25. This line of reasoning assumes that most normally functioning markets have collapsed and those left are static, and that the return to normality will directly follow from an easing of occupation measures. However, it does not take into consideration the fact that while some markets have become inaccessible, others continue to perform as well as before, as attested by the availability of household supplies at prices that are not much higher than before 2000. Furthermore, other markets, many of them informal, have emerged in response to supply and demand under war conditions. As for the return to normality, this is a very complex and long conflict and development cannot wait until there is a comprehensive solution. On the contrary, development efforts have to adapt to ever-changing realities to cope even with an unsettled environment.

26. While relief aid is essential under the present circumstances, it could be counter-productive over the longer term if it is not placed within a framework that seeks complementarities between relief and development and is capable of maximizing the benefits of relief efforts. While in-kind (e.g. food) aid is essential for meeting the basic needs of the community, it could have an adverse impact over the long term if the goods provided have local substitutes. As for aid in the form of goods or services financed by the donor community, this represents an injection into the economy, and its immediate and long-term impact depends on the balance between its positive and negative effects. The impact of one dollar of aid injected into the economy normally leads to a more than one-dollar increase in GDP. But the multiplier declines, or can become negative, if most of the relief goods consumed are not domestically produced or have large imported components. In the latter case, a considerable portion of relief aid has only a limited impact on the domestic economy.

27. Furthermore, when relief is distributed without participation and without development content, it can have a demoralizing effect on the community. When aid is in-kind, it can replace domestic production and reduce employment. However, when relief aid is spent and distributed in a participatory fashion, it strengthens the spirit of community participation and supports the accumulation of "social capital" (see below). This discussion should not be taken to imply that the Palestinian people are not in need of external support. On the contrary, it is important that the international community not only continues meeting its obligations but also increases its support to the Palestinian people. However, this should be done in conjunction with a Palestinian vision that aims at providing support within a strategic framework to link relief efforts to development objectives, which will maximize the positive and minimize the negative effects of aid.

3. Linking relief to development in practice

28. This approach proposes setting sectoral and sub-sectoral priorities, with the focus on a very limited number of sectors or sub-sectors, to achieve time-bound developmental quantitative objectives (employment and income) through relief efforts. Once the objectives have been achieved in the first set of priorities, the second set can be tackled. It is important that these priority sectors be capable of halting economic contraction, maintaining or increasing the levels of employment and productivity, and reducing import dependence. Hence, aid based on these priorities would address prevailing constraints and maintain or even increase existing productive capacity, which is the foundation for any economic development under more stable conditions in the future.

29. As a start, the process of priority setting should focus on the sectors and sub-sectors that have survived the conditions of the last three years and have been able to continue operation and maintain employment levels. Keeping the positive and negative effects of aid and the above-mentioned constraints in mind, a prioritized sector under the "linking relief to development approach" should:

- Be capable of creating sustainable employment opportunities even after the end of the support programme;
- Have strong backward (especially natural resource) and forward linkages;
- Be strategically important for the economy and society at large;
- Have physical capital resistant to destruction and with relatively low replacement cost; and
- Be capable of exporting, or establishing a strong local market presence, even under the present conditions and closure policy.

30. On the basis of the above framework, a number of sectors and branches could be considered candidates for priority sub-sectors, including certain agricultural products and manufacturing branches and natural-resource-based industries, as well as information technology services and related high-tech industries. It should be emphasized that fulfilling the above criteria does not mean that the sector will assume its role and produce the expected result through aid and investment alone. Success requires increases in both the supply of and demand for the products of the priority sector in response to the support programme. This in turn requires increased productivity through training, increase in capital and technology transfer, on the supply side, and support for the specified market on the demand side.

4. Integration of economic and social priorities and trade policies

31. Linking relief to development should also be extended to include social sectors, where a set of complementary priorities need to be set in health, education, community development, welfare and social safety nets. For example, educational priorities should include supplying the skills and qualifications needed to achieve the objectives of the priority productive sectors. Also, social safety-net programmes (especially employment generation) could be concentrated in priority productive sectors. With regard to the needs of the social sectors, such as food, housing and medicine for the poor, these should be met by the productive sectors. Geographical distribution of population should also be factored into programming.

32. There are a number of instruments that could be used in a sub-sectoral or industry-specific way. These include reduced interest rates and tax breaks, micro and small enterprises' financing schemes, workers' training and upgrading, technology transfer, production factor subsidies, and labour, trade and industrial programmes and policies. The choice of the programme or scheme to be used, depends, of course on the condition, nature and technology of the priority sector. These mechanisms could be grouped under what could be called "distortion correction schemes" and should be selective and directed specifically to the sector concerned.

33. In this regard, it is important to note that in the last few years Palestinian communities have initiated a number of successful local initiatives and accumulated experience regarding viable modes of self-sufficiency in the face of conditions of occupation and closure. These experiences should be studied and transferred to other communities and applied in other applicable industries. Furthermore, there are already a number of sectoral and industry-specific studies which could help in the process of setting priorities. Nonetheless, it is of great importance that the priority-setting process, as well as the determination of sectoral objectives, implementation mechanisms, follow-up and assessment process, be based on a wide participatory approach that includes the PA and the vibrant Palestinian civil society.

34. In general, a prioritized, inter-sectoral development vision would also highlight the most urgent elements of an agenda for law making and regulatory framework, as well as for institution building and reform. Equally important is that the vision would guide government to the industrial and trade policy most appropriate for achieving the objectives of socio-economic priorities. For example, in the case of eventual WTO accession negotiations, Palestine need not relinquish any special and differential treatment granted to least developed countries which could support the growth of present and future priority sectors. Similarly, the Palestinian side need not propose drastic tariff reductions if such liberalization would harm or hold back growth in the priority sectors. This logic applies also to the trade regime (free trade, customs union or most favoured nation) that Palestine would need to adopt with Israel and/or other neighbours.

5. Social capital

35. To take advantage of the accumulation of physical and human capital there is a need for investment in "social capital", that is the system of legal and institutional framework promoting investment rather than consumption, and productive rather than rent-seeking activities. This type of capital was neglected in the occupied Palestinian territory in past decades. It is an essential element of linking relief to development as it increases the efficiency of aid by promoting transparency, accountability and participation. The accumulation of social capital requires the development of three types of institutions: (i) a system to supervise external support; (ii) a financial system; and (iii) a judiciary system.

36. The supervision of external support requires the establishment of an independent body reporting directly to the legislative council and comprising PA ministries, representatives from the private sector, NGOs, academia and broader civil society. The main task of this body would be to ensure that the priorities, objectives and mechanism of linking relief to development are determined in a participatory approach and that the allocation of donor funds is in line with the linking process and the Palestinian socio-economic development vision. The financial system should ensure that the burden of development is shared fairly, and that donor funds are allocated and distributed in a manner that promotes equitable income distribution through a just transfer and tax system. It should also ensure that donor funds are utilized properly and efficiently, and are directed to the priority activities. The judiciary system should be independent and efficient in order to maintain the rights of all citizens and therefore promote commercial contracts, domestic investments and productive activities.

Chapter II

UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

A. Framework and objectives

37. In accordance with the provisions of the United Nations Medium-Term Plan for 2002–2005, UNCTAD has continued to provide assistance to the Palestinian people, in close cooperation with Palestine. Since the start of UNCTAD's technical cooperation with the PA in 1995, research and operational activities have expanded into new areas of UNCTAD's competence. Emanating from research and policy analysis, the secretariat's technical cooperation programme provides concrete assistance with a view to building capacities for effective economic policy-making and management and strengthening enabling environment for the private sector. Technical cooperation focuses on four clusters: (i) development strategies and trade policy; (ii) trade facilitation and logistics; (iii) public finance modernization and reform; and (iv) enterprise, investment and competition policy.

38. UNCTAD's assistance to the Palestinian people seeks to respond to the PA's goal of building the institutional capacity and infrastructure required for a viable, market-based economy. In coordination with other international agencies, the secretariat has responded positively to PA requests for assistance in its areas of competence. However, as chapter I demonstrated, new realities on the ground require the promotion of dynamic synergies between rehabilitation, reconstruction and strategic development needs. This frame of reference helped in revising and updating UNCTAD's technical assistance programme in 2003–2004.

39. While some progress has been noted in resource mobilization and project implementation since 2003, UNCTAD has also suffered setbacks, which undermine its ability to implement the Bangkok and São Paulo mandates in this area as expected. The prevailing conditions in the field and Israeli restrictions on mobility and the field access of UNCTAD experts continue to limit the scope and pace of technical assistance activities. In particular, the ban on movement of national project staff between Gaza and the West Bank and difficulties in obtaining visas for UNCTAD staff missions render training activities complex and costly. Furthermore, the Associate Expert who had been allocated to this work programme had completed her three-year term by 2004, and this reduced the core resources that had enabled the secretariat to respond effectively to the Bangkok mandate of intensified assistance to the Palestinian people. Nonetheless, UNCTAD continued to implement funded technical cooperation activities in 2004 and has secured new resources for some others.

B. Operational activities 2003–2004

1. Development strategies and trade policy

40. Consultations between the secretariat and the Ministry of National Economy (MNE) on identifying funding for proposed UNCTAD projects within this cluster have not resulted in any new resource mobilization. However, UNCTAD continued through 2003 to provide "fast-response" advisory services in this area, aimed at highlighting for Palestinian policy makers the implications of possible alternative trade policy arrangements consistent with present economic conditions and a liberalizing trade policy framework. Meanwhile, through direct contacts with donors, the secretariat has succeeded in mobilizing adequate funding to begin work on the Integrated Framework for Palestinian Macroeconomic, Trade and Labour Policy.

2. Trade facilitation and logistics

41. At the request of the PA, the secretariat began in mid-2004 to provide advisory services for the establishment of the Palestinian Shippers Council. Advisory services

and research since 2001 in this area of work have included publication of a technical study entitled "Transit trade and maritime transport facilitation for the rehabilitation and development of the Palestinian economy".²¹

3. Public finance reform and modernization

42. The UNCTAD secretariat and the PA Ministry of Finance (MoF) were set to resume in mid-2004 implementation of the project Capacities in debt monitoring and financial analysis (DMFAS). Project activities had been reduced since late 2003 owing to delays in the transfer of committed funding, and logistical and security factors affecting the stationing of experts in Gaza, as well as more urgent PA priorities in this sector. Meanwhile, although the Palestinian insurance sector faces critical weaknesses, the PA has yet not fully considered UNCTAD proposals for urgent technical assistance for reforming the Palestinian insurance sector. However, since the completion of Phase I of UNCTAD's most successful experience in technical cooperation with the PA (in the area of customs modernization and automation), new resources have been mobilized to implement the ASYCUDA Phase II project for the PA General Directorate for Customs and Excise. This entails installation of the prototype system in Customs headquarters in Ramallah and at two pilot PA Customs sites, with budgeted project expenditures of \$750,000. Implementation was proceeding in 2004 without interruption, indeed at a gathering pace.

4. Enterprise, investment and competition policy

43. Progress made since 2002 in implementation of the UNCTAD project Support for small and medium enterprise (SME) development (Empretec) was interrupted in the second half of 2003. Of the total funding requirements from the MED2000 programme for the first phase of this project, only three quarters were actually available for expenditure by the end of 2003. Along with the national counterpart (Palestinian Banking Corporation, PBC), the PA and UNCTAD secretariat had exerted intensive, high-level efforts since July 2003 to secure the remaining resources required for full implementation. However, in June 2004 UNCTAD was obliged to suspend the Phase I project and release field staff. This outcome is unprecedented in UNCTAD's assistance to the Palestinian people and highlights the tenuous status of some of its operational commitments in this area. So as not to jeopardize the important initial achievements of Empretec-Palestine, the secretariat is now seeking donor support for Phase II activities under this project, which could still be resumed if funding were made available before the end of 2004 (see section C). Meanwhile, the secretariat completed in 2003 a new study on the role in development of Palestinian SMEs. While publication has been delayed for logistical reasons, the study should be issued in the third quarter of 2004.

44. UNCTAD began work in 2004 on a new technical assistance project, budgeted at \$80,000, to assist the Palestinian Investment Promotion Agency (PIPA) in implementing an *Investment Retention Programme*, aimed at providing investment support services to existing enterprises in coping with and surviving the present crisis. The project will involve a survey and a qualitative assessment, design of a strategy and creation of a core expert team within PIPA for implementing the investment retention programme. Meanwhile, the secretariat's earlier advisory services in the area of competition policy have not been followed up by the PA to date, as the implementation of legislative procedures to adopt a Palestine Competition Act has slowed down.

C. UNCTAD response to the Palestinian economic crisis: Keeping development priorities in focus through 2006

45. As already stressed, realities on the ground require the promotion of dynamic synergies – a bridge – between relief, rehabilitation and development processes. Combined with international efforts to shift attention back to development priorities (institutional reform, capacity building and improved policy-making) in the context of implementation of the Road Map and establishment of the State of Palestine, these imperatives will guide UNCTAD's technical cooperation for the Palestinian people. While relief and rehabilitation efforts need to increasingly adopt a development orientation, development assistance to the Palestinian people should reassume its predominance in donor programmes. This time round, however, it should be informed by a better understanding of the real predicament of the Palestinian economy, which implies a wholly different development agenda than the pre-2000 situation suggested.

46. In consultation with the PA, the secretariat has prepared proposals for targeted technical cooperation in various areas, for many of which fresh extrabudgetary funding is urgently sought. The following outline of the UNCTAD technical cooperation programme for the period 2004–2006 provides an overview of the range of PA needs and proposed activities in areas within UNCTAD's sphere of competence. The proposals in this section could be further developed to provide the basis for establishing an adequate extrabudgetary resource basis for supporting UNCTAD's technical cooperation for the Palestinian people over the period 2004–2006. This would enable the secretariat to coordinate its technical assistance programme efficiently by restoring the minimum required number of core professional staff in Geneva, while establishing an operational presence in the field to develop closer working relations with national counterparts, international agencies and donors.

1. Development strategies and trade policy

47. *Integrated Framework for Palestinian Macroeconomic, Trade and Labour Policy.* This project will provide the PA with the analytical tools and build capacity to assess the economic impact and developmental outcome of alternative policy options. The expected outputs are the integrated framework (software programme), a comprehensive socio-economic and demographic database, an analysis of alternative policy options and enhanced PA technical capacity in economic modelling and policy management. The project will be implemented over 16 months by UNCTAD, the International Labour Organization (ILO) and Palestine Economic Policy Research Institute (MAS), together with the relevant ministries, with an estimated budget requirement of \$170,000. With regular budget resources from UNCTAD and ILO and extrabudgetary contributions from international research foundations, resource requirements have been mobilized and work has begun.

48. *Technical support to the PA National Task Force on Economic Development.* This project is designed to support the PA's capacity to address the economic crisis, elaborate appropriate strategies to integrate the Palestinian economy with regional and international markets and prepare for Palestine's eventual accession to the WTO. Main outputs will include a core Palestinian expert team, trained in substantive issues involved in economic development and trade policy-making, trade negotiations and the sectoral implications of WTO compliance. The project would be implemented over 18 months in cooperation with the PA/MNE, with an estimated budget of \$230,000. No funds have been committed to this project.

49. *Improving food security through international trade.* While comprehensive treatment of Palestine's food security problems requires political stability, problems can still be addressed even under the present conditions through a number of targeted efforts which link relief to development through trade. The proposed project would produce the following: (i) a strategic framework and a plan of action for guiding the PA's efforts in the area of food security through international trade; (ii) new financing mechanisms for farmers not yet engaged in export activities; (iii) commodity market information databases; (iv) technical guidelines for designing food warehouse systems; (v) a PA core team that is capable of advising on issues related to food commodity procurement; and (vi) a strategic framework for rehabilitating the olive oil industry's export capacity. The proposed project would be implemented by UNCTAD in close cooperation with the International Trade Centre (ITC), the Food and Agriculture Organization of the United Nations (FAO) and relevant PA ministries over a period of 18 months at an estimated cost of \$250,000.

50. *The embroidery sector as a creative industry.* This project aims at transforming the embroidery sector of the Palestine refugee camps into a source of sustainable jobs, export growth and poverty alleviation. In particular, it seeks to create synergies between relief and development efforts using the concept of creative industries, which makes it possible to address supply-side bottlenecks and promoting this sector in international markets. The project would be implemented in two phases by UNCTAD in close cooperation with UNRWA and the ITC. The first phase would be implemented over a period of six months, and involve the preparation of strategy documents at an estimated cost of \$100,000. Drawing on the experience of the Fair Trade movement, a second phase of this project would entail the establishment of a specialized institution for marketing embroidery products through existing networks, improving producers' access to sources of supply and assistance in improving skills and adapting existing

designs to Western tastes.

2. Trade facilitation and logistics

51. *Capacity building for port management and institutional development.* In 2000, an UNCTAD secretariat expert mission to the PA proposed follow-up technical assistance to prepare the Sea Port Authority (SpA) for eventual operation of Gaza Port. While subsequent events have brought the project to a halt, UNCTAD proposals made in 2001 will be relevant as soon as the political prospects for a resumption of the project are clearer. UNCTAD's proposed technical assistance would include an assessment of the current status of the Gaza Port project from the institutional angle, a draft port law, advice on administrative regulations and contractual arrangements, and preparation of a technical assistance proposal for establishing a Port Cell. The proposal also suggests the establishment of a sustainable port and maritime training capacity. The SpA has approved these two project proposals, which would entail an estimated budget of \$200,000.

52. *Building national capacity for e-commerce.* This project aims at building the capacity of Palestinian Information Technology Association (PITA) so that it can assume a leading national role in promoting e-commerce. In particular, the project would equip PITA with a core team for developing and implementing training activities so as to enable Palestinian enterprises to engage in e-commerce, and develop e-commerce services within the IT sector. The project would be implemented in cooperation with PITA over 12 months at an estimated cost of \$100,000.

53. *Establishment of the Palestinian Shippers Council.* In response to a PA request in 2004, the UNCTAD secretariat has begun to provide advisory services to assist in the establishment of the Palestinian Shippers Council to defend and promote the interests of Palestinian shippers (enterprises which are end-users of international and local transport). One donor has designated resources of around \$420,000 for this purpose and consultations are under way on the role of UNCTAD in project implementation, given its long experience in this area.

54. *Border cargo management and export possibilities under a reformed border regime.* In order to rapidly prepare for possible Israeli disengagement in the occupied territory, a World Bank review has recently highlighted the range of facilitation measures that would be required for ensuring concomitant economic revival focused on enhancing export capacity.²² UNCTAD has made preliminary proposals for preparing two in-depth technical studies suggested as next steps by the World Bank review, at an estimated cost of around \$350,000.

3. Public finance reform and modernization

55. *Debt Management and Financial Analysis System (DMFAS).* The second phase of this project, implemented with the PA MoF since 2001, will be pursued over the period 2004–2005, with bilateral funding already available for project activities totalling \$270,000.

56. *Reforming the Palestinian insurance sector.* This project seeks to contribute to the development of a competitive, market-oriented Palestinian insurance sector through capacity-building activities for both PA regulators and service providers. In particular, it aims at (i) adapting the regulatory and institutional framework to the requirements of the multilateral trading system and international best practices and (ii) strengthening the PA institutional capacity and agents' competencies in this sector. This still unfunded project would be implemented in close cooperation with PA MoF over a period of 18 months, at an estimated cost of \$250,000.

57. *Customs modernization and automation.* The PA's ability to fully exploit the ASYCUDA++ system to its potential remains dependent on securing funds to implement the third and final phase of the project, which involves the system's roll-out in 2005–2006. This project would be implemented over 24 months, at an estimated cost of \$1,600,000. Consultations with the PA and a possible donor for Phase III were initiated in 2004.

4. Enterprise, investment and competition policy

58. *Support for small and medium enterprise (SME) development (Empretec).* As mentioned in section B, this once-hopeful area of UNCTAD's support for the Palestinian enterprise sector is uncertain given the suspension of activities in 2004 and the absence of donor commitments for 2004–2005. A sustainable vision for completing this programme in the West Bank, extending it to Gaza and ensuring full national ownership by 2006 implies resource needs of at least \$500,000. In the light of the analysis in chapter I, failure to resume this project will further undermine the support needed for encouraging synergies between relief and development. Serious donor attention to this project is urgently required.

59. *Institutional support and capacity building for investment retention (Phase II).* Funds are required for implementing Phase II, which will entail designing sectoral-based investment retention and promotion programmes in cooperation with PIPA over a period of 18 months, at a provisional budget of \$200,000.

D. Resource mobilization, coordination and harmonization

60. In the design and implementation of its work programme, the secretariat has maintained close contacts with relevant international organizations, especially the United Nations Relief and Works Agency for Palestine Refugees (UNRWA), the United Nations Economic and Social Commission for Western Asia (ESCWA), the Office of the United Nations Special Coordinator for the Occupied Territories (UNSCO) and the International Labour Office (ILO), as well as with research centres and civil society institutions. The secretariat has also sought to draw the attention of bilateral, multilateral and regional donors to its resource needs. UNCTAD technical assistance to the Palestinian people in 2003–2004 benefited from continued extrabudgetary support from the Netherlands as well as new funding from Norway, the European Union and the International Development Research Centre (Canada). Meanwhile, the United Nations Development Programme (UNDP) has continued to extend indispensable logistical and liaison field support to UNCTAD.

61. As part of outreach efforts to build strategic partnerships with other international agencies, UNCTAD has participated actively with ESCWA and other organizations in preparing for ESCWA's Palestine Rehabilitation and Development Forum, aimed at mobilizing Arab Governments and civil society in Palestinian reconstruction and development programmes and State-building efforts. UNCTAD also contributed to substantive preparations for the UNRWA conference on assistance to Palestine refugees held in June 2004 and began collaboration with UNDP and the PA in reviewing Palestinian progress in achieving the Millennium Development Goals (Goal 8).

E. Conclusions: Adequate resources for intensified assistance

62. As of July 2004, extrabudgetary funds had been committed to only four of UNCTAD's 15 technical cooperation proposals, and discussions had been initiated with potential donors on three others. One project had been suspended owing to resource shortfalls, while no funding had been identified for seven other projects. Out of total resource requirements (for 15 projects through 2006) of \$5,740,000 (including the cost of a two-year professional post in Geneva), \$1,270,000 was available and \$2,370,000 was under consideration for allocation to three new projects. This leaves a funding shortfall for urgent technical assistance of \$2,100,000, over one third of total extrabudgetary requirements for 2004–2006.

63. As noted, the impact of occupation, and hence the uncertainty and humanitarian crisis in this area of work, directly affect the implementation of this programme. Certainly, additional improvement of effectiveness would require mobilization of more predictable extrabudgetary resources to further enhance the selective and flexible mode of operation, which UNCTAD has applied in the last four years to circumvent deteriorating field conditions and to sustain progress. Such resources will also be required in order to pursue technical assistance in a manner that promotes dynamic synergies between relief, rehabilitation and strategic development needs, and makes it possible to elaborate on the development prospects and socio-economic alternatives under conflict conditions and in a post-conflict situation.

64. This report has emphasized that while some progress has been made in resource mobilization and project implementation since 2003, UNCTAD has also been constrained by resource shortfalls. Its ability to intensify its technical assistance to the Palestinian people commensurate with their needs, as stipulated in the Bangkok mandate, is now uncertain. Simply put, unless adequate resources are available, as called for in the São Paulo Consensus, the full implementation of its assistance activities will be significantly constrained. Furthermore, the secretariat will not be able to respond fully to the expectations of its Palestinian counterparts, both governmental and private sector. UNCTAD has been involved in assistance to the Palestinian people for over 20 years. In order to capitalize on the secretariat's rich analytical and technical contribution and its extensive partnerships with Palestinian counterparts, donors and other agencies, it is now necessary to secure more predictable and comprehensive extrabudgetary support for its work in this area.

Notes

¹ In accordance with the relevant General Assembly resolutions and decisions, the term "Palestine" in this report refers to the Palestine Liberation Organization, which established the Palestinian Authority (PA) following the 1993–1994 accords with Israel. References to the "State of Palestine" are consistent with the vision expressed in Security Council Resolution 1397 (2002) and the Road Map referred to below.

² Excluding the economy of occupied east Jerusalem.

³ For details of the Israeli closure policy imposed on the occupied Palestinian territory, see the reports of the Office of the United Nations Special Coordinator in the Occupied Territories (UNSCO) and the Palestinian Red Crescent Society (PRCS) reported in the Local Aid Coordination Committee (LACC) 2004 Monitoring Reports Compendium, 1 February – 15 March. Also see the Palestinian Central Bureau of Statistics (PCBS, www.pcbs.org) 2003–2004, "Survey on the perception of Palestinian population towards the socioeconomic conditions", August and December 2003 and March 2004; and World Bank (May 2003), "Twenty-seven months – Intifada, closures and Palestinian economic crisis: An assessment".

⁴ Source: PCBS (April 2004), "Impact of the Israeli measures on the economic conditions of Palestinian households – 7th round: October–December, 2003", http://www.pcbs.org/english/press_r/econ_r7/econ_e.pdf.

⁵ Assuming that nominal GNI grew by 3.5 per cent a year over the period 2000–2003. The economic loss in real 1997 dollars amounts to \$5.7 billion, assuming 2 per cent real growth.

⁶ UNRWA/UNOCHA (June 2004) Rafah Humanitarian Needs Assessment.

⁷ See the World Bank (May 2003), "Twenty-seven months – Intifada ..."

⁸ This does not include the value of land expropriated to build the Israeli separation barrier. The difference between the \$2.2 billion and the \$1.7 billion reflects at least \$200 million of additional physical damage during the 18 months since December 2002 plus \$285 million for an additional 3 per cent depreciation due to inappropriate use/overuse and a lower level of maintenance.

⁹ World Bank (May 2003, p. 19) estimates 1998 West Bank and Gaza capital stock to be \$11.207 billion or twice GDP.

¹⁰ This ratio includes capital stock such as real estate. Therefore, the attrition observed in the productive economic base could be much higher than one fifth.

¹¹ See also World Bank (June 2004), "Disengagement, the Palestinian economy and the settlements".

¹² IMF (September 2003), "West Bank and Gaza: Economic performance and reform under conflict conditions".

¹³ The PA has no national currencies and therefore is not capable of conducting exchange rate policies. The US dollar, new Israeli shekel and Jordanian dinar are the three currencies utilized in the West Bank and Gaza.

¹⁴ PCBS, Labour force survey annual report 2003 (www.pcbs.org/inside/selets.htm), and Labour force survey results: January– March 2004 round (www.pcbs.org/english/press_r/lbrQ104_e.pdf).

¹⁵ According to PCBS, the total area of cultivated land in the West Bank and Gaza in the last five years is around 1.8 million dunums (1,800 sq km).

¹⁶ For more details on the separation barrier and its implications, see UN OCHA (March 2004), "The impact of Israel's separation barrier on affected West Bank communities – An update to the Humanitarian and Emergency Policy Group (HEPG): Construction of the barrier, access and its humanitarian impact", World Bank (April 2003), "The impact of Israel's separation barrier on affected West Bank communities: Report of the mission to HEPG and the Local Aid Coordination Committee (LACC)", and the follow-up report on the same topic to HEPG and LACC: update number 2, 30 September 2003.

¹⁷ See World Bank (June 2004), "Disengagement..."

¹⁸ These figures do not include funds received by UNRWA or direct support from donors to NGOs.

¹⁹ For detailed tabulations of donor support during the period 1999–2003, see UNCTAD (2003) "International Support to the Palestinian People 1999–2000/2001–2003 ...", Trade and Development Board, fiftieth session, Geneva, D/B/50/CRP.2, 6 October 2003.

²⁰ Discussion of this argument can be found in Brück, T., Valpy F. and Arturo G. (July 2000), "Enhancing the Private Sector Contribution to Post-War Recovery in Poor Countries", Working Paper 45(1), Queen Elizabeth House, University of Oxford International Development Centre. See also Smillie, I. (1998), "Relief and Development: The Struggle for Synergy", Occasional Paper Number 33, Thomas J. Watson Jr., Institute for International Studies, USA.

²¹ UNCTAD/GDS/APP/2003/1, 22 March 2004.

²² In World Bank (June 2004), "Disengagement..."