

Foreword

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This is the first time that the “Palestine Development Prospects” Report, which takes a closer look at the developmental condition in Palestine is issued. It was prepared through a scholarly reading of the political, economic, and social results of the 25 years since the signing of the Oslo Accords, whilst analyzing its implications and the prospects for strengthening the chances of their achievement. The Report is the outcome of systematic thinking and dialogue among the research team (reflecting different disciplines, levels, and experiences), and their valuable contributions at different stages of drafting the report. This Report, therefore, reflects their findings, proposals, and objective vision, as a group of researchers who care about the future of development in Palestine, and does not necessarily reflect the positions of its publisher; the Palestine Economic Policy Research Institute (MAS), or that of the United Nations Development Programme (UNDP), which funded the preparation and publication.

As a starting point and as a statistical reference for the study of the development condition in Palestine, the first part of the report, which was drafted in 2021, tackles the changes that had taken place in Palestinian human development indicators between 2014 (when the last “Palestinian Human Development Report” was issued) and 2019 (the last year for which the indicators are available). More recent data and information were included based on availability (for 2020 and 2021). Yet, given the fact that these rigid indicators cannot reveal much about the unique Palestinian development dilemma, the Report includes in its second part an in-depth study of what the research team sees as key entry points to understanding the state of development (the storm) and the possibilities of reversing it through an updated development vision and determination (collectively).

Therefore, the Report addresses four themes consecutively: structural economic distortion, the effects of liberal financialization, the difficult road to social development, and the Palestinian agency for governance. Since studying the Palestinian economy is a matter of “political economy” par excellence, and “development” in the second place, the socio-economic analysis of the report is framed in the context of an attempt to explore political scenarios that should have an impact on the prospects for achieving development and the role and duties of the international community therein.

No attempt is made in this Report to cover all aspects of the Palestinian development experience since 1994 or since 2014 at the same level of details; the approach could only be selective and emphatic in terms of content and level of in-depth analysis of the themes explored. This was due to the authors’ conviction that the topics selected are the most outstanding issues at the macro level, thus should be treated as prerequisites for the launch of a sustainable development process. On the other hand, the Report does not seek to assess the performance of Palestinian economic policies during that extended period or the programmes of any particular government since 1995. Rather, it focuses on what the current government has inherited and what will be borne by successive governments in confronting the challenges of the intractable development process. Even if differences were witnessed in some percentages or indicators from one year to another, the report confirms that the structural economic, social, and political problems will only be tackled by changing the political and economic balances to enable resolving the essence of the problem, embodied in the seeming permanence of the colonial regime and the denial of all Palestinian rights.

The final chapter of the Report presents a set of recommendations on the four core themes it addressed, draws some lessons from recent local and regional political changes, and reviews some alternative evidence-based interpretations and analyses of what international or official reports on the Palestinian development experience have presented. Yet, the intention was not to produce a “policy” document, but rather to come up with a conclusion of the joint analysis, drawing on some 200 Palestinian and international scientific and statistical references and sources, in the language of the authors themselves, with balance but without flattery. The purpose is

thus to encourage candid and constructive dialogue during such a difficult stage in the Palestinian development process and the history of the Palestinian people's liberation movement from all forms of injustice. Needless to say, this Report is a commentary on an era in which many successive Palestinian Governments have handled the accumulated burden of development.

Just as the quote from Franz Fanon, chief anti-colonial theorist, suggests in the opening Quote of the Report, so do we as authors seek to convey a message which confirms that the Palestinian people do not resist the Israeli occupier for the mere reason that they love violence. It's because they see themselves as holders of an inalienable cause of rights and justice (political, economic, and social), in spite of the era they are living in, where the law of the jungle and double standards are undeniably the dominating rules. Fanon's statements also signal that the new Palestinian generation, which was raised amid the hopes and failures of the Oslo phase and the occupation's harsh restrictions on sovereignty, development, and freedoms, and have become the first victim of non-development, will surely one day discover and decide its fate. They will build on the experiences and accomplishments, and learn from the mistakes, of the previous generation, those who have been fighting the hundred years war against settler colonialism.

The report thus brings the issue of Palestinian development back to its source, which is to engage in a legitimate struggle by the Palestinian people in accordance with international law, in order to exercise their right to self-determination in an independent State and to realize their rights and their deferred political, social and economic freedoms.

The rest of the story is only details.

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1. Palestinian Development, Interrupted

The 25 years of the era of “interim self-governing arrangements” in the occupied Palestinian territory (oPt) of the West Bank and Gaza Strip began with a promise of forthcoming sovereignty and statehood, including East Jerusalem. But today, the trajectory of the Palestinian people’s development appears to have reached a crossroads. The structural context in which development takes place remains hostage to oppressive policies and measures of an entrenched colonial settler regime and a permissive, poorly regulated market economy largely due to the obstacles imposed by Israel’s prolonged occupation. The ensuing dynamics mask a communal development deficit with the apparent fruits of individual prosperity. Meanwhile, the Palestinian political and governance framework under the Palestinian National Authority (PNA), needed for the enjoyment of development, has been tainted by the Oslo constraints, especially the violation of the five-year timeframe for the interim period before a final status agreement was to be achieved. In addition, Israel’s control over Palestinian lives has been reflected also by the obstacles to free and fair democratic elections that include East Jerusalem and Area C, a further violation of signed agreements.

Failure to achieve a political solution has led a segment of the Palestinian public to support “armed resistance” as an option. This, in addition to certain regional changes, have led the Palestinian leadership to reassess their own strategies. It has become clear that the peace process formula regarding development of institutions and Palestinian self-government in parallel with final status negotiations, have failed largely due to Israel’s failure to abide by signed agreements. However, the international community also bears its share of responsibility, as it has avoided resorting to sanctioning Israel’s persistent violations of international law, international humanitarian law, and UN resolutions.

The rejection by the previous and current Israeli governments of the two-state solution has led the PLO President Mahmoud Abbas to propose before the General Assembly in September 2021 a comprehensive time-bound peace initiative, stating that: “Israel, the occupying Power, has one year to withdraw from the Palestinian territory it occupied in 1967, including East Jerusalem, and we are ready to work throughout

this year on the delineation of borders and solving all final status issues under the auspices of the international Quartet and in accordance with United Nations resolutions.”

That the patience of the PLO and the Palestinian people has been exhausted, should come as no surprise. At the mercy of Israeli occupation, donor funding slowdown, Arab governments’ distraction with the region’s other crises, not to mention growing Palestinian economic insecurity, the prospects for Palestinian national liberation appear dimmer than at any point since the heady days of Oslo, Paris, and Washington. New ideas loom on the horizon in 2021, posing a challenge to the historical political program of the PLO. Prominent in this respect is the idea that some sustain that Hamas emerged stronger with a rare military and political victory during May, yet Hamas must contend with its own domestic crises. Its governance record is poor, its popularity is not assured, and it has little to show in the past 15 years of exercising power other than the consolidation of an armed resistance capacity in the Gaza Strip.

Of more recent genealogy, a diffuse, youthful set of social forces has appeared on the scene. They are inspired by and learning from the past decade of revolutionary turmoil among their own Arab brethren, unencumbered by the legacy of PLO factionalism and generally resistant to appeals to national unity under the ruling party and its national front. They do not attach much importance to the supposed gains of twenty-five years of polite Oslo politics. This unorganized movement of social forces seems to be testing the waters. Social media has become an indispensable tool for voicing popular dissent and keeping a culture of freedom of expression vividly alive.

Yet part of the next generation is not the only protagonists in a looming Palestinian socio-political dead-end. There is a broad swathe of public opinion grounded in different class interests which are favorable to maintaining the status quo, either fearful of what change may bring or simply unbelieving in the possibility of positive change after so many years of retreat. This silent constituency for maintaining the status quo, however imperfect, is not going to be easily drawn into any new misadventures. Self-interested complacency of the average Palestinian “citizen” highlights the distinctive nature and impact of neoliberal

values, which can project at once an open, forward looking governance agenda while entrenching conservative economic policy as regards the diminished role of (and public expectations from) the state vis-à-vis the primacy of the market and individual property rights. The risk for Palestine is that while the space for freedom remains restricted, the free-market ethos expands and reigns supreme.

In the wake of the second, militarized and failed intifada, many of those living under occupation have embraced the limited focus of self-governance under occupation. This default position helps to explain how even without any political process, economic growth continues, government services are maintained, and life somehow holds hope. With little expectation of change – a de-facto economic peace with the seemingly unending state of occupation is offered by Israel as the only option. This has been driven home by the interventions of Israeli, regional, and international actors in internal Palestinian affairs, with intentions far from the liberation of Palestine, but rather the perpetuation of the status quo and a weakened and divided PNA under Israeli control.

There is a real gap between this reality and the potential that Palestine could have, were it to secure sovereign control over its borders, natural resources, electromagnetic sphere, air space, maritime borders, and other aspects essential to independent statehood. In absence of those basic requirements, the Palestinian economy could continue to grow, yet anemically. Simply put: the Israeli government's alleged approach to provide Palestinians with "greater freedom" under occupation, or "shrinking the conflict" are not just going to fail but are part of the same process that has aggravated the existential crisis facing the Palestine cause.

Simultaneously, the Palestinian political strategy remains wedded to the premise that struggles for democratic representation and social justice cannot take priority over the "primary contradiction" with colonialism and the struggle for national liberation. This has always presumed the need for obedience to a veteran liberation leadership and its definition of national interests. Public acquiescence with the PNA's willingness to pursue improved self-governance since 2010 was largely conditional (in public reasoning) on improved services in the short term, and some progress towards a resolution of the national question,

amounting to a sort of national/social contract. But a gradual and natural demobilization of the potential for militant or popular resistance into a body of compliant citizenry is a reminder of the analysis of the pre-eminent theorist of anti-colonialism, Frantz Fanon, of how in other places and epochs, pre- and post-nationalist leaderships successfully delayed accountability for social, economic or political governance results.

2. Weathering the Storm

Events of the past year have demonstrated that the Palestinian people not only bear the brunt of the unwillingness or inability of the international community to protect and safeguard their rights. The fallout of the Covid-19 pandemic also points to fault-lines at the national level, as the PNA does not have the resources or ability to adequately respond to the growing social, economic, and political needs of a people denied national liberation, and sovereign democratic governance. These factors have created the conditions of a perfect storm. As the Palestinian people are losing trust in their own institutions, so they can only conclude that the international community has turned its back on them, their collective rights, and their basic human needs in line with international law, even as global public opinion appears more sympathetic to their plight than any time in the past.

Amidst the uncertainty and chaos of 2020, including an aggressive US-Israeli threat to unilaterally redefine the "peace-process" framework of the past 25 years, local bodies, communities and governments have been at the forefront in responding to the diverse and shifting needs of the people, particularly in hard-hit and remote areas. Where national government responses and coordination of the health and socio-economic crisis produced mixed results, local actors closest to those people in need have proven to be flexible and responsive despite limited financial and operational support and their own inexperience in crisis management (MAS, 2021a).

The past 15 years of relative stability in the West Bank and a securitized and orderly way of life engendered a complacency and expectation of business as usual, which left national, regional, and local government unprepared for the prolonged state of health, economic and political emergency of 2020. The surge of

the pandemic in early 2021 in the Gaza Strip and the West Bank almost overwhelmed public health systems and caused additional private economy losses. Moving forward, and building back better, not only requires mitigating further erosion of development gains of the Palestinian people, but also supporting the resilience of local actors, small producers, and small businesses through enhanced flexibility to manage crises, to meet the emerging needs of people, and to prevent them from being squeezed out by larger market actors and businesses.

In the “Prospects for Development in Palestine (PDP) 2021”, weathering the storm of accumulated, multiple crises means building on local responses and leadership, within a vision of national rebuilding back better that creates opportunities for recovery on a sustainable path towards development. While additional support is required to ensure these capacities are maintained, the magnitude of recent shocks reminds us of the prevailing and severe structural barriers to Palestinian sustainable development, including the restricted movement of people and goods, restricted access to national resources including land, and no control over international borders.

3. Mobilizing Collectively

In addressing the development progress and deficits reviewed in PDP2021, efforts to advance local responses and national recovery in line with the 2030 Agenda for Sustainable Development and principles of development must follow a coherent multidimensional approach. This requires including at its core transforming structural inequalities towards more inclusive, equal, and just societies. In Palestine, this translates into an emancipatory manifestation of resilience, which at once reinforces households and communities’ abilities to remain steadfast, empowers new untapped social potentials (especially women and youth) in innovative economic activity, and provides the pillars upon which sovereign development and nation-building may be pursued with some realistic chances of progress.

The dramatic developments of 2020 and 2021 have challenged the seemingly sustainable, indefinite status quo, beginning with the social and economic shocks of the Covid-19 pandemic, which spared none. To add to this already unstable brew, the repercus-

sions of the May 2021 upheaval “from the River to the Sea” and throughout the Palestinian diaspora in defense of Palestinian Jerusalem and the beleaguered Gaza Strip have cast in a new light the definition of the Palestinian national/social contract. For a moment at least, May 2021 erased the physical and legal borders between Palestinians (inside Israel, inside the oPt, and in the diaspora) and merged the causes of their deprivation (1948 and 1967) in the context of a unified confrontation with the same oppressive regime, increasingly viewed internationally as a de facto apartheid system.

A recent analysis of the growing debate on the issue examines the term — not as a rhetorical comparison to South Africa, but as describing a system of domination built on the partition of Palestine: “Israel persists today as a Jewish homeland in Palestine only through systems of control and fragmentation built to prevent any reversal of the Nakba. Partition thus was, and is, a central pillar of Israel’s architecture of demographic separateness, which underpins its apartheid logic, as a means of safeguarding a Jewish state and perpetuating the Nakba.” The most recent Israeli moves to outlaw six Palestinian human rights and development NGOs on the basis of bogus claims, and recurrent clashes with protestors in East Jerusalem and the West Bank, serve to drive home the lesson that all Palestinians, everywhere, are in one way or another, implicated in the struggle for rights and liberties, if only by simply existing. This year has been the great equalizer in terms of Palestinian collective and individual identity and consciousness. Indeed, what a prominent Palestinian historian has dubbed “the hundred years war on Palestine” may have entrenched a settler colonial project, but has also forged a Palestinian national identity and agenda that underpins Palestinian resilience in its many forms (Khalidi, 2020).

The perfect storm was further exacerbated by the heightened state of internal political dissent following the annulment of the Palestinian elections, and tensions surrounding human rights conditions over the past years. This moment reflects a confluence between the unfulfilled national self-determination and basic human rights aspirations of the Palestinian people, the increasing audacity of an occupying power accountable to no party or treaty, securitization of otherwise unexceptional governance, and growing public, youth, and intellectual elite disillusion with the legacy of Oslo.

These factors provide rich material for reflection on the possible ingredients, shape, and direction of a renewed Palestinian collective movement that would target reclaiming national rights, reforming national institutions, and raising common social, economic, and individual rights to no less than a level of supremacy in the pantheon of Palestinian development goals than that of national statehood. These deeper dimensions of the Palestinian development dilemma, which help to explain gaps between the numbers and the realities discussed in this report, are examined in-depth in PDP2021. However, this should not overshadow progress achieved in the standard indicators of human development in the context of efforts to attain the 2030 SDGs.

4. Palestinian Human Development Index, 2014-2019

The current HDI for Palestine is 0.708 – placing it just within the “high” human development category for the first time, and positioning Palestine at 115 out of 189 countries and territories. Since 2014, Palestine’s HDI has increased from 0.697 to 0.708, an increase of 1.6 percent. During this period, life expectancy at birth increased by 0.8 years, expected years of schooling increased by 0.2 years, mean years of schooling increased by 0.3 years, GNI per capita (2017 PPP\$) increased by 377, and the HDI value increased by 0.011 (UNDP 2020).

Overall, Palestine has maintained an incrementally positive HDI growth trajectory since 2014 and at face value, its HDI scoring shows that improvement is possible even under current constraints. Compared regionally, Palestine finds itself well behind Israel (0.919), UAE (0.890), Saudi Arabia (0.854), Qatar (0.848), Oman (0.813), and even Lebanon (0.744) and Jordan (0.729). Palestine’s HDI is at the level of Egypt (0.707) and better than Iraq (0.674), Sudan (0.510), and Yemen (0.470). Despite these improvements, and in spite of being upgraded into the high development category last year, Palestine has dropped in its HDI rankings from 109 in 2014 to 115 by 2019 (UNDP 2020). Meaning that other countries have made greater progress in terms of HDI indicators in the 5 years.

As for gender inequality in HDI, the Gender Development Index (GDI) for Palestine is 0.870, which is a slight increase since 2014 from 0.865. This value reveals a significant difference between male and fe-

male human development in Palestine. Life expectancy at birth and expected years of schooling are both higher for females (75.6 and 13.7 versus 71.8 and 12 respectively). While GNI per capita is lower for females (2,045 vs 10,666) and the mean years of schooling is roughly the same (11.11 vs 11.06). The drastic difference in GNI per capita is likely what pushes the HDI for females to be significantly lower than males at a value of 0.638 for females and 0.733 for males (UNDP 2020) Further indicators of inequality, gender-based, and non-gender based, are discussed in the below section on gender inequality.

The HDI does not provide a comprehensive aggregation of the state of development in Palestine as it does not include crucial indicators that reflect the particular and structurally constrained conditions of Palestinian development, including denial of access to natural resources and sovereignty. However, it does provide a general understanding of the progress made towards human development in Palestine to make cross-country comparisons. Since the HDI provides a simplified snapshot of development in Palestine, this chapter will also include an analysis of other relevant socioeconomic indicators that play a role in the complex realities on the ground.

5. Palestinian Development Structural Deficits

While indicators for human development in Palestine highlight an overall positive trend, including in comparison to countries around the world, sustainable development in Palestine remains elusive amidst structural barriers that deny sovereign agency for development prospects. Though all the Palestinian people are governed by one form or another of Israeli occupation, over a third of them, those living in the Gaza Strip, have been largely deprived of some of those gains registered elsewhere in the occupied Palestinian territory. Youth, women, and socially or geographically marginalized groups are also among those Palestinians being left behind. These positive developments have largely been driven by accumulated social and governmental (following the establishment of the PNA) investment in prioritizing education and health as key cornerstones of Palestinian development. It is no doubt that this historical investment has contributed to the fact that the state of Palestinian human development is now classified within the “high human

development” category. Yet this appears paradoxical in the face of uneven economic development, visible social differences and inequalities, and governance that cannot change or challenge the status quo.

Since Oslo, aid for Palestinian development has been couched in people-centered language, positioned around principles of individual and collective freedoms, economic opportunity, and social justice, and generally aimed at contributing to the resilience of the Palestinian people despite the numerous obstructions to Palestinian life and livelihoods, indeed because nothing could be done to structurally resolve them. Yet, over the past half-century, Palestinian development has been undermined by the stubborn facts of occupation and the vagaries of a poorly regulated market economy, to a point that puts in question whether it can justifiably be considered a people-centered process. Copious amounts of international aid, external political or development policy agendas, and a domestic governance accountability deficit have all contributed to the protection of a failing peace process rather than the protection of the people. This has created a status quo of a seemingly never-ending Palestine under occupation, causing fatigue to donors, international agencies, and of course, the Palestinian people themselves.

The enduring deficits in some Palestinian development indicators, especially in areas such as poverty, employment, economy, and gender, highlight what a classification as “high human development” cannot duly capture. This raises the need for a deeper search for the structural economic, social, and governance barriers to Palestinian development - the missing links that help to better explain the dismal state of Palestinian development today.

6. 2021- A Turning Point for Palestinian Development Prospects?

The crossroads suggested by 2021, manifested in a reconfiguration of Palestinian, Israeli, regional, and international political forces and agendas, offers a timely vantage point to assess past performance and envision options to transform the prospects of Palestinian development. The goals and content of development have never been at issue in the Palestinian context, however, the material conditions that determine its pace and potential call for a broader investigation

than offered only by conventional indicators and global comparators. Hence, though Palestine has recorded advances in development, failures in some indicators and structurally distorted performance in others, suggest that more is at play here than the usual processes of social and economic development.

Exploiting emerging opportunities could radically shift the balance of power in Palestine and with Israel in favor of a just and feasible two-state outcome. The process could be accelerated if Palestinians could successfully lobby donors to use a greater proportion of aid to help develop Palestinian capabilities of developing and engaging in these rights movements. While the struggles of Palestinians in Israel for their own rights agenda continue along a parallel path, synergies with political and social movements in the oPt could be of mutual benefit and further leverage Palestinian weight in the balance of the conflict with Israel.

This in turn allows the PDP 2021 to probe into the missing links of Palestinian development to help to explain the paradoxes of growth and stagnation, wealth and poverty, corporatization and informalization, autonomy and dependency, conservatism and liberalism, citizenry and lawlessness that feature in the Palestinian context.

Our assessment leads to the conclusion that there is a need for a new strategy rather than new goals to foster development in Palestine. The intensive focus of all parties for the past years, if not decades, has been on achieving the Palestinian people’s national right of self-determination on the basis of the Oslo “process”, towards a two-state solution of partition between Israel and Palestine. While that goal has been elusive to say the least, other no less precious rights appear to have been also side-lined. These include not only the internationally enshrined rights of Palestine refugees, the right of sovereignty over natural resources, or the right to development, all endorsed by repeated UN resolutions. But in differing degrees depending on geography and political/legal regime, Palestinians have been denied pursuing their common economic, social, and cultural rights, and some communities and classes suffer deeper deprivation. This is not to mention widely disparate levels of enjoyment of individual human rights between Palestinians in the Gaza Strip, Jerusalem, Ramallah, or Haifa.

The implication here is that considering poor development performance, and at the current historic juncture with national self-determination still a distant political prospect, there is a natural, logical and effective choice for the Palestinian people in the oPt, and their supporters among other Palestinian communities and internationally. This would be to pursue together in a broad and cohesive thematic and demographic coalition, and to mobilize collectively and simultaneously, for the whole slate of their basic, collective/national, and individual rights. These ultimately are inseparable and are equally rooted in the mother of all rights, freedom. There has been a growing recognition in mainstream policy discourse that a re-focus is warranted in promoting Palestinian national and other rights rather than a moribund Israeli-Palestinian bilateral peace process, as the basis of political processes towards a two-state solution and accompanying development efforts.

Simultaneously, when referring to rights it is important to amplify the fostering and protection of the collective nature of absent Palestinian rights. Rights-based approaches in development have often privileged individual rights, which has contributed to ongoing fragmentation and inequality. In terms of sustainable development, collective rights are a type of “public good”. The individual and collective livelihoods of Palestinians, expanding Palestinians’ collective freedom of opportunities and choice to live the lives to which they aspire, cannot be achieved for one without being achieved for all.

In the age of climate change and pandemics, environmental fragility has brought to the forefront the need to recognize our responsibility to future generations. This responsibility extends to the political, social, and economic conditions current generations are contributing to which will be left behind for Palestinian youth to navigate through. With shrinking opportunities for Palestinian youth and a growing young population, collective freedoms and opportunities are dwindling. As such protecting collective rights should also include the responsibility to future generations, building the blocks towards sustained development.

The potential for amassing Palestinian collective bargaining power (political, demographic, economic, and socio-cultural) in an asymmetric struggle with occupation and military force has been highlighted in recent

events, forcing a rethink towards Palestine from Dubai and Tel Aviv to Brussels and Washington DC. That the problems we face today arising from the 1967 occupation of the West Bank are rooted in the failures to address the injustices of 1948 has again come to the forefront of Palestinian popular and political consciousness.

Over six million Palestinians live under Israeli rule in one form or another, and an equal number of their compatriots live around the globe, together constituting the “Palestinian people” regardless of legal, geographic, political, or cultural barriers between them. This realization provides a legitimate power to the narrative of liberation, and a renewed potential for Palestinian development. However, without sustained mobilization and collaboration and systematic channelling of Palestinian human potential, the risks of the status quo continuing to prevail and stifle new strategies or repress mass organization cannot be discounted.

Amid this all, we seek to rediscover the meaning of development in an occupied Palestine and affirm its importance despite the bleak status quo. In other words, this Report is critical not only to communicate Palestinian progress against global measures in the context of political challenges, but also to highlight how power structures and global economic dynamics contribute to the existing inequality between states in the international system, as well as inequalities amongst the Palestinian people.

PDP2021 highlights both the achievements in development in Palestine over the past quarter-century, as well as shortcomings in the policy framework that have not narrowed. Our assessment of Palestinian development could have sufficed with that account and research the underlying causes to be addressed to accelerate the development trajectory through reference to the conventional toolbox of policy reform. However, the broader policy environment issues outlined in PDP, and the range of paradoxical development outcomes in Palestine, require a more profound analysis of the underbelly of the development deficit in Palestine. This is undertaken through an analysis of the key missing links in the narrative of Palestinian development, namely economic malformation, expanding financialization and liberalization, social deprivation, and stalled governance outcomes of the past decades. By thus drilling down deep into the Palestinian development condition, it becomes evident

what sort of policies and strategies will be required in the future.

7. The Macroeconomics of Palestinian De-development

The distortions in the performance and structure of a Palestinian “macroeconomy” that has no resort to the usual sovereign policy tools are a natural outcome of prolonged occupation and domination by the much larger, more advanced, and internationally integrated Israeli economy. The enduring handicap borne by an economy striving to shape itself within a national framework amidst a convulsive struggle to attain statehood has deep ramifications. These include its incapacity to generate sustainable and stable growth, make the optimal use of limited resources, and ignite a process of industrialization and structural transformation that is understandably a prerequisite for any realistic targeting of development goals. Amidst a high degree of international openness, the deeper dynamics of low productivity growth, limited technological advance, and weak competitiveness reveal goods, services, and labour markets that are largely impervious to conventional policy instruments, especially within the limited policy space and jurisdiction of the PNA.

Twenty-five years of the Oslo-Paris economic policy framework have subordinated Palestinian development interests to those of the wholly different and fully globalized Israeli economy, rendering the very concept of a Palestinian macroeconomy problematic. The ensuing growth and development deficit that has accumulated over the decades is one of the missing links in understanding why Palestinian development cannot advance in the absence of a profound transformation of the bases and framing of Palestinian political prospects, as well as a policy shift towards greater protection of an “infant-economy”.

Neoliberal terminology such as “good governance,” “private sector-driven growth,” “fiscal discipline,” “export promotion,” “poverty reduction,” and “economic reform” have been promoted as innovative tools for creating efficient states that downsize the public sector and government provisioning of social welfare. However, the case of Palestine is unique in the regard that Palestinians seek national liberation from settler-colonial control at a stage in their economic development that favours economic openness, much

different from the experiences of most other national liberation movements.

Palestine does show incipient traits of a financialized economy, but it is not as pervasive in the structures of economy and society as witnessed in other more developed countries. It can be observed only in the context of growing credit and household indebtedness. Its impact is also limited to specific areas - e.g., fuelling the structural transformation towards the consumption economy, the property bubble, and debt-dependency – all of which are creating a speculative environment. The PNA has long followed the neoliberal advice of the Washington Consensus, entailing little intervention in how and where credit should be directed, and disengaging from the needs of the local economy, on theoretical assumptions that markets would allocate resources optimally. Private banks are profit-making institutions and their objectives do not automatically line up with developmental objectives.

Despite the transformation in the finance and banking sector, the PNA did not induce the sector to achieve higher levels of investment and develop a more dynamic domestic market that can foster job creation and reduce the dependency on aid. Given the distribution of credit facilities, banks did precisely the opposite in search of a high and secure return. The banking sector avoided sectors such as agriculture and SMEs that have high social returns. Instead, it increasingly financed collateralized real estate investments and secure private consumption, powered by the stimulus to aggregate demand of a large public sector payroll.

Given its current predicament, Palestine will confront significant development challenges in the future. To achieve sustainable rates of economic growth and to generate decent employment for its growing labor force, in particular for the youth and women, and to progressively improve the overall wellbeing of its population it will be imperative to radically restructure its economy. Even if the occupation ends, many of the structural distortions will most undoubtedly endure in the absence of decisive policy interventions radically re-structuring the malformed economy and making it possible for Palestine to transit into a path of growth-enhancing structural change.

To achieve a growth-enhancing structural transformation of its economy Palestine needs to break with path-dependency upon the Israeli economy, escaping from the current perverse cycle. The enormous challenge faced by Palestinians demands a bold development policy shift. It would be imperative to depart from the conventional “market-enhancing policies”, which are commonly recommended to all developing countries focusing on governance capabilities that reduce transaction costs and enable markets to work more efficiently.

There is growing consensus calling for development-friendly macroeconomic management aiming at minimizing growth volatility and assuring competitive exchange and interest rates through market-based management mechanisms. This approach also proposes active industrial policies addressing market failure and generating positive externalities while emphasizing equity and distributive and targeted pro-poor policies in contrast to the “trickle-down effects” notion embedded in neo-liberalism. It calls for proactive fiscal policies which identify sources and agency for resources to finance developmental programs, expanding the available fiscal space, and utilizing the fiscal policy to smooth the economic cycles. Moreover, it emphasizes that these policies have to be complemented with an environment-friendly approach, which does not opt for short-term economic gains at the expense of long-term sustainability.

It should be obvious by now that in the Palestinian case, as it has been the case of many other developing countries following similar policies, a business-friendly environment could be a necessary condition, but it is definitively not sufficient to promote healthy development of a modern private sector and for boosting its contribution to income, employment, and exports of goods and services. Palestine development policies should aim at escaping the trap of a low growth path and promote growth-enhancing structural transformation of the economy, moving the malformed Palestinian economy from consumption-based, inward-looking, and factor-driven growth path towards an innovation-driven and export-oriented one. This will only be possible by implementing a new comprehensive capability-centered strategy, where the expansion of domestic knowledge-based assets is at the core of achieving competitive advantages beyond primary products, unskilled labor-intensive goods, and traditional services.

This would definitively require more pro-active government interventions aiming at enhancing social and firm-level capabilities. An approach that would demand departing from the current trade arrangements with Israel and implementing a development-driven trade policy closely articulated with industrial policies, while promoting the progressive internalization of innovation-based activities on a broad scale. Economic transformation will require long-term investments in basic infrastructure propping productive activities and reducing systemic bottlenecks. The expansion of the fiscal space is a necessary condition to achieve the level of public investments that will be necessary for such purposes. Palestine urgently needs to attain international fiscal recognition and autonomy.

Therefore, any real progress will be contingent on a significant political breakthrough ending the occupation and the establishment of a sovereign Palestinian state in full control of its territory, its policies, and its future. A far-reaching change in development policy direction would additionally demand the liberation of Palestinian policy-making from the dead-end of laissez-faire market ideology, and in a context of domestic political reconciliation building a strong political coalition supporting in a sustained manner a new pathway to economic development for the benefit of the vast majority of Palestinians.

8. Restoring Palestinian Social Development

Deprivation signals a systemic public policy failure to cater to development needs, as a haphazard process of structural transformation proceeds that has left many behind on the ground, while pushing others, often inexplicably, into the stratosphere of conspicuous, if not wasteful, consumption. Amidst a high prevalence of poverty in the oPt, protecting the poorest has become a fixed slogan of the PNA development agenda and public expenditure commitments, not to mention the target of generous donor aid to help stem social degradation. Given the combination of a restrictive external policy environment, the vagaries, and a distorted market economy whose growth is dependent on external income sources and high levels of private consumption and indebtedness, inequality has become a growing concern. However, it is a topic that is inadequately researched, despite the clear and often stark signs of extreme wealth and extreme poverty coexisting in the same city, village, or street.

Given the weakly regulated, lightly-taxed, and largely informal nature of the economy, it is understandably not easy to chart the sources and drivers of wealth accumulation and inequality in Palestine. Indeed, the phenomena of poverty and inequality coexist within a broader Palestinian context of national-social deprivation arising from the policy factors shaping the scene. The incoherent social development achievements of 25 years of Palestinian and international efforts intended to “leave none behind” appear as another natural outcome of the interplay of political, economic, and governance gaps under the conditions of occupation. Too many have been left behind and it cannot be denied that there is also Palestinian agency and responsibility for social development.

The existing fabric of social protection in Palestine is fragmented, incoherent, and incomplete. Efforts to date do not meet required global or even regional standards, and do not ensure protection and safety for poor and marginalized groups. There is wide social and expert consensus on the imperative for intensive and immediate efforts towards establishing a system that not only caters to the poorest (the social safety net currently managed by the PNA) but provides universal coverage to all, indeed establishing a true social contract for Palestine. Sooner, rather than later, this thorny but vital file should be vigorously tackled.

This requires incorporating these principles:

- Benefiting from the experience of the socio-economic shock of the pandemic, and the resulting global rethink on the role of governments and the importance of public resources in securing citizens’ social and economic needs. In any case, this requires the establishment of regulations and laws that guarantee the right to health of citizens, protection of the vulnerable, care of the elderly, and compensation for the unemployed, all of which are indivisible components of the social contract and the rule of law.
- Taking into consideration the interests of poor and marginalized groups in overall economic and social policies, to face the challenge of an increase in the numbers of the new poor. This requires changing the perception of social protection, from being a relief sector based on seasonal donations, to serving as an enabling sector that guarantees the rights of these groups.

- The necessity of framing social protection programs, supervised by the government, in an integrated system that includes all areas of protection and all groups of society and gradually builds coverage and benefits. This requires improving the governance of social protection programs; unifying sources of funding; and directing these, in a focused manner, to the neediest groups in various regions in the West Bank and Gaza Strip. It also requires modernizing the social registry and building a database on the living conditions of the poorest segments of society. This will help direct social aid first to those who need it most, with transparency and justice.

9. The Governance Dilemma and Palestinian Agency in Development

PDP2021 analysis depicts the underlying political, economic, and social factors that have acted as discrete constraints on realizing Palestine’s development potential. The analysis is rooted in an unequivocal understanding of the pernicious and insidious impacts of prolonged confrontation with a colonial project in the territory intended for a sovereign State of Palestine. Further, countries’ experience shows that developing good governance comes as a result of, and not as a prerequisite for, development. However, this should not enable a narrative that denies or minimizes Palestinian agency for the current development predicament.

Palestine is today twenty-five years into a non-sovereign self-government originally intended as a brief prelude to sovereign statehood. In the process, billions of Dollars and Euros of donor aid have been ploughed into establishing Palestinian good governance. Hence, it is natural, if not necessary, to assess the reality of Palestinian governance and the constraining factors that have rendered results less than the bold slogans raised over the past decade from “reform and development”, through “ending the occupation, establishing the state” up to “the citizen first”.

The performance of the PNA in the past decade in governing social and economic development, not to mention in maintaining its accountability, legitimacy, and the rule of law, implies an incomplete and limited governance agenda that has exhausted the limits and credibility of the “self-government without statehood” experience. Palestine’s perfect storm has been

brewing for years compounded by the adverse political status quo, and the difficulty of PNA reform in the absence of a democratic process and some measure of “national unity”. Combined, these factors appear today as a recipe for economic stagnation and social tensions and the rise of tribalism and regionalism instead of the formula of the current social compact, which its proponents argue is an overriding interest of all parties, especially the most deprived citizenry.

The PDP2021 analysis depicts a non-virtuous loop of causes and effects linking middling governance, increased securitization of the political regime, a poorly regulated liberal market economy, inadequate public resources to respond to growing socio-economic pressures, and structural fiscal fragility. Accordingly, the underlying drag downwards caused by the governance shortcomings on the condition of development in Palestine and its prospects, yet another missing link in confronting the perfect storm, becomes clearer, as the challenges posed appear increasingly insurmountable.

In the analysis of the narrator of neo-colonialism, Frantz Fanon, based on the experience of Algerian liberation from French colonialism, the “national bourgeoisie” is little more than a “national middle class” with an “historic mission: that of intermediary.” In the Palestinian case, which is not necessarily the same model in a new global era, would include strata such as Fanon’s “university and merchant bourgeoisie,” “army and a police force,” “the young national bourgeoisie,” “the party,” a “profiteering caste,” a “native bourgeoisie,” “honest intellectuals,” and a “bourgeoisie of the civil service.” In Fanon’s view of this parasitic, non-productive and generally “useless” class elaborated in the (“Pitfalls” Chapter 4) of *The Wretched of the Earth*, there is no particularly important role for domestic and expatriate industrialists and masters of finance. Their weak industrial and technological base and “comprador” links to global capital determine their objectively hostile position towards the national liberation project, even if they may strike an accommodation with it.

In a departure from Fanon’s typology however, in the Palestinian case, these “diaspora millionaires” and their domestic compatriots (the private sector) are not hostile to national liberation; indeed they are important players who always have been closely aligned with PLO economic interests and political program,

underwritten it financially, and invested in productive sectors and development in Palestine. Combined with the other strata of the middle class, this social formation may be considered as the core constituency of what might be termed, in the language of national liberation ideology for a century, as a “Palestinian patriotic bourgeoisie”. This unique Palestinian brew implies a hitherto unwitnessed hybrid that interweaves a Fanonist scenario of post-colonial revolutionary failure with an unachieved national liberation project (which usually is not mortgaged to or in collusion with neo-colonialism). For example, the post-colonial “de-mobilization” of the previous militant leading cadres in the Algerian experience.

But paradoxically such a usual transition of governance has not been witnessed anywhere while de-colonization is still unachieved or in the absence of sovereignty and democratic systems. In that regard, Palestine presents a unique situation that the even most sophisticated methodology cannot easily capture. The importance of recalling Fanon’s advice, although it dates back to an earlier era, lies in what he refers to as the pitfalls of prolonged political stagnation (and lack of socio-economic progress). These degrade not only the quality and justice of governance and its responsiveness to the aspirations of successive generations, but also the prospects for achieving the national liberation project.

The limited achievements recorded in governance in Palestine in the past twenty-five years, according to the previously mentioned international indicators and reports, is related to several factors beyond the effects of the occupation alone, especially in light of the weakness of the democratic process. There are impacts on governance due to the pitfalls of a liberal market economy, the inadequacy of public resources to respond to increasing socio-economic pressures, and the structural fragility of public financial resources, with negative consequences for the state of development in Palestine and its prospects. Addressing these challenges in the Palestinian governance system requires continuing the ongoing administrative and institutional reform processes, in parallel with efforts aimed at concluding a new social and economic contract that leads to a more open and democratic political system, governed by the rule of law and transparency, and adherence to the highest human rights standards. This calls in turn for a renewal of the economic governance regime that

reconciles between economic and social justice policies, and a high quality of governance where the state takes a more strategic and regulatory role aimed to a more inclusive economy and targeted redistribution system and effective service provision for their people. Without addressing these issues, the state-society relationship will risk deterioration.

The governance in abeyance condition, which means that it has reached the limits of what can be expected in the absence of sovereignty, requires actions at all levels of the governance indicators examined, beginning in the realm of guaranteeing political freedoms and restoring an elected governance system, regardless of the prospects for sovereign statehood. The PNA's continued *raison d'être* in the eyes of citizens will not be found only in its security or political functions, but rather in its ability to deliver basic services competently and affordably. Part of the governance and democratic deficit can be acknowledged by strengthening consultative and participatory processes as well as accountability mechanisms for public officials and institutions as well as major economic agencies and capital interests, especially in the absence of legislative oversight.

Designing and executing a feasible and sustainable strategy for governing socio-economic recovery in a continuing uncertain, if not hostile, the political environment is not an assured matter, even if the contours and content of such a strategy may be evident. This challenge is compounded by the reduced resources, effectiveness, and reach of governing institutions. At a moment when nothing less than sovereignty is needed to fully enable Palestine to weather the crisis and emerge having further demonstrated its legitimate place among the nations of the world, perhaps the substance of the Palestinian statehood under occupation concept needs to be re-considered.

When the State of Palestine can function coherently as the totality of all the systems and institutions currently in place - civil and governmental, market and regulatory, legal and informal, democratic and pluralist, social and economic, family and corporate, rural and urban, regional and local - then its reality and inevitability become more tangible. Therefore, the governance of development, above all, must focus on mobilizing human resources, organizing and framing them, and enhancing solidarity and social coordina-

tion. This way, solutions do not need to depend on the availability of financial resources as much as they require dependence on the "other" rather excluding him/her, taking care of the most marginalized and poor, and consulting and planning to guide action, instead of reaction.

10. A Strategy for Collective Mobilization for Development: National and Human Rights – by Hook or by Crook

This survey of the condition of Palestinian development has revealed the fundamental weaknesses in the economic, social, and political fabric of life for Palestinians under occupation. Our discussion began with a reference to both the domestic Palestinian interest in better development, as well as that of international donors who have been implicated by the imperative of keeping alive a peace process in the past decades. Indeed, Palestinian sustainable development is not only a collective Palestinian mission but also an international responsibility and concern.

However, the dead-end of 2021 where neither a political process nor a development horizon appear imminent, calls for further reflection on the lessons of the Oslo period and the interaction between politics, aid, and development outcomes. This could allow for a recalibration of the strategies that might be necessary and feasible for enabling a process of more comprehensive, balanced, and just development, even under continued occupation and denial of sovereignty.

History may yet record May 2021 as a turning point in the terms of the political settlement in Israel-Palestine. The simultaneous mobilization of Palestinians in East Jerusalem, Gaza, Israel, and the West Bank signalled (in embryonic form) the potential for credible collective action. Over time, if repeatedly manifested, such action could change the balance of power and calculations in the peace process, but only if it eventually coalesces around collective political rights for all Palestinians. The emergence of a credible threat to the status quo would challenge the Israeli perception that Palestinians can be permanently 'managed' with divide and rule tactics without having to concede either rights or an independent state.

The different scenarios outlined in this Report provide ample room to frame the likely political prospects

that will shape Palestinian development in the coming years. Both the opportunities of the current moment, as well as the pitfalls of the status quo remain to constitute dynamics that could play out in different ways, depending on the decisions and capacities of the concerned actors, the Palestinian people collectively above all. The elements of a policy programme for achieving better Palestinian development in the coming years are evident in the areas of economy, society and governance addressed in this Report, and spelt out in its conclusions. But the prospects for achieving better performance depend essentially on the Palestinian people's ability to mobilize socially, economically, and politically, not only as a deterrent to occupation and settlement, but to achieve their denied national and human rights by hook or by crook.

An analysis of the relationship between distributions of organizational power and aid policies can help to explain the policy failures of the past and to identify responses to emerging opportunities and challenges. Aid strategies supporting the Oslo process failed primarily because of an adverse distribution of power that prevented the emergence of an internal Israeli commitment to a two-state solution. Pushing ahead with the process under these conditions resulted in a weak containment of Israeli free riding, allowing Israel to create new facts on the ground. In contrast, Palestinian violations were sanctioned to a greater extent, thereby effectively constraining Palestinian strategies of developing their own economic and organizational capabilities by informally by-passing Israeli restrictions.

The result was an undermining of territorial opportunities for a two-state solution. At the same time, rapid increases in settler numbers raised the costs of overcoming internal distributive conflicts within Israel in favour of or against the two-state solution. Given this distribution of power, shifts in aid strategies in favour of support for economic self-reliance within the occupied Palestinian territory are unlikely to shift the distribution of power enough to enhance the likelihood of achieving statehood or effective rights.

A Palestinian cross-national mobilization for political rights could have created a credible threat for Israel that was sufficiently compelling. This was the only strategy that may have forced rational political organizations within Israel to achieve and exercise in their own interest an effective control over those resisting

the two-state solution. This was missing throughout the Oslo process. A Palestinian rights movement did not emerge early enough, but the joined-up resistance demonstrated by Palestinians in May 2021 showed in embryonic form the feasibility of such a movement.

Palestinians should intensely lobby development partners to use aid as much as possible to support separate and eventually coordinated Palestinian rights movements throughout the territory under the control of the State of Israel. A significant shift of aid spending in these directions is likely to be resisted by Israel for obvious reasons, but Palestinians have an enormous advantage in demanding rights no less than borders. There can always be disputes about where borders should be. There can be no disputes about legitimate demands for internationally enshrined national and individual rights. Developing a legitimate rights movement for liberation and peace and development will take time and considerable attention to strategy and tactics.

The military power imbalance considerations and human rights rationale for abandoning violence may be difficult for Palestinians to accept after the recent Gaza Strip military confrontation with Israel. But proceeding in this direction should be an important focus of Palestinian institutions in the coming period if garnering increased international legitimacy for their collective struggle is both a goal and a strategy. Their planning, advocacy, and lobbying activities should aim to maximize international support for Palestinian rights and to use aid whenever possible to support these organizational activities.

Finally, the steps towards normalization between Israel and a number of Arab countries, and the emerging discourse about investments and trade rather than aid as a way of sustaining livelihoods in Palestine may appear to be stalled for the moment but should not be dismissed as they could re-emerge in some form in the future. There are compelling economic reasons why some advanced countries, including the US, may proceed in this direction. Moreover, the self-interest of regional countries may also lead them to push for joint investments with Israel in Palestine. Here too, the political settlements framework points to both risks and opportunities. Without adequate planning and preparation, the result may further weaken Palestinian organizational power. It may also result in the

emergence of developmental pockets and enable divide and rule strategies to be imposed on a fragmented economy and polity. But if Palestinian institutions have prepared for incoming investments, developed backward and forward linkages, with appropriate skills and organizational training, the result could be not only a strengthening of Palestinian livelihoods but also of Palestinian power.

In the best-case scenario, a combination of Palestinian rights mobilizations and new forms of economic power based around economic investment zones and growth poles could shift the distribution of organizational power in Israel-Palestine sufficiently and Palestinian demands for rights may become more and more difficult to ignore or suppress. Whether this leads to a two-state solution acceptable to the Palestinians or a one-state reality based on equal citizenship rights surely matters a lot less than remaining trapped in the current impasse.