

# The Palestinian Strategic Report 2005



Edited By

**Dr. Mohsen M. Saleh**

**Dr. Basheer M. Nafi**



**Al-Zaytouna Centre For Studies & Consultations**

# **Chapter Seven**

## **The Economic Situation in the West Bank and Gaza Strip**

E-mail: [info@alzaytouna.net](mailto:info@alzaytouna.net)

Website: [www.alzaytouna.net](http://www.alzaytouna.net)

**You can contact us and view the center's pages by clicking on the applications below:**



## The Economic Situation in the West Bank and Gaza Strip<sup>1</sup>

**Introduction:** Before we discuss the Palestinian economy in the West Bank (WB) and Gaza Strip (GS) during 2005, we should bear in mind that this economy is under occupation. The situation is analogous to a group of prisoners who are managing their business while inside a huge prison called the WB and GS. The jailer or the head of the prison, Israel, controls the borders, checkpoints and access to goods and people. It is capable of killing people, demolishing and confiscating properties, establishing checkpoints, banning imports and exports, destroying lands, and dominating water supplies, electricity, transportation, and energy.

Therefore, no wonder that the year 2005 did not reflect the real potentialities and capabilities of the Palestinian people. Rather, it showed the abnormal conditions of the people, who are still suffering under Israeli injustice and suppression.

Although the Palestinian economy is weak, it has abundant human resources. Palestinian could depend upon these resources to achieve continuous economic development. Unfortunately, these qualified human resources experience explicit, or disguised, unemployment and are, therefore, not well utilized. Moreover, most of them have inappropriate jobs.

Israeli policies and procedures, meanwhile, played a major role in destroying the Palestinian economy through a well-planned and programmed methodology that makes it dependent on theirs. In this way, they control the economy and suspend any potentialities that might lead to its prosperity. Thus, it is evident that more than two-thirds of Palestinian imports come from Israeli sources and nine-tenths of their exports go to the Israeli market and institutions.

Although the Palestinian Authority (PA) has been established, unfair economic protocols (including the Paris Protocol of 1994) have enabled Israel to control the most important sources of Palestinian income: customs and taxes. This condition provided a mechanism of political pressure that Israel can employ whenever it wishes to withhold or surrender these revenues.

The Palestinian economy in the WB and GS is being managed in an atmosphere of a coercive, authoritarian, and hostile occupation, which aims at humiliating the Palestinians, expelling them from their lands, and replacing them with Jewish settlers. So, any radical remedies aimed at improving the

Palestinian economy would require the highlighting of eradication of the occupation, rather than minimizing its repercussions.

In this context, the PA and the World Bank have put forward many plans for construction and development, but most of them were introduced in response to instructions and conditions given by the sponsors, and they relied on unrealistic suppositions that ignored the current political and economic position. The situation was further complicated by massive financial and administrative corruption within the institutions of the PA, which led to inappropriate spending of large amounts of funds (out of the meager available).

**Main Indicators:** The figures released by the Palestinian Central Bureau of Statistics (PCBS) pointed out that the value of the Gross Domestic Product (GDP) at constant prices for the WB and GS (except Jerusalem) for the year 2005 could have reached \$4,456 million & 400,000.<sup>2</sup> The general readings of the economy pointed out that although the Palestinian GDP increased by 9%, it was still 29% less than the year 1999. The GDP for the year 2003 reached \$3,881 million, which indicated a recession of 14% less than the year 1999. In 2004, it reached \$3,928 million with a recession of 12.9% less than 1999.<sup>3</sup>

According to World Bank estimates, the Palestinian economy needs to achieve a 10% growth in the GDP annually during the four years 2005 – 2008 in order to match the records of the year 1999.<sup>4</sup> This reflects the cruel destruction, siege, starvation, and confiscation of property that Israel used to suppress The Palestinian *Intifadah*, and force the people to surrender. The World Bank admitted that the main reason behind the inability of the Palestinian economy to employ its potentialities is basically the occupation, which blocks the movement of people and goods.

Often, researchers refer to the year 1999 as an economic standard because it preceded the *Intifadah*. The year 1999 witnessed the best performance of the Palestinian economy, and some sources pointed out that the GDP reached \$4,750 million, while the Gross National Product (GNP) reached \$5,850 million. Moreover, the per capita income from the GDP for the year 1999 reached \$1,575, and the per capita income from the GNP reached \$1,940.<sup>5</sup> According to the CIA annual World Fact Book, the Palestinian per capita income in the WB declined from \$2,000 in the year 1999 to \$800 in 2003, while in GS it declined from \$1,800 in the year 1999 to \$600 in 2003. In the meantime, the Israeli per capita income reached \$19,000.<sup>6</sup> This clearly reflects the unbalanced economic

position between the Zionist settlers and the autochthon people of Palestine.

Generally speaking, the Palestinian per capita income decreased by 36% from October 2000 (beginning of *Intifadah*) to the end of the year 2002, while the period between the year 2003 – 2005 witnessed a gradual annual economic growth of 7%, that was, however, far from the level of growth of the year 1999.<sup>7</sup>

In the year 2005, the GDP per capita reached \$1,268, compared to \$1,218 in 2004, but that of the year 2005 was still less by 30%, compared to the year 1999. Thus, if we take into consideration the percentage of income progress since the year 2003, a period of 5 to 7 years (2010 – 2012) will be needed to reach the *pre-Intifadah* level of the year 1999.<sup>8</sup>

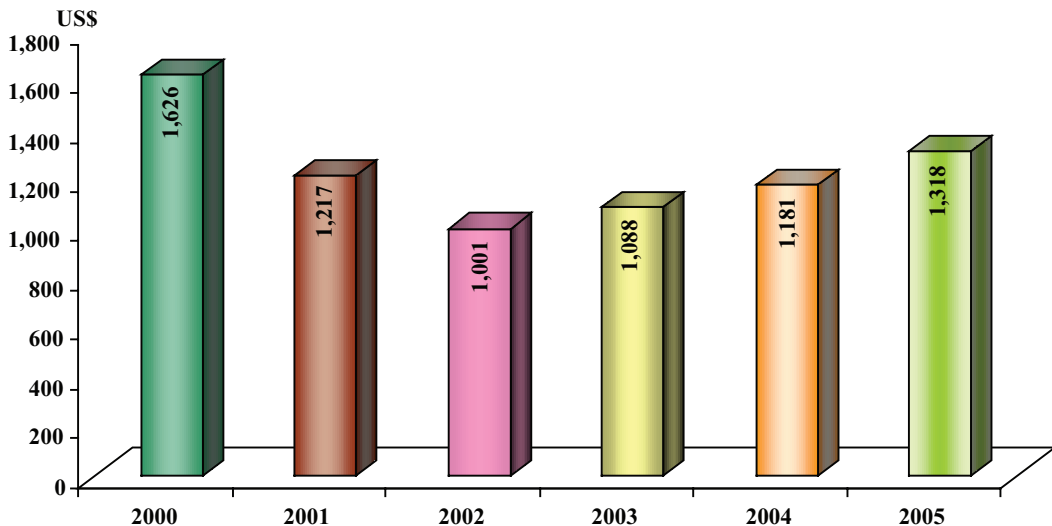
In the year 2005, the financial policy of the PA was characterized by a great deal of expansion resulting in a 25% rise in local consumption. The year 2005 also witnessed a 30% rise in the private sector deposits, which had a great positive impact on the construction and transportation sectors, as the first scored a 25% growth rate while the second achieved 18%. These two sectors attained the highest growth rate and provided one-third of all new jobs. On the other hand, foreign aid increased by 20%, and the better performance of the Israeli economy was instrumental in providing new jobs for Palestinian workers. The Palestinians also benefited from the Israeli relative relaxation in the closure of borders and the restriction on the movements of goods and persons.<sup>9</sup>

**Table 1/7: Economic Main Indicators of the West Bank and Gaza Strip<sup>10</sup>**

	2000	2001	2002	2003	2004	2005(p)
<b>Real GDP growth</b>	-5.6%	-14.8%	-10.1%	6.1%	6.2%	8.7%
<b>Cumulated growth since 1999</b>	- 5.6%	-19.6%	-27.7%	-23.3%	-18.5%	-11.4%
<b>Cumulated growth since 1999, per capita</b>	-9.5%	-25.9%	-35.7%	-34.1%	-32.4%	-29%
<b>Population (million)</b>	2.93	3.05	3.16	3.27	3.39	3.51
<b>Exchange rate (Israeli shekel: US\$)</b>	4.08	4.21	4.74	4.55	4.48	4.35
<b>GNI per capita, US\$</b>	1,626	1,217	1,001	1,088	1,181	1,318
<b>Consumer price inflation</b>	2.7%	1.2%	5.7%	4.4%	3%	3%
<b>Unemployment rate</b>	14%	26%	31%	25.6%	26.6%	22.4%
<b>Poverty rate</b>	31%	46%	59%	61%	46%	43%

Source: World Bank Staff calculations and PCBS. Notes: Figures exclude East Jerusalem. (p): projection.

**GNI Per Capita in the WB & GS According to World Bank Calculations  
and PCBS 2000 - 2005**



The Palestinian people have a very poor infrastructure, which barely meets the demands of the existing population, let alone the expected growth in population during the next few years. This weak infrastructure represents a major challenge to the Palestinians. On the other hand, the separation of the WB from GS, and their inability to communicate geographically with others have contributed to the weakening and blocking of the growth of the Palestinian economy. In this context, the USA Rand Corporation carried out a study, entitled: *“The Arc: A Formal Structure for a Palestinian State”*, which proposed a mechanism to rebuild the Palestinian infrastructure through the construction of a bow-shaped railway that connects all the provinces of the WB with GS, from Jenin to Rafah, and with the whole world, in addition to Gaza airport and harbor.<sup>11</sup>

When the PA came to office, the economy was privileged by being debt-free, unlike the economies of the region. However, this economy was soon loaded with debts that reached \$1,340 million until 2004. However, the Legislative Council endorsed only 4.6% of the total public debt, as said by Dr. Sa’di al-Karnaz (head of the Legislative Council Budget and Financial Affairs Committee) in the “Third Budget Conference”.<sup>12</sup>

In addition, the potential capabilities of Palestinians have been misused. This is due to improper policies of recruitment that is based on favoritism towards relatives, and members of a given agency, group, or the ruling party.

This policy deprives the society from qualified people who can develop and build up the state economically. This situation results in a great number of unemployed people who detest these public policies, or, at least, are indifferent to public concerns and problems. Another problem emerged; namely regression in the performance of the Palestinians private sector, which coincided with the growing role of the public sector in recruitment, in accordance with the so-called disguised unemployment.

The Palestinian economy functions in a local structure that lacks comprehensive and integrated administrative and legal regulations. This internal factor did not enable the Palestinian economy to by pass some external challenges, or even to make optimal use of its limited human and material resources. The repercussions of *al-Aqsa Intifadah* underlined the active role of Israel in the impoverishment and destabilization of the Palestinian economy.

As mentioned earlier, what distinguishes the Palestinian economy had not been utilized. The Palestinians did not make optimal use of their human capabilities, and were unable to maintain their debt-free record. Moreover, the foreign loans were not invested in the appropriate fields that can generate revenue that contributes in the resolution of the economic problems, and in the service of the loans in the short run and their payment them back in the long run. In addition, the use of aid in relief efforts was far away from the real fields of development.

### The Authority's Budget:

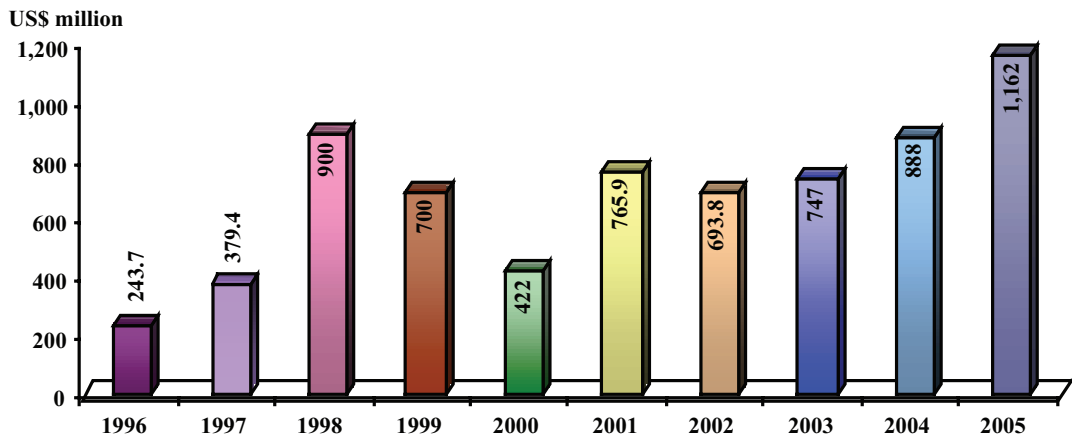
According to the General Budget Department of the Finance Ministry, the total income in the budget of the PA for the year 2005 was estimated at \$1,058 million, including \$396 million from local taxes and \$662 million as taxes and customs collected for the Palestinians by the Israelis. Total expenditures were estimated at \$2,220 million, with \$936 million allocated for salaries. Thus, the expected deficit before receiving any foreign aid was estimated at \$1,162 million.<sup>13</sup>



**Table 2/7: Summary of the General Budget  
from 1996 to 2005 (US\$ million)<sup>14</sup>**

Statement	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>General revenues</b>	927.9	1,195.4	1,821.5	1,603.8	1,364	1,125.1	977.4	531	1,705.9	1,058
Domestic revenues	684.2	816	921.5	903.8	964	287.1	283.6	207	805.9	396
Grants, aids, easy loans	243.7	379.4	900	700	422	765.9	693.8	747	888	1,162
<b>General expenditure</b>	927.9	1,211	1,858.4	1,758.1	1,364	1,239.3	1,227.8	1,278	1,694	2,220
Current expenditure	709.6	818.3	894.4	1,008.7	990	1,016.6	1,023	1,040	1,444	1,952
Capital & development expenditure are funded by the treasury & donor states	218.3	392.7	963.9	749.2	436	595.1	563.3	654	250	268
<b>Deficit before grants &amp; aids</b>	-	395	936.9	854.3	422	186.3	250.4	-747	888	1,162
<b>Overall deficit</b>	-	15.6	36.9	154.3	50	265.2	174.7	0	0	0

**Grants, Aids, and Easy Loans to the PA 1996 - 2005**



Actually, the monthly Palestinian income during the year 2005 reached about \$95 million, yet if Israel does not turn over the revenue from the income tax to the PA, then the whole remaining sum would not suffice to cover the salaries, not to mention other services. That is why the PA depends on foreign donations and aids.

During the first 9 months of the year 2005, the monthly deficit in the PA's budget reached \$57 million & 100,000, with a total of \$514 million by the end of September 2005, which increased to \$800 million by the end of the year. The monthly rise of salaries for the year 2005 reached about \$15 – 20 million that will increase the deficit to \$900 million by 2006. In this case, it would be impossible to provide funds to cover this deficit. The PA has benefited a great deal from foreign donations, aids, and easy loans which reached, according to the 2005 budget, \$1,162 million, with an increase of about 31% over the year 2004. In the meeting held in July 2005, the G8 countries tentatively vowed to collect up to \$3 billion every year, especially during the coming three years, from official and private sources.<sup>15</sup>

Salaries in 2005 consumed about 82.5% of the PA's total income (\$78 million & 300,000 out of \$94 million & 900,000 per month). This is only when Israel delivers the collected taxes and customs for the Palestinians (which is about \$60 million per month), but if it does not, the total income of the PA would not cover more than 45.5% of the total salaries. However, Israel never hesitates to keep this money as a tool for political and economic subjugation, just as it did during the first years of the *Intifadah*.

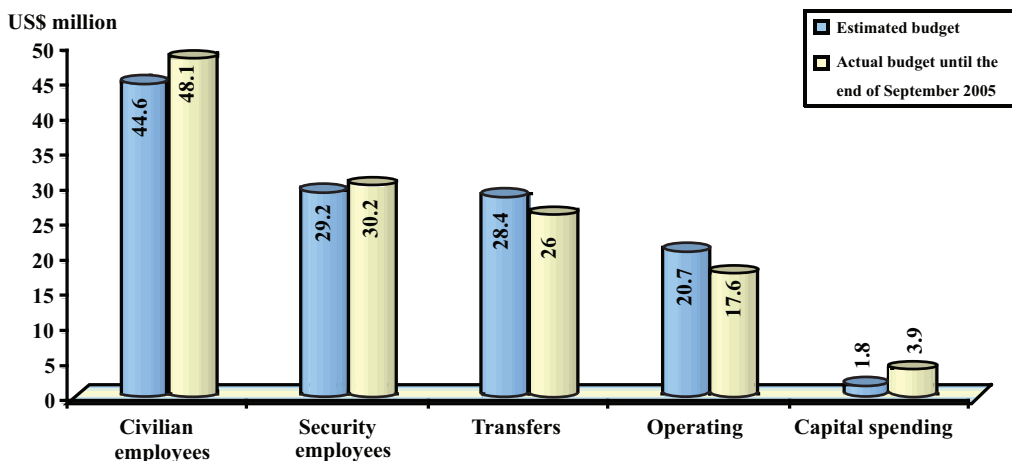
The Palestinian Minister of Economy Mazin Sunnuqrut, noticed a contradiction in the priorities of foreign countries towards the Palestinian people. They insisted to give precedence to the establishment of the security organs, whose budget was increased by 40%. "We had to allocate only 15% for agriculture and 15% for health care. This was done on the request of the donor countries in order to work towards controlling the deteriorating security situation," said the Palestinian Minister. He also confirmed that the government has decided to employ 15,000 from the former members of the security cadre and those who were actively engaged in the resistance. In turn, this led to an increase of about 25 – 30% in salaries. That is to say, \$110 million per month for 150,000 employees in both the security and civil sectors.<sup>16</sup>

**Table 3/7: Monthly Financial Operations of the Palestinian Authority in 2005<sup>17</sup>**

Monthly averages (US\$ million)	2005 Budget	Actual budget (until the end of September 2005)
<b>Revenue:</b>	<b>84.9</b>	<b>94.9</b>
Gross domestic	31.2	35.6
Gross monthly clearance (taxes & customs collected by Israel)	53.7	59.3
<b>Expenditure:</b>	<b>124.7</b>	<b>125.8</b>
Gross wages:	73.8	78.3
- Civilian	44.6	48.1
- Security	29.2	30.2
Non-wage expenditure:	49.1	43.6
- Operating	20.7	17.6
- Transfers	28.4	26.0
PA financed capital spending	1.8	3.9
Net lending	10.2	24.3
VAT refunds	1.6	1.9
<b>Balance</b>	<b>-51.5</b>	<b>-57.1</b>

Source: Ministry of Finance.

### Monthly Financial Expenditures of the PA in 2005

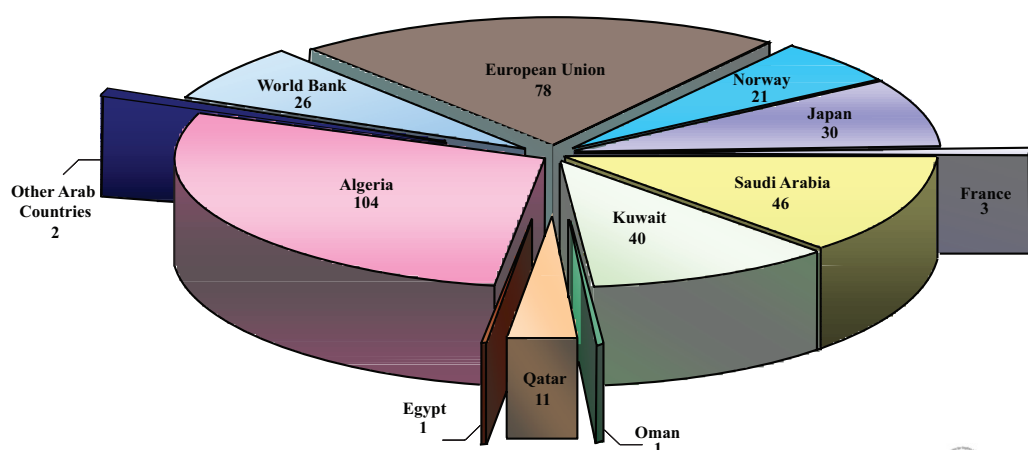


The PA received \$363 million in direct financial support for its budget of 2005, compared to \$353 million in 2004, of which the contribution of Arab countries totaled \$205 million in 2005 (see table 4/7). As for the rest of the aid money (about \$738 million), it was allocated to specific developmental projects.

**Table 4/7: Foreign Support for the Palestinian Authority's Budget  
2004 – 2005 (US\$ million)<sup>18</sup>**

Year	2004	2005
<b>Total of support's budget</b>	<b>353</b>	<b>363</b>
<b>Arab countries as follows:</b>	<b>98</b>	<b>205</b>
Saudi Arabia	77	46
Kuwait	0	40
Oman	0	1
Qatar	0	11
Libya	14	0
Egypt	3	1
Algeria	0	104
Tunis	2	0
Other Arab Countries	2	2
European Union	50	0
World Bank	67	26
<b>Bank Trust Fund as follows:</b>	<b>118</b>	<b>132</b>
European Union	56	78
World Bank	20	0
Norway	12	21
Canada	7	0
Britain	12	0
Japan	10	30
Australia and Korea	1	0
France	0	3
Other aids	20	0

**Foreign Support for the PA's Budget in 2005 (US\$ million)**



The most important conclusions of the Third Conference of the General Budget – submitted to Al Mezan Center for Human Rights, which was held on 26 December 2005, are:

1. The late submission of the budget causes chaos that ultimately confuses the action plans of the executive power, mitigates its performance, and undermines its efforts of financial control over the budget, and engages it in finding justification for this delay.
2. The budget depends greatly on the donors, even in covering the salaries of the PA's employees. Thus, if donations are withheld, salaries will stop, which leads to extensive foreign intervention, almost total control, of the Palestinian internal policies.
3. There is a great defect in the performance of the PA's on the use of public funds. The Parliamentary Budget Committee has demanded the suspension of the article on governmental headquarters tenancy because it is an "unjustified" cost. The PA had actually spent more than \$200 million on this unnecessary project, though it can build governmental compounds with an annual cost of about \$15 – 20 million.
4. No corrective measures on the public law of retirement were taken, which contribute in decreasing the gross rate of work opportunities, saving \$125 million for the item of gross loan money, and \$20 million for leases and employment, in addition to the best use of loans and foreign aids.

### Repercussions of the Israeli Occupation:

On its occupation of GS, the WB,

Sinai and the Golan Heights, Israel immediately formed an economic committee affiliated to the Central Bank of Israel and the Israeli Central Bureau of Statistics (ICBS). The motive behind all these measures was to link the Israeli economy to its Palestinian counterpart, thus transforming the latter into a private market for Israeli goods, a source for its human resources, and a bridge to the Arab market.

The Palestinian economy continued to be completely subjected to the Israeli economy. For example, the textile industry had a prominent position among Palestinian industries functioned on a subcontracting basis with Israeli factories. This industry stopped immediately after the cessation of relations with Israel.

Israel made every effort to change the nature of the economic relationships of GS and the WB with the world in general and the Arab world in particular. In

this way commercial transactions with Israel reached an average of more than 85% of the total Palestinian foreign trade. That is how Israel managed to secure tight control over the flow of the Palestinian economy.

After the Oslo Agreement, Israel imposed many restrictions on the Palestinian economy under the pretext of security. Thus, all the optimistic expectations of the “economic benefits of peace” for the Palestinian that would lead to prosperity and development had vanished. Moreover, the Paris Protocol did not free the Palestinian economy from Israel’s grip, rather it may have placed more obstacles on its way. Thus, the Palestinian economy became a hostage of Israel and served its ulterior political plans.

According to data provided by the PCBS, Palestinian exports for the year 2002 reached \$401 million: \$370 million to Israel (92.3%), \$29 million to Arab countries (7.2%), and \$2 million to other countries (0.5%). Palestinian imports for the same year reached \$2,356 million, which were distributed as follow:<sup>19</sup>

**Table 5/7: Palestinian Imports in 2002**

Imports from	Total amount (US\$ million)	Percentage %
<b>Israel</b>	1,739	73.8%
<b>European Union</b>	247	10.5%
<b>Arab countries</b>	40	1.7%
<b>USA</b>	67	2.8%
<b>East Asian countries and others</b>	263	11.2%

In his evaluation of the performance of the Palestinian economy for the year 2005, the Palestinian Minister of Economy, Mazin Sunnuqrut, said: “Israel is Palestine’s first commercial partner in both ways, as it exports to us, every year, more than \$3 billion of its products and metals, and imports from us about \$350 million. These findings are the outcome of this imposed bond.”<sup>20</sup>

The PA is not in control of its financial policies. Israel drained the Palestinian financial resources, and transferred them to Israel through three channels:

- Tariffs and customs duties.
- Income taxes and social insurance.
- Revenues from using the Israeli currency, or the so-called “sovereignty revenues”.

Some researchers estimate Israeli plundering of Palestinian financial resources at an annual rate of 15 – 20% of the GNP.<sup>21</sup>

On the other hand, the occupation causes serious deterioration in the living conditions of the Palestinian people that forces them to seek jobs in the occupied territory of 1948, where their number reached 150,000 in 1999. This is theoretically a lucrative source of income, but, in line with their usual hard line policy of suppression and submission, the occupation forces frequently closed the borders and crossing points, thus depriving these people, or most of them, of their jobs.

The Israeli policy of internal closures, fixed and interim checkpoints, and curfews, as well as its ethnic Apartheid Wall, had the worst impact on the Palestinian economy. The World Bank estimated that Israeli internal closures were responsible for 50% decline in the GDP during the period between 2000 and 2002. The agony of the Palestinians continued because of barriers during the year 2005. Their number decreased from 680 in November 2004 to 376 in August 2005, but then rose again to reach 396 in November 2005. Such closures are enough to destroy any economy, not to mention closing borders and crossing points with other countries.<sup>22</sup>

In the agreement concerning the crossing points in GS, concluded on 15 November 2005, Israel pledged to allow the transfer of goods according to the market forces, and organized, starting from 15 January 2006, the movement of trucks and individuals between GS and the WB. It also acknowledged the Palestinian control over the passage of Rafah along its borders with Egypt (under international supervision). Israel, moreover, agreed not to obstruct the building and operation of Gaza harbor. The World Bank estimated that the current assets of GS economy allow it to export 150 cargo trucks on a daily basis (the agreement allowed the export of 150 cargo trucks per day starting from 31 December 2005, in addition to any extra agricultural products). The Karni border crossing was the only one with a daily passing average of 43 trucks during the six months before the separation. In September and October, the crossing frequency was 18 trucks a day, then increased to 44 after the signature of the agreement.<sup>23</sup>

### **The *Intifadah* Economic Losses:**

Dr. Nasr ‘Abd al-Karim estimates the daily losses incurred on the Palestinian economy to be about \$11 – 15 million. This results from the paralysis of the means of production, consumption, and commercial

transactions on one hand, and the loss of more than 120,000 Palestinian their jobs in Israel. It also damaged the infrastructure as well as private and public economic enterprises because of the Israeli bombardment.<sup>24</sup> In addition, are the indirect losses represented by the loss of opportunities caused by the economic siege. The following table 6/7 shows the losses incurred by the Palestinian economy in the GDP as a result of the siege, blockage, and Israeli attacks during the period from 29 September 2000 to 28 September 2005.<sup>25</sup>

**Table 6/7: Losses of the Palestinian Economy in the GDP  
(29/9/2002 – 28/9/2005)**

	Economic sectors	Percentage to the GDP	Value to the GDP (US\$ million)	Average of decline in the GDP	Recession through one year (US\$ million)	Total recession (29/9/2000 - 28/9/2005)
1	Agriculture	7	316.19	55	173.8	869
2	Industry	18	813.06	52	422.7	2,113.5
3	Construction	12	542.04	50	271.2	1,356
4	Trade	11	496.8	30	148.04	745.2
5	Transportation, communication	4	180.6	38	68.6	343
6	Financial intermediation	3	135.5	20	27.1	135.5
	<b>Total</b>	<b>55</b>	<b>2,484.3</b>	<b>27.2</b>	<b>1,112.4</b>	<b>5,562</b>
7	General administration and defense	9	406.5	35	142.2	711
8	Social services	26	1,174.4	30	352.3	1,761.5
9	Other sectors	10	541.7	50	225.8	1,129
	<b>Total</b>	<b>45</b>	<b>2,032.6</b>	<b>12.8</b>	<b>720.3</b>	<b>3,601.5</b>
	<b>Overall amount</b>	<b>100</b>	<b>4,517</b>	<b>40</b>	<b>1,832.74</b>	<b>9,163.7</b>

Assessments by the Palestinian National Information Centre indicate that the losses of the Palestinian economy, since the outbreak of the *Intifadah* and until 29 September 2005, totaled about \$15 billion & 600 million.<sup>26</sup>

**Industry:** The industrial sector enjoys paramount importance and is given special attention by the PA in order to increase its productivity and capacity to develop the domestic economy. They aim to adopt manufacturing strategies that cope with the current variables, such as encouraging small, medium and traditional industries, as well as mass labor industries,<sup>27</sup> and to export High-Tec projects. Yet, the heavy legacy of the occupation, represented in the distortion and backwardness of the industrial sector, and the frequent



obstacles that it imposed on the Palestinian economy, particularly on this sector, make it very difficult for the PA to achieve its industrial goals.

In spite of these obstacles, the industrial sector was able to contribute 17.4% of the GDP for the year 1999, which had, however, declined to 11% for the years 2001 – 2002 and 15.2% (14% in other assessments) for the year 2003. Besides, the contribution of the industrial sector in recruitment decreased from about 16% for the year 1996 to 12% for the years 2002 – 2003. The number of workers in the field of industry, 50,532 in 1994, increased to 72,660 in 1999, but declined to 60,186 in 2003. The following table shows the proportion of the contribution of the industrial sector to GDP:<sup>28</sup>

**Table 7/7: The Contribution of the Industrial Sector  
in Domestic Production**

Year	Percentage of contribution
1994	11.5%
1995	9.9%
1996	11.5%
1997	11.9%
1998	13.2%
1999	17.4%
2000	15.7%
2001	11.2%
2002	10.8%
2003	15.2%
2004	12.3%
2005	11%

It should be noted that the contribution of the manufacturing industry constitutes on average 88% of the total contribution of the industrial sector, followed by the public utilities sector (water and electricity), with 8%, and, finally, the mining sector, with 4%. This shows that the industrial sector in Palestine depends largely on the manufacturing industry sector due to the scarcity of raw materials, like metals and oil.<sup>29</sup>

Data provided by the PCBS indicates that the contribution of various economic activities in the quarterly GDP has been affected in the short term, compared to the third quarter of the year 2005, and the fourth quarter of the year 2004, as they witnessed a decline in mining, manufacturing industry, and public utilities (water & electricity) from 12.3% through the fourth quarter of the year 2004 to 12% and 11% through the third and fourth quarters of the year 2005.<sup>30</sup>

**Agriculture:** The agricultural sector is historically one of the most important sectors in Palestine, and the Palestinian economy used to be classified as agricultural. Besides, agriculture in Palestine is connected to the demand of nutritional security, in addition to its significant contribution to Palestinian gross exports, processing, and the GDP.

This sector has contributed 11.3% to the GDP, to the value of \$405 million & 200,000 for the agricultural years 1994/1995. In the years 1997/1998, it contributed \$445 million & 600,000, with a decline that reached 10% of the GDP, but in the years 1999/2000 it went up to 11% to decline once more to 9% for the year 2003.

Contributions of agricultural activities decreased from 9.5% throughout the fourth quarter of the year 2004 to reach 7% throughout the third quarter of the year 2005, but it went up again to 7.2% throughout the fourth quarter of the year 2005.<sup>31</sup>

The proportion of the contribution of the agricultural sector in the GDP during the period 1995 – 2000 fluctuated. However, on average, its contribution in the GDP during the same period reached 10.6%. This fluctuation resulted, in the first place, from the Israeli policies towards the Palestinian economy, as well as the lack of national agricultural development plans.

The absorption of employment in the Palestinian agricultural sector and its contribution to recruitment has provided 37,400 job opportunities throughout the agricultural season of 1994/1995. In the year 1999/2000 employment increased by 13% to reach 50,500 workers. Assessments indicate that a great deterioration in the Palestinian agricultural sector occurred due to some military actions represented by land sweeping and sabotaging since the beginning of the *Intifadah* in the last quarter of the year 2000. So, the number of workers decreased to 43,500 in the season 2000/2001, with a rate of 13.9%. In the year 2002, the rate reached 15.4%.<sup>32</sup>

At the time of writing this report, the available official database on agriculture, for the year 2005, is limited and insufficient, yet the result of the agricultural survey for the agricultural season, 2004/2005, indicates that orchard trees (like olives, almonds, grapes, citrus, etc.) represent 58.7% of the total cultivated land, followed by field crops, with 30.9%, and then vegetables, with 10.8%.<sup>33</sup>

We may get a closer picture on the year 2005 by consulting the performance figures of the preceding year (2004). The PCBS indicated that the total cultivated space with field crops, garden trees, vegetables, and flowers, on Palestinian land

reached 1 million & 824,000 donums (1 donum (dunam) = 1,000 square meters); of which 91.1% is in the WB and 8.9% in GS. The PCBS also indicated that gross production value reached about \$940 million, of which 57.6% goes for plant production and 42.4% for animal production. The report also shed light on the aggregation of irrigated plants in GS, that constitutes 69.3% of the total cultivated land. In the WB, the irrigated cultivation ratio is no more than 7.9% of the total cultivated area. Area cultivated with orchard trees was 1 million & 153,000 donums, of which \$1 million & 96,000 donums is in the WB and 57,000 donum in GS. It is noteworthy that 82.4% of the irrigated land in GS is cultivated with orchard trees. While in the WB, unirrigated trees constitute the majority of orchard trees, with 97.6%. Olive trees constitute the largest space of orchard trees, with a ratio of 81.1%, then comes grapes, with 6.6%, almonds, with 4.1%, and, finally, citrus, with 2.3%.

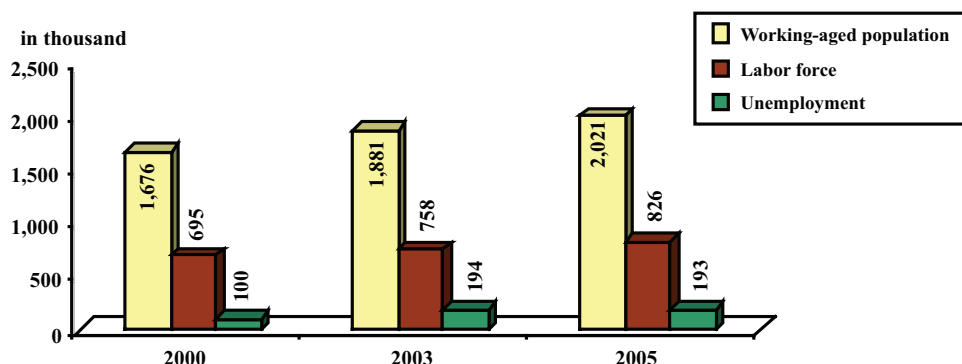
The GDP of the agricultural sector reached about \$555 million.<sup>34</sup> However, there is apparently no significant difference in the performance between the years 2004 and 2005. However, initially, but not conclusively, indicators suggest a decline of about 2% in the ratio of the contribution of the agricultural sector in the GDP.

**Poverty and Unemployment:** According to the PCBS statistics, the unemployment rate increased from 10% before the *al-Aqsa Intifadah* to 27% during the first quarter of 2005, i.e., 208,000 unemployed persons, while the Ministry of Labor estimates unemployment to be about 40%.<sup>35</sup> The World Bank statistics indicate that during 2005 the job market received about 44,000 workers, but created 64,000 jobs, thus the number of unemployed persons dropped 20,000. The percentage of dependents on working persons dropped from 6.6 in 2004 to 5.8 in 2005. The World Bank expects a decrease in unemployed people by a rate of about 4.5%, (from 27% to 22.5%), by the end of 2005. Meanwhile, the number of Palestinian workers in Israel dropped from 150,000 before the rise of the Intifadah to 66,000 in September 2005, while this number had been 50,000 in 2004 (see table 8/7).<sup>36</sup>

**Table 8/7: Employment and Unemployment in the West Bank and Gaza Strip (in thousand)**

Year	2000	2001	2002	2003	2004	2005
<b>Working-aged population</b>	1,676	1,744	1,811	1,881	1,955	2,021
<b>Labor force participation rate</b>	41.5%	38.6%	38.1%	40.4%	40.5%	40.9%
<b>Labor force</b>	695	675	690	758	790	826
<b>Employment:</b>	595	505	473	563	577	633
<b>The West Bank</b>	334	310	296	343	370	392
<b>Gaza Strip</b>	145	125	128	166	157	177
<b>Israel and settlements</b>	116	70	49	54	50	64
<b>Unemployment</b>	100	170	216	194	212	193
<b>Unemployment rate</b>	<b>14.3%</b>	<b>25.2%</b>	<b>31.3%</b>	<b>25.6%</b>	<b>26.9%</b>	<b>23.4%</b>

**Employment and Unemployment in the WB and GS for 2000, 2003 & 2005**



High and uncontrollable unemployment rates pose a considerable concern in Palestine. This problem had even aggravated due to the recurrent closures and foreign policies towards Palestinian employment. The Ministry of Labor's statistics and reports show an increasingly serious problem. Unemployment rates over the first years of the *Intifadah*, according to the estimates of the Ministry of Labor, reached 55% in GS and the WB; 65% in GS alone. These percentages were confirmed by reports released by the State Information Service of the PA. These estimates may have been based on what is known as the unemployment broad estimate.<sup>37</sup> During the National Congress for Employment,<sup>38</sup> convened on 27 – 28 December 2005, in GS and the WB, participants underlined that the current increase in unemployment rates is over 50%. The Palestinian General Labor Federation considered that the wide scale recruitment policy in the public sector do not tally with the existing needs, and felt that it is the real reason behind the disguised unemployment in the governmental sector.<sup>39</sup>

The World Bank estimates show that the proportion of poverty during 2005 reached about 43%, of which 15% live in destitution, as compared to 46% in 2004.<sup>40</sup>

The PCBS showed that about 62.6% of Palestinian families lost more than half their income during the *Intifadah*; about 61.3% in the WB and 65.6% in GS, by year 2005. About 48.7% of the families over the past 12 months (September 2004 – September 2005) reduced their expenditure on basic needs, about 51.3% in the WB and 43.7% in GS. Clothing and food are the two most affected items. Data also showed that there is a high proportion of families who changed their food consumption. 97.2% and 95.3% decreased their consumption of meat and fruits respectively while 91.2% had an overall decrease in their food quantities.<sup>41</sup>

## Palestinian Development Plans and Foreign Aid and Assistance Programs:

The early 1980s witnessed the emergence of the

slogan “development for steadfastness”, on which several conferences, attended by most local institutions, were convened. In 1986, a conference discussed the sources of funding, and the attitude to be adopted towards them and the foreign developmental plans. Other successive conferences and seminars followed in which many ideologies and slogans crystallized, such as “development and resistance”, “public support development”, “development for steadfastness” and “development with disengagement”.

After the signature of the Oslo Accords, the first attempt to formulate an ambitious developmental plan to reconstruct the Palestinian community, called “The Developmental Program for the Palestinian Economy 1994 –2000”, was drafted. The cost of this program was estimated at \$11 billion & 600 million (by 1991 exchange rates). However, the plan was not implemented because of both lack of funds and the plan’s unrealistic assumptions.

The first priority of the PA was to rebuild and reconstruct the Palestinian community. Hence, the Ministry of Planning and International Cooperation issued a report on “The Strategy of Development in Palestine 1996 – 1998”, whose gist was presented to the donor states during the Paris Conference in January 1996. It called for the establishment of an economic system based on the free market, and the encouragement of Arab and international investment, while the public sector should be responsible for the provision of the infrastructure

and the proper investment environment through a firm, legal, and organized framework.

In the Paris Conference of November 1996, the PA presented a “General Investment Program”, which included a list of projects whose cost totaled about \$845 million, distributed on the infrastructure, social, private and institution-building sectors. Subsequently, the Palestinian Development Plans for 1998 – 2000 and 1999 – 2001, were presented to develop the national planning process in Palestine.

The Ministry of Planning and International Cooperation also prepared the “Development Plan 1999 – 2003”, which gave the largest proportion of funds; 48% of the whole plan, to the infrastructure sector. The financial ceiling of this plan reached \$4,500 million.<sup>42</sup> Finally, the Ministry of Planning presented the plan for “Economic and Social Re-stabilization 2004 – 2005,” which cost about \$1,200 million, to the donor states in Rome, which aimed to confront the economic crisis that the Palestinian people has been suffering since September 2000.<sup>43</sup>

The Palestinian economy is characterized by high economic aspirations, but limited potentialities, and it faces restrictions. Within this reality, the PA geared economic development to achieve sustainable improvement in the living standards of the Palestinian people on the basis of equitable distribution of the funds acquired from the developmental process. Since its inception, the PA has viewed the institutions as one of the priorities of development, and hence it allocated a portion of the available funds for their construction.

## The Mechanism and Phases of Donations:

**1. International Assistance:** The PA received in 2005 foreign aid and assistance, which totaled \$1,123 million, and were as follows:

- The European Union: \$295 million, most of which was designated to developmental projects.
- Aid from individual countries within the European Union. It amounted \$300 million, of which the Germany paid \$56 million, while Britain paid \$50 million.
- The USA: \$234 million, most of which was assigned for developmental projects.

- Arab countries: \$205 million.
- Norway: \$60 million.
- Japan: \$30 million.<sup>44</sup>

The European Union pledged to double its aid to 500 million euros if signs of growth become visible. Aid from Arab countries reached \$205 million in 2005; about 18% of the total aid, though it was \$388 million; 42% of the total aid, in 2001.<sup>45</sup>

The Palestinian Minister of Economy, Mr. Mazin Sunnuqrut, said that the donors conference convened in London in 2005, after the election of President 'Abbas, presented guarantees and endorsed \$2,100 million in assistance for the Palestinian people, but only \$350 million were actually received.<sup>46</sup>

International aid for developing countries is one of the main sources of hard currency, in addition to other sources generated by reserves, exports, and direct foreign investment. This aid is given through bilateral or multilateral mechanisms between states. International aid, in general, has many objectives, of which the most important probably relates to the realization of sound political and economic agenda that are instrumental in eliminating and containing the causes of tension and violence that damage the interests of the strategic allies. This is through presenting economic incentives linked to ending the state of conflict.

Donor states and institutions, which expressed their intention to provide assistance to the PA, reached at least 44. They collectively agreed on the guidelines, objectives, and purposes of presenting such assistance to the Palestinian territories of which the most important were:<sup>47</sup>

- a. Support the peace process between Israel and the Palestinians through the acceleration of economic development in the Palestinian territories, and the implementation of the projects that should improve the Palestinian standard of living, as well as their quality of life.
- b. Establishing a Middle-East system based on collective security, stability, and progress for the people of the region, which should then be merged into the world economy.
- c. Eliminating and containing the causes of conflict, tension, and violence, as well as encouraging market economies and democratic institutions, and safeguarding human rights.

These reasons and objectives for providing assistance to the PA go well beyond the traditional framework of the policies adopted by advanced

countries on the issue of aid to developing countries, namely to find an equilibrium between the industrial North and the backward South. Thus, after Oslo Accords, the donor countries found the Palestinian territories, a new arena to experiment their ideologies and policies.

International assistance is extremely important to the Palestinian people, to set them on the right path to achieve sustainable development and growth. Nevertheless, this aid failed to achieve the aspired development due to many factors, of which the most important is the policies of the occupier, Israel.

After signing the Paris Protocol in 1994, aid and assistance has become an obsession for the Palestinian decision makers, besides having a direct effect on people's lives in general. A number of terms and concepts were introduced into the economic life of the Palestinians, of which three are of concern to us here: pledge, commitment, and disbursement.

When desiring to provide assistance to some countries, including Palestine, donors pledge to pay a sum of money in a conference, a meeting or so, but they usually pay less than promised. They do not actually pay until they conclude an agreement with the payee; the payment usually becomes less than the declared donation.

A pledge is a declaration of the intention of a donor state, party, or association to provide assistance, or financial aid, in cash or kind, e.g. technical assistance. In this declaration, the total sum of money, or the value intended, is to be defined, but with no official commitment on the part of the donor to fulfill his pledge, or to discuss details of delivering the aid or its purpose. A commitment is to be made by providing assistance upon an agreement or memorandum of understanding on the quantity, objectives, and the procedures of delivering the assistance. After concluding the agreement, the provision of the assistance becomes a commitment on the donor state. Then both parties are to cooperate in implementing the agreement that defines the rights and obligations of each party. So, commitment is an advanced step, or stage, of the provision of assistance. The most important element of commitment is to define the projects and programs to be financed by the aid.

Since 1993, the Palestinian Economic Council for Development and Reconstruction (PECDAR) discharged the duties of managing international assistance to the PA. Later in 1994, the Ministry of Finance and the Ministry of Planning and International Cooperation joined the PECDAR. After commitment,



there comes the phase of preparation for the implementation of the project within the framework, and according to the conditions, of the agreement.

Disbursement goes through designated funds, many of which are operated under the supervision of the World Bank. Sometimes, some countries resort to open special accounts in their banks and in the banks of the aid receiving countries to withdraw funds for specific projects and programs. The following table indicates the international aid from 1994 to 2003, in terms of commitment and the actual payment:

**Table 9/7: Aid from Donor Countries for the Years 1994 to 2003**  
(US\$ million)

Year	Commitment	Disbursement	Percentage
1994	820.849	515.289	62.8%
1995	620.801	435.926	70.2%
1996	770.295	516.066	67%
1997	646.995	526.128	81.3%
1998	673.742	420.148	62.4%
1999	742.592	486.598	65.5%
2000	852.805	500.467	58.7%
2001	619.881	516.156	83.3%
2002	582.095	463.267	79.6%
2003	378.187	67.594	17.9%
<b>Total</b>	<b>6,708.242</b>	<b>4,447.639</b>	<b>66.3%</b>

Source: Ministry of Planning and International Cooperation, international aid, various Papers

## 2. Foreign Loans:

Countries usually receive foreign loans from many sources, of which the most important are loans based on bilateral contracts with foreign governments, loans from multinational organizations, and loans from foreign private institutions and individuals. Countries usually resort to foreign loans because of their low domestic savings and the consequential need of hard currencies.

The gross foreign loans contracted upon by the PA throughout the period (1994 – 2003) reached \$1,257 million, from which \$914 million, i.e., 72.7%, were withdrawn. Gross loans totaled 62 loans, of which 22 were from the World Bank. Borrowing continued until its total sum reached \$1,340 million at the beginning of 2005.

### 3. International Assistance Based on Economic Sectors:

The above table 9/7 illustrates the distribution of international assistance given to the WB and GS. In general, the Palestinian development plan deals with four main sectors in order to achieve economic and social development, as well as the development of human capabilities and private investment. These sectors are:<sup>48</sup>

#### 1. Infrastructure sector:

This sector includes 8 sub-sectors for which the gross commitments reached about \$2,500 million, and of which about \$1,300 million, 53% of the total commitments and 25.4% of the total disbursement, were actually paid. The main beneficiary of the infrastructure sub-sectors is that of water supply and irrigation, which received about \$1,300 million.

#### 2. Production sector:

The total disbursement on this sector reached about \$406 million, about 53.1% of the total commitment of the donor states for this sector, and about 9.1% of the gross disbursed assistance. This sector includes 5 sub-sectors, as illustrated in table 10/7 below.

#### 3. The social sector:

The total disbursement on this sector reached about \$1,403 million, about 79.3% of the total committed to this sector; and about 31.6% of the gross disbursed assistance. This sector includes 8 sub-sectors, as illustrated in table 10/7 below.

#### 4. Institution-building sector:

This sector received about 26.3% of the total disbursement, \$1,168 million, that constitutes about 80.9% of the total committed to this sector. The institution-building sector includes five sub-sectors, upon which assistance was distributed, as illustrated in table 10/7 below.

The sectors that benefited most are:

1. Institution-building sector: 19.8% of the total disbursement.
2. Water supply and irrigation: 13.7% of the total disbursement.
3. Education: 10% of the total disbursement.
4. Health: 8.6% of the total disbursement.
5. Human assistance: 7.8% of the total disbursement.
6. Infrastructure: 6.5% of the total disbursement.
7. Other sectors not classified within the main sectors, as they receive contingent assistance. The total disbursement on these sectors reached \$128 million & 600,000; 2.9% of the total disbursement.

Public investment still depends entirely on international assistance and on its availability. The implementation of these projects is still on a selective basis, and is determined by the donor states who provide funds for specific projects. This disturbs the investment plans and restructures their priorities in ways that may not necessarily conform with the national developmental priorities. In

addition, other factors hinder progress in such projects, including:

1. Lack of transparency on the power of the PA over land, water, and borders.
2. The period 1994 – 1997 witnessed great progress in restructuring the infrastructure of micro-projects, but this was not feasible with regard to bigger and more complicated developmental projects, as they need more time, preparation, and huge funds.
3. The difficulty of consensus between donors and the PA on the priorities, procedures, and practices, notwithstanding the existence of several Palestinian developmental plans, which were available during this period.
4. The PA lacks sufficient expertise in management and in the mechanism in land distribution, which delay the actual implementation of the projects.
5. The Israeli obstructive procedures, especially in area “C”, contributed to the suspension of investment projects. Besides, the closures and complicated restrictions handicapped the free flow of persons and goods to the foreign markets, which delayed the implementation of the actual projects, and hindered the progress of potential ones.

Donors’ moneys flowed, but it was not engaged as should have been. For, funding has its own political agenda, which is linked to the prevailing political situation, and the objectives of the donors. Moreover, a great amount of these funds was spent on logistic and technical matters, including expatriates. This renders a great amount of this funding meaningless, and hardly effective in the realization of the aspired economic development. Another factor for this retracted economic development is related to non-transparency and negligence of the priorities by the Palestinian society.

The experiences of developing countries on the role of international assistance and its impact on local economic development are not usually positive. This is shown in the massive protests and demonstrations in developing countries against international loans and assistance that repeated expressive slogans, such as “Trade not Aid”, that reject the unfair provisions of international trade that enable rich countries to control poor developing countries and drain their resources. While the raw materials of the poor countries are being sold with at trivial prices, they pay optionally high prices for the technological products that they get from the industrialized countries in the name of free trade, globalization, and the free market.

Although the Palestinian people have not experienced tangible change from the influx of foreign funds into GS and the WB, it is unfair to maintain that international assistance is unimportant, nor lacks ability to effect development. For a large measure of the responsibility of appropriate investment of these funds lies on the Palestinian side.

**Table 10/7: Distributing International Aid on Sectors (1994-2003)**  
(US\$ million)

	Commitment	Disbursement
<b>Infrastructure sector:</b>	<b>2,524.75</b>	<b>1,341.71</b>
Power	239.95	125.07
Environment	32.38	12.99
Housing	225.37	113.98
Infrastructure	414.50	291.32
Solid waste	49.15	36.48
Communication	4.22	3.58
Transport	223.88	148.86
Water and irrigation	1,335.30	609.43
<b>Production sector:</b>	<b>764.40</b>	<b>405.77</b>
Agriculture	120.45	95.49
Developing industry	134.36	38.60
Private sector	105.92	51.60
Developing the production sector	307.68	152.50
Tourism and culture	95.99	67.58
<b>Social sector:</b>	<b>1,770.31</b>	<b>1,403.16</b>
Childhood and youth	22.32	12.13
Freed and returnees	43.89	39.62
Education	631.85	450.00
Health	485.42	381.58
Social and human development	139.46	116.93
Civil society and human rights	37.32	36.64
Human aid	392.05	348.85
Women	18.00	17.41
<b>Institution-building sector:</b>	<b>1,443.88</b>	<b>1,168.42</b>
Developing democracy	192.26	141.90
Building institutes	1,051.93	881.43
Police	144.53	119.04
Legal affairs	47.40	25.21
High ranking jobs	7.76	0.84
<b>Other sectors</b>	<b>204.92</b>	<b>128.57</b>
<b>Total</b>	<b>6,708.26</b>	<b>4,447.63</b>

Source: Ministry of Planning and International Cooperation, international aid, various papers

## Israeli Withdrawal and Evacuated Lands:

About 1 million & 400,000 people live in GS, which stretches along 363 km<sup>2</sup> only, i.e., an exceptionally high demographic density of 4,200 persons per square kilometer, that has no such similar density in the world. Yet GS may be considered as a huge prison and a ghetto, as it lacks full sovereignty over its passages, airport, port, sea, and borders.

GS is almost void of natural resources and raw materials of all types, save a reported natural gas discoveries in Gaza sea, which is still under Israeli siege. The continuity of such a disturbed political reality and instability weakens any attempt to attract foreign investment, not to mention encouraging local investment.

In addition, poverty and unemployment rates in GS are still very high, even when compared with those of the WB. There should be political changes leading to a functional use of the Palestinian lands in GS and the WB, which could only be achieved by maintaining a continuous geographical connection between them that should not be endangered by Israeli policies. Besides full control over the lands, borders, passages, the port of Gaza should be built and the airport should be renovated. Moreover, fair trade agreements with surrounding countries had to be concluded, and the government of the new Palestinian state must be transparent, honest, and faithful to the homeland and its citizens, not to mention the dire need to guarantee the continuity of international aid and fund. This means that the reform of the Palestinian economy heavily relies on independence and the end of occupation.

The Israeli withdrawal from GS enabled the Palestinians to make use of an additional 40% of GS lands, to which they did not previously have access. These lands can be utilized in various ways: fertile lands in agriculture, and others to build the port, schools, universities, and other needed facilities.

As for greenhouses left by the Israeli occupation, Mr. 'Abd al-Karim 'Ashur, the director of the Agricultural Relief Committees in Gaza, said: "If I were to choose between keeping or demolishing the greenhouses, I would choose the latter in the interest of the Palestinian people."<sup>49</sup>

Firstly, the Israelis devastated these greenhouses and their systems, as mentioned by the head of the withdrawal technical teams. Secondly, the underlying motive behind the establishment of these greenhouses was exploitation. For, on one hand, they exploited free Palestinian water and cheap labor, and, on the other, sold their products in European and Israeli markets, which returned with big revenue for the settlers.

As for the Palestinians, we should take into consideration the scarcity of water supply and agricultural technology, that do not match the size of the available water resources. On the other hand, the Palestinians were unable to export their products to European and other world markets, because of the obstacles and restrictions imposed by the Israelis. Therefore, the alleged revenue acquired by the Palestinians from these greenhouses is not true.

According to the Ministry of Agriculture, there are also about 10 – 12 thousand greenhouses, which produce about 370,000 tons of vegetables. Only 30% of this amount is available for consumption, while the rest faces the problem of exportation, even to the domestic market in the WB, due to difficulties in transportation.

Though viewed as public property, these greenhouses were not placed under the administration and supervision of the PA. Instead, a monopolizing company was allowed to renovate them, even without subjecting it to the rules of the private sector. Indeed this is a sort of excessive monopoly, and a continuation of financial and administrative corruption.

### Financial Corruption:

According to 2005 opinion polls, more than 80% of the Palestinians believe that there is corruption in the PA. In February 2005, the Unlawful Profit Law was passed, and a commissioner was appointed to collect data and carry out investigations. However, investigation with some prominent figures had only recently started. A new Attorney General was appointed in the Autumn of 2005. He pursued some cases, but the issue of corruption came to the forefront after the last parliamentary elections in January 2006. The Palestinian Attorney General, Ahmad al-Mughni, uncovered, in a televised press conference convened on 5 February 2006, a large number of corruption cases, and added that the Office of the Attorney General is investigating 50 financial and administrative cases in which more than \$700 million were embezzled,<sup>50</sup> \$300 million in one case alone. Al- Mughni claimed that some prominent figures and top officials are involved, of whom a number had reportedly escaped from the country. The Palestinian attaché d'affaires in Amman, 'Ata Khayri, said, in an interview with *Alarab Alyawm* newspaper on 11 February 2006, that some of the suspects are in Jordan, but he did not specify. As an indicator of the widespread corruption, many donor states presented aid to the PA on condition that it carries out reform, or extended it in the form of developmental projects. However, some studies

claim that the magnitude of corruption is much wider than what was declared by the Attorney General.

There have been many reports on widespread corruption in the institutions of the PA, since its assumption of power. Many corruption files were uncovered in 1997, and press reports spoke of the disappearance of \$326 million. Though the case was referred to the Agency of Administrative Inspection, no serious investigation was conducted. In 1999, 20 Palestinian notables signed the so-called “Declaration of the Twenty”, which criticized the prevalence of financial corruption in the PA’s institutions. But several signatories were detained and threatened with death. On 11 December 2004, Faruq Qaddumi accused, in a report published in *al-Khaleej* newspaper, Muhammad Rashid with stealing hundreds of millions of dollars, of which only \$600 million were recovered.<sup>51</sup>

### Conclusion:

1. Israeli policies played a far-reaching role in the destruction of the Palestinian economy. It affiliated it to the Israeli economy, thus impeding futuristic opportunities for its independence.
2. The Palestinian leadership was unable to terminate this affiliation due to many factors, some of which are objective and beyond its control, but others are internal factors associated with the performance of the PA.
3. The PA receives a fairly large financial aid and assistance, but this did not lead to the development of the economy, nor did it solve its problems. This is attributed to special reasons related to the donor states and their agenda, and to other reasons related to the ways by which these funds were used.
4. Disagreement on a comprehensive Palestinian plan for development, which takes into consideration the Palestinian status quo, circumstances, and available resources, led to distraction and contradiction of efforts to reform the economy. This does not help in the realization of an independent, stable, and viable Palestinian economy.
5. The economic problems from which the Palestinians suffer are widespread in both GS and the WB. However, unemployment, poverty, and demographic density in GS are slightly more than in the WB.
6. The Palestinian industrial sector is very weak. It does not play a significant role in creating job opportunities nor does it support the GDP. It is no more than a number of small-scale factories and home-

based crafts, characterized by mini and micro-scale vocational type, self-finance, individual and family business, and high rates of quitting from the industrial field.

7. The Palestinian economy is historically agricultural, but agriculture is no longer of paramount importance in employment and in the GDP.
8. The Israeli withdrawal from GS and the WB adds areas that Palestinians may utilize. However, the media uproar over the issue of the greenhouses is unfounded. They cannot generate the alleged revenues as long as the Israeli obstacles are in place.
9. Until the occupation and its impacts vanish, it is important to make optimal use of the available resources in order to support the steadfastness of our people. We need to work in a strong, honest and transparent manner, far away from monopoly, corruption, and extravagance.
10. The rise of the Palestinian economy should go through two phases:  
**First phase:** Reforming deficiency, distortion and solving the current economic problems.  
**Second phase:** Paying more attention to development, as an advanced stage to guarantee economic stability and growth.
11. Real development in the Palestinian economy can be achieved through:
  - a. The geographic connection between GS and the WB, with no Israeli obstacles.
  - b. Full control over the borders and passages, the operation of the airport and building the port.
  - c. Concluding fair trade agreements with neighboring countries.
  - d. Having a transparent leadership of the PA, who fights corruption and works for the national interest according to a clear plan and agenda.
  - e. The continuous flow of international assistance over an appropriate period of time.
  - f. To reform deficiency in the national economy on the one hand, and support economic development on the other.
12. International funds and assistance can play an active role in serving the national Palestinian economy on the following provisions:
  - a. Funds are provided according to the Palestinian agenda and priorities, not those of the donor countries, and in a way that serves the infrastructure and the main industrial sectors.
  - b. Attention should be paid to the developmental rather than the relief



- funding. However, if the latter becomes necessary, it should be guided towards an integrated system and plan that would be instrumental in achieving stability for the Palestine economy.
- c. Assigning a good portion of funds to the private sector, which has suffered severe losses.
  - d. Strive to help the Palestinian economy to find new markets through programs of "Trade Not Aid".
  - e. Donors should help in providing job opportunities for the Palestinian labor force based on their skills.
13. Promoting human resources to be a main pillar of development in a way that meets the needs of the Palestinian market. Mobilizing the capabilities of the Palestinians in the Diaspora, and putting the right person in the right place to participate in the developmental process.
  14. Encouraging private investment and developing investments through:
    - a. Creating a conducive, political, economic, and secured environment.
    - b. Organizing the financial policies to achieve the aspired goals.
    - c. Finalizing the institutional and legal framework of the economy, in a way that helps the achievement of the public objectives.
  15. We should differentiate between loans and grants. Loans are more dangerous as they have a direct impact on future generations. Thus, they should only be accepted with the agreement of the Legislative Council, and utilized in productive fields which can pay back these loans and their interests.
  16. PA should take the serious steps to disengage from the Israeli economy, and moves towards the Arab market. Agreements concluded with Israel, especially the economic ones, should be reconsidered in line with the interest of the Palestinian economy and its aspired goals.
  17. It is important to reconsider governmental monopolies and to reform the judiciary, in a way that guarantees an appropriate investment environment.
  18. Encouraging the banking sector to play its proper role in funding the agricultural and industrial private sectors.
  19. Developing an integrated and consistent national economic plan in all fields, and linking it to the budget in a way that serves the economy and the national interest. This budget should be a mean of supervision, touchstone for the assessment and an evaluation of performance.

## Endnotes:

- 1 Dr. Muhammad Ibrahim Miqdad: Associate Professor of Economics at the Islamic University in Gaza. Besides editing and updating, Dr. Mohsen Moh'd. Saleh had contributed to parts of this chapter.
- 2 Economic indicators, GDP's indicators of the fourth quarter of the year 2005:  
<http://www.pnic.gov.ps/arabic/economy/indicators/indicators-2005.html>
- 3 Palestinian National Information Centre:  
<http://www.pnic.gov.ps/arabic/economy/indicators/indicators-2004.html>; and also see: the Palestinian Economic Minister's statement to France Press Agency, published by *Alrai*, 11 February 2006.
- 4 World Bank, *The Palestinian Economy and the Prospects for its Recovery, Economic Monitoring Report to the Ad Hoc Liaison Committee, No.1, December 2005*, p.6 and 9. See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Data/20751555/EMRpdf>
- 5 Palestinian National Information Centre:  
<http://www.pnic.gov.ps/arabic/economy/encom.html>; See also [http://www.pcb.org/English/nat\\_acco/time-ser/exe-file/nat.exe](http://www.pcb.org/English/nat_acco/time-ser/exe-file/nat.exe)
- 6 See: CIA World Fact Book for years 1999 and 2003 in:  
<http://www.cia.gov/cia/publications/factbook/geos/we.html>,  
<http://www.cia.gov/cia/publications/factbook/geos/is.html>,  
<http://www.cia.gov/cia/publications/factbook/geos/gz.html>, and  
<http://www.theodora.com/wfb>
- 7 World Bank, *The Palestinian Economy and the PA's Fiscal Situation: Current Status*, 2 February 2006. See: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN/O,contentMDK:20805929~pagePK:141137~piPK:141127~theSitePK:294365,00.html>
- 8 World Bank, *The Palestinian Economy and the Prospects for its Recovery, Economic Monitoring Report to the Ad Hoc Liaison Committee, No.1, December 2005*, p.6 and 9. See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Data/20751555/EMRpdf>
- 9 *Ibid.*
- 10 *Ibid*, p.7.
- 11 Doug Suisman, et al., *The Arc: A Formal Structure for a Palestinian State*, Rand Corporation, 2005.
- 12 Sa'di al-Karnaz, " 'Ilaqat al-Muwazanah bil Islah al-Mali wa al-Idari wa al-Siyasi," (The Budget's Relation with Financial, Political and Administrative Reform), The Third Budget Conference, Al Mezan Center for Human Rights, Ramallah, 26 December 2005.
- 13 <http://www.pnic.gov.ps/arabic/economy/budget/budj2005.html>
- 14 As quoted from the Ministry of Finance, "General Budget Department", see the Palestinian National Information Centre:  
<http://www.pnic.gov.ps/arabic/economy/budget/budjall.html>
- 15 World Bank, *The Palestinian Economy and the Prospects for its Recovery, Economic Monitoring Report to the Ad Hoc Liaison Committee, No.1, December 2005*, p.4 and 8. See:<http://siteresources.worldbank.org/INTWESTBANKGAZA/Data/20751555/EMR.pdf>, and World Bank, *The Palestinian Economy and the PA's Fiscal Situation: Current Status*, 2 February 2006. See:  
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/WESTBANKGAZAEXTN0,contentMDK:20805929~pagePK:141137~piPK:141127~theSitePK:294365,00.html>
- 16 *Alrai*, 11 February 2006.

- 17 World Bank, *The Palestinian Economy and the Prospects for its Recovery, Economic Monitoring Report to the Ad Hoc Liaison Committee, No.1, December 2005*, p.8. See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Data/20751555/EMR.pdf>
- 18 International Monetary Fund, *Macroeconomic Developments and Outlook in the West Bank and Gaza*, AD HOC Liaison Committee Meeting, London, 14 December 2005. See: <http://www.imf.org/external/np/dm/2005/121405.pdf>
- 19 Ali Abu Shahla, "*Mustaqbal al-Istithmar wa Ru'yat al-Qita' al-Khas lima ba'd al-Insihab*" (The Future of Investment and the Vision of the Private Sector on the Post-withdrawal Era), a paper presented in a workshop entitled: *Mustaqbal al-Iqtisad al-Filistini Ba'd al-Insihab al-Isra'ili Uhadi al-Janib min Qita' Ghazzah wa Mustawtanat fi Shamal al-Diffah al-Gharbiyyah* (The Future of Palestinian Economy after the Unilateral Israeli Withdrawal from Gaza Strip and Settlements of Northern West Bank) held by the Economic Bureau in the Palestinian Planning Center, 1 October 2005. (According to this table, the total sum is \$2,356 million, this number is unlike the number mentioned by the source in its original text; \$2,383 million).
- 20 Alrai, 11 February 2006.
- 21 Nasr 'Abd al-Karim, "*Al-Siyasah al-Maliyyah lissultah al-Wataniyyah al-Filistiniyyah fi Zil al-Tamwil al-Khariji wa al-Dayn al-'Am*," (The Financial Policy of the Palestinian Authority under Foreign Aid and the General Dept), a paper submitted to the Third General Budget Conference, Al Mezan Center for Human Rights, 26 December 2006.
- 22 World Bank, *The Palestinian Economy and the Prospects for its Recovery, Economic Monitoring Report to the Ad Hoc Liaison Committee, No.1, December 2005*, p.12. See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Data/20751555/EMR.pdf>
- 23 *Ibid*, p.3, 11 and 12.
- 24 Nasr 'Abd al-Karim, "*Al-Siyasah al-Maliyyah lissultah al-Wataniyyah al-Filistiniyyah fi Zil al-Tamwil al-Khariji wa al-Dayn al-'Am*," (The Financial Policy of the Palestinian Authority under Foreign Aid and the General Dept), a paper submitted to the Third General Budget Conference, Al Mezan Center for Human Rights, 26 December 2006.
- 25 Palestinian National Information Centre:  
<http://www.pnic.gov.ps/arabic/quds/arabic/losses/28-9-2005.html>  
Note: Estimates of the domestic revenue and the national one, issued by the Palestinian Ministry of Finance and the World Bank, differ from the estimates issued by the Central Bureau of Statistics. The Ministry of Finance said that it was \$4,954 million in 1999.
- 26 Palestinian National Information Centre:  
<http://www.pnic.gov.ps/arabic/quds/arabic/losses/28-9-2005.html>
- 27 Although this is the proclaimed policy, the law of encouraging investment gives great attention to big industries and less attention to small industries.
- 28 Palestinian Central Bureau of Statistics, The table was prepared based on different sources.
- 29 A note from the researcher: when sharing the "Formation of the State Plan" in 2000, along with the Ministry of Planning, we discussed the available resources, and the discovery of gas in Gaza Sea was mentioned, which enhanced good hopes for developing Gaza's industry. But unfortunately, nothing was witnessed from that time. Actually, the sovereignty which is yet to be achieved, is the essential problem for the Palestinian Authority. Hence, making full use of these resources, cannot be fulfilled without coordinating with Israel and obtaining its approval.
- 30 Palestinian National Information Centre, economic indicators, and GDP's indicators of the fourth quarter of the year 2005. See:  
<http://www.pnic.gov.ps/arabic/economy/indicators/indicators-2005.html>

- 31 *Ibid.*
- 32 *Al Mourakeb Al Iktisady* (Economic Observer) magazine, Palestine Economic Policy Research Institute (MAS), Issue No.10, 2003.
- 33 Palestinian Central Bureau of Statistics, agricultural survey 2004/2005, press conference on the political results of the survey, Ramallah, Palestine, p.8.
- 34 Palestinian Central Bureau of Statistics, main indicators, the agricultural product, 29 January 2006:  
<http://www.pcbs.org/DesktopModules/Articles/ArticlesView.aspx?tabID=0&lang=ar-JO&ItemID=902&mid=11571>
- 35 See the report of the Palestinian National Information Centre on the economic losses from 29 September 2000 to 28 September 2005:  
<http://www.pnic.gov.ps/arabic/quds/arabic/losses/28-9-2005.html>
- 36 World Bank, *The Palestinian Economy and the Prospects for its Recovery, Economic Monitoring Report to the Ad Hoc Liaison Committee, No.1, December 2005*, p.3, 6 and 9. See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Data/20751555/EMR.pdf>
- 37 The wider estimate of unemployment includes those who are frustrated and no longer seeking jobs.
- 38 Ministry of Labor, The National Congress for Employment, 27–28 December 2005, Commodore Hotel, Gaza.
- 39 *Ibid*, see the report of the Palestinian General Labor Federation.
- 40 World Bank, *The Palestinian Economy and the Prospects for its Recovery, Economic Monitoring Report to the Ad Hoc Liaison Committee, No.1, December 2005*, p.7. See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Data/20751555/EMR.pdf>
- 41 See the report of the Palestinian National Information Centre on the economic losses from 29 September 2000 to 28 September 2005:  
<http://www.pnic.gov.ps/arabic/quds/arabic/losses/28-9-2005.html>
- 42 The Palestinian National Authority, *The Palestinian Development Plan 1999-2003*, Ministry of Planning and International Cooperation, June 1999.
- 43 Site of the Palestinian Ministry of Planning.
- 44 Associated Press's report, 1 February 2006, statistics based on World Bank, the Palestinian Ministry of Finance, European Union, American Foreign Ministry, and Norwegian government.
- 45 World Bank, *The Palestinian Economy and the Prospects for its Recovery, Economic Monitoring Report to the Ad Hoc Liaison Committee, No.1, December 2005*, p.5. See: <http://siteresources.worldbank.org/INTWESTBANKGAZA/Data/20751555/EMR.pdf>
- 46 *Alrai*, 11 February 2006.
- 47 Mohammad Shtayyeh, *Al-Iqtisad al-Filistini fi al-Marhalah al-Intiqaliyyah* (Palestinian Economy in the Transitional Period), PECDAR, 2003.
- 48 Data here includes the period from 1994 to the mid of 2003, and it excludes aid supporting the current budget.
- 49 Palestinian Planning Center, *Mustaqbal al-Iqtisad al-Filistini Ba'd al-Insiah Uhadi al-Janib min Qita' Ghazzah wa Mustawtanat fi Shamal al-Diffah al-Gharbiyyah* (The Future of Palestinian Economy after the Unilateral Withdrawal from Gaza Strip and Settlements of Northern West Bank), October 2005.
- 50 Site of Arabs48, see: <http://www.arabs48.com/display.x?cid=6&sid=7&id=34634>
- 51 A study by Ibrahim Hamami, published by Aljazeera, 12 February 2006:  
<http://www.aljazeera.net/NR/exeres/81725EB7-B36946-F488-F0-B9701472BA65.htm>

# The Palestinian Strategic Report 2005



**This** Palestinian Annual Strategic Report explains, discusses and analyses the events that took place during 2005, and pursues their developments. The primary objective of this Report is to assess the Palestinian situation on a regular basis through a rigorous study of its various aspects, i.e., internal political affairs, economic development, the educational system, demographic indicators, the Arab-Islamic and international positions and the Israeli attitudes and policies.

The chapters of this academic exercise were commissioned to distinguished meticulous specialists. These chapters were submitted to further scrutiny by another high caliber specialist in the Palestinian issue. Then, the two editors edited the texts and incorporated what may have been overlooked. Hence, it is important to note that this project is essentially a product of team work.



**Al-Zaytouna Centre For Studies & Consultations**

مركز الزيتونة للدراسات والاستشارات  
[www.alzaytouna.net](http://www.alzaytouna.net)

10th Floor, Riviera Centre, Coniche al-Mazraa'h, Beirut, Lebanon  
Tel: (961) 1 303 644 | Tel-Fax: (961) 1 303 643  
Email: [info@alzaytouna.net](mailto:info@alzaytouna.net)

ISBN 978-9953-009-43-8



9 789953 009438



**Al-Zaytouna Centre For Studies & Consultations**