



**FROM SUMUD TO TRANSFORMATIVE RESILIENCE**  
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## Building Economic Resilience in the State of Palestine

### Introduction – The Economic Context

Economic growth in the State of Palestine, as in many other countries, is heavily influenced by the protracted political and security situation. The most recent International Monetary Fund report states “real GDP growth in the West Bank and Gaza will likely reach 3.3% in 2016 (2.7% in the West Bank, and 5.5% in Gaza)...insufficient to reduce unemployment and boost per capita incomes.”<sup>1</sup> Since the Oslo Accords of 1993, the Palestinian economy has faced a series of ongoing shocks: the division of the West Bank and the Paris Protocol of the same year, the First and Second Intifadas, and the siege of Gaza and resultant three wars. This, combined with freedom of movement restrictions enforced by the occupation security apparatus, limited access to basic services and resources, restrictions on investment and trade, and poor access to finance, has created an unsustainable economy artificially propped up by donor aid.

In this difficult situation, the building of economic resilience has become increasingly important to ensure the success of policy interventions. Although economic growth is generally defined as “the increase in the capacity of an economy to produce goods and services,” it is also “*thought of not only as an increase in productive capacity but also as an improvement in the quality of life to the people of that economy.*”<sup>2</sup> Economic resilience thus becomes a useful framework by which to examine the viability of an economy, particularly one that is so frequently swayed by political vicissitudes. It is defined as a counter to economic vulnerability, or “the exposure of

<sup>1</sup> International Monetary Fund, *West Bank and Gaza: Report to the Ad Hoc Liaison Committee*, August 26, 2016. Available at: <https://www.imf.org/~media/Files/Countries/ResRep/WBG/2016WBGRR.ashx>

<sup>2</sup> Investopedia. *Economic Growth*. n.d. <http://www.investopedia.com/terms/e/economicgrowth.asp> (accessed May 12, 2016)

an economy to exogenous shocks, arising out of economic openness, **while economic resilience is defined as the policy-induced ability of an economy to withstand or recover from the effects of such shocks.**<sup>3</sup> Typically, economic vulnerability is impacted (as the definition states) by external factors, such as natural disasters, environmental degradation or global economic crises.

While these factors may impact the Palestinian economy, in general the economy suffers ongoing shocks as a direct result of the 1993 Paris Protocol of Economic Relations (PER), which integrates the Palestinian and Israeli economies through a customs union, “the primary characteristic of which is the absence of economic borders between members.”<sup>4</sup> The protocol concerns 6 major areas: customs, taxes, labour, agriculture, industry, and tourism.<sup>5</sup> Most importantly, it gives Israel custody over the State of Palestine’s external borders and the power to collect tax and VAT, enabling Israel to delay transfer of taxes<sup>6</sup> to put political pressure on the Palestinian Government. The Protocol was intended to expire after five years but is still in effect 22 years later. As such, “this logic lies at the core of Palestinian dependency on Israel; whereby 85% of Palestinian imports come from Israel (USD4 billions), and 73% of Palestinian exports are shipped to Israel (USD 300-400 million). Whereas the Palestinians were promised to negotiate aspects of the trade policy through joint economic committees, in reality Israel monopolizes veto power over trade policy in line with its economic interests.”<sup>7</sup>

The Palestinian Ministry of National Economy (MoNE) states four main explanations for the poor performance of the Palestinian economy: border closures, the withholding of tax revenues, labour flow reductions to Israel, and dependency.<sup>8</sup> Border closures increase transaction costs for businesses. The Revenue Clearance System has led to Israel regularly withholding tax revenues, often for politically motivated reasons. Labour flow reductions have led to a smaller number of Palestinians being able to commute to Israel for work due to increased movement and security restrictions. Finally, the dependency of Palestinian trade on Israeli whims has artificially inflated prices and reduced competitiveness. The State of Palestine’s GINI coefficient<sup>9</sup>, the most commonly used measure of inequality, stood at 35.5 in 2009, suggesting reasonably high human development, on par with other Middle Eastern countries such as Jordan and Syria (prior to the current crisis).<sup>10</sup> However, widespread spatial inequalities in different areas of the Palestinian territory that are subject to different governance structures and restrictions suggest that this number must vary widely according to different occupational strictures.

<sup>3</sup> United Nations University, Working Paper: Economic Vulnerability and Resilience, 2008. Available at: <https://www.wider.unu.edu/publication/economic-vulnerability-and-resilience>

<sup>4</sup> Betselem. *The Paris Protocol*. January 1, 2011. [http://www.btselem.org/freedom\\_of\\_movement/paris\\_protocol](http://www.btselem.org/freedom_of_movement/paris_protocol).

<sup>5</sup> THE ISRAELI-PALESTINIAN INTERIM AGREEMENT-Annex V. September 28, 1995. <http://www.mfa.gov.il/MFA/ForeignPolicy/Peace/Guide/Pages/THE%20ISRAELI-PALESTINIAN%20INTERIM%20AGREEMENT%20-%20Annex%20V.aspx>.

<sup>6</sup> Betselem. *The Paris Protocol*. January 1, 2011. [http://www.btselem.org/freedom\\_of\\_movement/paris\\_protocol](http://www.btselem.org/freedom_of_movement/paris_protocol).

<sup>7</sup> Haddad, Tawfiq. *Investing in Building a Resilient Palestinian Economy*. August 2016, 5.

<sup>8</sup> Ministry of National Economy, “The Palestinian Economy.” Website. <<http://www.mne.gov.ps/DesktopDefault.aspx?tabindex=3&tabid=12&lng=1>>

<sup>9</sup> “Measure of the deviation of the distribution of income among individuals or households within a country from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.” World Bank. *World Bank Development Indicators*. 2013. Accessible at: <<http://hdr.undp.org/en/content/income-gini-coefficient> (accessed May 22, 2016).>

<sup>10</sup> Ibid

Even so, the Palestinian economy has demonstrated some level of resilience, with some real GDP growth and the continuing function of Palestinian institutions. However, this situation is heavily influenced by high levels of donor financial assistance to the Palestinian Government. With donor aid already dropping, “the likelihood of an even steeper decline in donors’ budget support could compromise the already fragile fiscal situation, adding pressures for deeper spending cuts or additional arrears. This could exacerbate social tensions, compounding the risk of escalating violence or difficulties in containing spending, resulting in a vicious cycle of political and fiscal risks.”<sup>11</sup> It has been acknowledged that even if donor support remains at current levels, the Palestinian financing gap would approach \$500 million in 2016.<sup>12</sup>



The latest labour force statistics demonstrate staggeringly high unemployment rates in the Palestinian economy, increasing to 18% at the end of 2015.<sup>13</sup> Youth are most devastatingly affected, with unemployment rates reaching 30% in the West Bank, close to 60% in Gaza, and almost 1 in 3 university graduates are unemployed.<sup>14</sup> Overall labour force participation rates have stagnated at 45.8%, with female participation at approximately 19%.<sup>15</sup>

Moreover, since the beginning of the occupation, Israeli measures have demonstrated a focus on control over the Palestinian economy, particularly through the limitation of the productive sector. Some of the ways in which the damaging

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<sup>11</sup> International Monetary Fund, *West Bank and Gaza: Report to the Ad Hoc Liaison Committee*, August 26, 2016. Available at: <https://www.imf.org/~media/Files/Countries/ResRep/WBG/2016WBGRR.ashx>, p. 11.

<sup>12</sup> Ibid

<sup>13</sup> International Monetary Fund (IMF). *West Bank and Gaza: Report to the Ad Hoc Liaison Committee*. Ramallah: International Monetary Fund, April 5, 2016, p.4.

<sup>14</sup> Ibid, p.4.

<sup>15</sup> Ibid, p.4.

effects of the Paris Protocol manifest include: the banning of imports and exports to surrounding countries, except under strict Israeli authorization; the imposition of high taxes, which may give Israeli products unfettered access to the Palestinian captive market, while simultaneously restrict the import of Palestinian products into the Israeli market; creating Palestinian labour dependency on the Israeli job market, including illegal Israeli settlements; and finally, the dispossession of the Palestinian people and the expropriation of their land for the purpose of building illegal settlements over strategically important and resource rich areas. This enables Israel to commandeer control over all water, natural resources, and fertile arable lands, which limits the main productive sectors of the Palestinian economy (agriculture and manufacturing), particularly in Area C, while simultaneously allowing Israel to exploit these same sectors for their own economic advantage using expropriated Palestinian resources.

## **Economic (Un)viability**

The main characteristics of the Palestinian economy are dependency on Israel and the donor community and a lack of self-sufficiency. It is important to note that the fragmentation of the Palestinian territory into three areas, the West Bank, Gaza Strip, and East Jerusalem, with differing levels of governance and autonomy, has led to an unviable economy.<sup>16</sup> Each area suffers from economic dependence, limited growth potential, and is subject to Israeli policies of economic strangulation.

### 1) *West Bank - Area C*

After the splintering of the West Bank into three areas – A (under full Palestinian security and civil control), B (under Israeli military and Palestinian civil control), and C (under full Israeli military and civil control) – spatial inequalities have become the norm within the State of Palestine. Area C constitutes approximately 61% of the occupied Palestinian territory, and contains the vast majority of the West Bank's arable land, which remains under- or un-developed. It is estimated by the World Bank that Israeli restrictions in Area C cost the Palestinian economy \$3.4bn annually. This additional economic activity would generate \$800m in tax revenue, equating to half of the State of Palestine's debt.<sup>17</sup> Without Palestinian autonomy over Area C, there is little hope for a contiguous Palestinian state that is grounded in a strong, sustainable, and resilient economy.

### 2) *Gaza Strip*

Since the blockade of Gaza 10 years ago, and the three devastating wars that followed, the Gaza economy has been completely destroyed by Israel, with a loss in GDP amounting to over 50%.<sup>18</sup> Economic conditions are looking increasingly grim, with little prospect of recovery as things stand. Two years after the 2014 military

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<sup>16</sup> Farsakh, Leila. "The Palestinian Economy: Capable of Sustaining an Independent State?" *Palestine Square*. May 25<sup>th</sup> 2016. Accessible at <<http://blog.palestine-studies.org/2016/05/25/the-palestinian-economy-capable-of-sustaining-an-independent-state/>>

<sup>17</sup> World Bank. West Bank and Gaza: Area C and the Future of the Palestinian Economy. World Bank, 2013. Accessible at: <[http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/01/23/000442464\\_20140123122135/Rendered/PDF/AUS29220REPLACOEVISION0January02014.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/01/23/000442464_20140123122135/Rendered/PDF/AUS29220REPLACOEVISION0January02014.pdf)>

<sup>18</sup> World Bank. *Economic Monitoring Report to the Ad Hoc Liaison Committee*. 19 September 2016, p. 5.

campaign, the most devastating yet, the reconstruction process has made little progress. The Palestinian government's "Detailed Needs Assessment (DNA) and Recovery Framework for Gaza Reconstruction" plan has received only 16% of the funding promised at the October 2014 Cairo Conference, and reconstruction remains slow, unfocused, and largely underfunded. "One-third of Gaza's arable land, and more than half of its Oslo-agreed fishing waters- both unilaterally declared by Israel as no-go/buffer zones – remain off-limits to Gaza economic use. Isolated and under severe restrictions on the movement of people and trade, Gaza's economic troubles are further compounded by continued chronic shortages in electricity, water, and fuel supplies, and by an unconventional institutional and regulatory environment caused by over nine years of Palestinian internal political split."<sup>19</sup> Unemployment rates have now reached the highest in the world, with little hope that the majority of Gaza's young labour force will be able to access employment while the economy continues to stagnate. Although there has been some real GDP growth this year, this has failed to match population growth and is therefore unlikely to have a positive long-term impact on this untenable situation.

### 3) *East Jerusalem*

The socio-economic situation in East Jerusalem is dire. There is widespread frustration and hopelessness among the local population, due to limited economic opportunity, little potential for growth, and poor access to finance, in tandem with a restrictive construction and zoning permit system. The lack of economic opportunity is consistently cited as one of the main reasons for overall disadvantage and marginalization of Palestinian communities. Currently, approximately 75% of Palestinian residents of EJ live under the poverty line.<sup>20</sup> Productive sectors are extremely limited and the main area for economic growth, tourism, is restricted through Israeli measures including: "the isolation of East Jerusalem; shortage of land available for Palestinian construction; the subsequently high cost of land; high taxes; weak physical and economic infrastructure; difficult licensing procedures for Palestinian tourist businesses; obstacles on the issuing of permits to build hotels or convert buildings to hotels; and investment of millions of dollars in the Israeli tourism market, leading to unequal competition between Palestinian and Israeli tourism industries."<sup>21</sup>

## **Economic Resilience: A New Approach**

Though there are differing economic challenges within each Palestinian area, the root cause of all of them is the occupation; "No serious observer would claim that the occupation is incidental to the Palestinian economy".<sup>22</sup> Yet development policymakers continue to separate economic development from the political resolution of the Palestinian question. *We therefore posit a new approach in this paper, aiming for economic resilience, which not only helps the economy withstand*

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<sup>19</sup> Samhoury, Mohammad. *The Path from Zero-Minus to Economic Recovery and Long Term Development in the Gaza Strip*. October 2016, 3.

<sup>20</sup> Association for Civil Rights in Israel, "East Jerusalem 2015: Facts and Figures." 12 May 2015. Accessible at: <<http://www.acri.org.il/en/wp-content/uploads/2015/05/EJ-Facts-and-Figures-2015.pdf>>

<sup>21</sup> Arafah, Nur. "Palestinian initiatives in East Jerusalem: Building "resilience" or "Sumud"?" August 2016.

<sup>22</sup> Palestine Studies, "Political Economy of Palestine" Accessible at: <<http://www.palestine-studies.org/resources/special-focus/political-economy-palestine>>

*or adapt to shocks, but to transform from them.* Under this approach, economic resilience is underpinned by the prioritisation of social development measures. According to the United Nations University (UNU), there are four major policy areas where intervention is necessary to boost economic resilience: 1) macroeconomic stability; 2) microeconomic market efficiency; 3) good governance; and 4) social development. While these four areas are important, appreciating that the occupation is the root cause of economic under-development in the State of Palestine is critical to crafting more effective interventions and policies that tackle the problem at its source.

There is little doubt that the Palestinian Government has limited control over their own fiscal policy, severely curtailing their ability to institute change that can secure these four policy areas. While, in general, economic vulnerability refers to the inherent characteristics of a country's economy, this is particularly complicated in the case of Palestine, where the economy is so closely tied to the economy of its occupier.

*Macroeconomic stability:* The macroeconomic indicators are tied to i) the fiscal debt to GDP ratio; ii) the sum of unemployment and inflation rates; iii) the external debt to GDP ratio. In all three cases, the growth limitations placed on the economy by the Paris Protocol are debilitating. Although there has been real GDP growth over the last year, public debt also exceeded the 40% threshold in 2015,<sup>23</sup> while ongoing and recurrent hostilities with Israel and a decrease in donor aid to the PA may result in higher debt due to new and ongoing development and humanitarian needs. This is regularly worsened by the withholding of tax revenues by Israel, often for political reasons. The restrictions on the Palestinian productive sector and economic growth potential have led to extremely high rates of unemployment, especially among youth, which consequently has led to widespread instability and frustration. The Palestinian economy also suffers from artificially inflated prices due to the customs union with Israel. This combination of high levels of unemployment and price inflation suggests "adverse shocks would impose significant costs on it."<sup>24</sup>

*Microeconomic Market Efficiency:* Overall, there are limited microeconomic indicators to measure market efficiency, however these link to "the extent to which markets operate freely, competitively and efficiently across countries."<sup>25</sup> Sharing a single currency with Israel, as well as Israeli restrictions on free trade, the operation of foreign banks and access to finance, significantly hamper market flexibility.

*Good Governance:* Good governance and strong state institutions are necessary for an economic system to function properly. Without the effective rule of law, it is easier for economic shocks to result in social unrest and instability. In the case of Palestine, while state institutions are generally strong, there is also a democratic deficit. There has been no functional Legislative Council or free and fair national elections for a decade. *Wasta* still holds influence in the judicial system. Meanwhile,

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<sup>23</sup> Coface, "Palestine." 2016. Accessible at: <<http://www.coface.com/Economic-Studies-and-Country-Risks/Palestine>>

<sup>24</sup> United Nations University, Working Paper: Economic Vulnerability and Resilience, 7

<sup>25</sup> Ibid, 8

restrictions on freedom, human rights, and independence by the Israeli security forces cause greater strife.

*Social Development:* While the State of Palestine scores highly in many social development indicators, there is severe inequality between the different political areas and their governance structures as dictated by Israeli occupation policy. While Palestine’s literacy rate stands at 96%<sup>26</sup> and life expectancy at birth is 73 years, access to quality education and health services is often dependent on place of residency and there are large disparities between Area A, B and C. The long-term unemployment rate has increased, with 40% of the population unemployed after the 2014 conflict in Gaza. Meanwhile higher education rates have an inverse correlation with employment rates, particularly for women. 75% of the population now lives in urban centres<sup>27</sup> and poverty stands at 25%<sup>28</sup> or even higher in rural areas and refugee camps.

All four of these areas demonstrate high levels of vulnerability, which correlate to low levels of economic resilience. The occupation is a direct factor in this economic vulnerability. Despite this, there remains considerable scope for improving the economic resilience of the State of Palestine.



<sup>26</sup> United Nations Development Programme, *Education*. 2015. Accessible at: <http://www.ps.undp.org/content/dam/papp/docs/Publications/UNDP-papp-research-PHDR2015Education.pdf>

<sup>27</sup> The Global Economy, “Palestine: percent urban population.” Accessible at: [http://www.theglobaleconomy.com/Palestine/Percent\\_urban\\_population/](http://www.theglobaleconomy.com/Palestine/Percent_urban_population/)

<sup>28</sup> PCBS. *Palestine in Figures: 2015*, 23 Accessible at: <http://www.pcbs.gov.ps/Downloads/book2188.pdf>

## Areas of Intervention

Since Oslo, there has been little sustainable socio-economic growth, which couldn't be overturned by a new crisis. It is therefore time to radically change the narrative from the pursuit of economic growth to economic resilience, predicated on equitable social development. Most importantly, economic resilience suggests a means of tackling inherent vulnerabilities in the current political economy, and would require the development of new self-sufficiency measures so that the State of Palestine is no longer reliant on Israel or donor aid.

True economic resilience requires a political solution to the occupation, or at the very least, an end to the strangulating ordinances of the Paris Protocol. However, there are measures that can be put in place to increase self-sufficiency and ultimately end the occupation.

## Social Development

As noted above, social development is a key indicator of a resilient economy, and even more so in State of Palestine, where the political economy has extremely negative impacts on the welfare of Palestinians. Inclusive and equitable economic development is the only solution to the economic policies of occupation, specifically access to basic (electricity, water, sanitation) and public services (education, health, and housing).

Spatial inequalities abound in State of Palestine due to the disparities in governance; outside Area A of the West Bank (major national cities), Areas B, C, East Jerusalem, the Seam Zones, Hebron H2, and Gaza all face limited access to basic services. In Gaza particularly, following the most recent 2014 conflict, both public and basic services have become largely dysfunctional. There are severe electricity and potable water shortages, the only power plant was destroyed in the conflict, and Israeli restrictions on imports into Gaza have severely hampered reconstruction efforts. Meanwhile, Palestinian communities over whom the State of Palestine or the Hamas government have no jurisdiction often fare worse; this is particularly true of the seam zones and Hebron H2, where a lack of governance has resulted in lawlessness, virtually non-existent economic opportunity, and severe limitations on freedom. Furthermore, while access to health and education is widespread in the oPt, it is extremely unequal in terms of both access and quality. High literacy rates belie the need for greater critical thinking and active learning approaches, with a greater focus on the holistic education of young people. Meanwhile, there are various areas of health where limited educational opportunity has led to gaps in health provision.

Social development must be a greater priority for the Palestinian government and the donor community, as it comprises the first step on the road to economic self-sufficiency. Without greater social development and equality, economic growth will only lead to greater division, as can already be seen in the disparity between economic sectors in Ramallah and the rest of Palestine.

***On the policy level***, the State of Palestine must ensure that equitable sustainable social development and welfare is central to the National Policy Agenda (NPA) 2017 – 2022, and demonstrate an understanding that economic development is impossible without social development. Furthermore, a focus must be brought on improving the quality of public services, namely education and health. There is a need to improve the quality of, and therefore standardize, these services effectively. International actors and the State of Palestine must invest in medical education to help reduce the gaps in healthcare provision in the State of Palestine. Likewise, they must invest in continual teacher training to improve the quality of education.

International actors must lobby the Government of Israel (GoI) to reverse policies destructive to Palestinian social and economic welfare. The GoI must allow reconstruction materials into Gaza to revive the limited welfare system and to allow the reconstruction of destroyed hospitals, schools and physical infrastructure such as power lines and water purification plants. Furthermore, they must also permit the Palestinian Authority to improve social development facilities in Area C, to reach the most vulnerable and marginalized communities in the West Bank. The Jerusalem Ministry must provide equitable public and social services to Palestinian residents of East Jerusalem, as they do Israeli residents of West Jerusalem. Palestinian welfare providers must be granted unrestricted access to the residents of seam zones and Hebron H2 who remain dangerously neglected and isolated from broader society. Finally, international actors must also encourage the GoI to allow greater access to Israeli hospitals for Palestinians that require emergency treatment, and to simplify the convoluted process of referral.

***On the practical level***, to develop successful social interventions international actors must first conduct strenuous community mapping across Palestine, in order to gain a clear understanding of existing services and service gaps. Overall, the State of Palestine must ensure geographic inclusion by improving service provision, especially by increasing the availability of mobile health and education facilities in rural areas that service marginalised communities. They must also improve the overall social safety net, providing households living in absolute poverty and the food insecure with sustainable welfare that enables them to become independent, productive and ultimately empowered.

The State of Palestine should consider ministry- and municipality-level strategic and social development plans, integrated with the NPA, which actively respond to the needs of the Palestinian people, developed and published in the Arabic language, and opened to public and community review. The State of Palestine should overhaul policies that are discriminatory toward women, and ensure that the rights of women and minorities are upheld. It should also put in place measures to ensure greater protection of the environment by: i) working with civil society organisations to raise awareness of environment damage; and ii) institute policies to improve the environmental situation in State of Palestine, such as the banning of plastic bags. Finally, the State of Palestine must consider youth as a demographic dividend, to be harnessed for socially equitable growth through the encouragement of volunteerism and community engagement.

## Investing in the Productive Sector

Losses in the productive sector and the growing market share of the services industry are two of the most visible changes in the modern Palestinian economy. The manufacturing sector's share of the economy fell from 21.3% in 1995 to 13.1% in 2014, while agriculture fell to 7% by 2000, and accounted for a historic low of 4.1% in 2014. Today, it stands at 2.8% in the West Bank, and 4.0% in Gaza.<sup>29</sup> Over the same period, the combined share of the non-tradable goods, services, and construction sectors rose from 67% to 83%, with services accounting for the entire increase.<sup>30</sup> The services sector, while providing employment, has limited growth potential in the context of the Israeli occupation. However, tourism, e-commerce, IT and social-entrepreneurship remain areas with strong potential for attracting foreign investment.

Despite this, the most important tool for increasing self-sufficiency and building economic resilience is investment in the State of Palestine's productive sectors, particularly agriculture, industrial development, manufacturing and construction. These are critical for ending dependence on Israel and donor aid, which continue to hamper the Palestinian economy, as well as reducing unemployment and increasing consumer-spending power. The remainder of this section will focus primarily on industry and agriculture, as areas that have the greatest potential for diversifying livelihoods, ending dependence, and providing employment to the most marginalized.



<sup>29</sup> <http://www.unsco.org/Documents/Special/UNSCO%20Socio-Economic%20Report%20Q1%202016.pdf>, p.2

<sup>30</sup> UNCTAD. *The Palestinian economy: Macroeconomic and trade policymaking under occupation*. New York and Geneva. 2012. <[http://unctad.org/en/PublicationsLibrary/gdsapp2011d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/gdsapp2011d1_en.pdf)>

## Agriculture

Traditionally, the Palestinian productive base was largely agricultural. Today, it also symbolizes the connection between *sumud* and the Palestinian land, identity, culture, and history.<sup>31</sup> Given encroaching settlement expansion and land confiscation in the West Bank, developing the agricultural sector is critical to both Palestinian physical development and the communal psyche.

In 1967, the agricultural sector contributed 53% to the overall GDP; today it stands at 2.8% in the West Bank, and 4.0% in Gaza.<sup>32</sup> Food insecurity in Palestine directly correlates to a lack of food sovereignty.<sup>33</sup> Achieving food security is key to economic resilience; it enhances long-term productivity and boosts self-sufficiency. It undermines the “food power” of Israel and its threats of cutting food supplies.<sup>34</sup> Since 1994, the State of Palestine budget has allocated less than 1% for its Ministry of Agriculture, to the detriment of the agricultural sector. Currently, the agriculture industry consists largely of smallholder farmers, with a limited number of larger-scale competitive agribusinesses. However, recent years have seen increased entrepreneurship in the agricultural sector, through investment in diversification initiatives such as introducing kale and quinoa crops.

There is much that can be done to increase the productivity of the agricultural sector; **on a policy level**, the State of Palestine must increase its budget for the Ministry of Agriculture and renew its focus on investment in agricultural initiatives, particularly by modernizing the sector with new and innovative technology. This can be achieved through collaboration between international actors and the State of Palestine, to support crop-diversification away from more traditional *majdoul* dates and olives and improve the annual yield. Investing in branding and packaging also has the potential to boost exports and break into lucrative foreign markets.

In addition to working on crop-diversity, the agriculture sector can also contribute to a range of areas for potential growth and development. This includes water management systems that can help mitigate Israeli-imposed water shortages and the realities of climate change. Similarly, working on recycling and composting to reduce the carbon footprint of the agricultural sector will also increase local compost and fertilizer use and reduce the impact of Israeli fertilizer import restrictions. Seed generation and recycling is a growing area of development and economic opportunity in the agricultural sector.

## Investing in Industry

Like agriculture, the industrial sector allows for long-term sustained investment, and has a high potential to absorb labour and create direct and indirect job opportunities, promoting better living standards and improving the national income. After 1967, the industrial base was subject to heavy Israeli restrictions under which only a few industries were able to survive. Obstacles to industrial growth are largely a by-product of the PER restrictions. Today, the industrial sector amounts to approximately 13% of the economy and constitutes 20% of the labour force.<sup>35</sup>

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<sup>31</sup> Haddad, Tawfiq. *Investing in Building a Resilient Palestinian Economy*. August 2016, 7.

<sup>32</sup> UNSCO, “UNSCO Socio-Economic Report: Overview of the Palestinian Economy in Q1/2016.” Accessible at: <<http://www.unsco.org/Documents/Special/UNSCO%20Socio-Economic%20Report%20Q1%202016.pdf>>

<sup>33</sup> Haddad, Tawfiq. *Investing in Building a Resilient Palestinian Economy*. August 2016, 8.

<sup>34</sup> Dana, Tariq. “A Resistance Economy: What is it and can it provide an alternative?.” PalPapers. 2014. Accessible at : <[http://www.rosalux.de/fileadmin/rls\\_uploads/pdfs/sonst\\_publicationen/A\\_Resistance\\_Economy.pdf](http://www.rosalux.de/fileadmin/rls_uploads/pdfs/sonst_publicationen/A_Resistance_Economy.pdf)>

<sup>35</sup> PCBS. Labour Force Survey 2014. Accessible at <<http://www.pcbs.gov.ps/Downloads/book2155.pdf>>

The sector is diverse and includes a wide range of industries, including mining and extractives, construction, textiles and pharmaceuticals, most of which are dominated by small family-owned business, while larger businesses that employ over 100 workers are limited.<sup>36</sup> In the West Bank the industrial sector is constrained by Israel's refusal to permit infrastructure construction in over 60% of the land, while the Gaza industrial sector was devastated after the siege of 2007 and recurrent wars.

Interventions to help grow the industrial sector could revive the Palestinian economy and increase self-sufficiency; **on a policy level**, the State of Palestine must allocate a greater budget to investment in the industrial sector, including restructuring, financial assistance, and diversification to meet international market needs and quality. The international community must lobby the GoI to allow reconstruction materials into Gaza, and to allow industrial growth in Area C, in order to prevent delays, insufficient and costly inputs, poor-quality outputs, and by doing so, increase competitiveness in local and global markets. At the same time, international actors should lobby for the Palestinian right to free trade.

**On a practical level**, the State of Palestine must encourage local and foreign investment in the industrial sector. They should also increase external trade links to help make Palestinian products more marketable. At the same time, they should work to help structure the industrial sector into more effective unions that can work together to streamline processes and advance technological improvements and innovation.



<sup>36</sup> Ministry of National Economy, "The Palestinian Economy." Website. <<http://www.mne.gov.ps/DesktopDefault.aspx?tabindex=3&tabid=12&lng=1>>

## Investing in Information Technology

The expanding youth population of State of Palestine has demonstrated a willingness to work in emerging areas of information technology. **On a practical level**, there is much scope for encouraging technologically advanced innovation through capacity building, knowledge sharing, and digital mentorship to share successful models from other countries. There is also a need to invest in digitising consumer markets, from online shopping to other key interfaces, which can help streamline bureaucratic processes. These must be accessible and user-friendly. **On a policy level**, greater investment in increasing the capacity of young people in IT could be beneficial to all areas of economic growth. IT can also assist a new generation of ‘social entrepreneurs’ who seek sustainable inclusive change. Although the deal to bring 3G to the West Bank has been negotiated, it is important to continue to put pressure on the GoI to ensure this goes ahead. This will overall help to support and promote a digital economy, which is not limited by Israeli material restrictions, and can help develop new income streams, create jobs, and encourage trade and innovation. This can also be improved through welfare schemes such as the Palestinian Employment Fund and developing a job creation programme for graduates.

## Reducing Dependence on Foreign Aid

Overall, there must be a reduction in dependency on foreign aid to State of Palestine. This must be done through the measures laid out above: improved social development and welfare systems; investment in the productive sectors, with a simultaneous decrease in the services sectors; and overall lobbying by international actors against Israeli restrictions in Area C, zoning policies in East Jerusalem, and an end to the siege on Gaza. These political changes are critical to seeing change in the overall State of Palestine, and to developing an independent, sustainable, inclusive, and equitable economy, which leaves no one behind. The NPA also recognizes the importance of this step and strategizes: rebuilding the productive sector; attracting foreign and domestic direct investment; expanding international trade and exports; planning and investing in strategic infrastructure; supporting the financial sector’s role in boosting private sector growth; and bridging the West Bank-Gaza development gap. Together, these steps will lead to greater economic independence.

Furthermore, there must be increased encouragement of supporting Palestinian products through measures such as the Boycott, Divestment, and Sanctions (BDS) movement. If Palestinian consumers reject Israeli imports in favour of domestically produced products, Israel will lose its captive market. Boycott movements will help to increase demand for Palestinian products, which will generate greater supply, and lead to overall economic growth and self-sufficiency.

## Creating Connections: Increasing Links between the West Bank, EJ, and Gaza

The spatial and economic disconnect between the three Palestinian areas – West Bank, East Jerusalem, and Gaza – has led to a disjointed and, to some extent, unviable economy. It will therefore be critical, **on a policy level**, to develop interventions to bridge the West Bank–Gaza development gap and find new means to unify the economy. Political dialogue between the Hamas government and the PA must seek to find common ground and reduce political feuding. **On a practical level**,

as interim measures, much connectivity can be garnered through private sector representatives who can work together to develop partnerships. Furthermore, digital platforms can be utilized to bring together key stakeholders in all areas. Together, this can help improve overall access to international markets through the building of economic networks.

In a recently proposed plan by the Portland Trust titled **Gaza Connected**<sup>37</sup>, it is proposed to build a seaport and an airport in Gaza to connect the State of Palestine with regional and global markets. Such a development can be highly lucrative and critical in improving Palestinian development, business and economic opportunity. For this to be possible, lobbying to end the freedom of movement restrictions between the three areas will be vital.

## Investing in Youth Development

Finally, the Palestinian youth bulge provides a demographic dividend that can be reaped if utilized effectively. Palestinian young people (aged 15-29) comprise almost one-third of the population and this demographic continues to grow rapidly. As leaders of the future, youth provide an opportunity to bring new, innovative, and creative ideas, which could foster long-term sustainable growth. **On a practical level**, on the supply side, youth can be provided with better skilling, to help bridge the gap between education and the labour market. This can be in the form of life skills, development opportunities, mentorship, entrepreneurship, the establishment of business incubators, and encouraging the use of new technologies. On the demand side, private sector development must be the first priority and employers should be encouraged to invest in young people, especially women. Advocacy programmes must be instituted that encourage both women and men to enter non-traditional fields to help undercut vertical and horizontal segregation in the labour market.

## Conclusion

There is much to be done to build economic resilience and increase self-sufficiency in Palestine. The Israeli restrictive measures through the Paris Protocol, the siege on Gaza, and recurrent incursions are extremely limiting and continue to suppress economic growth. However, there is much to be done to advance the State of Palestine's own economic policy through the National Policy Agenda, including the diversification of livelihoods, investing in productive sectors, encouraging the greater labour participation of youth and women, and overall lobbying the Israeli government to end the restrictive policies of the PER. Together, these policy and practical measures can help build the economic resilience of Palestine, in order to ensure the future independent State of Palestine is underpinned by a strong, viable, inclusive, sustainable and productive economy.

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<sup>37</sup> The Portland Trust. *Global Palestine Connected Gaza*. 2016. Accessible at: <<http://www.portlandtrust.org/publications/global-palestine-connected-gaza>>