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PROSPECTS FOR DEVELOPMENT IN PALESTINE

2021



**Weathering the
Storm, Mobilizing
Together**

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Foreword

Raja Khalidi
MAS Director General

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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Overview

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 has 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 resort 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 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 are 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-a-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, 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 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 socioeconomic 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 “Prospects for Development in Palestine 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 sustainable 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 repercussions of the May 2021 upheaval “from the River to the Sea” and throughout the Palestinian diaspora in defense of Palestinian Jerusalem and 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 (B’Tselem 2021, Amnesty International 2022).

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.”¹ The most recent Israeli moves to outlaw six Palestinian human rights and development NGOs on the basis of bogus claims,² and recurrent clashes with protesters 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

1. Tareq Baconi, “What Apartheid means for Israel”, New York Review of Books, November 5, 2021.

2. “Secret Israeli dossier provides no proof for declaring Palestinian NGOs ‘terrorists’”, +972 Magazine, <https://www.972mag.com/shin-bet-dossier-palestinian-ngos/>

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 an alarming reversal in human rights conditions over the past year. This moment reflects a confluence between the unfulfilled national self-determination and tensions surrounding 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 a 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, rebuilding degraded national institutions, and raising common social, economic and individual rights to no less 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 Part Two. However, this should not overshadow progress achieved in the standard indicators of human development in the context of efforts to attain the 2030 SDGs.



Part One

PROGRESS IN HUMAN DEVELOPMENT, 2014-2020

Key Findings

Palestinian Human Development Structural Deficits

While indicators for human development in Palestine highlight an overall positive trend, including in comparison to countries around the world, development in Palestine remains elusive amidst structural barriers to development 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 marginalised 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 as 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-centred 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 as a people-centred 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 human 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, pursued further below in Part Two for a deeper search for the structural economic, social and governance barriers to Palestinian human development - the missing links in the development narrative that help to better explain the dismal state of Palestinian development today.

1-1 Setting the Human Development Baseline

Development in Palestine as a destination, continues to be a distant reality in the absence and denial of individual and collective freedoms, basic rights, and social justice on account of the ongoing occupation. Human development means improving the lives people lead, providing opportunities for people to have the freedom to live the lives they value and expanding the potential and possibilities of choice. All these factors are deeply constrained within structural and systematic barriers to Palestinian life, development and mobility. Previous reports by international organizations have highlighted how protracted Israeli occupation constitutes the most significant structural barrier to individual and collective Palestinian rights under the framework of human development.

Yet, the PDP 2021 report reminds us that development and weathering the storm are ongoing journeys that expand beyond basic needs towards empowering people(s) and expanding freedoms. As such, one of the central themes of the PDP2021 is that development must work within a framework that people are agents rather than patients. In doing so, the PDP notes the need to specifically look at the way different forms of power are distributed and wielded (UNDP, 2020). Hence, affirming collective mobilization for basic rights recognizes the need for a new understanding of aid and development in Palestine that places the Palestinian people's agency at the core, instead of a failing peace process and increasingly reluctant donor aid.

This Part assesses the status of human development in Palestine today, and it's progress from 2014 to 2020. The assessment in this Part is based on internationally recognized indicators. Certainly the Human Development Index (HDI) provides a baseline reference in the monitoring and evaluation of the basic dimensions of human development across countries. However, its analytical and empirical framework for measuring performance can only provide a one-dimensional picture that does not capture structural and systematic barriers to development alongside the ways in which power is distributed and wielded. Previous Palestine human development Reports have also noted the limits of conventional development indices as they cannot account for the

complexities of the Palestinian context of trying to pursue economic development under occupation. However, such indicators provide a necessary entry point for a stock-taking and comparison of development trends in Palestine. This Part of the PDP begins by a review of HDI performance between 2014-2019 (as 2020 data is largely unavailable), and subsequently reviews the most recent data available for other conventional development benchmarks to expand the analysis.

1-2 Human Development Index: an Overview

The HDI is used as an indicator for assessing long-term progress using three fundamental aspects of human development: a long and healthy life, access to knowledge, and a decent standard of living. A long and healthy life is measured by life expectancy. Access to learning and knowledge is measured by mean years of schooling among the adult population and by expected years of schooling for children of school-entry age. Standard of living is measured by Gross National Income (GNI) per capita expressed in constant 2017 international dollars converted using purchasing power parity (PPP) conversion rates.

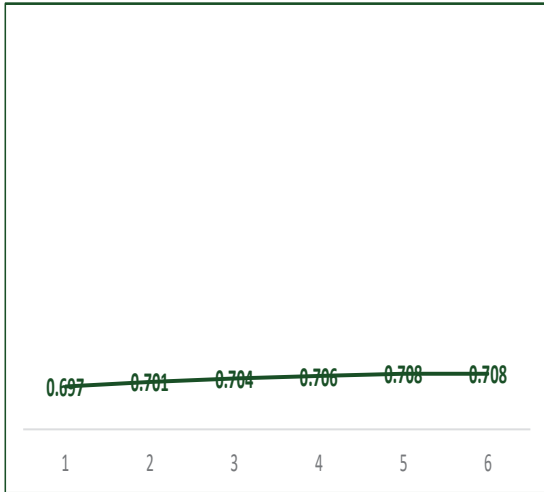
The HDI does not provide a comprehensive aggregation of the state of development in Palestine as it does not include crucial indicators that reflect the particular and structurally constrained conditions of Palestinian development, including denial of access to natural resources and sovereignty. However, it does provide a general understanding of the progress made towards 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.

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

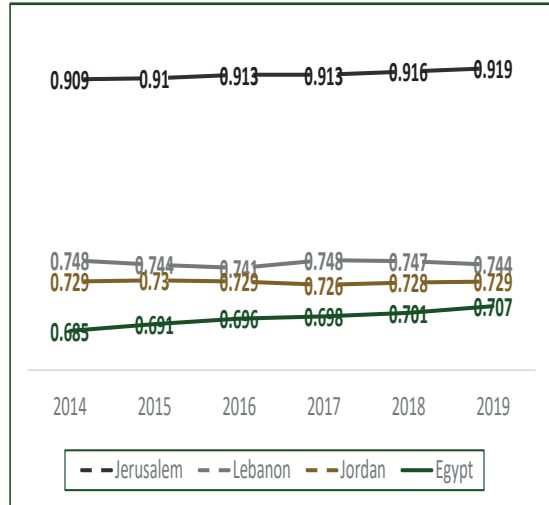
by 0.3 years, GNI per capita (2017 PPP\$) increased by 377, and the HDI value increased by 0.011 (UNDP 2020).

Figure 1. State of Palestine HDI 2014-2019



Source: UNDP HDR 2020

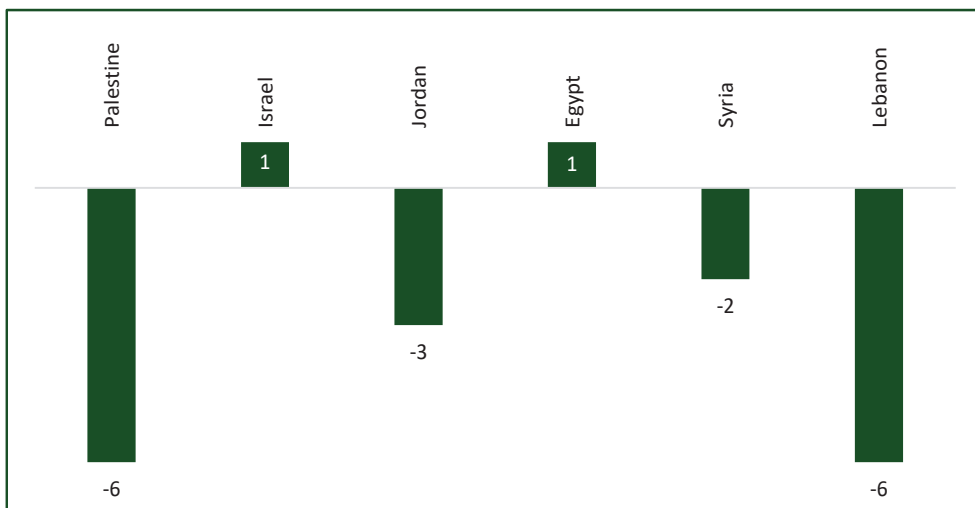
Figure 2. HDI of Select Countries 2014-2019



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.

Figure 3. Change in HDI Rank of Select Countries 2014-2019



Source: UNDP HDR 2020

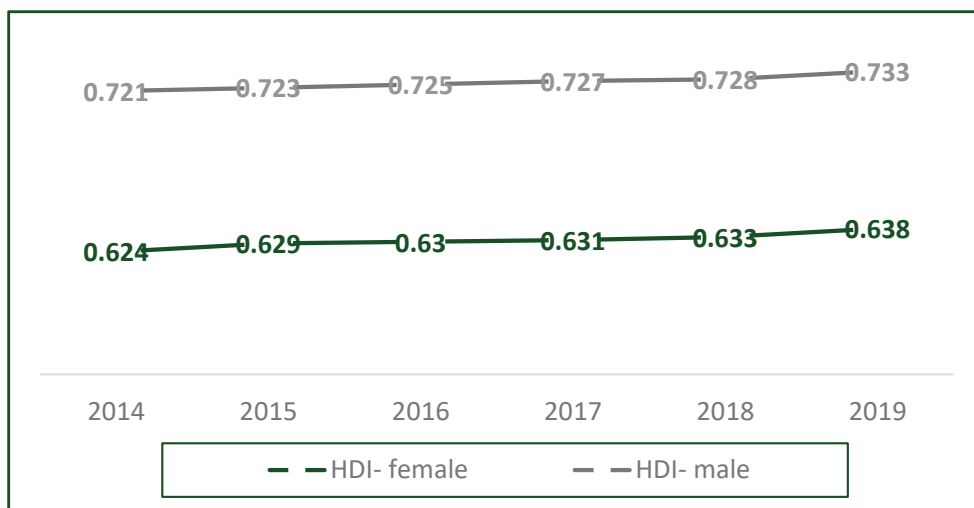
As for gender inequality in HDI, the Gender Development Index (GDI) for Palestine is 0.870, which is

a slight increase since 2014 from 0.865. This value reveals a significant difference between male and

female 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 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.

Figure 4. State of Palestine HDI Disaggregated by Sex 2014-2019



Source: UNDP HDR 2020

Table 1. A Breakdown of HDI Disaggregated by Sex

	Estimated GNI per capita		Life Expectancy		Expected Years of Schooling		Mean Years of Schooling	
	Female	Male	Female	Male	Female	Male	Female	Male
2014	1986	10,173	75.1	71.6	13.7	12.1	10.40	10.74
2015	2075	10,442	75.2	71.8	13.7	12	10.56	10.77
2016	2066	10,819	75.3	71.9	13.6	11.9	10.66	10.77
2017	2045	10,916	75.4	72.1	13.7	12	11.85	12.26
2018	2081	10,954	75.6	72.3	13.7	12	10.94	10.91

Source: UNDP HDR 2020

The forthcoming sections examines several conventional empirical indicators. Without a doubt, changes in the political context have a depressed growth and development of the Palestinian economy as highlighted in Chapter 1. These factors have increased uncertainty, further destabilized the growth of the Palestinian economy due to cuts in aid and tax payments, and hindered progress towards Palestinian sovereignty. Furthermore, the COVID-19 pandemic shocked the world into an economic recession which did not exclude Palestine.

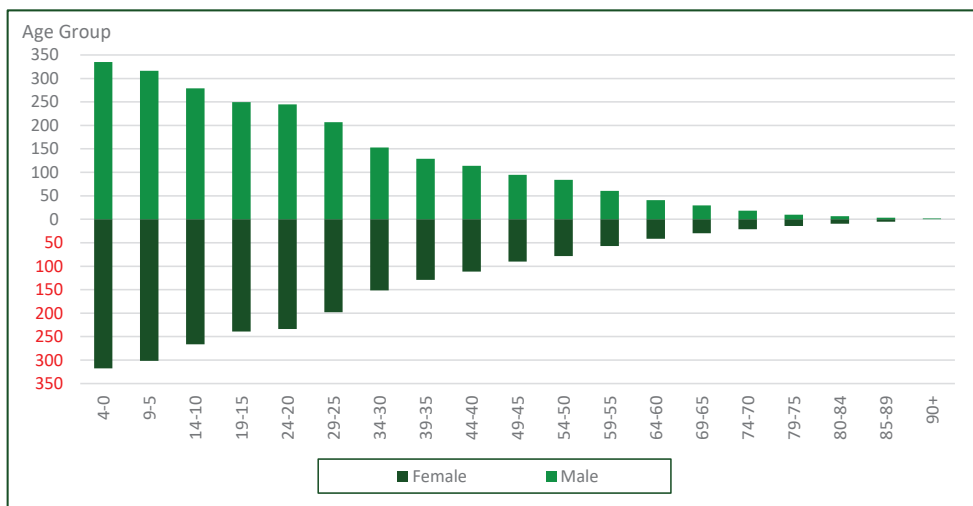
1-3 Demographic Developments

Palestinian society is notable for it a growing youthful population. The latest census conducted by the Palestinian Central Bureau of Statistics (PCBS) in 2017 counted a total Palestinians population of 5,101,152 of whom 3,053,183 live in the West Bank (including East Jerusalem) and 2,047,969 in the Gaza Strip. The population growth rate is 2.5% per year, which is relatively high. However, birth rates have been steadily decreasing over time and are

now at 29.9 births in Palestine, with 27.5 births in the West Bank (down from 30.6 in 2008) and 33.4 births in Gaza Strip (down from 35.6 in 2008). The largest age group of the population falls within the 0-14 years, with a total of 38.1% in Palestine (36.1%

in the West Bank and 41.3% in Gaza). The majority of the population is under 29 years of age with a total of 66.8% of the population. The average household size in Palestine is 5.5 persons (5.2 in the West Bank and 6.1 in Gaza Strip (PCBS 2018a).

Figure 5. Age and Sex Distribution of Population in Palestine (in Thousands), 2017

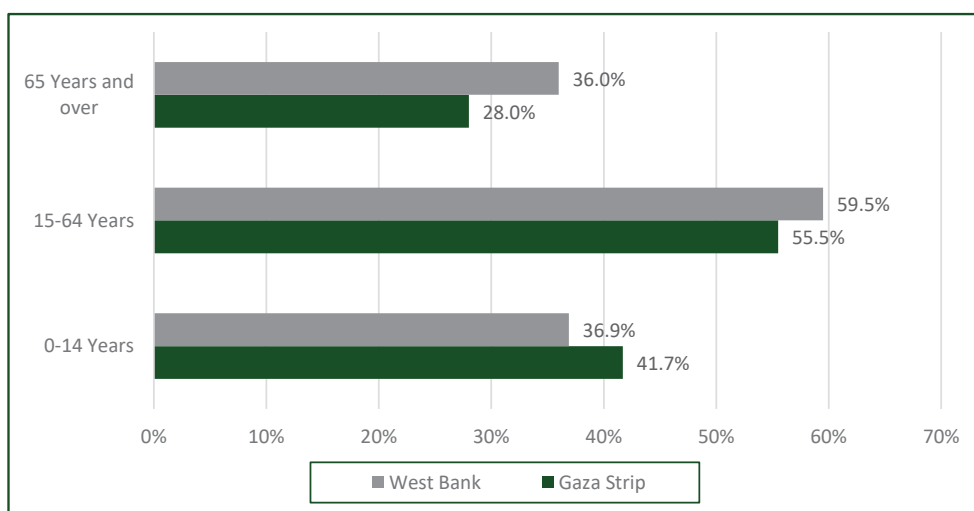


Source: PCBS

A working age vs dependency analysis shows that most of the population in Palestine is of working age: 57.5% of the population were aged between 15-64 years in 2017. The second largest age group was under 15 years (at 38.9% of the total population), with those 65 years and over being the smallest group (32%). While the working age bulge is consistent across the West Bank and Gaza, there are other re-

gional variations. Gaza Strip is a younger region, with higher numbers of people under 15 years of age, while the West Bank has higher numbers of people in the other two categories. This may be due to regional variations, including higher fertility rates and lower age at marriage in Gaza Strip than in the West Bank, as well as decreasing child mortality rates.

Figure 6. Population in Palestine by Region and Age Group, 2017



Source: PCBS

1-4 Multidimensional Poverty

In 2010, the Multidimensional Poverty Index (MPI) was introduced by the World Bank in acknowledgement of the non-monetary factors that also contribute to poverty. It has been adopted officially by the PNA as its framework for analysing and combatting poverty. The MPI includes multiple overlapping deprivations that are suffered by individuals across 3 dimensions: health, education, and standard of living. The most recent survey data conducted by HDRO that were publicly available for Palestine's MPI estimation are from 2014. According to this data, 1% of the population are multidimensionally poor while an additional 5.4% are classified as vulnerable. The intensity of deprivation, which is the average deprivation score experienced by people in multidimen-

sional poverty, is 37.5%. The MPI value for Palestine, which is the share of the population that is multidimensionally poor, is 0.004 (UNDP 2020).

However, owing to the specific context of Palestine and the different contextual non-monetary factors that contribute to multidimensional poverty in different places, in 2020 PCBS developed a national multidimensional poverty profile in Palestine. This built on the global MPI with the inclusion of additional categories of indicators relevant to Palestine, including safety, housing and personal freedom. This new framework includes rights-based analysis and the monetary poverty statistics as part of the index (PCBS 2020a).

Table 2. Palestine-MPI by Region (2017)

	MPI Value	Headcount (%)	Intensity (%)
Palestine	0.104	24.4	42.4
West bank	0.043	10.6	40.0
Gaza	0.194	44.7	43.3

Source: PCBS

Table 3. Monetary Poverty Statistics by Region - 2017 (%)

	Poverty according to Income	Deep Poverty According to Income	Poverty according to Consumption	Deep Poverty according to Consumption
Palestine	41.1	30.3	29.2	16.8
West Bank	24.0	15.1	13.9	5.8
Gaza	67.6	53.9	53.0	33.8

Source: PCBS

The data by region shows the extent of the differences in levels of poverty between the West Bank and Gaza Strip. While 24% of people in the West Bank live in poverty according to their level of income, a shocking 67.6% of people in Gaza Strip fall under that category. Furthermore, 15% of people in the West Bank are categorized as living in deep poverty, while more than half of the population in Gaza Strip suffer such extreme deprivation (53.9%). The numbers according to consumption show a similar

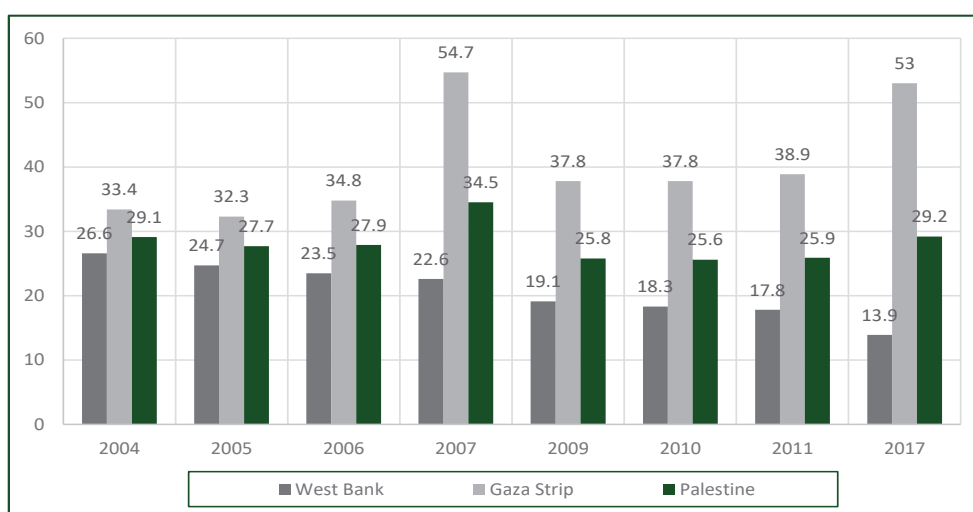
trend. Where 13.9% and 5.8% of people in the West Bank live in poverty and deep poverty respectively, 53% and 33.8% fall under those categories in Gaza Strip (PCBS 2018b). These structural discrepancies between the two regions are not represented in the traditional MPI analysis or the HDI, as they both aggregate the data between the two regions.

Since the establishment of the PNA, the incidence of poverty in the State of Palestine (as measured by rel-

ative and the absolute household expenditure)¹ has remained relatively high in the West Bank and risen significantly in Gaza and East Jerusalem. Incidence of poverty is more widespread than previously believed. Between 2011 and 2017, alongside a 3% increase in national poverty, there was a significant change in regional poverty trends. By 2017, the incidence of poverty was much higher in Gaza Strip (53.0%) than the West Bank (13.9%). Significantly from a policy perspective, Gaza Strip contributes more to the overall poor population than the West Bank: 71.2% of the poor population are found there, compared to 28.8% in the West Bank (PCBS 2018b). This widening

of poverty in Gaza Strip between 2011 and 2018 was accompanied by an alarming decline in access to essential services, especially severe shortages of water and electricity. Following the impact of the COVID-19 pandemic, the World Bank estimated that poverty increased to 64% and 30% respectively (World Bank 2020a). The West Bank and Gaza differ significantly in natural resources, wealth of infrastructure, size of markets, population density, rural-urban composition, and refugee status among other things. These variations inform of the likelihood of households being poor in each area.

Figure 7. Poverty Rates 2004-2017 (Population %)



Source: PCBS

Palestinians in East Jerusalem also experience significant poverty levels. Although completely under Israeli administration, Palestinians in Jerusalem are socially and economically marginalized compared to Jewish Israeli residents. The poverty rate amongst Palestinians in East Jerusalem is considerably high when compared to Israelis. Using the Israeli poverty line, in 2019, 72% of the Palestinians in East Jerusa-

lem (and 81% of their children) lived in poverty, compared to 26% of Israelis (and 36% of their children), some half of whom are Palestinian Arab citizens of Israel. half of whom are Palestinian Arab citizens of Israel.²

Full-time employment significantly reduces a person's likelihood of being poor: over half (55%) of indi-

1. An official Palestinian definition of poverty was developed in 1997 for the West Bank and Gaza, with two poverty lines based on family expenditure (a family of two adults and three children used as the reference) for measuring poverty among Palestinians in the West Bank and Gaza: the first, termed "deep poverty line," was calculated to reflect a budget for food, clothing, and housing; and the second line adds other necessities, including health care, education, transportation, personal care, and housekeeping supplies. The two lines are adjusted to reflect the different consumption needs of households based on their composition (household size and the number of children). A spatial price deflator is used covering the three regions: West Bank, East Jerusalem, and Gaza. Recently, poverty has come to be viewed as a multifaceted phenomenon encompassing deprivations along dimensions that include not only expenditure or consumption but also education and health. The usefulness of such tools in the Palestinian context have to be questioned, if they exclude dimensions such as individual security (against arrest, being killed or injured or house demolition, collective punishment, land confiscation, and besiegement), and the ability as a people to exercise self-determination, to have a sovereign statehood, and freedom of movement and expression.
2. The Association for Civil Rights in Israel. (2019). East Jerusalem – Facts and Figures. Retrieved from: <https://www.english.acri.org.il/east-jerusalem-2019>.

viduals living in households whose head worked for up to six months the year before (2016) were poor in 2017, which is more than double the rate (20.9%) among those who were fully-employed the year be-

fore 2016 (PCBS 2018b) However, the last figure indicates that while full-time employment reduces the likelihood of household poverty, it does not protect against it.

Table 4. Impact of Employment on Likelihood of Being Poor, 2017 (Population %)

	Poverty Rate		Poverty Gap		Severity of Poverty		Deep Poverty	
	Value	Contribution	Value	Contribution	Value	Contribution	Value	Contribution
Working Months of Head of the Household								
1-6 months	55.0	25.8	17.8	33.4	8.1	39.6	36.8	32.9
7-11 months	23.1	13.8	6.2	14.9	2.6	16.2	13.0	14.9
12 months	20.9	60.4	4.5	51.7	1.5	44.2	9.5	52.2
In-Labor	25.8	100.0	6.5	100.0	2.5	100.0	13.5	100.0

Source: PCBS

A significant portion of the poor is composed of those who work. Hence while a policy of creating employment may alleviate poverty and its severity, this does not on its own eradicate deprivation. For this to happen, it is necessary to create conditions that enhance decent job security, raise minimum wages above the poverty line, and provide a comprehensive social security system that caters to the needs of the poor.

1-5 Economy and Employment

Since the last Palestinian Human Development Report (2014), the economic and employment performance in Palestine has deteriorated substantially. Against the backdrop of a worsening political and fraught governance environment, economic growth declined from an annual average of 5.2% to 2.6% between 2011-2014 and 2015-2018 (PCBS 2019a). In 2020, the Covid-19 and other adverse impacts led to a decline of some 12% of GDP, with recovery to previous levels expected to need 2-3 years.

Since 2007, Gaza Strip has been on a downward spiral of denied economic opportunities, poor governance, and deteriorating services. Its productive base has been hollowed out, and its population has been subjected to four wars, with thousands of casualties and billions of dollars in lost capital stock. Over

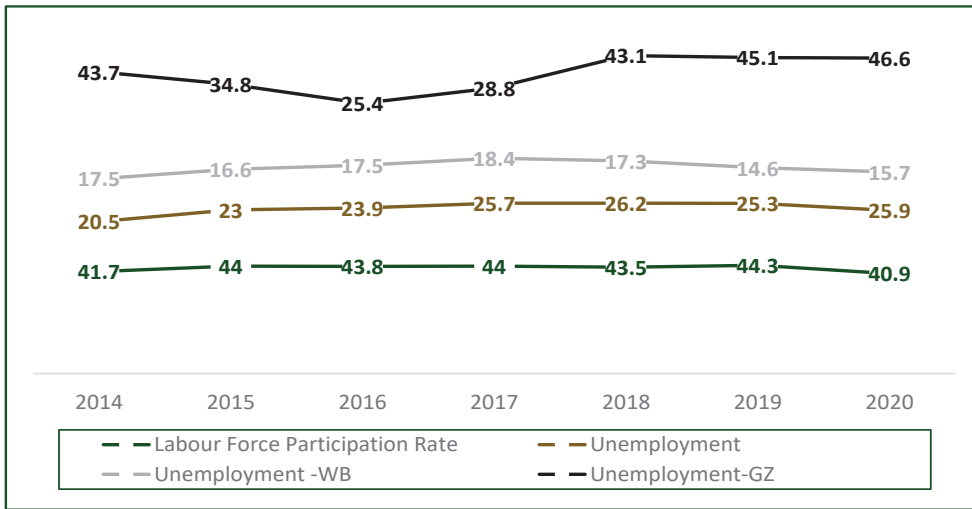
half of the labor force is unemployed and has fallen into poverty. The humanitarian consequences of this relentless degradation call for emergency measures.

Yet prospects for the coming years point to further deterioration, caused by structural factors such as: expected decline in external support (from 12% to 3.8% of GDP between 2015 and 2022) (World Bank 2018); reduction of clearance revenues due to new Israeli legislation (a loss of 2% of GDP);³ deepening of the separation of Gaza from the West Bank; further fragmentation of Palestinian territory due to settlement expansion in Area C and East Jerusalem; and, private sector retrenchment from new investments in an uncertain climate.

The unemployment rate in Palestine (2020) is 25.9% of the labor force (15.7% In West Bank vs. 46.6% in Gaza Strip). This has increased from 20.5% in 2014. Labor force participation has also decreased from 41.7% in 2014 to 40.9% in 2020, reversing an upward trend between 2014-2019. It is also important to note that the labor force participation in Palestine is dominated by men, where the labor force participation rate for males is 69.1% and 16.1% for females in 2020. These have increased from 66.8% and 15.4% in 2014 respectively (World Bank 2018).

3. The law passed by the Knesset in 2018 requires the government to deduct Government of Palestine budgetary expenditures on prisoners, martyrs, and their families from Government of Palestine tax receipts collected by Israel under the Clearance Mechanism

Figure 8. Labor Force Statistics 2014-2020

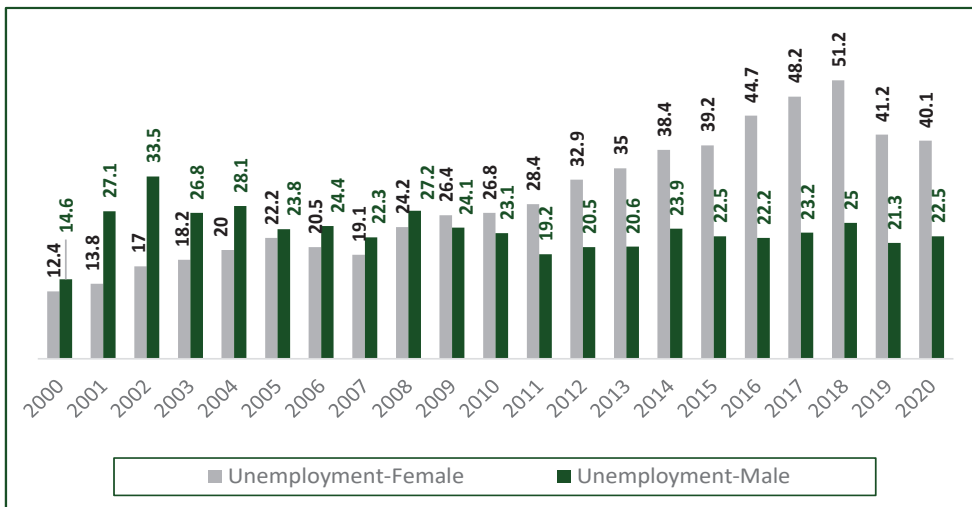


Source: PCBS

Youth and women are disproportionately affected by unemployment. The youth unemployment rate (ages 15-29) is at 41.7% in 2020, up from 36.1% in 2014. However, the percentage of youth not in school or employment is at 23.4% in 2019, down from 32.2% in 2014. Over half (53%) of women (with 13 years of education) and almost half (44.6%) of youth (ages 20-24) are unemployed (PCBS 2020b,

2020c). The high rate of unemployment among educated females discourages participation in the labor force, while unemployed youth risk being marginalized, exacerbating social fragmentation. This calls for targeted employment programs and training, pro-active reintegration in the labor market, the creation of new jobs, and access to finance and business development opportunities.

Figure 9. Unemployment Rate 2000-2020

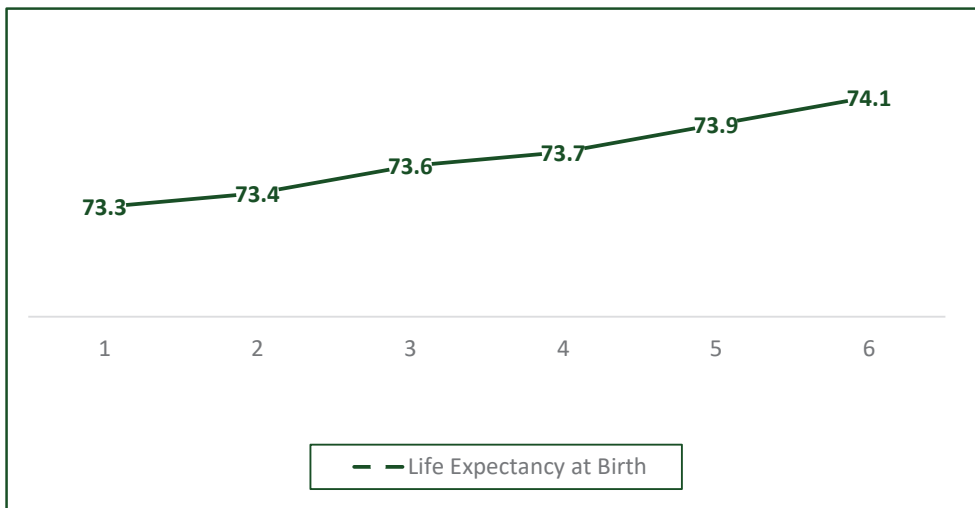


Source: PCBS, Labour Force Survey 2020

The employment situation in Palestine is dire. With approximately a quarter of persons aged 15 and above (and nearly half of those aged 15 to 24) unemployed, it becomes clear that unemployment is

one of Palestine’s worst performing indicators when it comes to the state of human development. This is even more true in Gaza where those numbers run significantly higher.

Figure 10. Palestine Life Expectancy at Birth 2014-2019



Source: UNDP HDR 2020

Furthermore, 23.1% of employed individuals in Palestine are categorized as being “vulnerably” employed. Vulnerable employment is defined by the International Labour Organization (ILO) as a measure of what are deemed to be the more vulnerable statuses of employment namely own-account workers and contributing family workers as a proportion of total employment. While this has decreased from 25.9% in 2014, the number is still relatively high. The Palestinian economy is largely a service economy with 62.3% of total employment employed in services in 2019. Furthermore, nearly 13% of employed individuals are employed in Israel or Israeli settlements in 2019, a flow that is inherently vulnerable to Israeli security and other restrictions (PCBS 2020b).

1-6 Health

Health is an essential dimension of human development, starkly highlighted by the impacts of the COVID-19 pandemic. Socio-economic health indicators have shown positive trends. As of 2019 the life expectancy in Palestine is at 74.1 years, up by 0.8 years from 73.3 in 2014. For females, life expectancy is at 75.8 as compares to life expectancy for males which is at 72.4 (2014). This has placed Palestine’s life expectancy index (LEI) at 0.832 in 2019, which has been on an upward trend since 2014 where it was at 0.820 (UNDP 2020).

Palestinian health indicators have improved significantly over time, in large part due to government emphasis on public health and primary care. Immunization and

maternal and child health programs have been bolstered, while the number of maternal and child health clinics has increased. However, several challenges continue to critically undermine the ability of Palestinians to build on and improve their health care system.

The rising burden of non-communicable diseases (NCD), such as cardiovascular diseases, hypertension, diabetes, and cancer is one key challenge. The current Palestinian healthcare system focuses on curative rather than preventive care, and a shift towards prevention is critical to tackle the rise of NCDs. The overall disease burden has shifted away from infection and disease-related undernutrition towards obesity and NCDs (WHO 2016). High food insecurity rates are also an alarming challenge, with an estimated nearly one third of the population being food insecure, nearly equally divided between refugee and non-refugee populations (WFP 2020). Food insecurity has increased sharply in the Gaza Strip after 2014, with 51.6% of households in the Gaza Strip found to be food insecure in 2018 compared with 9.3% in the West Bank. Of these households, 8.6% and 1.6% were found to be severely food insecure in the Gaza Strip and West Bank, respectively. Female headed households were also found to be at greater risk of food insecurity, with about 30% of female headed households found to be insecure compared to about 25.8% among male headed households. Paradoxically, food insecurity has been coupled with a double burden of malnutrition: the persistence of undernutrition, combined with a rapid rise in overweight and obesity (Tanumihardjo et. Al 2007).

Altogether, the Palestinian healthcare system remains fragile, fragmented, and incoherent and its challenges have been further exacerbated since the onset of the COVID-19 pandemic. According to the WHO, the Palestinian health sector has faced a large shock in demand for health services which can decrease the quality of certain services as priorities are shifted to focus on combatting the pandemic. A PCBS survey shows the impact of the pandemic on access to health services in the first and second quarter of 2020, indicating that 4% of the families who needed health services were unable to access them. The reasons for the inability to obtain these services include the failure of health centres and hospitals to receive patients, the inability to pay, and fear of leaving the house (PCBS 2020d)

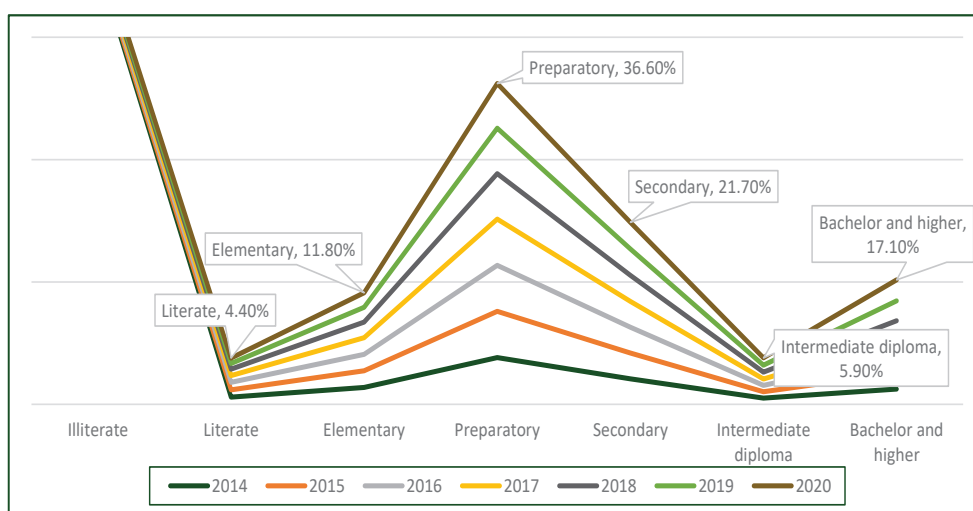
In Gaza, the healthcare system has been struggling for many years and its capacity to ensure health and well-being of over 2 million Palestinians has been severely weakened. According to UNRWA, years of socioeconomic decline due to the ongoing blockade and conflict have left the health sector across the Gaza Strip lacking adequate infrastructure. Facilities are overwhelmed and service delivery is continually interrupted by power cuts. Psychological trauma, poverty, and environmental degradation have also had a negative effect

on the physical and mental health of the Palestinian population in Gaza. Many, including children, suffer from mental health issues - including anxiety and depression. According to the Gaza Community Mental Health Program (GCMHP) in 2016 showed that approximately 23% of children suffered from PTSD and 18% from enuresis. Additionally 8% of adults suffered from PTSD while 25% suffered from Major Depression Disorder.⁴ The most recent war on Gaza in May 2021 no doubt has exacerbated health and mental health needs and capacities. Prior to the war, already 1 in 3 children required support for conflict-related trauma (UNICEF 2021). The war resulted in the death of 278 people and over 9,000 injuries in Gaza. Furthermore, up to 30 health facilities were damaged.⁵

1-7 Education

The state of education in Palestine is relatively good. The Palestinian population is a well-educated population with a low illiteracy rate and a low primary school dropout rate of 1.1%. Furthermore, 64.2% of the adult population has at least some secondary education. There are currently 3,074 schools in Palestine as compared to 2,856 in 2014. These schools provide for 1,309,165 students with 734,316 in the West Bank and 574,849 in Gaza (PCBS 2021a).

Figure 11. Percentage Distribution of Educational Attainment of Population (15 Years and Over), 2014-2020



Source: PCBS, Palestine in Figures, 2021

4. Gaza Mental Health Programme <https://gcmhp.ps/publications/4/121>
5. UN News (2021) 'Staggering health needs emerge in Gaza, following Israel-Hamas conflict,' 2 June 2021, <https://news.un.org/en/story/2021/06/1093262>.

Between 2014 and 2019 expected and mean years of schooling have remained relatively stable, increasing slightly from 13.2 years to 13.4 years and 8.9 years to 9.2 years respectively. Other indicators also show positive trends in Palestine where the adult literacy rate as of 2019 is 97.2% which is an increase from 96.4% in 2014. Furthermore, as of 2019, there is a 99% gross enrolment ratio for primary schools, 89% for secondary schools, and 44% for tertiary schools, which all have been relatively stable with slight increases since 2014 (UNDP 2020).

There have been significant improvements in internet access for schools in Palestine, where 95% of secondary schools have access to the internet as compared to 65% in 2014. Primary schools saw an even greater increase in access to internet, with 85% in 2019 having access as compared to just 39% in 2014. Government expenditure on education has remained relatively stable, with the latest available data from 2017 stating that 5.3% of the GDP is spent on education, up from 5.1% in 2015 (UNDP 2020).

While gross enrolment numbers have been positive, this does not portray the reality of the education situation in Palestine. According to UN OCHA, the ongoing conflict and occupation has severely compromised access to education in vulnerable regions. In the West Bank, access to education is limited due to the detention of children, military operations and settler-related incidents, the lack of physical infrastructure due to building restrictions in Area C and East Jerusalem, and movement restrictions such as checkpoints and the Separation barrier. In Gaza, the education system has been significantly disrupted and impaired by nearly 15 years of blockade. Repeated armed conflicts have resulted in damage and destruction of education facilities across the Gaza Strip. Indicators of the educational system's decline include overcrowded classrooms, high dropout rates, and frequent absence of teachers. While enrolment rates remain high despite these barriers, these factors have affected student wellbeing, performance, and completion rates.

The COVID-19 pandemic has also had a severe impact on education services and access to quality education in Palestine. The recent PCBS survey re-

sults show that only 51% of families in Palestine that have children (6-18 years old) enrolled in education were able to sustain access to education during the closures. On the other hand, nearly 50% of families reported that the lack of access to internet was the main reason that their children were unable to participate in distance education (PCBS 2020d).

Key challenges remain with regards to transitioning from education to employment. This is reflected in the disproportionately high rates of unemployment amongst young graduates. Unemployment amongst young graduates has reached 54.4%, with the highest unemployment rate amongst mathematics and statistics students (PCBS 2020b) Young female graduates face higher rates of unemployment than their male counterparts. While the employability of women significantly increases with higher levels of education, this does not secure employment as seen with the high number of female graduates but low levels of employment. Of the total number of students enrolled in higher education 61% are female, continuing the growing trend from previous years. Despite this, 69% percent of young female graduates were unemployed in 2020 compared to 39% of young male graduates (PCBS 2021b).

1-8 Gender Equality

Fostering women's economic empowerment and achieving gender equality is an important prerequisite for sustainable development and inclusive economic growth. In addition to increasing national incomes, women's economic empowerment enables women to strengthen their livelihoods and improve living standards, including through increased access to quality education and training, reduced poverty levels, and enhanced status of women in their families and communities.⁶

The Palestinian labor market has a high rate of female unemployment, particularly amongst educated women. From 2014 to 2019, female labor force participation has decreased from 19.4% to 16.1%.⁷ This has placed female labor force participation in Palestine at lower than the regional average. There is an inverse relationship between female education and

6. Kabeer 2003.

7. See note 6

employment: 84.5% of women with 13 years or more of education are unemployed, compared to 10.8% of women with 10-12 years. Notably, the opposite effect is found amongst men: 23.5% of men with higher educational level are unemployed, compared to 40.0% of men with 10 – 12 years of education.⁸ A direct comparison between women and men shows that unemployment amongst highly educated women is quadruple that of highly educated men, while the inverse is true amongst women and men with lower levels education.

Education has a surprising impact on female participation rates in the labor force. Women at the extremes of the educational spectrum (e.g., highest or lowest educational levels) participate in the labor force more than the average Palestinian woman: the highest female participation rate (45.6%) is amongst women with 13 years of education and – albeit at a lower rate - women with 1-6 years (11%), compared to women who received 10-12 years of education (8.3%).⁹ These rates indicate that the largest category of Palestinian women – i.e. those who received 10-12 years of education - are completely excluded from the labor market. This offers an insight into the structural problems of the economy that produces work opportunities for the highest and lowest educated categories, but not for the mainstream one. This extreme situation has resulted from the dependence of the Palestinian economy on Israeli policies that obstruct the expansion of the labor market and production, either by controlling the production process, or by creating obstacles that isolate the market and prevent its growth.

There are also several social, cultural, and legal reasons and gender-imbalances that limit female participation in the labor market. For instance, in 2016, 62.6% of women reported household duties as a reason for not working, while no men reported this reason.¹⁰ The latest data from the PCBS in 2013 shows

that while men report spending 3% of their time on unpaid care work, women report spending 18% - 6 times as much. More recently, a study by Awrad in May 2020 shows that 68% of women reported a significant increase in household duties compared to 44% of men. Sectors that have historically employed the most Palestinians - and Palestinian women - (i.e., agriculture and industry) have weakened,¹¹ as a result of Israeli control over capital goods and imported raw materials, limited access to foreign markets, and political instability.

Many development organizations encourage women to launch their own small or micro projects, but – as shown below – many factors make it difficult for women to expand these projects and increase their profit. In comparison with men, women's micro-projects are usually unregistered, take place at home, provide low income, and recruit less workers, according to micro-credit loan surveys. According to focus group studies with female entrepreneurs in Gaza, the lack of the basic assets needed at the beginning of the projects was a major obstacle in expanding their businesses.¹² They were also unable to expand their client base because the lack of public workspace forced them to work from home. The loan mechanism is also problematic, as women tend to receive smaller loans than men do, making it harder for them expand their projects.¹³

The legislative framework needs to be improved to support and protect working women. For instance, an additional constraint for female-owned micro- or small projects is that current legislation does not protect or enable the small business sector, particularly women's projects.¹⁴ Additionally, due to lack of legislative protection of indigenous products, women working in the informal sector producing handicrafts face unfair competition with imported products. The legislative framework for workplace protection legislation still has gaps, including the pending ratification

8. PCBS, Labor Force Survey, 2016: 116

9. Ibid

10. PCBS (2016) 'Survey of the Labor Force.

11. The agricultural sector contribution in the GDP, which reached 12% in 1994, dropped to 2.9%, in 2016. The industrial sector contribution also declined from 21.3% to 13.9% during the same period.

12. ASALA (2010).

13. IFC 2007.

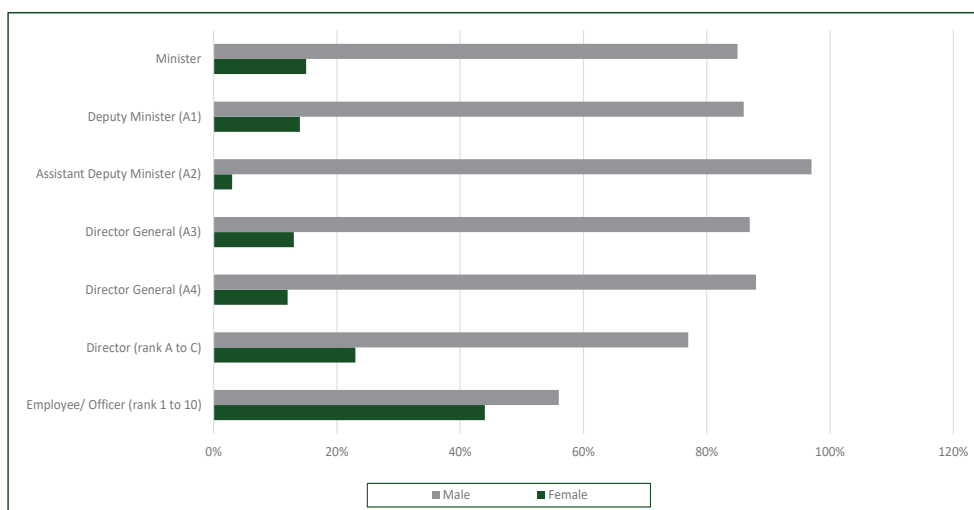
14. For instance, the Jordanian Corporate Law of 1964, enacted in Palestine, does not give incentives or enabling procedures for women in the corporate sector.

of the Trade Union Organization Act and the Cooperative Labor Law, the lack of legislation on preventing workplace harassment or labor law violations, and supporting social insurance issues.

Nearly 40% of women are employed in the non-agricultural informal employment compared to 66.2% of men.¹⁵ Meanwhile, female employment is narrowing the gap with male employment in the gov-

ernment sector (42.6% of civil servants are women, while 57.4% are men).¹⁶ Gender balance in the public service sector is also improving marginally, as women accounted for 42.6% of total public servants in 2016, compared to 40.5% in 2013. However, the ratio of women to men varies dramatically by career level, as shown in the following Figure 12.

Figure 12. Civil Service Employees by Sex and Position



Source: PCBS

Gender-based violence (GBV) also represents a severe impediment to achieving gender equality and sustainable and inclusive human development in Palestine. Decades of Israeli occupation and protracted crisis, coupled with traditional patriarchal norms embedded within the Palestinian society, have had a significant impact on gender relations and family dynamics and have exacerbated GBV in all its forms, including domestic violence. According to the latest statistics, 27% of currently or ever married women in Palestine have experienced violence perpetrated by their husbands – with prevalence of domestic violence being higher in the Gaza Strip (35%) than in the West Bank (22%).¹⁷ Psychological and economic violence are the most prevalent forms of domestic violence.

1-9 COVID-19 Impact on Human Development in Palestine

Like much of the world, COVID-19 has had a direct impact on national income, employment, and poverty in Palestine. GNI per capita (measured in constant prices for the year 2015) decreased by nearly a third from the first quarter to the second quarter of 2020 to reach \$724.6. Comparing the quarter to previous years, this is the lowest level of national income for more than a decade (PCBS 2020e).

In terms of employment, the number of workers witnessed a sharp decline by 12% (amounting to approximately 121,000 workers) between the second and first quarters of 2020. This was mostly driven by the repercussions of the pandemic. As for the unemploy-

15. PCBS (2020) 'Men and Women in Palestine'. Retrieved from: <https://www.pcbs.gov.ps/Downloads/book2528.pdf>.

16. PCBS (2016) 'Men and Women in Palestine'. Retrieved from: https://www.pcbs.gov.ps/PCBS_2012/Publications.aspx?CatId=15&scatId=277.

17. PCBS (2019). 'Preliminary results of the violence survey in the Palestinian society'. Retrieved from: <https://www.pcbs.gov.ps/Downloads/book2480.pdf>

ment rate, it was slightly affected by the pandemic increasing from 25% in the first quarter of 2020 to 26.6% in the second quarter. This also corresponded to an increase in the unemployment rate among males from 21.4% to 23%, and an increase of 39.6% to 41.1% in female unemployment (PCBS 2020b).

During the height of the pandemic-related closures, one in seven breadwinners in the West Bank (14%) stopped working, while one of eight (13%) were not working prior to the period of closure. For those that continued to work, 52% of workers in the West Bank did not receive any wages or salaries during that period (March to May 2020) and only 23% received their wages as usual while 25% received partial wages. There was also a disparity between the sexes in obtaining full wages, as 26% of primary female breadwinners did not receive their full wages, compared to 52% of working male breadwinners. As a result, 42% of Palestinian families have had their incomes decreased by half or more during the closure period compared to February 2020. According to the Ministry of Social Development's (MoSD) estimates, the pandemic impacts led to an increase in the number of poor families in Palestine by 53% from 275,819 families to 422,915, during the first total economic lockdown in 2020 (PCBS 2020d).

Overall, the impact that the coronavirus pandemic has had on human development indicators is crosscutting and the risks of "scarring" remains significant, with the impact resembling that of a so-called K-shaped recession, whereby some sectors and social strata recover and others remain stuck at the bottom. Where the impact of the pandemic on socioeconomic development in Palestine is not unique, the structural and systematic barriers to Palestinian development have meant that measures to compensate for losses or stimulate recovery are limited. The question of how deep the impact will be in the long-term will depend on a variety of factors, including those linked to the political context and the responsiveness of PNA governance.

1-10 Palestinian Environment and the Anthropocene

We are living in an era sometimes referred to as the Anthropocene, whereby humans have become the

single most influential species on the planet, causing significant global warming and other changes to land, environment, water, organisms, and the atmosphere.¹⁸ Considering the Anthropocene as opening a potential door to overcoming the geopolitics that divides us, the concept is fundamentally intertwined with colonial dispossession and its ontological remaking of human, and other than human, relations across space and time (Salih and Corry 2020). Colonial enterprises have always overwhelmed local environments. European nations began an unparalleled global expansion that resulted in unprecedented changes in ecological processes and the health and vitality of indigenous floral and faunal populations across the globe. At the time of the European colonialism in the Americas from about 1500 to the early 1800s, we recognise that the processes of globalization unleashed, which involved colonization, landscape modifications, long-distance exchange and trade, and the increased extraction of natural resources, were not new to humankind (G Lightfoot et al. 2013).

In Palestine, the displacement of the Indigenous population rested on more than just physical displacement, destruction, and ecological alteration. Settler colonialism drew equivalence between Indigenous Life and Nonlife, with humans and nonhumans together fossilized or desertified by the ongoing settler-colonial project which aimed at turning the settlers into the new Indigenous (Salih and Corry 2020), as in other settler-colonial contexts, nature was not simply destroyed but transformed.

The Israeli policies and practices toward the Palestinian environment are associated with all aspects of life, both human and non-human, and lead to environmental degradation that altering pre-existing human-land relationships. These practices include planting pine trees and afforestation, at the same time as deforestation and uprooting the native trees. The pines, it so happens, are indicators of Jewish Israeli state control over the Palestinian land (Braverman 2008). Between 2015 and 2020, Israeli authorities have uprooted more than 70,000 olive trees in the West Bank (ARIJ 2021). Other practices include the drainage of Hula lake, the construction of by-pass roads, the building of the Separation Barrier and military bases, increased pollution from settlements, and also increased demand for natural resources, water, and energy.

18. National History Museum Website: <https://www.nhm.ac.uk/discover/what-is-the-anthropocene.html>

For example, the wall has separated 9% of land and 25,000 Palestinians remain isolated from the rest of the West Bank (UNRWA 2013). It did not only cause the loss of Palestinian lands and properties but also separated ecological corridors and has a devastating impact on the environment and the population of land-dwelling mammals. The wall has reduced biodiversity, caused fragmentation of ecological areas, hindered the movement of wild animals in the region, limited grazing and cultivated areas, and annexed to Israel valuable water resources. Animals have been passing through these lands for millennia, migrating according to the seasons, and dispersing plant seeds along the way, thus ensuring the vitality of this ancient ecological corridor. These migratory routes have been disrupted and halted abruptly, cutting animals off from their native feeding and breeding grounds (Deprez 2013). In some areas large amounts of animal species such as wild pigs were stuck on one side of the Wall, increasing their numbers in that area. This new environment was different from their original habitats; consequently, the residents were largely affected.

In the West Bank, Palestinians are surrounded by more than 250 Israeli settlements and outposts, built in contravention of international law, with many discharging their sewage water on to Palestinian farmed land. It is estimated that, at least 50 settlements discharge approximately 35 million cubic meters of wastewater onto Palestinian land per year. This figure is the equivalent of 14,000 Olympic-size swimming pools and increases each year with the continued construction and expansion of settlements. These expansion activities also create 'facts on the ground' and contributes to the de facto annexation of the West Bank territory.¹⁹

Other Israeli settlements in the West Bank are primarily cattle and livestock farms. The manure from these farms is also dumped in concentrated form into Palestinian valleys and agricultural lands, destroying the soil structure and polluting water resources. In addition, the dumping of animal manure creates breeding grounds for mosquitoes and flies, increasing the potential of major diseases.

Such spatial segregation practices have affected the biological diversity and wildlife in Palestine, the construction of by-pass roads and settlements removed many green areas and forests, and large numbers of plant and animal species have disappeared and were not allowed to grow again in the same area. The clearance of the land led to the removal and demolition of wild animals' habitats, which led to their escape and migration to other places. These practices deprive the Palestinian population of their rights to the use of their land, which has led to the loss of control over its natural resources and created environmental fragmentation and degradation in Palestine. In the case of Palestine, Israeli occupation embodies all the dangers of the Anthropocene.

Integrated and sustainable natural resources management and biodiversity conservation are essential for the future integrity and sustainable development of Palestine. However, weak institutional and regulatory frameworks, coupled with a lack of public environmental awareness and environmentally degrading Israeli occupation policies, result in degradation of natural resources, including land, air and water pollution, desertification and land degradation, and loss of biodiversity. This is mostly a result of unsustainable use of natural resources, pollution and mismanagement of Palestinian and Israeli waste (e.g., industrial and solid waste, and wastewater), use of banned pesticides and overuse of fertilizers, as well as the construction of Israeli settlements, by-pass roads, and the Separation Wall, that constrain Palestinian ability to manage land and natural resources within their territories. Ural resources management and biodiversity conservation are essential for the future integrity and sustainable development of Palestine. However, weak institutional and regulatory frameworks, coupled with a lack of public environmental awareness and environmentally degrading Israeli occupation policies, result in degradation of natural resources, including land, air and water pollution, desertification and land degradation, and loss of biodiversity. This is mostly a result of unsustainable use of natural resources, pollution and mismanagement of Palestinian and Israeli waste (e.g., industrial²⁰ and solid waste, and wastewater)²¹ use of

19. "Environmental Impunity: The impact of Settlements Wastewater Discharge in the West Bank," Premiere Urgence Internationale, January 21, 2021, <https://www.premiere-urgence.org/en/environmental-impunity-the-impact-of-settlements-waste-water-discharge-in-the-west-bank-2/>

20. Stone cutting and marble industry in the West Bank as well as sand dunes quarrying in Gaza are major cause of degradation of natural resources, loss of biodiversity and aesthetic distortion.

21. Pollution that results from mismanagement of solid waste and wastewater due to improper collection, disposals, insufficient treatment, and open burning of dump sites.

banned pesticides and overuse of fertilizers,²² as well as the construction of Israeli settlements, by-pass roads,²³ and the Separation Wall²⁴, that constrain Palestinian ability to manage land and natural resources within their territories.

At the root of limited natural resources in Palestine is the impact of protracted occupation, which constrains Palestinian access, control and sustainable management of natural resources. Palestinians can access and develop only 15% of the available water resources, resulting in a huge gap (41.6 MCM) (PWA 2005) between water demand and water supply for the Palestinian population in the West Bank alone. Development projects (e.g., main water supply transmission lines and central treatment plants) require the approval and licensing of the Israeli-Palestinian Joint Water Committee (JWC), which restricts Palestinian ability to implement water and environmental programs and develop the proper infrastructure necessary to support the sector, improve provision of basic services and enhance the well-being of the Palestinian people.

The most alarming and critical case of natural resources depletion is the deterioration of the coastal aquifer in Gaza, which is the only source of water supply in Gaza. Unsustainable use and over abstraction (141 MCM²⁵ annually) have caused sea water intrusions, resulting in the salinization of the water and increased chlorides concentrations to unacceptable levels for human consumption. The deterioration of the coastal aquifer is a critical public health issue, whereby the UN had already warned that the aquifer would become irreversibly damaged by 2020 (UN 2012).²⁶ The coastal zone in Gaza is under severe pressure with substantial degradation related to both terrestrial and marine pollution. Untreated wastewa-

ter and solid waste pollute the coastal zone and directly threaten the integrity of Gaza's marine ecosystem, where fish stocks are also under pressure due to overfishing resulting from the Israeli occupation authorities' recurrent and arbitrary encroachment on permissible fishing area. Furthermore, recurrent military operations against Gaza resulted in the burning and uprooting of thousands of trees, destruction of green houses, irrigation and municipal water wells and destruction of infrastructure facilities, generating 1.2 million tons of rubble (UNDP 2005) which further aggravate the process of environmental degradation and natural resource depletion in the Gaza Strip.

Mainstreaming environmental concerns is a relatively new concept in Palestine, given the range of immediate human crises faced. As a cross-cutting sector, environmental protection, conservation and restoration requires systematic mainstreaming of environmental sustainability across all institutions, policies and actions across national and local levels. Thus, it is important to identify and assess the main environmental challenges and concerns currently existing in Palestine, as fundamental starting point for the development and implementation of effective policies and interventions fostering environmental sustainability. In doing so, it should be highlighted that environmental governance and the sustainable management of Palestinian natural resources are significantly constrained by structural challenges resulting from the Israeli occupation – including different sets of laws and law enforcement capabilities being applied by different Israeli and Palestinian institutions in different parts of the occupied Palestinian territory. Moreover, the environmental management capacity of the Palestinian Authority has also been affected by political instability, protracted fiscal crisis and persistent internal governance challenges (UN 2020a).

22. The use of internationally banned pesticides and the overuse of fertilizers and herbicides have a negative effect on soil, water, air pollution and is considered as a serious public health issue. It also negatively affects biodiversity with regard to endangering many of the natural species that are used for bio pest control.

23. The construction of Israeli settlements and by-pass roads that results in uprooting forests and thousands of dunams of agricultural land, deny the Palestinians access to their land, water resources and natural grazing areas, generate pollutants in terms of tons of solid and liquid waste that are usually dumped in the nearby-Palestinians valleys and agricultural lands.

24. The construction of the Separation Wall is considered a major cause for land desertification, loss of biodiversity and wildlife. During the construction of the Separation Wall, the Israelis have confiscated over 124,323 dunums of land under Palestinian ownership, and mostly containing orchards, field crops and greenhouses and uprooted more than 100,000 to build the Wall. Israel also confiscated and isolated around 26 wells that used to supply water for municipal and irrigation use. Moreover, the wall has isolated agricultural lands amount to 207,6645 Dunums, 73.6% of the total agricultural land area in the West Bank, and denied farmers access to their land it, which will eventually encourage desertification. The Barrier has also isolated many of the water resources in the West Bank. The Palestinian farmers use these springs and wells for drinking and irrigation purposes, which severely influenced the amount of drinking water available to Palestinians and their agricultural products. Needless to say the Barrier has adversely interfered with biodiversity and landscape and has distorted the aesthetic environment of Palestinian natural life.

25. Water Supply to Gaza Preparatory Studies for the Seawater Desalination Plant, European Investment Bank, December 2012.

26. Gaza in 2020: a liveable place? / By the United Nations Country Team in the occupied Palestinian territory

Part Two

CHALLENGES AND PROSPECTS FOR DEVELOPMENT IN PALESTINE





Chapter One

COLLECTIVE MOBILIZATION FOR RIGHTS AND DEVELOPMENT

Key Findings

Searching for the Missing Links of Palestinian Development

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 reviewed in Part One. Hence, though Palestine has recorded advances in human development, failures in some and structurally distorted performance in others suggests 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 continues 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 requires the PDP 2021 to probe into the missing links of Palestinian development in this and subsequent Chapters, 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.

1- COLLECTIVE MOBILIZATION FOR RIGHTS AND DEVELOPMENT

When assessing the state of Palestinian development today and its prospects in the coming years, a wide array of external factors, beginning with 55 years of occupation, shape the context of actual performance and cannot be ignored. The insidious influence of the political limbo created by an indefinite “interim” period, upon the performance and capacities of Palestinian governance and institutions has added to the challenges of achieving development in its broadest sense. The very concept of “development under occupation” has always been incongruous, if not absurd.

Removing these binding constraints, which have repeatedly delayed sovereignty and statehood, is of course the main goal of the Palestinian people in their long struggle for freedom, prosperity and other basic rights. They are no less relevant to the international community, which has invested considerable political and financial resources over the years in trying to jump-start Palestinian development and self-governance absent a political resolution that ensures national self-determination. Yet beyond staving off humanitarian recurrent crises, the track record of donor aid and Palestinian self-governance, and their interplay, suggests that failures are more impactful than successes. The middling performance of key human development indicators reviewed in Part One of this report provides little evidence to the contrary.

1-1 Aid, State-formation, and Development Under Prolonged Occupation

Since the Oslo Accords, official aid for Palestine, has been closely tied to the ‘peace process’ and more recently “state-building”, primarily through the PNA and NGOs in both the West Bank and Gaza. Although the PNA has not received much international political support in its conflict with Israeli occupation, it is internationally recognized as the only Palestinian counterpart in what seems to have become a permanent state of negotiations with Israel. Official aid excludes, of course, the assistance that Hamas and other parties have received from other sources to support their armed resistance, particularly in Gaza Strip. These hidden flows have come from a different set of sources, and public data are not available to track their form, volume or origin.

Official aid made it possible for Palestinians to survive a long and crippling occupation that keeps the Palestinian economy from operating anywhere close to its potential. But it has also allowed the occupation to continue and made it possible for Israel to persist with its strategy of permanently managing the conflict by keeping the status of Palestinian territories in limbo (Calis 2013); (Khan 2005); (Khan, et al. 2004). While the support provided by development partners for ‘good governance’ and democratic processes was significantly reduced after 2007 (Farsakh 2012), the focus shifted to supporting economic livelihoods. This prevented a severe collapse of living standards but did not offer a coherent strategy for developing the Palestinian economy. A developmental economic strategy would have assisted Palestinians to identify and support the development of sustainable activities that could achieve regional and global competitiveness and become drivers of employment and income.

The forms and magnitude of aid and the terms on which it is given are primarily determined by donors. But recipients have some ability to influence the forms and allocations of aid. State and non-state organizations receiving aid may also have considerable latitude in utilizing the financing in different ways or to refuse assistance that comes with unacceptable conditions. This raises an important strategic question: how should Palestinians try to influence aid to Palestine and respond to the likely risks and opportunities currently emerging to maximize their chances of ending the occupation and enhancing their political and economic rights?

Addressing this question calls for assumptions about how the motivations of donors may adapt in response to changing political realities in Israel-Palestine. Moreover, aid flows and conditions in the future may be affected by the economic conditions of donors, which are likely to be affected by the long-term effects of the pandemic and shifts in the global economy. Finally, the best strategies on the Palestinian side may be perceived differently by different institutional and political power centres in Palestine, by different social and political organizations, and different economic actors. Nevertheless, it is still useful to examine the broad features of these interde-

dependencies to better understand the roadblocks to development, and to enable discussions on how best to protect and enhance individual and national rights of Palestinians, which have become more deeply intertwined in the current juncture than ever before. The strategies of the parties affected by external aid to Palestine inevitably affect and influence each other, but their interdependence is not equal or symmetric because the relative power of the parties is unequal. In general, the relative power of organizations affected by any policy (the 'political settlement') affects not only the design of policies that emerge, but also how they are then implemented (Khan 2018). The political settlements framework is useful for looking at how the configuration of organizational power in the context of aid to Palestine maintained an equilibrium where aid supported livelihoods but also sustained the occupation and in fact made the achievement of a two-state solution more and more unlikely (MAS 2010).

The important question is whether new strategies are today available to Palestinians to achieve a better equilibrium, defined as one that achieves better and more sustainable development outcomes for Palestinians. Three political scenarios framing the prospects for development appear currently relevant from the Palestinian perspective.

The first scenario is the status quo where aid ostensibly supports movement towards a two-state solution, but in fact maintains an adverse equilibrium for Palestinians with no feasible prospects for a two-state solution emerging. This has been described in the works of Calis (2013); Farsakh (2012); MAS (2010); Khan (2005, 2004) and others. The main characteristic of this equilibrium is that with weak Palestinian organizational power, the absence of a compelling Israeli interest in achieving a two-state solution and an unwillingness of external donors to confront Israel, Palestinian rights and development remain in permanent stasis. As long as this configuration of power and interests remains, demands for changes in the allocation of aid, for instance to support greater Palestinian self-sufficiency or self-reliance, are unlikely to significantly improve developmental outcomes or the capacity of Palestinians to mobilize for their rights.

A second scenario that cannot be discounted given growing donor fatigue and the transforming regional political landscape, is characterized by a shift from aid to investment as a strategy for sustaining Palestinian livelihoods. Using both aid and investments to develop joint Israeli-Palestinian activities has been discussed for some time as a 'confidence building' strategy that can reduce the possibility of violence (Brown 2018). It is also a cheaper strategy of maintaining Palestinian livelihoods relative to one that relies only on aid. And it chimes with the retreat from ODA that has increasingly challenged the principles and framework of traditional North-South post-colonial economic relations. In this context, the Abraham Accords of 2020 sought to normalize relationships between Israel and several Arab countries raising the likelihood of investments in Israel and/or Palestine from Gulf Arab countries and beyond.

Such a scenario creates new risks and opportunities for Palestinians. Investments in isolated zones poses risks by potentially weakening collective action opportunities and reducing the relative power of Palestinian organizations. But these investments can also create opportunities for backward and forward linkages that if properly exploited could strengthen Palestinian organizational power and strengthen demands for individual rights and capabilities. Exploiting these opportunities would also require using aid judiciously to invest in skills and capabilities that tie in with potential investments that may be forthcoming, while not allowing market and capital forces to dictate political outcomes. How well Palestinians are able to exploit these emerging opportunities while mitigating the risks will determine their chances of effectively bargaining for individual and national rights.

A third scenario builds on the implications of a shift in the collective bargaining power of Palestinians as the result of an emerging movement for political and individual rights that embraces all Palestinians regardless of geography or nationality. Such a movement could result in a substantial increase in Palestinian organizational power by allowing movements across the West Bank, Gaza Strip and Israel and in the refugee diaspora to be linked up. Changes in the relative power of Palestinian and Israeli organizations could change the calculations of Israelis about the feasibility of permanently managing Palestinians without conceding rights. This could break down the

previous adverse equilibrium and result in significant improvements in outcomes from a Palestinian perspective. This possibility of effectively contesting the structural asymmetry of the past 25 years was theoretically discussed a decade ago (in MAS 2010). But such an outcome suddenly became imaginable after the mobilizations linking Palestinians in the West Bank, Gaza Strip, Israel and beyond that spontaneously emerged in May 2021.

The emergent configuration of aid, political opportunities and development prospects is likely to combine aspects of all scenarios. A better understanding of the most effective political and economic responses on the Palestinian side will be important for ensuring that the most rapid feasible progress can be made towards Palestinian economic development and the achievement of national and individual rights. We will return to the “political settlements” framework in Chapter 6 below, to frame the analysis of prospects going forward.

1-2 Policy Context and Key Events Shaping Development in Palestine

Since the last Palestine Human Development Report in 2014 several key events, changes and trends have emerged at the political level and on the ground that have affected the progress and prospects of development in Palestine. Several waves of escalation have erupted in the West Bank, interspersed with confrontations and military operations between Gaza Strip and Israel. While the volatility of the external environment has become a constant in people’s lives and coping and adaptation measures abound at the individual, household, firm and communal levels, the brutal realities of a conflict that has endured for a century are never far from the surface and serve as a constant warning against complacency.

1-2-1 Occupation and Settlement Expansion

All discussions of development in Palestine have come to start by acknowledging the fact that the harshest and most visible constraint on Palestinian development is a half century of military occupation. Every Palestinian living in the occupied Palestinian territory

(oPt) is vulnerable to some degree and there is scarcely any sphere of life that the occupation does not touch. Even with the existence of a PNA since 1995 with limited jurisdiction (excluding east Jerusalem and 60 percent of the West Bank) in the oPt, an active Israeli Civil Administration (Coordinator of Government Affairs in the Territories – COGAT) manages the range of Israel’s civil, economic and other relations with Palestinians directly or through the PNA (MAS, 2021b). Gaza Strip remains “landlocked” by an Israeli military cordon that strictly controls the flow of people, goods and finance to and from the besieged enclave.

Over decades, a network of settlements and a multi-layered system of physical and administrative constraints have been built up by Israel in the West Bank. Today, according to the European Council report on Israeli Settlements (2021), there are approximately 220,000 Israeli settlers living in East Jerusalem, while the settler population in Area C of the West Bank is approximately 441,600. This brings the Israeli settler population in the West Bank to around 647,800, in 170 settlement locations and 134 “outposts”.²⁷

Advancement of plans for settlement units in the occupied West Bank, including East Jerusalem continued at a very high rate in the first half of 2020 (January-July). 14,794 settlement units were advanced in different stages of the planning and implementation process (plans and tenders). 5,525 of the units pertain to settlements located in occupied East Jerusalem, and 9,269 to settlements located in other parts of the West Bank, including in locations deep in the West Bank (HRC 2021).

In the era of the Trump US Administration, policies that enabled an aggressive expansion of Israeli policies adverse to Palestinian development and rights, Israeli settlements in the West Bank surged. According to Israeli sources, Israel’s average annual construction rate rose 25% in the period that President Trump took office.²⁸ Furthermore, there have been continuous demolitions and seizures of Palestinian structures, especially in Area C. Evictions also increased throughout 2019, as did settler-related violence. East Jerusalem and Hebron have been flashpoints for growing tension between settlers and Palestinians.

27. https://eeas.europa.eu/sites/default/files/six_month_report_on_israeli_settlements_in_the_occupied_west_bank_including_east_jerusalem_reporting_period_january_to_july_2020.pdf

28. <https://apnews.com/article/joe-biden-donald-trump-israel-iran-nuclear-west-bank-2f0d9f2abbb84d29bbe9f28c61a59662>

As early as 1980, the UN Security Council not only considered settlements to be in contravention of international law, but even called for their evacuation and dismantlement.²⁹ By 2016, the UN Security Council had dropped its latter demand, but its resolution 2334 in the last days of the Obama Presidency echoed earlier concerns and called on Israel to “immediately and completely cease all settlement activities in the occupied Palestinian territory, including East Jerusalem”. Israel has continued to disregard this international consensus and indeed continues to strengthen its “Jewish state-building” project throughout the oPt.

1-2-2 Oslo-Paris Accords Policy Constraints

Volumes of international, Palestinian and Israeli scholarly and policy literature have documented how the occupation impacts the movement of people and goods, fragments the territory geographically and socio-politically, stunts economic growth, and restricts Palestinian use of critical resources such as land, water and minerals. With the very same instruments, it hinders policymaking, governance and service delivery by the PNA (UN 2016:11). The 1994 Paris Protocol on Economic Relations between Israel and the PLO deprives Palestine of sovereign economic policy space or tools and has appended the Palestinian economy to Israel’s in a colonial dependency framework.

The Palestinian government has no control over its borders – land, air or sea - or of its customs revenues. It does not have its own currency or authority to print money. It lacks access and policy jurisdiction over Area C. It lacks influence over Gaza Strip, due to territorial fragmentation and internal Palestinian division that prevents the operationalization of a government of national consensus in all of oPt. The PNA fiscal space is restricted. A major part of the PA’s revenue (60%-70%) comes from the clearance revenues system, in which all taxes and revenues due at borders, seaports and by air on Palestinian goods and services are collected by the Israeli fiscal authorities on behalf of the PNA in return for a 3% administrative charge to Israel.

The PNA also has limited space for the development of effective regional or local government and

local development policies. Israel’s planning regime in Area C and East Jerusalem is discriminatory and restrictive. It is not designed for the benefit of the protected population. Palestinian local governance and service delivery is limited by increasing territorial fragmentation. Freedom of movement and lack of jurisdiction in large parts of the oPt for example hamper rule of law, maintenance of security, and the delivery of justice services.

Restrictions on movement, access and trade have been identified as main impediments to economic growth in the oPt. Restrictions are implemented through a complex system of checkpoints, permits, military roadblocks, settlements, a bypass road system, parallel legal regimes and the Barrier. Such restrictions have fragmented the Palestinian landscape. They have created isolated communities, undermined social cohesion, ruptured a common identity and reduced economic activity within and among the fractured Palestinian populations of the territory. UNCTAD has estimated the fiscal cost of occupation to the Palestinian people over the 2000–2017 period at US\$47.7 billion (UNCTAD 2019: 40). UNCTAD argues that, had that amount instead been pumped into the Palestinian economy through expansionary fiscal policies, thousands of additional jobs could have been created.

Therefore, under the prevailing Israeli matrix of control, Palestine’s ability to determine its development fate remains highly circumscribed. A government that does not control its borders, its revenue, and its monetary policy and cannot access much of its natural resources is embarking on the 2030 Agenda with an overwhelming handicap (UN 2016:13).

Given international acquiescence with the political stasis, the option of changing the failing paradigm of “aid for peace” has not been politically feasible at the global level, while Palestinian disunity and internal weaknesses prevented accumulation of any weight in rapidly changing regional and global power balances. Even with the rise in the past decade of the most extreme, pro-settlement, anti-Palestinian-state forces ever to lead Israel, donors and Palestinians try to conduct business as usual. Hence, considerable

29. UN Security Council Resolution No. 425. Also, UN Security Council Resolution 2334 (2016) also reaffirms that the establishment by Israel of settlements in the Palestinian territory occupied since 1967, including East Jerusalem, has no legal validity and constitutes a flagrant violation of international law and a major obstacle to the achievement of the two-state solution and a just, lasting and comprehensive peace.

donor resources have been ploughed into addressing Israeli occupation constraints on the economy, trade, finances and private sector through a range of micro-measures. This amounts to tinkering with solutions inside the box, rather than challenging the continued validity and functionality of the bygone Oslo-era, “interim self-governing arrangements”.

Recent soul-searching by aid agencies and donor representatives on aid-effectiveness has questioned the viability and morality of sustaining support that ultimately perpetuates Israeli occupation. The estimated \$36.2 billion of aid funnelled into institution building and good governance during the last 25 years have been most successful in creating a securitized PNA, serving both domestic and international security functions (Wildeman 2019). Meanwhile the efficiency and quality of the basic services provided to some 4.5 million Palestinians by the PNA is patchy, especially after its performance in responding to the Covid-19 pandemic fallout which posed challenges that even many advanced states could not address. Under the current scenario, it is likely that the fundamental condition for development in Palestine, namely freedom, will remain elusive for the coming years. This can only change if once more, as in some previous epochs, the collective strength and human capacities of millions of Palestinians around the world deprived of their basic rights for generations, can coalesce around legitimate common goals coherent with international law, and their various rights, and project a credible narrative of dispossession and liberation.

1-2-3 International and Regional Political Scene

Relations between the PLO and Israel have continued to deteriorate in the absence of a political process aimed at achieving an end to the conflict through a two-state solution. Since the failed Obama/Kerry initiative of 2014-2015, there have been no meaningful negotiations beyond the management of day to day civil, security, and economic coordination between the two sides. Similarly, relations between the PLO and the United States collapsed under the Trump administration, following US recognition of Jerusalem as a “united” capital of Israel in December of 2017 and the accompanying termination of United States aid to the Palestinian people, alongside a tightening of Congressional control of any funding to the PNA, once resumed. Aid cuts spanned UNRWA in an ominous ges-

ture of disregard for the plight and rights of Palestine refugees, and the Administration ordered the PLO to close its diplomatic mission in the US, while merging the functions of the former Consulate in East Jerusalem within the new US embassy in Jerusalem.

In January 2020, the long-announced “deal of the century” proposed by the US President for a solution to the Israeli–Palestinian conflict was unveiled. While senior representatives of the Israeli Government welcomed the proposal and began acting accordingly, the PLO firmly rejected it. The League of Arab States and the Organization of Islamic Cooperation emphasized that the proposal did not meet minimum rights and aspirations of the Palestinian people, though several Arab countries were non-committal or acquiescent, in a foreboding of the momentous changes that were to follow regionally. The European Union, traditionally strong supporters of Palestinian rights, appears to have been too pre-occupied with its own crises in recent years to stake out any position of influence in the stalled peace process, despite its principled opposition to illegal Israeli settlement activities.

The launch of the Trump proposal had been preceded by an international workshop organized by the United States in Bahrain in June 2019, which focused on economic aspects of the future proposal offering inducements to Palestinians and Arabs to engage in this latest format of the time-worn concept of “economic peace”. In addition, in November 2019, the US Government reversed its long-standing policy on Israeli settlements in the West Bank, announcing that it no longer viewed them as being inconsistent with international law. Already in July 2019, the Palestinian President had announced that he would suspend compliance with agreements signed with Israel. But contrary to vocal expressions, no practical steps have been taken by the PNA or the PLO in that direction since, aside from a six-month suspension of security, economic and civil coordination arrangements in 2020. Hence, the Palestinian statements were largely viewed as threats without any power or readiness to deliver on them, especially when coordination resumed in its previous form by late 2020, and intensified during 2021.

The Trump proposal fully internalized Israeli claims and visions through legitimizing the principal of annexation, while ignoring or denying Palestinian aspirations. The threat of Israeli annexation of parts of

the West Bank in 2020 with US support reached a critical point risking regional and international upheaval, but what seemed imminent in 2020 is today “off the table”. Certainly, the whole ill-fated deal is effectively dead as a political option, as it received very little international support from the beginning, and today neither Trump nor Netanyahu are in office. Nevertheless, effective annexation measures on the ground have yet to be challenged, and Israeli politicians’ statements about ultimate Israeli sovereignty over the Jordan Valley and other parts of the West Bank have yet to be marginalized in the Israeli political and media discourse.

Meanwhile, since 2020, the United Arab Emirates (UAE), Bahrain, Sudan, and Morocco announced controversial normalization agreements with Israel, the first such moves since decades ago when Egypt and Jordan signed deals with Israel in 1979 and 1994, respectively. These latest developments fed a revisionist narrative pushed by the US and Israeli administrations that the enduring “Question of Palestine” had been answered by delinking Arab acceptance of Israel from the Arab Peace Initiative conditions of achieving Palestinian rights. Since then, the departure of both Trump and Netanyahu from the scene, along with the speed and reach of the recent popular movement in restoring the cause of the Palestinian people to the global and regional agenda has perhaps put an end to that trope. But proponents of this Arab-Israeli rapprochement have claimed that it would allow Arab states to have better leverage with Israel in favour of Palestinian interests, the so-called “outside-in” approach. Since then, Israeli relations with these Arab states have solidified and economic exchanges have been on the increase, but relations with Palestine remain chilled.³⁰

In short, there has hardly been a time in which the Oslo Accords, the political, security and economic relations it created, and the accompanying international political process and Palestinian regional alliances have been so challenged as they were in 2020 and intensified during 2021. What didn’t erode in the preceding years has been shaken loose and put the achievements of that era, in peril.

1-2-4 The Palestinian National Authority

For the past several years, the validity of the Oslo framework, the “functional role” of the PNA and its democratic accountability have become central issues in official and mainstream Palestinian discourse and in international speculation about the future of the region. Its fragility has been highlighted since 2020 by a weak management of the response to the Covid-19 socio-economic crises arising mainly from limited financial resources, but especially owing to the failure to follow through on repeated promises of national unity and democratic renewal. Most recently, its peripheral position in the 2021 Palestinian-Israeli standoff and the security-first logic of handling the political protests has put it at odds with a broad swathe of Palestinian public opinion and raised international alarm bells.³¹

The PNA fragility has entailed weaknesses in accountability, while financially it remains barely solvent, even while being the sole or main provider for some 150000 Palestinian civil servants, around a quarter of the employed labour force (Farraj and Dana 2021). Throughout most of 2019, the PNA public finances were mired in deep crisis due to the refusal to accept anything but full customs and clearance payments from Israel. The latter had withheld a substantial amount, based on legislation passed by the Knesset in 2018 requiring a reduction in transfer payments equal to the amounts paid to beneficiaries of the PNA Martyrs’ Fund. As a result, public sector wages in the West Bank were delayed and key expenditures postponed for months. Government consumption, a core prop of aggregate demand in the economy, suffered. The stand-off continued until October 2019 and led initially to a loss of two thirds of revenue. An emergency budget, drawing on increased borrowing, mitigated the effects to some extent. Further to agreements concluded between the two parties in August and October 2019, Israel transferred US\$568 million and US\$425 million, respectively, to the PNA as retroactive payments. The issue is far from resolved, however, and renewed confrontations over these flows (and other political disputes with Israel) contributed to chronic PNA fiscal instability in an already Covid-19 battered year.

30. Times of Israel “Israel’s trade with Arab states has surged since 2020 peace deals”, 4 September 2021. Accessed on 15/09/21 at: <https://www.timesofisrael.com/israels-trade-with-arab-states-has-surged-since-2020-peace-deals-data-shows/>

31. Leading to a rare occurrence of international human rights organizations such as Amnesty International sternly criticising the PNA.

1-2-5 Palestinian Resistance to Occupation Retooled?

A sort of “calm” may appear to have reigned since the quelling of the second intifada at least in the West Bank, punctuated by several rounds of bloody and destructive wars engulfing the Gaza Strip and with echoes far beyond. Every Palestinian, almost daily, confronts the occupation and its military might at checkpoints or in nightly incursions into cities and villages. Below the surface of day-to-day life, and quality of life considerations aside, past years have confirmed that few Palestinians have submitted to the idea of permanent Israeli domination. Indeed, many continue to actively resist it in diverse ways, while some tendencies are increasingly demanding “equal rights”, in the tradition of the historic Palestinian call for one secular democratic state for Palestinian Arabs and Israeli Jews.

Violent and popular resistance has erupted repeatedly and dramatically, notably in an otherwise quiescent East Jerusalem: from the 2014 Shu’afat street battles in the wake of the Mohamad Abu Khdeir murder, to the tragic 2015-2016, random “lone wolf” stabbing and car-ramming attacks on Israelis, to the 2017 mass civil disobedience movement against Israeli security systems at the Haram Al-Sharif. This is not to mention an ongoing campaign of popular resistance protests throughout the West Bank against Israeli settlements, checkpoints, Separation Barrier as well as not so infrequent armed attacks against settlers.

None of these shocking events altered the political and economic status quo prevailing since end of the second intifada, but their cumulative impact over the longer term may be inferred in 2021. While the seemingly unchanging political status quo of no war, no peace, no democracy, no development fed an Israeli narrative that “the old will die and the young will forget”, in fact events on the ground point in another direction. Events of this year have resurrected the belief that resistance to Israeli occupation is legitimate in Palestinian and international definitions and cannot be extinguished. The centrality of Jerusalem in the DNA of all Palestinians and its unifying power was dramatically played out when Palestinians from Jerusalem flocked to the central highways of Israel to break the blockade authorities had imposed to prevent Palestinian citizens of Israel from reaching the

city for Ramadan prayers. Such events also gave credence to the possibility (gleaned in the first years of the first Intifada) that despite the existential defeats of the past generations (1939, 1948, 1967, 1982, 2004) the Palestinian people can still unify, mobilize, and lead an effective movement for national self-determination, even spontaneously.

May 2021 brought into concerted play Palestinian popular movements for basic housing rights in east Jerusalem, against occupation in the rest of the West Bank, contesting entrenched state discrimination towards Palestinian citizens of Israel, and finally in violent contestation of the Israeli military blockade of the Gaza Strip. The right to legitimate armed resistance to occupation, historically endorsed by international law, has been repudiated by the PLO since Oslo in favour of popular resistance, diplomatic initiatives and lawfare. But the limits of the latter options, and the apparently successful deterrent effect of Hamas military capabilities alongside the popular uprising elsewhere of 2021, have created a new set of roles for different battlefields and actors. Nostalgia for the heroism of many Palestinians who chose, or felt compelled, to sacrifice their lives for the greater cause may portend the risks of a regression into illegitimate and unsanctioned violence. But the moment also signals the potential for a more coherent, measured and effectively targeted momentum towards an internationally “re-legitimized” struggle of the Palestinian people for national liberation, peace and development (in that order).

1-3 2021- A Turning Point for Palestinian Development Prospects?

Our candid assessment leads to a 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 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 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 the 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, 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. Around seven 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 realisation 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.

The analysis so far has highlighted 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 this Chapter, 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 in the following Chapters through 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 in Chapters 2-5, it becomes evident what sort of policies and strategies will be required in the future, as advanced in Chapter 6.



Chapter Two

A STRUCTURALLY MALFORMED ECONOMY

Key Findings

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, to make the optimal use of limited resources and to 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 which 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 profound transformation of the bases and framing of Palestinian political prospects, as well as a policy shift towards greater protection of an “infant-economy”.

2- A STRUCTURALLY MALFORMED ECONOMY

This Chapter analyses the most conspicuous trends in the long-term performance of the Palestinian economy and highlight issues that should be duly considered in devising the development and trade policies that would allow it to move into a path of growth-enhancing transformation guaranteeing a sustainable improvement of the wellbeing of the population.

2-1 Macroeconomic Distortions

There is ample and well documented consensus on four main defining features of the Palestinian macroeconomic growth path during the last decades.

2-1-1 Lost Development Decades

First, there is accord that the Palestinian economy has significantly underperformed, both in terms of its potential, as well as in relation with relevant comparator countries. Different estimates have shown that the growth rate of the Palestinian economy could have been significantly higher, up to two or three times higher, than those historically achieved (Rock and Gal 2018a). Furthermore, the Palestinian economy's per capita income long-term growth rate has failed to match that of its non-oil-exporting Arab comparators by a significant margin. Perhaps more tellingly is the fact that the Palestinian GDP per capita, adjusted for purchasing power (PPP), stands at less than half that of relevant comparators countries, (World Bank 2017a). In this regard, the average PPP GDP per capita of Palestine during the period 2011-2015 was less than one third of that of Lebanon, a country that has also suffered conflict and political instability; and around 40 per cent of that of Jordan, a country with whom it shares many features (USAID 2017). In 2019, the GDP in PPP terms (constant 2017 US \$) of Palestine was only 28.6 per cent of that of Jordan, and 29.2 per cent of that of Lebanon (World Bank Development Indicators Database).³²

In terms of trade, a gravity model estimate suggests that, based on its size, income level and proximity to large markets, the Palestinian economy's exports and imports could be a multiple of their current levels, by a factor of at least two, and possibly more

(World Bank 2017a). It is also well established that the performance of the Palestinian economy, even in the presence of a significantly low labour participation rate (LPR), has not been able to generate the necessary decent jobs for its increasing labour force, therefore maintaining a high structural unemployment rate (World Bank 2019a); (ILO 2018).

2-1-2 The Perverse Impact of Prolonged Occupation

Secondly, there is agreement among analysts in acknowledging that the dismal performance of the Palestinian economy is a direct consequence of the multi-layered system perpetuating occupation. The constraints on access to resources, on the movement of goods and people, and other measures that increase transaction costs and distort investment decisions continue to be the main impediment to sustainable economic growth and development in the Palestinian territories. The enormous magnitude of the economic cost of occupation has been substantiated by in numerous reports and studies. (Ministry of National Economy and ARIJ (2011); ARIJ (2015); UN-ESCW(2015); UNCTAD (2016); World Bank (2017b); UNCTAD (2019a); UNGA (2020). The cost of occupation is an important aspect of assessing the perverse impact of occupation on Palestinian development prospects and has been examined from many angles.

The IMF (2016) reported that if there had been no occupation, real GDP per capita in Palestine would have been, depending on the methodology utilized, 40 to 83 per cent per cent higher. Furthermore, that if the growth rates of the period 1968-1987 would have been sustained, real GDP per capita would have been 130 per cent higher. The World Bank (2014a) estimated that the total potential additional value added from just alleviating restrictions on access to, and activity and production in Area C would have amounted to around 35 percent of the Palestinian GDP in 2011. A study assessing the impact of restrictions on movement concluded that checkpoints alone cost the West Bank economy a minimum of 6 per cent of GDP (Cali and Miaari 2013). A more recent analysis by the World Bank (2017b) suggests that alleviating some restrictions quantified in the study, could raise real GDP by some 36 percent in the West Bank and 40 percent in Gaza Strip by 2025; only relaxing the dual use list would bring an additional cumulative growth

32. <https://databank.worldbank.org/source/world-development-indicators>

of 6 percent to the West Bank and about 11 percent in Gaza Strip.³³ It is estimated that easing the restrictions on Gaza Strip would result in a 39 per cent increase in GDP, a 55 per cent increase in households' purchasing power, a 23 per cent drop in unemployment, a 625 per cent increase in exports and a 105 per cent increase in imports (Rock and Gal 2018b).

2-1-3 Distorted and Dysfunctional Markets

Thirdly, most analyses underscore the fact that by distorting prices and investment decisions, and by seriously limiting the degrees of freedom of the private and public sectors to act, the measures imposed to sustain the occupation have had a significant impact on the structure of the Palestinian economy engendering a "malformed economy", signalled by profound deformations and abnormalities (Roy (2001); Abugattas (2017); Khalidi (2019); UNCTAD (2012); UNCTAD (2017); World Bank (2017a). Occupation-imposed measures continuously feed into a pattern of behaviour by economic agents that tend to perpetuate and progressively deepen the structural distortion of the economy. The structural distortions are multiple: hypertrophy of the non-tradable sectors and the concomitant underdevelopment of tradables; a significantly underdeveloped private sector; a fragmented domestic market; massive informality; population displacement and a distorted spatial allocation of economic activity and labour market segmentation, among other. Their vicious effects reinforce each other, and they together embody Palestine's long-term growth and development underperformance.

2-1-4 Geographic Fragmentation and Smallness

Finally, a defining feature of the long-term trajectory of the Palestinian economy is the fact that the growth and development patterns of the West Bank and Gaza Strip have differed significantly following the seizing in 2006 by the Hamas movement of the PNA institutions in the Gaza Strip, and what ensued in terms of an adverse geographic and political division. The two regions have evolved into a situation in which they function essentially as separate territorial entities, both in economic as well as in political terms. This fragmentation of the Palestinian territo-

ry, has magnified the various and critical constraints that all small resource-poor economies experience, undermining the development prospects of in both territories. Most attention has been given to the plight of Gaza Strip, while the impact of the splintering of the Palestinian territory between two main regions has not received enough attention. For firms in the West Bank losing 33 per cent of their potential market is definitively not a trivial issue.

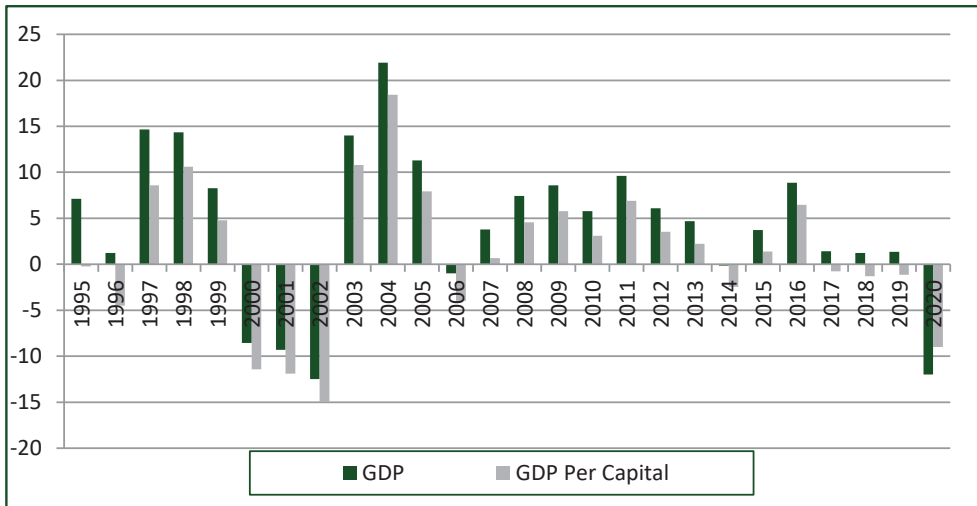
The limitations imposed by smallness have been further amplified by the fact that because of occupation imposed restrictions the economy of the West Bank is itself also severely fragmented, engendering what the World Bank has called an "archipelago economy" with poor economic links between 'islands' (World Bank 2019a). Firms are confined to isolated small segments of the market where they experience different conditions and constraints depending on their location. This situation has had a significant adverse effect on the dynamics of private sector development, and therefore on the economy as a whole (World Bank 2014b); (Marazzi et.al 2010). The economy of Gaza Strip has effectively collapsed, amidst an acute deterioration of humanitarian conditions, and essentially becoming functionally unviable (UNCTAD 2019b); (OCHA 2019).

2-2 Growth Trajectory – Fragility and Volatility

The long-term annual compound real growth rate (ACGR) of the Palestinian economy since 1994 has been 4.65 per cent. Given the high rate of population growth there has been a modest long-term ACGR growth rate of GDP per capita of only 1.45 per cent. Growth has been highly volatile making any point-to-point comparison inadequate. Figure 13 presents the yearly GDP real and GDP per capita growth rates for the period 1994-2020. As may be observed, growth displayed boom and bust cycles, and significant yearly variance. During the period 2013-2019, growth has significantly withered to a yearly real rate of only 2.6 per cent. In 2020 the COVID 19 pandemic had a significant impact on growth; in consequence, GDP per capita in that year was 7.4 per cent lower than the 2013 level.

33. The dual-use list system bans the importation of technology and critical inputs contains 56 items requiring "special approval" to enter Gaza and the West Bank and an additional 61 items that only apply to Gaza. For a discussion of the dual use goods list and its impact on the Palestinian economy refer to: World Bank (2019). Report to the Ad Hoc Liaison Committee, April 30 2019. Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/31550/Economic-Monitoring-Report-to-the-Ad-Hoc-Liaison-Committee.pdf?sequence=1&isAllowed=y>

**Figure 13. Palestine: GDP and GDP Per capita Real Growth Rates 1995-2020
Constant 2015 US \$**

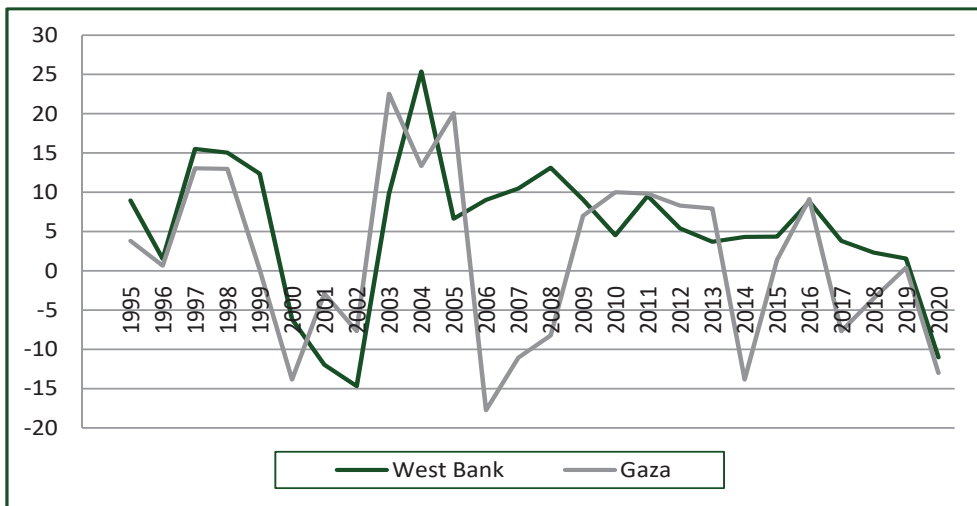


Source: PCBS. Alternative Figure

Some general observations are in order regarding the Palestinian growth trajectory. In first place, it should be underscored that the main driver of economic growth has been total final consumption, which in a sustained manner through time has exceeded the level of GDP by a substantial margin. Consumption is fuelled by remittances and other components of

the Gross National Disposable Income (GNDI), and essentially furnished by imports. Consumption-induced growth as the one experienced by Palestine does not lead to the development of domestic production, neither in any significant way to jobs creation either in the long run or in the short run.

Figure 14. West Bank and Gaza: Yearly Real GDP Growth Rates [Constant 2015 US \$]



Source: PCBS. 2020 estimate.

Secondly, as noted supra, the growth path of the West Bank and that of Gaza Strip has diverged considerably since the fragmentation of the territories. Figure 14 presents the yearly growth rate in the two territories for the period 1994-2020. Since 2006, when the two territories were divided between

competing political authorities and several Israel military assaults against Gaza Strip took place, the West Bank economy achieved an ACGR of 6.4 per cent, while the growth rate of Gaza Strip was only 0.38 per cent. Consequently, its weight in the overall Palestinian economy continued to decline. In 2019,

the Gaza Strip contributed only of 21 per cent of total Palestinian GDP, down from its 31 per cent in 2006. Different growth performance and population growth rates have broadened the disparity in GDP per capita between the two territories. While in 1994 GDP per capita in both regions were almost the same, in 2019 the GDP per capita in Gaza Strip was only 29 per cent of that of the West Bank.

In third place, in examining the long-term growth trajectory of the Palestinian economy the fact that economic volatility is inimical to sustained economic growth and development needs to be emphasized. It has been shown that countries experiencing such trends tend to grow over time at a lower rate (Loayza et.al 2007), and that volatility's indirect welfare cost through reduced economic growth is magnified in countries that are poor, financially and institutionally underdeveloped, or unable to conduct countercyclical fiscal policies as is the case of Palestine. Severe growth oscillations engenders an unpredictable business environment beset with uncertainty discouraging long-term investment, leading to asset destruction when firms cannot weather the downturns, and affects business decisions leading to sub-optimal outcomes (Amodio and Di Maio 2018).³⁴ In the case of Palestine the unsettled political situation intensifies the degree of uncertainty permeating all economic activity.

Growth volatility in Palestine has been the outcome of different factors. In first place, and a decisive factor has been the impact of exogenous non-economic shocks. Conflict has been a major source of growth volatility, generating boom and bust cycles, with overwhelming effects on GDP (World Bank 2011a); (Abu-Eideh 2014). A study estimated that severe conflict can reduce Palestinian GDP by 46 per cent (Rand Corporation 2015). There is evidence suggesting that growth volatility due to conflict blights the economy's long-run performances to a larger extent than that generated by normal business fluctuations, and that the effects are significantly more persistent (Rodrik 1998); (Novta and Pugacheva 2020).

Besides major conflict events, yearly growth rates in Palestine are strongly associated with the relative

intensity of unrest prevalent in a given period, the status of the relations between the PNA and Israel, on which the transfers of fiscal revenue and the easing of some restrictions depends, and on the particular nature of the restricting measures applied by Israel. Another important source of growth volatility has been major fluctuations in the level of incoming factor income, mainly wages of Palestinian workers in Israel, and of unrequired transfers, essentially remittances and very importantly foreign aid, which as pointed out above buttress the levels of household and government consumption the main drivers of economic growth in Palestine. Finally, given the extreme dependence on the Israeli economy, during periods of relative calm the growth rates in Palestine reflect its business cycles, which are transmitted primarily through foreign trade and employment of Palestinian workers.

2-3 A Structurally Underdeveloped Economy

Since 1994 the composition of the Palestinian economy has experienced a significant transformation, both in terms of the relative contribution of the different sectors of economic activity to total value added, as well as in terms of the share of it of the different institutional sectors. In the latter case, there has been a progressive increase in the participation of the enterprise sector at the expense of the other institutional sectors.³⁵ In 2019, the non-financial enterprise sector generated 51.7 per cent of the total value added produced by the Palestinian economy, up from 22.3 per cent in 2004. Including financial enterprises, the formal private enterprise sector generated 56.2 per cent of GDP in 2019; up from 26.4 in 2004. There has been a sharp decline in the share of the general government in GDP, from 21.8 per cent in 2004 to 13.6 per cent in 2019. It must be noted however that non-enterprise sectors still represent a sizeable share of the Palestinian GDP.

The increased share of the enterprise sector in the Palestinian economy does not necessarily indicate the emergence of a robust modern private sector.

34. The effects at the firm level of growth volatility deriving from conflict in Palestine have been analysed in a thought provoking study. Refer to: Amodio, F, and M Di Maio (2018), "Making do with what you have: Conflict, input misallocation and firm performance", *The Economic Journal* 128: 2559–2612. August.

35. The other institutional sectors are: Households (26.7%), NPISH (3.5%) in 2019, down from 45.2% and 6.6% respectively. The PCBS attributes all agriculture value added to the household sector.

The sector in Palestine is comprised mainly by family-owned small and microenterprises with low capital accumulation and technological absorption capabilities, where the informal sector is predominant. Informality undermines labour productivity and reveals the ill health of the economy. A study found that during 1995-2012 the shadow economy—composed of informal activities—accounted for 58 to 89 percent of Palestinian GDP (Sabra, Eltallar, and Alfar 2015). A more recent study estimates that the informal sector represents around one third of Palestinian GDP (Awad and Alazzeah 2020). According to the definition of ILO (2018), the informal sector includes jobs without legal and social protection whether carried out in formal firms or otherwise. On this basis, informality accounts for 64.3 per cent of non-agriculture employment in Palestine: 31.2 in informal activities, 30.8 informal employments in the formal sector, and 2.3 household employments (ILO 2018). Entrepreneurial activity in Palestine is principally driven by necessity, being a resilience mechanism aimed at the creation of self-employment and jobs for family members in the absence of wage employment opportunities, feeding into informality. Such a pattern does not augur in a business-as-usual scenario a very auspicious future for the private sector.

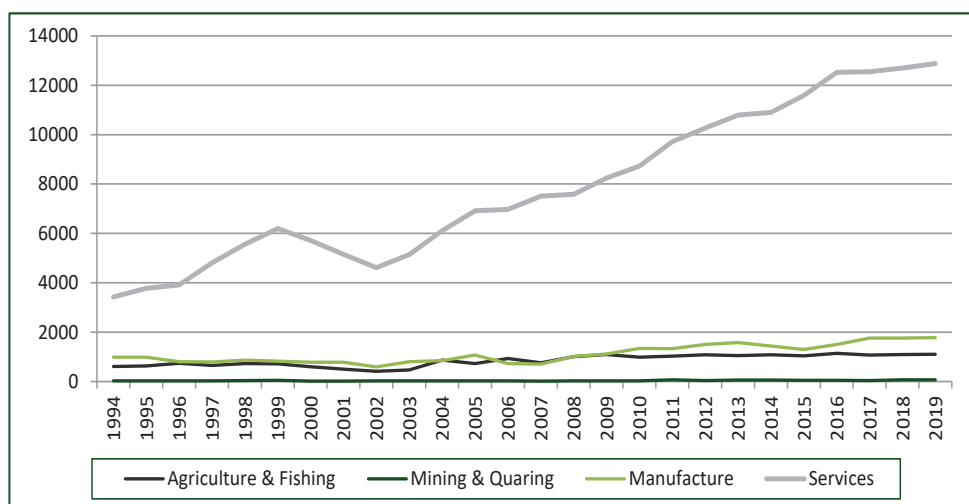
Because of the conditions prevailing under occupation, private investment in commodity production activities and modern technology-intensive services remains far from what would be necessary to engender a robust modern private sector capable to spur adequate rates of growth generating the needed employment for a growing labour force. Palestine fares relatively well in relation to comparator countries in terms of total gross fixed capital formation (GFCF), and in many years it has been above the 25 per cent identified in the World Bank Growth Report (2008), as the minimum rate required for sustaining growth. However, investment in Palestine is channelled mostly to buildings, and the share of non-building investment, which is in productive assets, has been exceptionally low. During the last 13 years total non-buildings investment, both private and public, has amounted to just 5.9 per cent of GDP, only 26 per cent per total GFCF.

This is not because of insufficient investment capital but is mainly due to the absence of profitable investment opportunities in the territory, and the prevailing uncertainty that defines the business environment. This is corroborated by the behaviour of the financial system that consistently has the necessary liquidity to provide investment funds, but they are mostly channelled to other undertakings (further discussed below). Moreover, banks credit facilities are permanently significantly lower than total deposits, and excess liquidity is deposited with the Palestinian Monetary Authority (PMA), which is ultimately available to help finance the government budget deficit. The significant investments of Palestinians abroad, also attest to the availability of investment capital, which is not contributing to growth and development in the territory.

Since the Oslo accords, the composition of the Palestinian economy in terms of economic activities has also changed considerably. A defining feature has been the hypertrophy of the services sector at expense of the commodity producing sectors.³⁶ The Palestinian economy has emerged as essentially a services economy (Shikaki 2021); (Morrar and Galouj 2016); (Al-Falah 2013). Services activities represented in 2019, both in the West Bank and in Gaza Strip, slightly above 80 per cent of GDP, while in 1994 services contributed only with 67.7 per cent of Palestinian GDP. In parallel, commodity producing sectors have progressively lost ground. The contribution of agriculture to total value added has declined from 12 per cent in 1994 to 6.95 per cent in 2019, while that of manufacture from 19.51 per cent to 11.23 per cent during the same period. Mining and quarrying, concentrated in the West Bank, traditionally has had an insignificant contribution to GDP, 0.43 per cent in 2019, down from 0.65 per cent in 1994. Commodity producing activities have not been able to unleash all their potential, being seriously impacted by shocks and stifled by the myriad of protracted restrictions imposed by Israel, which has hindered their productive capacity and competitiveness. Figure 15 presents the evolution real GDP for the different sectors of economic activity.

36. In this section we are using the WTO GATS coverage of services, which include all activities except agriculture, fishing and forestry, mining and quarrying, and manufacture. We include the distribution of electricity and water and sewerage services within services.

Figure 15. Palestine: GDP by Main Sectors of Economic Activity [Million 2015 US \$]



The shift towards services is a normal drift as economies develop and per capita GDP increases (Chenery, and Moshe 1975); (Herrendorf, Rogerson, and Valentinyi 2014). However, the Palestinian case is an anomaly and does not reflect a typical country transiting towards higher economic complexity and economic development. In Palestine, the share of services in GDP is significantly higher than the one that should be expected from its GDP per capita level. International comparison clearly signals that it stands out as an outlier, showing perhaps one of the highest services' contribution to GDP in the world, even higher than in some highly developed countries (Abugattas 2017); World Bank (2017a); USAID (2017). The disproportionate growth of services activities is one of the main abnormalities engendered by the measures imposed to sustain occupation. The forces set in motion by occupation have restructured the Palestinian economy and made its growth performance driven mainly by low productivity non-tradable services; those that Shikaki (2021) terms 'occupation-circumventing' economic activities. Palestine exhibits, following the analysis of Kunai Sen (2019), a structurally underdeveloped economy, where labour has been progressively reallocated from agriculture to low productivity non-business services (Sen Kunai 2019)

2-4 Commodity Producing Sectors – Neglected Engines of Growth and Development

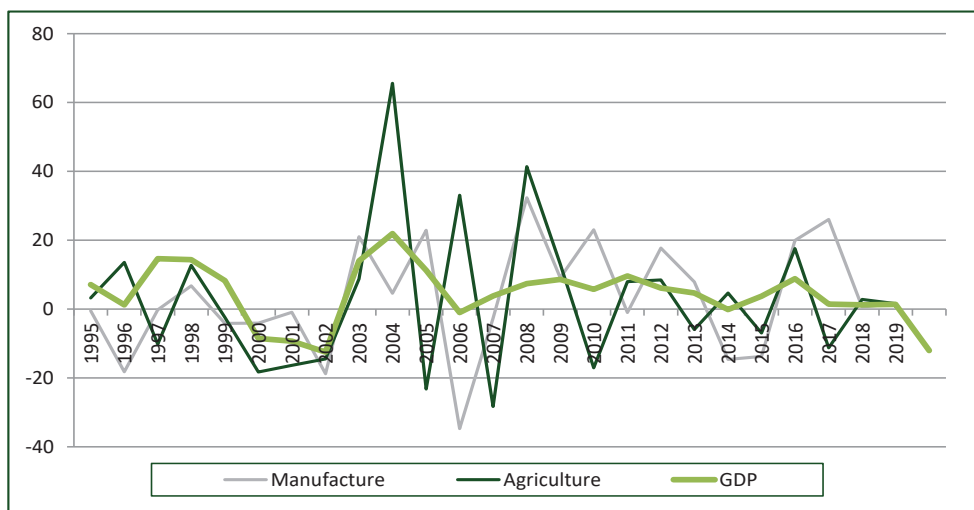
Agriculture and manufacture have underperformed since 1994 and are producing well below their potential. As discussed above, their contribution to GDP has declined considerably, and in relation to comparator countries it is significantly lower than what could be expected given Palestinian income per capita level. These activities have been particularly emasculated by occupation. Examining the post-1994 period we can clearly observe that both sectors experienced a prolonged period of stagnation. In the case of agriculture, the ACGR during the period 1994-2005 as only 1.38 per cent, and the GDP level of 1994 was only exceeded in 2004. In the case of manufacture the performance was even worst. The ACGR for the period 1994-2008 was only 0.21 per cent, and the GDP level of 1994 was recovered only fourteen years later. Agriculture experienced some dynamism after the second Intifada growing at 4.6 per cent during the period 2004-2009, however it reverted to stagnation during the last decade, when GDP practically did not grow at all. Manufacturing since 2008 has flared relatively better with a growth rate of 4.4 per cent during the period.

These two sectors have experienced higher growth volatility than that of total GDP, which would indicate that services activities are relatively more resilient to

shocks (Figure 16). This suggests that the negative effect of growth volatility might have had a greater impact in these activities and would explain in part their observed performance. Even though quarrying plays a relative important role in exports, its contribution to GDP has been marginal during this period.

Palestine has not been able to unleash all the potential of this activity because since 1994, Israel has refused to issue new permits to Palestinian stone mining and quarrying companies, while operating some 11 quarries including some in area C for Israeli use.

Figure 16. Palestine: Yearly Growth Rates, 2015 US \$



Farming has traditionally been the mainstay of the Palestinian economy and society, and a prevailing economic activity for the majority of the population. However, since occupation began agriculture has been squeezed by limitations on access to water and land. Access and distribution of water are among the most critical and sensitive issues emerging from occupation. It is important to highlight that the average yearly per capita availability of water in Palestine is one of the lowest in the world, and that Palestinians in the West Bank have access to only about 15 to 20 per cent of the water availability in the area, the rest being allocated to Israel’s settlements and for use within Israel itself. In Gaza Strip water scarcity and degradation as lead to consider that the area would be unliveable in the near future. Palestinian water supplies are insufficient to satisfy demand, both of households that consume below the minimum internationally recommended levels, as well as for economic activities. In Palestine only 5.5 per cent of available agricultural land is irrigated. Israel’s confiscation and control of

Palestinian water resources undermines any possibility for sustainable development of agriculture, and of manufacture as well.

Agricultural land availability is another major constraint confronting Palestine.³⁷ Land has been appropriated by Israel for the construction of bypass roads and other infrastructure to serve settlers. Farmland is governed under a complex legal-bureaucratic mechanism designed to facilitate the transfer of land to settlers (Smith 2020). State land is allocated exclusively to Jewish Israeli citizens,³⁸ and land requisitioned for military purposes to the settlements (Hass 2019).

Without access to agricultural land and enough water the prospects for agricultural development in Palestine are without doubt quite grim. Moreover, besides these restrictions, the structure itself of the Palestinian agricultural sector is another factor inhibiting its development. The sector is characterized

37. Land is taken over by Israeli authorities under different justifications, among other: declaration of state land, designated military areas, natural reserves, construction of settlements, declaration of land as fallow if not cultivated for three year, and application of the absentee landlord law taking over private own land.

38. Peace Now (2018). 99.8% of state lands allocated in the West Bank were given to Israelis; Palestinians were given almost nothing, available at: www.peacenow.org.il/en/settlements-watch/settlements-data/population

by the prevalence of family-owned micro-landholdings, mostly oriented to self-consumption, where agriculture in a significant proportion of cases is not the main occupation of the landowner (Marzin, et.al 2019), (Ministry of Agriculture 2016). A high proportion of landowners lack title over their properties, which limits access to finance. Agriculture has emerged as employment of last resort, still occupying mostly informally around 11 per cent of the working population. Labour and total factor productivity is relatively quite low in Palestinian agriculture (FAO 2019). Comparing with countries with which it shares similar climate and soil conditions, yields per area in Palestine are about half of those in Jordan and around 40 per cent of those in Israel (UNCTAD 2015). Productivity is also hampered by the restrictions imposed by the dual-use list prohibiting access to quality fertilizers, and by the high cost of other imported inputs on which it extensively depends. Agricultural production has also been increasingly affected by settler violence and land confiscation trashing and uprooting olive trees and orchards, which are main staples of Palestinian agriculture.

The manufacturing sector does not fare much better. This sector is populated by micro and small enterprises with limited capital accumulation and technological absorption capabilities, and it has not shown any noticeable transition towards modernization and upgrading during the last decades. The sector's structure has remained for the most unchanged, and there are some indicators that would even suggest a retrocession in terms of its underlying potential to achieve higher productivity and efficiency. Manufacturing activity is concentrated in the West Bank, trend that has deepened as result of the sector's devastation in Gaza Strip, which hosts 76 per cent of all manufacturing establishments and 95 per cent of manufacturing employment. In Palestine, micro enterprises, four or less workers, represent 77.6 per cent of all establishments, while those with 9 to 5 workers and additional 14.2 per cent. Therefore, only 8 per cent of manufacturing firms have 10 or more workers. Only 107 firms, 0.5 per cent of the total have 50 or more workers.

In Palestine's manufacturing sector the 'middle-size' firms are almost missing (compared to the small and micro size enterprises which predominate), segment which as shown by various studies is a major driver

of employment and innovation and its absence constituting a significant hurdle for the development of the sector (Tybout 2000). In Palestine, firms for the most part do not grow as micro and small firms tend to remain as such, therefore scale economies go unexploited (World Bank 2014b). Manufacture has shown some dynamism during the last decade growing at ACGR of 3.3 per cent. However, job creation has not followed suit, with employment in the sector growing a rate of around half of it, revealing low employment elasticity.

Palestinian manufacture generates in general low value added and is highly dependent on imported inputs and capital goods. Overall, labour productivity in manufacturing is relatively low, and a study examining firm-level productivity in Palestine suggest that physical capital and labour input are significant factors in determining the level of output, while technology exhibits diminishing returns to scale (Kashiwagi 2016). A deteriorating pattern in capital intensity has prevailed since the early 1990s. A defining trait of the evolution of manufacturing in Palestine is that growth, both in terms of number of establishments and of employment, has mainly taken place in the type of enterprises and in those activities exhibiting relatively lower productivity, which diminishes the aggregate productivity level of the sector.

There are, of course, some "pockets of excellence" in the Palestinian light industry sector, such as pharmaceutical firms, some in the food and beverage sector, and other in furniture metal and plastic production. But those pockets do not add up to a critical mass with the potential of having an overall impact on the entire economy, either through their technological spill overs, or by means of their integration with firms in other sectors of economic activity in value chains; with the notable exception perhaps of the agro-business. However, the development of agro-business is constrained by the poor overall performance of the agricultural sector and marketing constraints. Overall, the absence of any significant foreign direct investment in the sector has deprived Palestinian manufacturing from the benefits usually associated with its historical role in economic development, among other through know-how spill overs and integration into international value chains.

The premature de-industrialization of the Palestinian economy and the disheartening performance of manufacturing activities is one of the enduring legacies of occupation and misguided Palestinian development policy. In Palestine, firms confront high transaction costs resulting from Israeli security policy, undermining their competitiveness while competing in an open market. In an import dependent economy, firms face higher costs due to increased wait times, limitations of security inspection infrastructure, increased transportation costs, high storage fees, and security inspection costs (Fesen 2021); World Bank(2019b); UNCTAD (2014a). These measures equally undermine firm's export possibilities, impeding a process of 'learning by exporting', which is reputed as an important source of firms' productivity improvements.

2-5 International Competitiveness and Growth-Reducing Structural Change

The distortion of two basic prices in the Palestinian economy, exchange rate and wages, have a significant impact on its tradable production sectors. The exchange rate is a determining factor of firms' competitiveness, both in the domestic market as well as in third markets, therefore on trade flows (IMF 2015). An appreciation of the exchange rate increases the price of exports expressed in the target market's currency and lowers the price of imports expressed in national currency in the domestic market, intensifying competition with domestic production. The behaviour of the Israeli Shekel against other currencies reflects the performance of the Israeli economy and the country monetary policies, without any connection to the realities of the Palestinian economy. The Shekel has experienced during a prolonged period a significant and sustained appreciation against the major international currencies (Fridman and Lior 2015); (Palanic, et.al 2019); (IMF 2021). This means that domestic prices in Palestine, including those of non-tradables, labour costs and domestic inputs for production, expressed in US\$ have significantly increased hindering the competitiveness of firms, which are increasingly subject to strong competition from imports. Overvaluation of the Israeli Shekel has

also impaired export growth. By curtailing investment opportunities in tradables, overvaluation of the currency has negatively wedged on the long-term growth prospects of Palestine. What might be good for Israeli trade is generally not good for Palestine.

The cost of labour is another factor affecting the international competitiveness of the Palestinian producers. Wages are high enough, relatively to those in competing countries, to substantially restrict competitiveness to labour-intensive activities, in particular in the manufacturing sector. Besides the impact of exchange rate overvaluation on the cost of labour expressed in dollar terms, employment of Palestinians in Israel and the settlements exercises an upward pressure to the wages prevailing in the Palestinian private sector. This effect is reinforced by the public employment wage premium, which constitutes an important distortion in the labour market, limiting job creation in the private sector (World Bank 2019a). The pull factor of employment in the GCC countries for high-skilled workers, and the level of the minimum wage also put pressure on formal private sector wages.³⁹ The inflow of income earned in Israel and in the settlements increases the relative price of non-tradables relative to the price of tradable goods in Palestine, an effect analogous to that of real exchange rate appreciation, weakening the competitiveness of exports and of domestic production competing against importable goods.

Economic growth and inclusive development are the outcome of a process where investible surplus and the labour force are progressively shifted towards higher productivity activities with greater technological spillovers, increasing returns and higher demand elasticities. What is produced and exported matters. For this process to take place the system of economic signals has to be such that the private sector is compelled to invest in upgrading and diversifying production, continuously shifting resources towards products that would contribute to supply-upgrading along a learning curve, and demand-adapting a country's export productive capacity to an ever-changing international demand (Palma 2009). In the case of small economies like Palestine, in which the size of the domestic market constitutes a significant limitation for unleashing

39 The minimum wage is a right stipulated in the Palestinian Labor Law and it was adopted for the first time for the West Bank in October 2012 and entered in force in January 2013. It was set at 1450 NIS per month (roughly around 375 US\$ at the time) and is slated to be raised to 1800 NIS as of 2022. This is comparatively high in relation to other LMIC. However, a significant proportion of Palestinian workers receive wages below the minimum, mostly in micro and small firms and in the informal sector.

a process of this sort, foreign trade is called to play a leading role making it possible to achieve higher economic complexity and the required economies of

scale. However, in Palestine exports have not contributed to achieving those objectives.

Figure 17. Palestine: Sectoral Employment Generation and Relative Labor Productivity 1998-2018

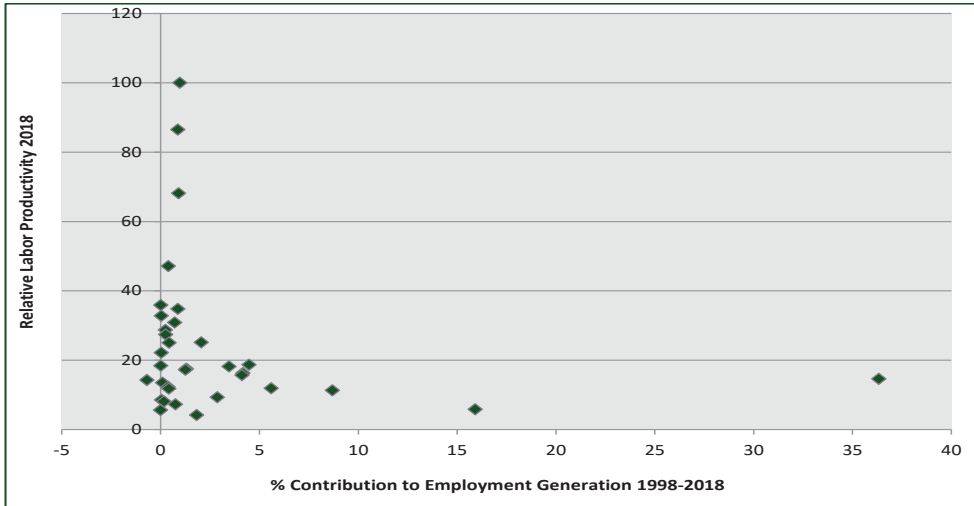
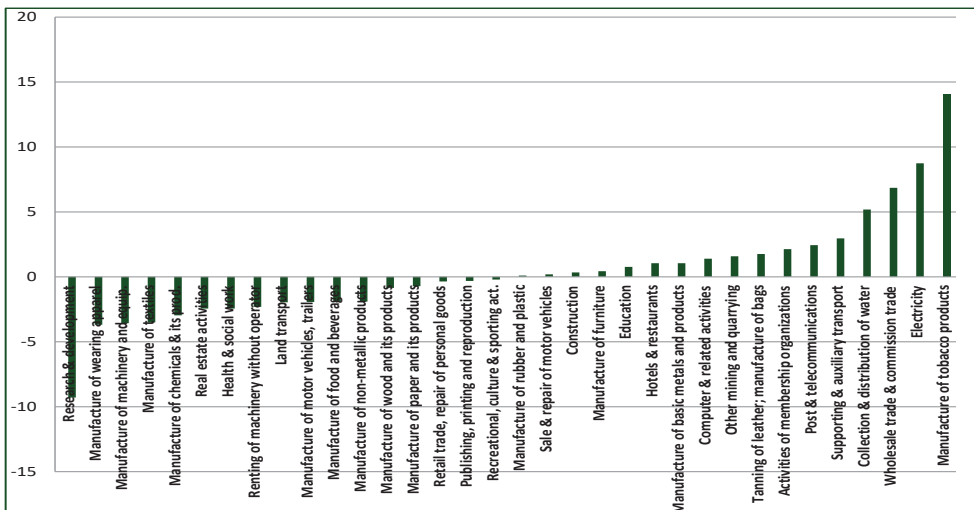


Figure 18. Palestine: Annual Compound Growth Rate of Labor Productivity by Sector, 1998-2018 [Constant 1998 Schekels]



As McMillan and Rodrick (2011) point out increasing aggregate productivity in the economy can be the outcome of two processes, either as result of real-locating labour from lower productivity activities to higher productivity ones, the structural change effect, or by increasing productivity in each of the sectors of economic activity, the within effect. Palestine has experienced a process of growth-reducing structural change. Figure 17 presents the contribution of

the different economic activities of the non-agriculture enterprise sector to employment generation during the period 1998-2018, and their corresponding relative labour productivity, where the highest sectoral labour productivity in 2018 is set at 100. The figure is self-explanatory. The bulk of employment generation has taken place in those activities with the lowest relative labour productivity, those with productivity of only one fifth or even lower than that

of the best performing sector. What is notable is the dismal productivity performance during the period analysed, in particular of manufacturing. Manufacturing activities that employ the bulk of workers are among the worst performers, as is the case of textile and apparel production and the food products industry. Positive rates of long-term productivity growth can be observed in public utilities and a few other services activities, but all these employ a tiny fraction of workers of the non-agriculture enterprise sector.

Figure 18 presents the CAGR of labour productivity for the different non-agriculture enterprise sectors for the period 1998-2018. The overall dismal productivity performance during the period, in particular of manufacturing, is notable. Except for tobacco and leather products, basic metals and furniture, all other manufacture sectors show insignificant or negative rates of productivity growth. Positive rates of long-term productivity growth can be observed in public utilities and a few other services activities, but these employ a tiny fraction of workers of the enterprise sector.

2-6 Dysfunctional Integration into the Global Trading System

The Palestinian economy is a relatively open one, in which exports and imports of goods and services represented 61.5 per cent of GDP in 2019. However, the relative weight of trade in the economy has diminished since the early nineties when the openness of the economy was slightly above 80 per cent. This has been the result of non-tradable activities growing at a higher rate than exports and imports.

Two main features define the integration of Palestine into the global trading system. First, Palestine has a predominantly import economy, in which imports of goods and services account for most of the observed degree of openness. Palestine has not been able to develop export activities to any significant extent, neither in goods nor services. Secondly, the trade integration of Palestine is characterized by a high and asymmetrical dependence on the Israeli economy, which has diminished in time but that is still predominant. Bilateral trade data between Palestine and Israel is not very reliable, but it has been estimated that bilateral exports and imports are significantly larger than predicted by gravity trade models and that there is little correspondence between Palestine imports from Israel and what Israel exports to the world, indicating that there is significant trade diver-

sion. This attests to the dysfunctionality of the trade arrangements included in the Oslo Agreements, which have engrained Palestine dependency and render it as captive market for Israel with significant economic costs (World Bank 2017a).

Analysis of the performance of Palestinian total trade, goods and services, demonstrate that there has been no improvement during the last two decades. Even though the total trade deficit as percentage of GDP has declined, it still stands at 38 per cent, one of the highest deficits recorded in the world. The coverage ratio, exports over imports, has declined slightly from 24.7 per cent in 2000 to 23.6 per cent in 2019, indicating a slightly higher growth rate of imports than the one of exports. The coverage ratio on trade in goods has remained almost the same around 16.6 per cent indicating similar growth rates of exports and imports, while that for trade in services has shown a significant decline, from 61.5 per cent to 47.9 percent in 2019. This latter trend is worrisome because if persistent it will aggravate the already extremely fragile external position of the Palestinian economy. A forecast based on past trends indicates that even with a higher growth rate of exports the deficit will continue rising in absolute terms for a prolonged period, and it would take decades before the deficit could be finally reverted.

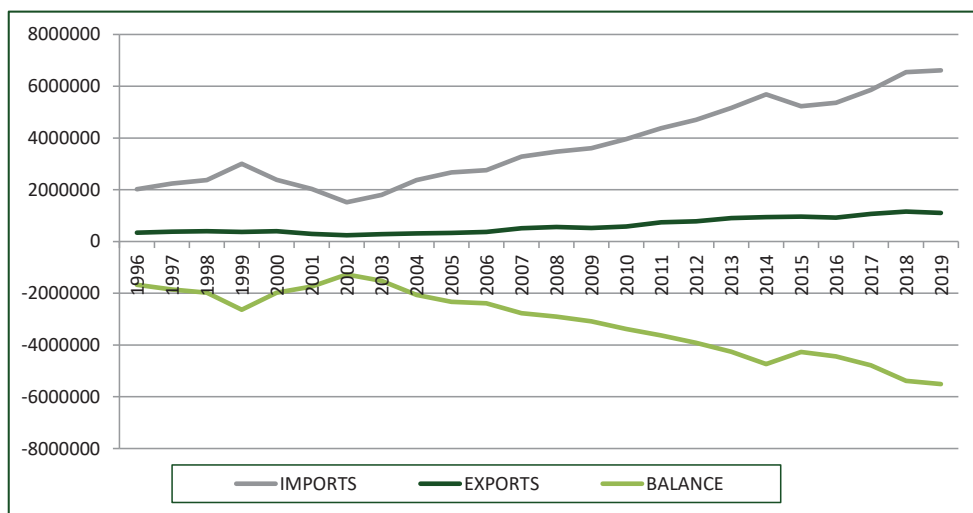
As result of the dismal trade performance, generating a high and persistent combined deficit in trade in goods and services, Palestine has presented over time a very fragile external position with a sustained current account deficit; which has been partly financed by net factor income, essentially earnings of Palestinians in Israel; private transfers, mainly remittances of Palestinian workers in third countries; and official transfers, mainly government aid from bilateral donors. In a business-as-usual scenario, the current account deficit is expected to remain high over the medium and long-term. In such a scenario, the volatility of current account financing sources coupled with the absence of policy space on the part of the PNA to confront external disequilibria has led many observers to entertain serious doubts about the overall long-term sustainability of the Palestinian macro-economy in the absence of a significant policy shift.

Palestine has experienced a large and persistent deficit on trade in goods, which in 2019 represented 32 per cent of GDP. Figure 19 presents the evolution of trade in goods in absolute terms. The deficit on trade in goods as percentage of GDP has declined from the levels registered in the late nineties where it stood on

yearly average around 60 per cent of GDP. However, this has not been the result of major export dynamism, but of the hypertrophy of non-tradable economic activities in the Palestinian economy. In fact, exports of goods as percentage of GDP declined from the level registered in the second half of the nineties; from a yearly average of 9.6 per cent it has withered to only 6.6 per cent during the last five years. Palestine exhibits a very low export to GDP ratio in comparison with oth-

er small economies, which on average have a ratio of 28.8 per cent, and with the average for all low middle income (LMI) countries, the category to which Palestine belongs, for which the ratio is around 17 percent. Given the low valued added of production in Palestine and the weight of re-exports, which were 30 per cent of total exports during 2018/2019, it would be safe to conclude that exports of goods have made an insignificant contribution to the Palestinian economy.

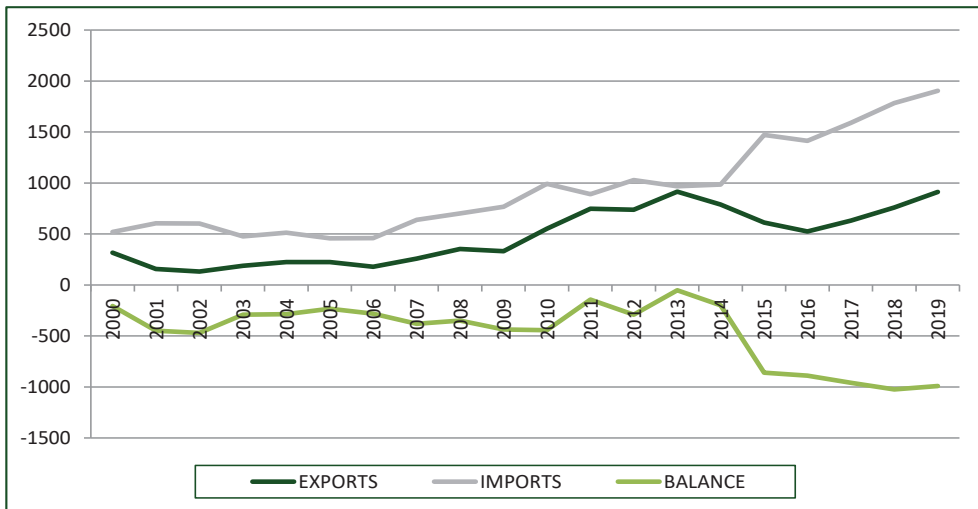
Figure 19. Palestine: Trade in Goods 1996-2019 [US \$]



The West Bank accounts for almost all Palestinian goods exports. Gaza Strip has ceased exporting some years ago, representing only 1.2 of total exports in 2019. Despite having preferential market access to the European Union, the USA, MERCOSUR, and with Members of the Great Arab Free Trade Area (GAFTA), Palestine has not been able to reap benefits from these arrangements as result of the multiple restrictions and distortions in place. Palestine has not experienced any significant trade diversification, neither in terms of goods exported or markets served. Export growth has taken place mainly in the intensive margin, exporting the same goods to the same markets. Analysis at eight-digit disaggregation of the HS shows a high concentration of exports in the ten main products, which represented 62.5 per cent of total domestic exports in 2019. Primary and labour-intensive products, such as stone, metals waste and scrap, olive oil, shoes, and furniture, among few other products, constitute the bulk of exports. There are only few technologically advanced domestic exports, as is the case of pharmaceuticals, but they only make up a miniscule fraction of total exports. Most of the products register a significantly low yearly export value, and there is high export instability as few products register exports in a good number of years of the series.

Even though the Palestinian economy is dominated by services, trade in services has not been a major engine of economic growth or of structural transformation of the economy. Exports of services represented 5.9 per cent of GDP 2019, while imports 11 per cent. As is the case of trade in goods the weight of services trade in the economy has declined since 2000, and Palestine has recorded a persistent deficit on trade in services, which has been widening in time, as exports have registered a ACGR of 5.7 per cent since 2000 while imports grew at 7 per cent (Figure 8). Since 2014, imports have grown at an average yearly rate of 11.6 per cent while exports only at 2.2 per cent, which suggests that if the tendency persists the deficit might grow exponentially. Travel (i.e. incoming tourists), construction and telecommunications services represented almost 80 per cent of total services exports during the last years. Imports of services are more diverse but travel with 50 per cent of the total predominates, international transport on which Palestine is almost totally dependent account for around 22 per cent, and other business services for an additional 13.5 per cent. Bilateral trade in services with Israel has a relatively significant weight.

Figure 20. Palestine: Trade in Services 2000-2019 [US \$]





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Chapter Three

FINANCIALIZATION AND LIBERALIZATION UNDER OCCUPATION

Key Findings

Maximizing the Benefits and Mitigating the Risks of Liberal Financialization

Palestine does show incipient traits of a financialized economy, but it is not as pervasive into 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 fulfilled its constitutional commitment to guarantee a free market economy, and 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 real 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.

Financialization advanced in the context of promotion of neoliberal terminology such as “good governance,” “private sector driven growth,” “fiscal discipline,” “export promotion,” “poverty reduction,” and “economic reform”, supposedly are 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.

Despite the transformation in the finance and banking sector, that did not induce the sector to achieve higher levels of productive 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 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.

3- FINANCIALIZATION AND LIBERALIZATION UNDER OCCUPATION

The isolated Palestinian economy has long been characterized by high dependence on Israel, with growth spurred by the injection of donor support and transfers of workers abroad or in Israel. Nonetheless, by the end of 2007, the Palestinian Monetary Authority (PMA) loosened its hitherto conservative policy on lending; bringing the banking sector to the forefront of the economic scene in Palestine.⁴⁰ The mixed effects of a growing wave of financial development brought new challenges to economic policy authorities. This Chapter examines how the financial system modified the dynamics of the Palestinian economy, and how this in turn, might have implications for development.

The last decade has generated much academic research on the natural twin of financialization, namely market liberalism in the Palestinian context. Indeed, much of these publications were focused on the Palestinian thirteenth government successive programs “Ending the occupation, Establishing the state” 2009, and “Homestretch to Freedom” 2010, programs, largely inspired by and framed in the language of liberal governance as prescribed by the Bretton Woods institutions and the so-called post-Washington consensus. Nevertheless, there is wide agreement that “the genesis of this ideology in the Palestinian context dates back much earlier and runs deeper” (Khalidi & Samour, 2011 :8). Given the endurance of the debate about neoliberalism in the Palestinian context, and its possible impacts on the policy framework for development it is also examined further below.

3-1 Setting the Scene

As with globalization and liberalization, financialization is a complex term that encompasses many themes and can be addressed from several angles. However, from a general perspective, and within the context of smaller economies with emerging financial markets, the term refers to a phenomenon associated with a relatively rapid expansion of the financial sector compared to the real economy, with a focus on the banking sector.

The expansion of the financial sector has long been considered a positive economic development, but as Karwowski and Stockhammer (2017) explain, the Great Recession in 2008 revealed situations where too much finance in an economy reduces real growth. They argue that the relationship between finance and growth takes an inverted U-curve shape with a theoretical growth maximizing level of finance. This means, that up to a certain stage, the expansion of the financial sector contributes to growth and development, but after that the relationship is reversed. Stiglitz et al. (2001) even suggested that there is a growth maximizing threshold set at the point where credit to the private sector reaches 100% of GDP. Cecchetti and Kharroubi (2012) note that as the financial sector grows it starts to compete with the real economy for scarce resources, creating a hurdle to productivity growth. They explain that the turning point is close to 90% of GDP. Under the same premise, Sahay et al. (2015) argue that emerging economies are yet to reach their optimal level of finance; they still require further financial deepening. Beck (2012) refers to a strong positive relationship between finance and growth in low- and middle-income countries that are catching up to high-income countries in their productivity levels. This raises an important question, namely Palestine’s position within this process.

In Palestine, the borrowing of households and firms intensified in twelve years, from 25.0% of GDP in 2008 to 64.7% by 2020, or \$10.1bn. Between 2008 and 2020, there was more than a 5-fold increase in credit facilities, including an almost 20-fold increase in loans for personal consumption and 10-fold in real estate, construction and land development loans. On average, over the past 12 years, every additional dollar of domestic output was accompanied by an extra dollar of debt.

We review below a set of relevant stylised facts to demonstrate that the Palestinian economy is not exempt from the financialization process going on around the world, with its own distinctive charac-

40. <http://cds.birzeit.edu/ar/%D9%82%D8%A8%D9%84-%D8%A7%D9%84%D8%A3%D8%B2%D9%85%D8%A9-%D8%A8%D9%82%D9%84%D9%8A%D9%84-%D8%B3%D9%8A%D8%A7%D8%B3%D8%A7%D8%AA-%D8%A5%D8%BA%D8%B1-%D8%A7%D9%82-%D8%A7%D9%84%D8%B6%D9%81%D8%A9-%D8%A7%D9%84/>

teristics. This could have important ramifications for understanding the development process in Palestine and identifying areas that need further attention. We focus the analysis mainly on bank-based indicators because the banking sector dominates the financial system in Palestine. The section views financialization in the broad terms of the evolution of finance and its role, rather than engaging in the discussions that are ongoing on the subject amongst economists..

3-2 Palestine's Financial Sector⁴¹

The Palestinian financial sector is still in an incipient stage of evolution, being dominated by the banking sector and lacking, among other, a bonds and derivatives markets. In 2019, banking sector assets reached about \$17.9bn or 95% of total financial sector assets, compared to less than \$1bn (5%) for specialized lending institutions, insurance companies and financial leasing companies combined.⁴² The banking sector also dominates the Palestinian stock market, as it represents 30.1% of market capitalization and 42.8% of the number of traded stocks. The disproportionate growth of the banking sector is one of the distinctive features of a financialization process. This is particularly clear since 2008, as the PMA issued instructions to ease regulations on the provision of credit facilities. This, combined with a spike in transfers and donor funding in the post-2006 period, enabled an average annual growth of 7.5% in GDP between 2008 and 2012. Nonetheless, as aid shrank, and political tensions intensified, bank credit facilities became a vital source of economic stimulus compared to the pre-2012 period.

Banking activity witnessed an extraordinary and disproportionate growth in value since its formation, with total consolidated assets of banks operating in Palestine reaching US\$19.9 billion in 2020 (128% of GDP), at an average annual compound growth of 9.6% since 1996 compared to 7.3% in GDP (in current prices). This is expected for a sector that practically did not exist in the pre-1994 era. However, it is worth noting that the growth in GDP has varied

significantly with changes in political conditions and the level of funds injected into the economy, but at least since 2007, the banking sector assets revealed a relatively stable growth (9.3% in average). This raises questions on how the sector was able to grow and improve its profitability, even when the economy was contracting, casting doubts on the interaction between the real economy and the financial sector.

Credit facilities, the main driver of banking assets, stood at US\$10.0 billion in 2020, 50.0% of total assets; or 68.3% of private deposits, up from 18.3% in 1996. As much as 78.1% of the total credit is granted to the private sector.⁴³ Total non-bank deposits grew by 9.2% annually, reaching US\$15.1 billion in 2020, 96.9% of which are private deposits. The banking sector has exhibited a notable growth in deposits (liabilities) and loan portfolios (assets) over the past decade, well above the global average. Nonetheless, this is understandable since the sector is still emerging in comparison with other much older and well-established banking sectors. Furthermore, most banking activity is concentrated in the West Bank with a limited contribution from the Gaza Strip, reflecting the impact of the 14-year blockade, division, consecutive wars and instability. Some 90% of customer deposits come from the West Bank, which also accounts for 90% of credit facilities.

3-3 Exploring Financialization in Palestine

A defining feature of the Palestinian economy over the past decade has been, among others, an increase in the volume of outstanding debt. This is clear in Figure 21, which illustrates the evolution of total credit facilities between 1996 and 2020, both in absolute terms and as a percentage of GDP. During this period, total debt grew significantly faster than GDP, rising from 11.8% to 64.7% of GDP. It also grew much faster in the West Bank than in the Gaza Strip, from 13.3% to 71.7% compared to 10.8% to 32.3% over the same period. The year 2008 appears to mark a break point, with total debt increasing more rapidly relative to the pre-2008 period. This happened as

41. All the statistics in this section are from the Palestine Monetary Authority (PMA), unless indicated otherwise.

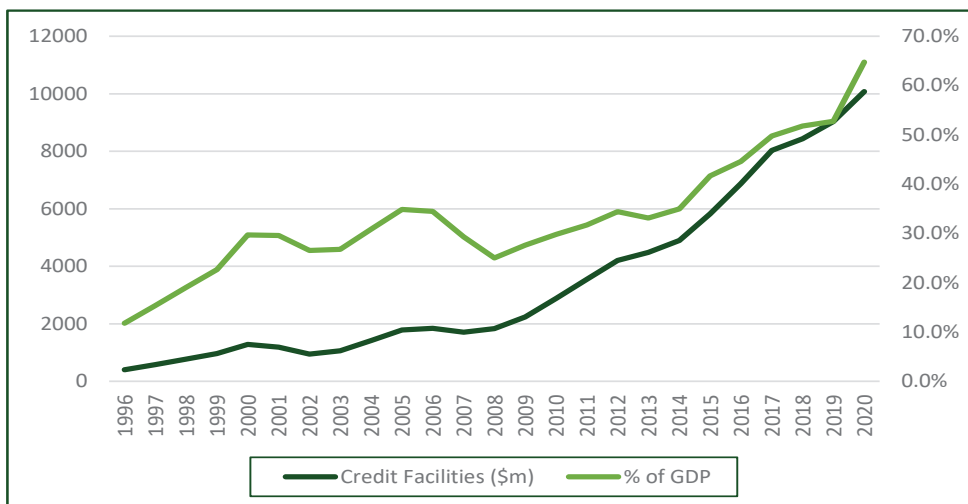
42. https://www.pma.ps/Portals/0/Users/002/02/2/Publications/Arabic/%D8%AA%D9%82%D8%A7%D8%B1%D9%8A%D8%B1%20%D8%B3%D9%86%D9%88%D9%8A%D8%A9/%D8%AA%D9%82%D8%B1%D9%8A%D8%B1%20%D8%B3%D9%84%D8%B7%D8%A9%20%D8%A7%D9%84%D9%86%D9%82%D8%AF%20%D8%A7%D9%84%D8%B3%D9%86%D9%88%D9%8A/Annual_Report_2019_Arabic.pdf?ver=2020-09-06-132526-380

43. PMA regulations dictate that 9 percent of the deposits have to be placed as reserves with the PMA and another 6 percent of the deposits must be kept as liquidity reserves in the banks' vaults.

the PNA loosened its conservative policy on lending.⁴⁴ Total domestic credit to the private sector as a percentage of GDP was 52.2% in 2020, compared to

83.1% in Jordan and 65.4% in Israel.⁴⁵ This indicates that Palestine is catching up with the level of financial deepening seen elsewhere in the region

Figure 21. Total Credit Facilities in Million US Dollar and as a Percentage of GDP, 1996-2020



Another distinctive feature is the evolution of credit facilities as a percentage of total deposits. The growth in credit facilities outpaced the growth in deposits, with the percentage of credit facilities to total deposits increasing from 23.5% in 1996 to 66.6% in 2020. This indicator stands at 78.1% in Jordan and 86.5% in Israel as in 2017.⁴⁶

Both business and household sector debt rose sharply since 2008, but the latter rose far faster between 2008 and 2016. Since 2017, debt has continued growing in all sectors, but it has been growing faster in the business sector. Household debt can be divided into borrowing to fund the purchase of residential real estate (38.9% of total as in 2020), cars (13.3%) and personal consumption (45.9%). While the three components contributed to the growth in household debt, personal consumption loans increased especially rapidly, a 20-fold increase between 2008 and 2020. This increase was especially sharp in 2011 and 2012, when the country saw demonstrations against the economic policies of the PNA and the increasing cost of living. When connecting the dots, one can be tempted to conclude that households saw an alter-

native in the banking sector to cover rising expenses as the government was not able to keep up with its social responsibility. This eventually led to rising indebtedness, particularly among financially illiterate households who were unable to access credit before.

As for business sector debt, trends mirror the structural malformation analysed above, with business and consumer services having the largest share (34% of total as in 2020), followed by real estate and construction (27%) and manufacturing (14.2%). The combined share of agriculture, tourism and transportation is around 8.1%. The debt of the real estate and construction sector increased by 10-fold between 2008 and 2020, with a particular hike between 2014 and 2019, possibly reflecting a real estate bubble.

As of 2019, construction, land development, automobile, and personal loans combined accounted for 41.6% of the total outstanding amounts, government for 17.2%, and trade finance and letters of credits (L/Cs), 17.4%. On December 31, 2019, these three categories accounted for around 76.2% of the loan portfolio, whereas all other categories, i.e., manufacturing, agriculture, tourism, and services combined,

44. <http://cds.birzeit.edu/ar/%D9%82%D8%A8%D9%84-%D8%A7%D9%84%D8%A3%D8%B2%D9%85%D8%A9-%D8%A8%D9%82%D9%84%D9%8A%D9%84-%D8%B3%D9%8A%D8%A7%D8%B3%D8%A7%D8%AA-%D8%A5%D8%BA%D8%B1-%D8%A7%D9%82-%D8%A7%D9%84%D8%B6%D9%81%D8%A9-%D8%A7%D9%84/>

45. <https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS>

46. <https://databank.worldbank.org/reports.aspx?source=1250&series=GFDD.SI.04>

accounted for the rest. Furthermore, the sources of funding for SMEs in Palestine, which represent over 96% of all economic establishments, are also limited. The total loan portfolio of specialized lending institutions, which mostly work with SMEs, are \$262.5 million, or less than 2.6% of banks' loan portfolio.

This structure of credit facilities in Palestine is unsustainable, it barely contributes to building a productive base and it reinforces the state of dependence on Israel and foreign transfers. Credit for consumption can stimulate economic activity in the short run, or as long as the country is able to generate more credit. However, to improve the economy's ability to generate more cash flows in the future, there is a need to expand investments in infrastructure, innovation, technology and in the real economy. Unless the investment base is expanded in ways that overcome the Israeli restrictions, Palestine will continue to rely on workers in Israel and donor funding.

The data presented so far, particularly the surge in debt levels, demonstrates traits of financialization in recent years. However, the insurance sector total assets to GDP are still small and demonstrate a declining trend between 2006 and 2016. Most insurance premiums (67.5% as in 2019) are generated from vehicle insurance, which reflects the sectors underdevelopment and limited portfolio diversification.⁴⁷ In this regard, it is hard to induce any signs of financialization, but rather an underutilized sector with limited contribution to investment, growth and economic activity.

As for the stock market, there has been a large drop in market capitalization and trading volume as a percentage of GDP between 2006 and 2020 despite a significant increase in the number of listed firms from 33 to 48 over the same period. Hence, Palestine does not demonstrate the growth of stock market relative to GDP observed elsewhere. In addition, while the share of financial corporations' profits (banks and insurance companies) in total profits of listed companies increased between 2012 and 2018, it has showed a downward trend in the past two years. The share amounted to 35.7% in 2012, this proportion increased to 48.4% in 2018 and dropped to 39.1% in 2020.

3-4 Integrating the Real Economy

Figure 22 shows that despite the large increase in credit facilities, the contribution of the finance and insurance sector to GDP remained modest, rising from 2.1% in 1996 to 4.7% in 2020.⁴⁸ At the same time, the finance and insurance sector employment as a share of total private sector employment increased from 2.0% to 2.7% between 2004 and 2017.⁴⁹ In Jordan, the financial sector contribution to GDP is around 20% and its share of employment is about 2%.⁵⁰ The situation in Lebanon is a bit different with 8.5% contribution to GDP and 7.3% to employment.⁵¹ This also shows that Palestine is still catching up with the level of financial deepening seen elsewhere in the region.

At the macroeconomic level, Figure 23 shows that there has been some association between the growth of credit facilities and the growth of nominal GDP over the period 1997 – 2020, with a correlation coefficient of 46.6%. However, growth in both indicators appears to show a slowing trend in the post-2010 period. Moreover, along to the growth of credit facilities in the post-2008 period, there have been a modest upward trend in gross capital formation as a share of GDP. It increased from 19.8% in 2008 to 26.4% in 2019. This is also reflected in the weak positive correlation (26.8%) between the growth in gross capital formation and the growth in credit facilities (Figure 23). Given the surge in residential investment, business investment spending has been especially weak reaching 8.8% as a percentage of GDP in 2019.

Based on the above diagnosis, we can deduce that the Palestinian economy does demonstrate some traits of the financialization seen elsewhere, at least in the banking sector. However, taking into account its particular nature and structure due to the occupation and dependence on donor funding, financialization in Palestine is different, or at least materializes in a distinctive way. The injection of funds through donor support and compensation of worker in Israel creates savings and higher consumption patterns among the households engaged in related activities

47. https://www.pcma.ps/News_Docs/Annual_Report_2019%20.pdf

48. http://www.pcbs.gov.ps/site/lang__en/741/default.aspx

49. <http://www.pcbs.gov.ps/Downloads/book2535.pdf>

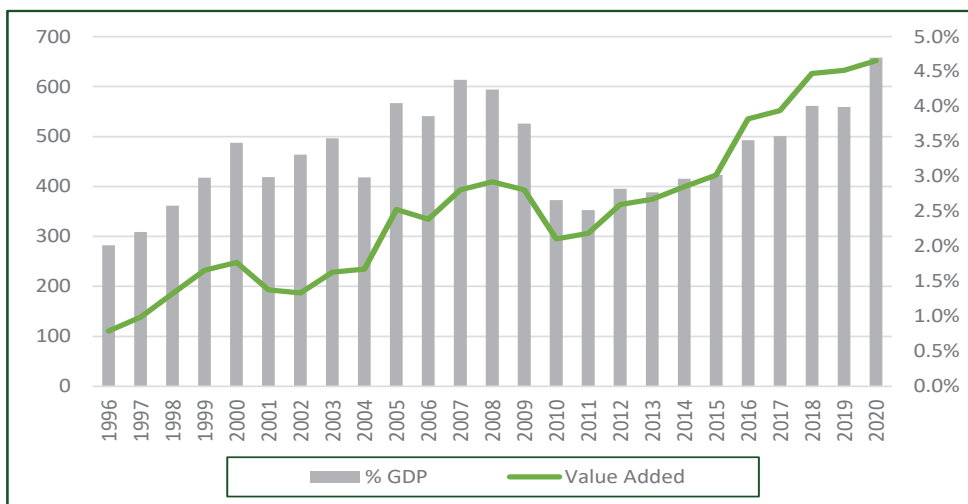
50. <http://extwprlegs1.fao.org/docs/pdf/jor170691.pdf>

51. https://investinlebanon.gov.lb/en/lebanon_at_a_glance/lebanon_in_figures/economic_performance and https://www.giz.de/en/downloads/ELMA_Lebanon_2019.pdf

(those employed in NGOs and Israel), mostly through higher compensations compared to the private and public sector. This in turn stimulates the growth in deposits, as demonstrated by the relatively high cor-

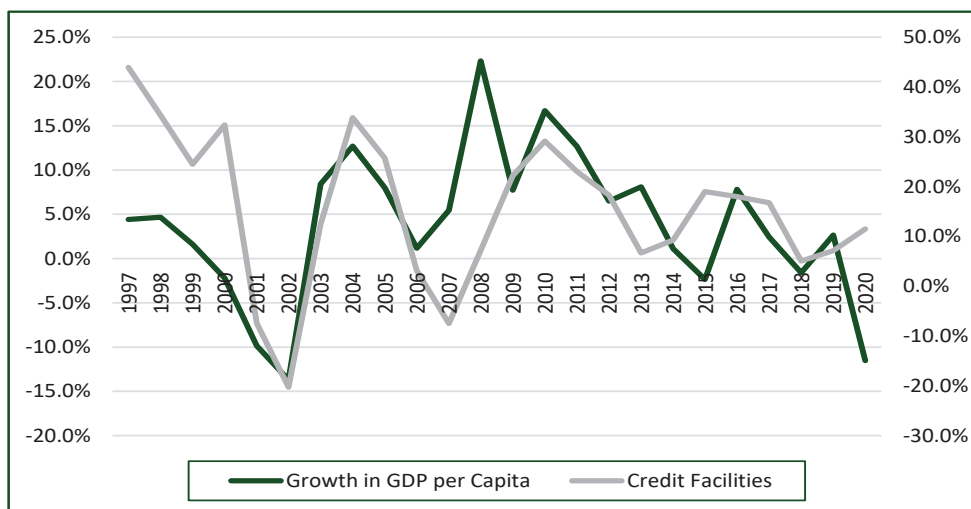
relation coefficient of 57.1% between the growth in deposits and the growth in international aid and compensation of workers in Israel, and allows for the extension of more credit facilities.

Figure 22. Value Added of Finance and Insurance Sector, Million Dollar and as Percentage of GDP, 1996-2020



Source: PCBS

Figure 23. Annual Growth Rate in GDP and in Credit Facilities, 1997-2020



However, as real wages in the private and public sector have been stagnant to some extent, households started relying more on debt to maintain a certain standard of living, or even to finance basic consumption when prices are increasing. Faced with increasing demand and uncertain businesses environment, the banking sector also increasingly supplied consumption loans, which is understandable from an operational perspective.

Since Palestine imports most of its consumption, and more so from Israel, most of the funds that originally allowed for the growth in deposits eventually end up in the Israeli market. This cycle enforces the state of economic dependence on Israel and increases the economic vulnerability of Palestine. It is also unsustainable and increases the risk exposure of banks, as any related adverse political

development would halt this cycle of lending, sending the economy into turmoil. Even if banks currently see consumption loans as a safer and more profitable approach, in the longer term and within the complexity of the Palestinian context, they are inherently riskier for their continuity.

3-5 Finance and Development

The interconnection between finance and development is still ambiguous with contradicting views and results in different contexts. The improved access to finance ultimately contributes to higher welfare and productivity levels by allowing for investments in both physical and human capital. Improved efficiency of capital allocation and relaxed credit constraints on the poor accelerate aggregate growth and reduce poverty and income inequality. Nevertheless, a growing body of research argues that the financial sector is increasingly engaged in rent seeking activities instead of fulfilling its basic function of allocating capital to productive uses. Storm (2018) explains that financial liberalization, coupled with advancement in technology, allowed finance to dominate the global economic scene and created a new social discourse that is based on the financial norms of creditworthiness. A social order that has been characterized by increasing income polarization as the rich, those who own most financial assets, are getting richer through rent seeking, exploitation and asset speculation (Taylor et al., 2015; Goda et al., 2017).

The UN report on the World Social Situation 2010 adds that financial liberalization may result in worsening poverty and inequality. Hence, from a distributional perspective, different groups are benefiting from financial development to different extents. Small enterprises and poor households are at a disadvantage because of their higher risk profiles because of lack of collateral and credit histories, particularly at lower levels of economic development. Beck (2012) adds that it is hard to establish an empirical link between access to credit and welfare, particularly among households that spend more on consumption (Beck, 2012). Countries, like Palestine, with a lower share of manufacturing and more mar-

ket oriented financial systems have a higher share of household credit. Our hypothesis is that the distorted and poorly regulated markets under occupation not only entail risks for financial stability (or growth inducing financialization), but also promote a range of rent-seeking and wealth accumulation processes to proceed unchecked and unmeasured.

In terms of standards of living, the Human Development Index value may have increased, and in the West Bank (which witnessed most of the financial development over the past decade), the poverty rate dropped. Nonetheless, according to Atamanov and Palaniswamy (2018) poverty in the West Bank is highly sensitive to small shocks to expenditures and incomes. They explain that even a 5% drop in expenditures in the West Bank could increase poverty by as much as 16%. A 15% expenditure drop will increase poverty in the West Bank by as much as 50%.⁵² This reflects the vulnerability of households in the West Bank and their comparatively higher exposure to market volatility, where expenditures are sensitive to conflict and dependent on aid and ability to access credit, the pandemic year of 2020 being a case in point.

As for income inequality, the Gini index of consumption inequality has declined in the West Bank, while the 10% richest households' consumption was 4.5 times the consumption of the 10% poorest households in 2017, a drop from 4.8 in 2011. A possible explanation for the rise of income inequality (discussed further below) compared to the drop in consumption inequality is that the availability of credit helped lower income households smooth their consumption pattern through debt, allowing them to consume more today under expectations of higher future income. This proposition needs a rigorous statistical examination. However, if valid, it might indicate that the growth in credit facilities conveyed a drop in inequality as consumption may provide a better understanding of living standards compared to income. It is worth noting that Palestine consumption inequality is low by global standards, but close to regional averages.⁵³

A distinctive feature of inequality in Palestine is the large gap between those who own land and those who do not own land. The mean adjusted monthly income

52. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/985801536125679274/west-bank-and-gaza-poverty-and-shared-prosperity-diagnostic-2011-2017>

53. <https://data.worldbank.org/indicator/SI.POV.GINI?view=map&year=2019>

for landowners is NIS 1,705.2 while it is NIS 1,184.6 for non-owners, representing a gap of 30.5%. The gap drops to around 17.2% in terms of consumption. This raises an issue of concern regarding the financialization of the Palestinian economy. The post-2008 credit growth period witnessed a hike in property prices, especially in cities like Ramallah that received a large share of total credit facilities. In general, land and residential property prices are generally high in Palestine and constitute the most valuable wealth asset of many Palestinians. Israeli policies of land confiscation and restrictions on issuing permits in Area C have long contributed to rising land prices. This is an issue of great significance that requires its own analysis.

Credit facilities to residential real estate grew from US\$ 124.9 million in 2008 to about US\$ 1.2 billion in 2020 or 11.7% of total credit facilities. Credit for construction and land development also grew by about 10-fold from 5.3% of total credit facilities in 2008 to 9.5% in 2020. In 2020, real estate related credit constituted about 21.2% of total credit facilities. When matched with the growth in construction value added, there seems to be some association (with a correlation coefficient of 36.8%). However, the share of construction in total value added and total employment remained modest, around 5%.

The availability of finance and the development of the necessary institutional and regulatory framework increased the demand for housing among individuals with secure income, mostly those employed at public institutions, NGOs and large corporations. This, along with higher financing to construction and development companies, put an upward pressure on prices. It facilitated investment in the construction sector creating positive ramification, but it also created a gap between income groups based on their ability to access finance. The most affected groups were self-employed, informal employees, SME employees and vulnerable groups such as refugees, women and youth, among others. The PNA, which transferred the housing responsibility to market forces, is yet to introduce policies and make interventions to reduce such gap and deal with the negative externalities.

Financialization and the loosening of mortgage requirements furthered the development of mortgage markets, improved access to mortgage credit and facilitated homeownership. As access increased, so did competition for homes, which might have resulted in increases in housing prices. The availability of mortgage credit, of course, poses a benefit to those who want to buy a house, but due to the rush in prices, homeownership has paradoxically become more accessible and more expensive (Aalbers, 2016). Hence, the growth in mortgage markets did not necessarily improve housing affordability.

Abdel Raziq (2015) explains that land represents about 40.5% and 23.3% of residential unit's costs in the Gaza Strip and West Bank, respectively, with rising land prices negatively affecting housing affordability. While there has been a significant growth in housing construction over the past decade (43.4% increase in the number of inhabited housing unit⁵⁴), partially fuelled by the introduction of mortgage loans and new lending packages that were not accessible before 2008, there is still a notable lack of affordable housing for lower income families. The current standard housing offerings are too expensive for lower income groups, and financing alternatives generally exclude the self-employed and those working in the informal sector, leaving a large segment of the Palestinian society with limited alternatives and creating a large gap between potential and actual demand.⁵⁵ According to PCBS, 70.1% of Palestinian households would be unable to construct any new housing units within the next 10 years while 62.2% are in need of at least one new housing unit within the next 10 years.⁵⁶ Another survey by the Office of the Quartet indicated that 70% of households could not afford average house prices in their sampled markets.⁵⁷

Another issue of concern among the critics of the liberal growth in the financial sector in Palestine is the impact it had on social participation and freedoms, as they claim that it has reinforced material consumption, individualism and limited social solidarity. Riyahi (2014) argues that consumer loans endorsed

54. <http://www.pcbs.gov.ps/Downloads/book2419.pdf>

55. https://portlandtrust.org/sites/default/files/pubs/beyond_aid_-_a_palestinian_private_sector_initiative_for_investment_growth_and_employment.pdf

56. <http://www.pcbs.gov.ps/Downloads/book2529.pdf>

57. <http://www.quartetoffice.org/files/150119%20Housing%20Demand%20Survey%20vFinal%20WEBSITE.pdf>

individualism on the expense of public engagement and political participation. Individuals concerned with fulfilling their obligations were increasingly anxious about keeping jobs, thus avoiding attempts to alter the balance of power, even if it was at the expense of their own freedoms. They further explain that the rising cost of opposition can be observed in the public sector and in donor funded NGOs, where the indebtedness of their employees has increased the most. This proposition needs further examination as the author does not provide statistics or empirical evidence to support such an argument.

To conclude, Epstein (2005) explains that governments should structure accumulation and distribution in a socially desirable manner for finance to have a positive impact on economic development, an approach that the PNA has yet to tackle. Building on this argument Storm (2018) adds that the East Asian miracle economies provide a good example in which finance can complement social progress. It must be integrated within the “the developmental mindset, the institutional arrangements and political compulsions of a developmental state...Rather than letting financial markets discipline the rest of the economy and the whole of society, finance itself has to be disciplined by a countervailing social authority which governs it to act in socially desirable directions” (Storm, 2018).

3-6 Liberal Policies and Palestinian Economic Governance

Khan, among others, argues that the discussion over issues of liberalization, privatization, and good governance in Palestine “seem to have jumped the gun” (MAS 2010a:3). In other words, before we have constructed a state we are having a debate about what the state should be doing. Furthermore, the last 25 years were characterized by an apparent divergence between conducting a liberation struggle and operating and building state institutions, as those are two distinct processes. Others like Morrison (2020); Haddad (2012); Nakhleh (2011) contend that under the influence of international institutions and donor states, the PNA has long adopted a discourse as well as a development policy package that is often described (disparagingly) as neoliberal; free market centric, private sector led development, and fiscally conservative.

A paradox of the last decade’s debate on neoliberalism in Palestine is the recognition that the PNA lacks the basic prerequisites to effectively implement economic policies. However liberal its outlook and language may have been, the PNA does not have control over international trade and borders share a trade regime with Israel, it is denied a currency or a conventional monetary policy and fiscal space, and is bereft of any of the tools of sovereign policy making that a true neoliberal strategy would require. The 2010 Bethlehem Investment conference organized under the theme “Palestine – Open for Business”, and the associated inauguration of the new, middle class model city of Rawabi, well encapsulated a fleeting moment when the realities of the policy straight-jacket were overlooked. (Rabee 2021). Such bold statements and the numerous contributions to the critique of Palestinian neoliberalism, however defined, and its place in the analysis of Palestinian development deficits, deserve further scrutiny as to its interaction with development.

Looking at the Palestinian-Israeli conflict from a neoliberal lens, Peterson (2019) argues that it is a case-study of operational neoliberalism in the twenty-first century, where multiple and multi-faceted economic benefits presently being derived by non-local (Israeli and other) actors from the perpetuation of conflict between the region’s warring national groups. These material benefits result from political designs that allow transnational actors to generate profits even within an outwardly liminal and stilted political conflict. That is to say, the complex machinations of international policy endemic to Palestine-Israel have not stopped neoliberal elites from securing markets and extracting profit from commercial operations in the region.

The establishment of the PNA and its economic policy framework came at a historic moment during which neoliberal economic thought and policies dominated world order, especially “in the absence of an alternative ideological framework that can consolidate hegemony” (Morrison, 2020:3). At the time, regional economies were going through structural economic reforms imposed by the IMF and other international financial institutions in exchanges for debt service reductions and financial assistance, providing local models that Palestinian policy makers could aspire to emulate, or even better.

Neoliberal concepts have been promoted as the basis for creating efficient states that downsize the public sector and government provisioning of social welfare. However, in the case of Palestine, Palestinians seek national liberation from settler-colonial control while they are still at the stage in their economic development that favours economic openness, much different from the experiences of most other national liberation movements (Hilal 2006); (Khalidi 2012). Morrison (2020) argues that international institutions configure Palestine in two major ways toward the neoliberal condition. International institutions have promoted a neoliberal project in the schema of Palestinian state formation through supposedly innovative policy prescriptions and development projects that guide the concept and planning for a potential Palestinian state. According to this analysis (Dana, 2020), elite Palestinian social forces agree to terms that are mutually agreeable with international partners because of their individual capital accumulation in this process. These forces comprise those influential in the PNA and in positions of political prominence along with the forces of large-scale Palestinian private capital (Dana, 2020).

Despite the varying analyses and positions in the literature about the extent of the influence of neoliberal thought on economic governance in Palestine, it is clear that since the establishment of the PLO, since the 1990s, a special relationship between large-scale Palestinian capitalists and the PLO led to a concentration of political and economic power in limited circles that were quickly able to link the national political project to a relation based on common political interests (Khalidi, 2012; Merz, 2012: 62). This was the situation, particularly with regard to the management of monopolies of the public and private sectors in the early years of Oslo as a strategy to confront the asymmetry in the struggle with Israel (Khan 2004). According to some critiques, the monopolies led to a destructive impact on the Palestinian economy and small businesses, and benefited the Israeli economy (Clarno, 2017: 63).

On the other hand, democracy was an issue of secondary importance in the context of the Palestinian-Israeli “peace process” until after the second Intifada, the U.S and international community first

brought issues of democratic governance to the table. The assumption was that a more democratic PNA would enhance security, and that on route to a peace agreement with Israel, Palestinians will be required to make concessions that will be easier to achieve if a popular consensus for concessions is built through a democratic process. According to this liberal (American) vision, democracy will promote better governance, resulting in an improved economy and therefore a better Palestinian neighbour for Israel.⁵⁸

The PNA received much international praise ten years ago for its achievements with regard to institution building World Bank (2011) and (2012); IMF (2011) and 2012). Regardless of the possible positive impact of such a regime on economic development, the risks accompanying the rise of such regimes go beyond the economy. They have severe consequences for state structure and societal dynamics, rendering law, not an instrument of social engineering, but an instrument of social control” (Khalil, 2010:8).

Since 2015 in particular, democratic reform and political reconciliation efforts have sputtered while the peace process has floundered. As early as 2013, the Ad Hoc Liaison Committee (AHLC) report stated that “measures to increase revenues handicapped by external constraints, most notably Israeli restrictions, and any further increase of PA’s borrowing from local commercial banks considered unsafe for the stability of the banking sector, the provision of basic services by the PA increasingly affected and there is a risk that gains in institutions building may be eroded” (World Bank 2013:2).

Official Palestinian decisions and statements concur that the whole apparatus of the PNA, as well as that of the PLO, would need radical, in-depth reform to reconcile the forces of the free market with the quality of economic and political governance, not to mention to ensure that governance serves development and national liberation equally. And we shouldn’t underestimate the need for such a reform to put an end to perceived clientelism, influence-peddling and corruption, and to establish transparency and the rule of law. But according to one analyst (Kayyal 2018), there is a serious problem with a campaign which, though ostensibly

58. <https://www.washingtoninstitute.org/policy-analysis/democracy-and-palestinian-authority-good-governance-essential-peace>

meant to establish transparency and the rule of law, effectively leads to restructuring the Palestinian financial system and rendering fiscal space increasingly dependent on Israel. Paradoxically, economic liberalism has not reinforced the potential for either liberation or development.

3-7 Financialization Unleashed?

The banking sector dominates the Palestinian financial sector, as is the case in many developing countries. Over the past two decades, the banking sector demonstrated an outstanding performance, however, it remains vulnerable due to its dependence on the Jordanian banking system and, from an operational point of view, on the Israeli one. Due to a large extent to the current political instability and to the depressed economic activity, banks play a limited role in financing productivity in the Palestinian economy. Banks are cautious in extending credit, which reflects various structural problems such as the lack of suitable collateral and the uncertainty of the outcome in debt collection.

The UN (2009) report on rethinking poverty explains, “private commercial banks discriminate against employment-intensive sectors owing to the higher transaction costs of lending to a larger number of

small borrowers and the lack of collateralizable assets of small farmers and owners of small and medium-sized enterprises.” More focus is needed on the important social functions of finance, especially in supporting priority developmental investments and nascent industries that have the potential to expand into export markets. Some work within this vision is being conducted in Palestine, especially concerning setting the regulatory framework for establishing a public investment and development bank.⁵⁹ Until such a development bank is active and thriving, the government should consider policy options that allow for more credit being directed to disadvantaged regions, agriculture, SMEs and disadvantaged social groups. For example, by specifying a minimum percentage of credit at each bank that should be directed to priority sectors. This can be combined with other instruments that would encourage banks to comply with these policies.

Serious reforms are required to mitigate the risks that are associated with an expanding and unfettered financial sector and avoid the negative segment of the finance-growth curve. As such, it becomes necessary to rethink the functioning of the financial system, as well as the role the PMA must play to guarantee new paths to financing for the productive sector to jumpstart the economy and help it achieve sustainable growth levels that enable development.

59. <http://muqtafi.birzeit.edu/pg/getleg.asp?id=17187> and https://maqam.najah.edu/media/uploads/2021/02/legislations/%D8%A8%D9%86%D9%83_%D8%A7%D9%84%D8%A7%D8%B3%D8%AA%D9%82%D9%84%D8%A7%D9%84.pdf



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Chapter Four

SOCIAL DEPRIVATION

Key Findings

Restoring Palestinian Social Development

The concept of “deprivation” in sociology signals a 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. Part One of PDP2021 reviewed the high prevalence of poverty in the oPt, while 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 factors reviewed in the preceding Chapters. 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, as will be examined in the subsequent Chapter.

4- SOCIAL DEPRIVATION

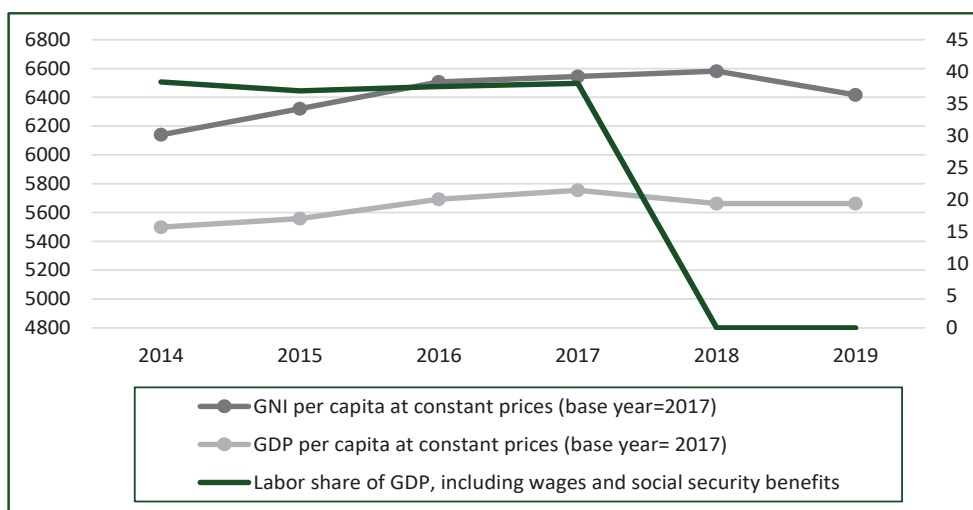
The Palestinian economy is characterized by high levels of unemployment, unpredictability and vulnerability. Any scenario that results in the PNA's inability to fulfil its financial obligations to its employees would see tens of thousands of debt burdened households losing their main source of income. Even though default rates are currently low, and the banking system categorizes the indebtedness of PNA employees (by some accounts around 19% of total credit facilities⁶⁰) as non-risky, the politically induced unpredictable and unmeasurable structural risks cannot be underestimated. For example, there is the risk of another Israeli aggression that could overnight wipe-out decades of wealth accumulation in housing and leaving households with debts only. The most recent assault on Gaza Strip is no exception and the sense of a heightened risk of confron-

tation in the West Bank poses precisely the sort of risks that the financial sector cannot factor into the usual balance sheets. This carries further challenges to financial sector reform and requires great vigilance in formulating future credit policies.

4-1 Income and Inequality

As discussed in Chapter Two above, only some four-fifths of national income is created generated domestically (GDP), with income from labour in Israel adding to GDP to constitute Gross National Income (GNI) and transfers (mainly aid) from abroad added to equal Gross National Disposable Income (GNDI). Between 2014-2019, both Gross National Income (GNI) per capita (constant 2017 PPP\$) and GDP Per Capita (2017 PPP\$) have grown gradually (Figure 24).

Figure 24. Income/Composition of Resources 2014-2019



Source: PMA

This is particularly important to consider when looking at inequality, which isn't just about the disparity of wealth between individuals, where we can see how the outcomes of livelihoods have become unequal. It also manifests inequality of opportunities, where those with limited options and choice are unable to bridge the gap between the poorest and the richest. Therefore, when we examine human development, we need to recognize the tangible and the intangible, and more importantly recognize that

progress is not linear, particularly in countries in protracted crises like Palestine - due to instability and uncertainty.

While the Gini coefficient measuring income inequality has remained stable since 2014 at 33.7, inequality in education has decreased from 16.5% in 2014 to 11.6% in 2019 (Table 5). Inequality in life expectancy has also decreased from 13.1% to 12%, while inequality in income has increased from 15% to 16.6%

60. As in 2016: <http://www.mas.ps/files/server/20172111152152-1.pdf>

in 2019. As of 2019, Palestine’s Inequality-adjusted HDI is 0.613, which represents a 13.4% loss in HDI due to inequality. Since 2014, these numbers have

improved, whereby Palestine’s IHDI was 0.593 representing a 14.9% loss in HDI due to inequality.⁶¹

Table 5. IHDI and Breakdown for Palestine from 2014-2019

	Inequality in Education (%)	Inequality in Income (%)	Inequality in life expectancy (%)	IHDI	Loss in HDI due to inequality (%)
2014	16.5	15	13.1	0.593	14.9
2015	16.5	15	13.7	0.595	15.1
2016	13.3	18.5	12.2	0.600	14.8
2017	14.1	18.5	12.2	0.601	14.9
2018	11.9	16.6	12	0.612	13.6
2019	11.6	16.6	12	0.613	13.4

Despite tangible improvements in the public services and living standards of the population within the purview of the PNA, the fragmentation of the Palestinian government and state has resulted in inequality in access to opportunities and services depending on where an individual lives in Palestine. This geographic fragmentation and the policies of occupation have created diverging realities and complex challenges in areas that do not witness their fair share of human development. This has also created a situation where it is difficult to draw accurate comparisons due to the lack of disaggregated data and the substantially different contexts that require different indicators to fully capture and monitor the state of human development. For example, using income levels to measure inequality does little without understanding the differences in cost of living that can vary widely between East Jerusalem, Area C, Gaza Strip, and refugee camps, not to mention differential levels of access to services.

According to PCBS, the cost of living has increased in Palestine since 2014, with the 2020 consumer price index (USD base year 2010) at 111.69, a 2.1% increase from 2014. Despite a decline in the CPI from 2019 to 2020, overall cost of living has increased while income has remained relatively stable since 2014. Changes in cost of living by region highlights that since 2010, living costs in East Jerusalem (J1) are increasing faster than in the West Bank and Gaza Strip, with the West Bank not far behind. Addition-

ally, while the COVID-19 pandemic has reduced consumer prices overall in the West Bank and Gaza Strip, in East Jerusalem cost of living continues to follow an upward trend. While income in East Jerusalem is much higher than the West Bank and Gaza Strip, owing to access to the Israeli labour market where the minimum wage is double the Palestinian minimum wage, poverty and unemployment in East Jerusalem continues to be high. With an increase of costs of living by 4.8% since 2014 and a continued upward trend, Jerusalemites face socioeconomic challenges to remain rooted in the city.

Based on recent estimates, the overall Gini coefficient is 33.7, indicating considerable inequality with indications of widening inequalities within the West Bank (UN 2020b) (PCBS 2020f). Per capita consumption for the poorest 40% has declined from a share of 26.0% in 1996 to 23.4% in 2017. Additionally, the top 10% of the population based on income has a 17.9% share of total household consumption compared with a 4% share for the poorest 10% of households. These trends also hold true for income. As seen in Figure 24, as average income began to improve after a drop at the beginning of the second intifada in 2000, this was more pronounced for the richest 10% and especially 1%. Average annual income for the top 1% in 2002 was about \$28345 and rose to \$46544 in 2019 compared to an average annual income for the poorest 50% in 2002 of \$504 and \$718, respectively, revealing a yawning gap indeed.

61. See note 2

Figure 25. Average Income Per Adult by Income Group - (USD)

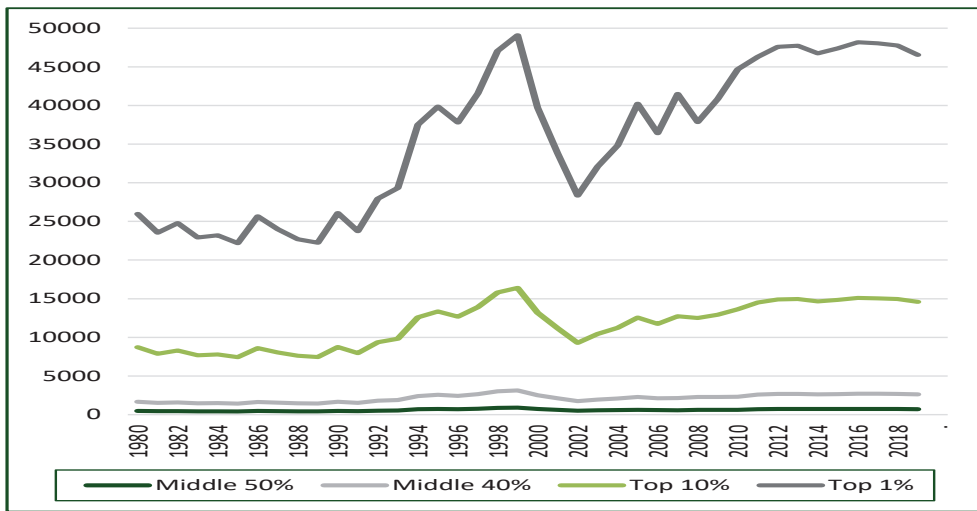
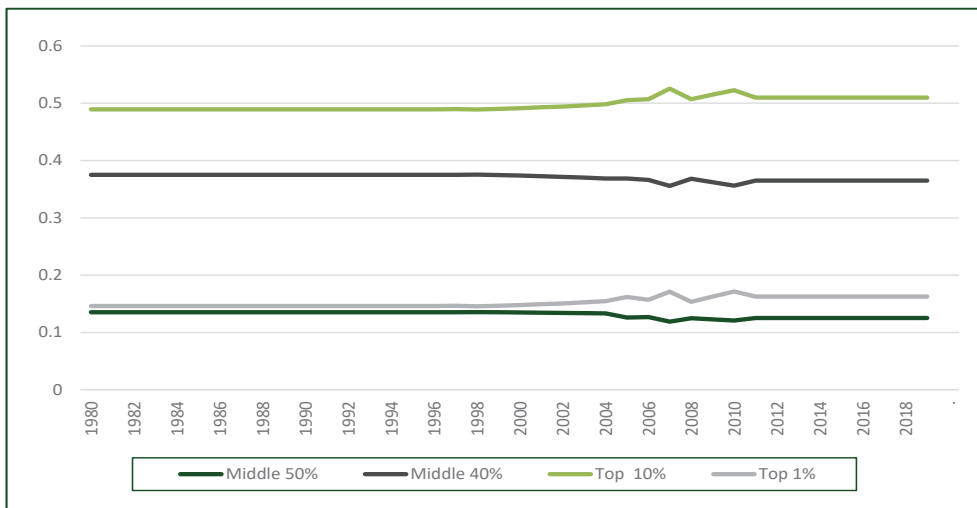


Figure 26 provides evidence of inequality in the share of income by decile, similar to the trend in household consumption noted above, whereby the share of income for the richest income groups has increased while it has steadily declined for the poorest 50% who held about a 12.5% share of total income compared with 16.3% for the top 1% and about a 51.0% for the top 10%.

Figure 26. Income Inequality: Share of Income by Income Group



Source: World Inequality Database 1980-2019

In other words, the top 1% holds a greater share of income than the bottom 50%, while the income share of the top 10% is more than four-folds the share of the bottom 50%. This is indicative of deepening inequality, which moves the oPt further away from reaching the sustainable development goals, and further threatens the social fabric within the oPt

as greater inequalities have been shown to lead to greater social strife and to degrade social development generally.

Analysis of key social development indicators provides further evidence of inequalities across various indicators, including by gender, income group, and

location (World Bank 2019b)⁶². In a context of high unemployment and declining real GDP per person between 2000 and 2018, the implications of these conditions are important to consider, especially for communities that are made most vulnerable due to structural conditions stemming from occupation and settlement expansion. Those include residents of the Gaza Strip, Areas C including the Jordan Valley, whose plight deserves special focus in any discussion of deprivation in Palestine.

4-2 Spaces of Deprivation: The Gaza Strip, Area C and Jordan Valley Communities

The gaps in key indicators related to poverty, food insecurity, and unemployment are especially pronounced between the West Bank and Gaza Strip, highlighting that deprivation is not only about income. As Sara Roy has argued, the conditions in the Gaza Strip stem from a long systematic process of “de-development” that has become more pronounced with the ongoing 14-year blockade and the various military offensives between 2008 and 2021 (Roy 2016). As noted above, poverty in the Gaza Strip is endemic. Over 73% of adults in the Gaza Strip reported feeling at least a little deprived, with about 54.3% reporting feeling at least moderately deprived. Furthermore, about 68.1% of households in the Gaza Strip worried about their ability to meet their needs compared to 14% in the West Bank, with over 60% of households in the Gaza Strip unable to sustain themselves financially or facing a critical financial situation. Despite high educational attainment, unemployment in the Gaza Strip has sky-rocketed, especially among youth who face an unemployment rate of over 63% in 2019 compared with 23% in the West Bank.⁶³ Unemployment is higher among educated youth and among young women compared to young men, severely limiting opportunities for young people, leading many to risk an uncertain emigration as the only possible alternative for a better life.

The conditions in the Gaza Strip also further entrench dependence on assistance. About 68% of

households depend on some form of assistance, including food aid and cash transfers. Despite the high levels of assistance, food insecurity remains high and has been growing. In 2018, some 87% of households indicated that they are at least somewhat in need of assistance to meet needs, where about 59% indicated that their households needed assistance “a lot.” These structural conditions also shape the lives and wellbeing of people living in the Gaza Strip. Some health indicators are showing signs of deterioration, like the stalling for declines in infant mortality (van den Berg et al. 2018), worsening mental wellbeing at the population level, and further constraints in lieu of the pandemic on an already overstretched health care system (Ghandour et al. 2020).

Another space of deprivation is constituted by the disparate “Area C” communities, including those living in the Jordan Valley, which are amongst the communities made especially vulnerable due to structural conditions (UN 2016). These communities in the front line of the confrontation with occupation are especially exposed to settler violence, land confiscation, and home demolitions. They are also unable to access natural resources that could play a pivotal role in local and economic development.⁶⁴ They include ancient Bedouin and herder communities, who are also largely disadvantaged and face greater insecurity given threats of demolition and restrictions on their movement and access to resources. These communities also have more limited access to health and social services and fall under the security and civil jurisdiction of the Israeli military.

As with the Gaza Strip, these broader structural conditions have grave implications for key social development indicators. For example, Area C and Bedouin communities have amongst the highest school dropout rates in the oPt, as well as high unemployment. About 2500 children must cross checkpoints to reach schools (PNA 2016). Furthermore, 26% of households in Area (C) are food insecure compared with 9.3% in the West Bank as a whole. This is striking given that these communities reside in the West Bank’s food basket. Stunting among children under

62. Poverty map for the Palestinian Territories Palestinian Expenditure and Consumption Survey 2016 and Census 2017 Technical report, 2019. <https://documents1.worldbank.org/curated/en/294671581117041764/pdf/Poverty-Map-of-the-Palestinian-Territories-Palestinian-Expenditure-and-Consumption-Survey-2016-and-Census-2017-Technical-Report.pdf>

63. <https://www.pcbs.gov.ps/site/512/default.aspx?lang=en&itemID=3787>

64. World Bank

five years of age is also much higher in the Jordan Valley, whereby 16% of children under five in the Jordan Valley are stunted and 23% of Bedouin children in the Jordan Valley compared to 7.4% in the oPt (WHO (2019); (PCBS 2015); (MoH 2017).

The chronic and structural vulnerabilities in these spaces of deprivation further curtail development potential and limit opportunity for residents, especially youth. The drivers of these additional and multi-layered vulnerabilities are structural and cannot be separated from the broader political context. While humanitarian assistance has been deployed into these communities, it has often been inadequate or intermittent. More importantly, humanitarian assistance alone will not alleviate the impacts of structural conditions and will not lead to long-term sustainable development. Despite the potential evident in high Palestinian human development indicators, exploiting opportunities is systematically denied due to settlement and military occupation that shape the conditions under which people live. Within a free-market economy, marginalized communities become increasingly vulnerable with limited social protection to mitigate these effects.

4-3 Social Security

Social protection is a long-term investment, and one that has received inadequate attention in Palestine, especially considering the scale and gravity of the development challenges reviewed in this report. Indeed, the social and economic shocks of the Covid-19 pandemic drove home the contrasts between Palestine's inability to protect its poorest and most deprived from experiencing the worst of the shocks, and that of other countries with strong, universal social protection systems, including some middle income and developing countries.

Social protection is an embodiment of the system of rights that must be available to individuals across all stages of their life. Most of the social security and

health insurance systems around the world only cover workers in the organized (formal) business sector, as well as public sector workers. They exclude workers in the informal sector, who do not pay contributions to social security and/or health insurance programs, or whose employers do not pay these subscriptions on their behalf. This is especially pertinent in the Palestinian context which means that workers in the informal sector, who are mostly from marginalized and poor groups in society, suffer another dimension of deprivation, namely of the right to protection.

Social protection entails "preventing, managing, and overcoming situations that adversely affect people's well-being"). It consists of "policies and programs intended to reduce poverty and vulnerability by promoting the efficiency of labour markets, reducing people's exposure to risks, and enhancing their capacity to manage economic and social risks, such as unemployment, exclusion, sickness, disability, and old age". The most common types of social protection systems include the following:

- **Social Security:** Social insurance mitigates risks associated with unemployment, ill-health, disability, work-related injury, and old age, such as health insurance or unemployment insurance.
- **Social Safety Nets:** when resources, either cash or in-kind, are transferred to vulnerable individuals or households with no other means of adequate support, including single parents, the homeless, people with disabilities, or the most destitute.⁶⁵
- **Labor Market Interventions:** the policies and programs designed to promote employment, the efficient operation of labour markets, and the protection of workers.

In practice, a social protection system can be classified as "universal" if it is available to everyone who needs to access it, regardless of whether this is performed through non-contributory mechanisms.⁶⁶ According to the experiences of some countries, achieving universal social protection requires complete coverage for non-contributors through direct

65. Wikipedia "social protection" https://ar.wikipedia.org/wiki/%D8%AD%D9%85%D8%A7%D9%8A%D8%A9_%D8%A7%D8%AC%D8%AA%D9%85%D8%A7%D8%B9%D9%8A%D8%A9

The Independent Commission for Human Rights-Office of the Ombudsman. 2015. Social protection Cash Assistance in the Ministry of Social Affairs program. P. 7. file: /// C: /Users/port/Downloads/Report%20on%20Financial%20Assistance.pdf

66. The idea of establishing social security is for the benefit of those who do not have a guarantor, and social protection for those who do not have a protector. This requires the distribution of roles between government as a protector and guarantor. The private sector and employees need to be contributors, in order to achieve inclusiveness.

government support, based on social criteria and specific government policies. This includes providing emergency aid or direct, material or in-kind support, such as food parcels. It also includes exempting the poor from school fees, as well as other exemptions, aid and social allowances.

The Palestinian social protection sector involves a fragmented combination of governmental and non-governmental institutions, the private sector and international institutions as well. The sector multi-actors are led by a group of ministries and state institutions, especially the Ministry of Social Development, which is the first provider of social protection services to the poorest. Other institutions include the Foundation for the Care of the Families of Martyrs and Wounded, the Prisoners and Executives Affairs Authority, the Ministry of Labour, the Palestinian Fund for Employment and Social Protection. In addition, non-governmental institutions are active, such as Al-Zakat charitable committees, the Palestinian Red Crescent, micro-credit institutions, and the private sector, even though its role in the field of social protection under the rubric of corporate social responsibility is still unclear. In addition, international institutions fund or implement important social aid and empowerment programs, including the United Nations Work and Relief Agency for Palestine Refugees (UNRWA).

The Palestinian social protection sector has a generally charitable relief nature, that lacks institutionalization of robust institutions that provide high-quality services. The prolonged Israeli occupation has weakened state institutions, also impeded by the outdated legislation and laws needed for regulating the sector. Add to that the weak targeting standards, shortage in human capital, and the predominance of a competitive atmosphere, as well as overlapping responsibilities of different partners/actors. Another problem is the lack of coordination between actors, and the absence of firm institutional procedures, characterized as “seasonal” or limited to specific purposes or times. Also, the overall limited public financial resources constitute a major problem, as the Palestinian governmental and non-governmental

institutions depend on external assistance to finance projects and activities.

Moreover, the sector’s infrastructure is inadequate and does not respond to the growing needs of the population, and facilities (whether treatment centres, rehabilitation and shelter houses, and training centres) are concentrated in cities, neglecting villages, camps, and remote and marginalized areas. Partially, these gaps can be identified in one of the major social protection programs in Palestine, the Cash Assistance Program. Despite progress made and its vitality to thousands of people in need, the program cannot respond at all times to the growing and constantly changing needs of the poor and the marginalized social groups, especially in light of the increasing poverty, unemployment, and food insecurity rates in the wake of the Covid-19 pandemic.

Pursuant to the above, and given the reality of social protection in Palestine, there is a wide gap between the current and ideal conditions of social protection, which can be inferred through the following:

- Social security is one of the basic components of a social protection system in most countries. In the Palestinian case, there is still no law for social security, and only partial coverage for parts of the employed labour force although many social issues such as retirement and work are covered by special laws.
- More than 50% of Palestinian society does not enjoy any kind of security or social protection. The most that is available to them is health insurance, which covers only 55% of the Palestinian population. It is free for only 27% of the population.
- Only 23% of employed have social security (mainly through the government retirement system), meaning that 77% of workers do not have social security (more than one million employees).
- 38.8% of workers earn less than the minimum wage, which is approximately \$420. Only 25% of establishments in Palestine are obliged to pay end-of-service allowances to their employees..



Chapter Five

THE GOVERNANCE DILEMMA

Key Findings

Palestinian Agency in Development

PDP 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. 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 independent 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 further 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.

5- THE GOVERNANCE DILEMMA

5-1 Why Governance?

Governance refers to the exercise of political and administrative authority at all levels to manage a country's affairs. It comprises the mechanisms, processes and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences UNDESA (2012). Specific reference is made to democratic governance as "a process of creating and sustaining an environment for inclusive and responsive political processes and settlements" (UNDP 2011:2).

There are different approximations of the concept of governance, however there are common elements that can be found in them. The United Nations (UN) defines governance as the method of practicing the decision-making process, and the way in which resultant decisions are implemented (or not) (Al-Rifai, 2019:3). Reference is also made to the definition of good governance as the exercise of economic, political and administrative authority to manage affairs of state across all levels (UNDP, 1998: 1). The 2002 Arab Human Development Report defines good governance as a system of "societal institutions that genuinely represents the people, linked by a solid network of relationships of control and accountability exercised by institutions and, ultimately, by the people" (UNDP, 2002: 101).

In response to the growing demand for measures of the quality of governance, a number of aggregate governance indicators have been produced, according to the definition of governance adopted, and covering different dimensions. The World Bank's widely consulted Global Governance Index (GGI) covers more than 200 countries/regions and provides historical data and comprehensive global coverage. In this framework Governance "consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them". The indicators are not absolute measures of

governance but are measures of a country's rank with respect to that indicator relative to other countries. This Index includes six indicators: rule of law, participation and accountability, control of corruption, government effectiveness, regulatory quality, political stability, and the absence of violence. These indicators are based on hundreds of variables; higher values correspond to better outcomes.

PDP assessment of the interaction of Palestinian governance with development begins with a review of these indicators, without any subjective interpretation, and despite whatever misgivings might exist about such global indices in the light of the recent discontinuation of the widely cited World Bank "Doing Business Index". The assessment does not address critiques of this Global Index, such as concerns about the comparability of the indicators across countries and across time; about bias in expert polls or in particular sources; and about the independence of the different data sources and the consequences for the aggregate indicators.

In the case of Palestine, quantitative measurements may be of limited use when calculated for an inherently incomparable political system entrusted with good governance but structurally restricted and facing political division and an attrition of accountability. But they provide a baseline on which other factors driving governance may be introduced to complete the analysis of the triple development deficit covered in this report. The uniqueness of the Palestinian political predicament, as is in the case with economic and social development challenges, of course has a significant impact on governance. And the need to preserve the PNA regime as a historic achievement that represents the intended institutional stepping-stone to statehood, should not be dismissed, as various development experiences have shown that in the absence of national liberation and sovereignty, it is not always possible to build a democratic system or to guarantee good governance (Khalidi, 2004). However, if it may have been required in past periods, it is no longer justifiable to invoke this specificity to explain the PNA's shortcomings in its effort, especially over the past decade, to improve governance and uphold its accountability both to its own people

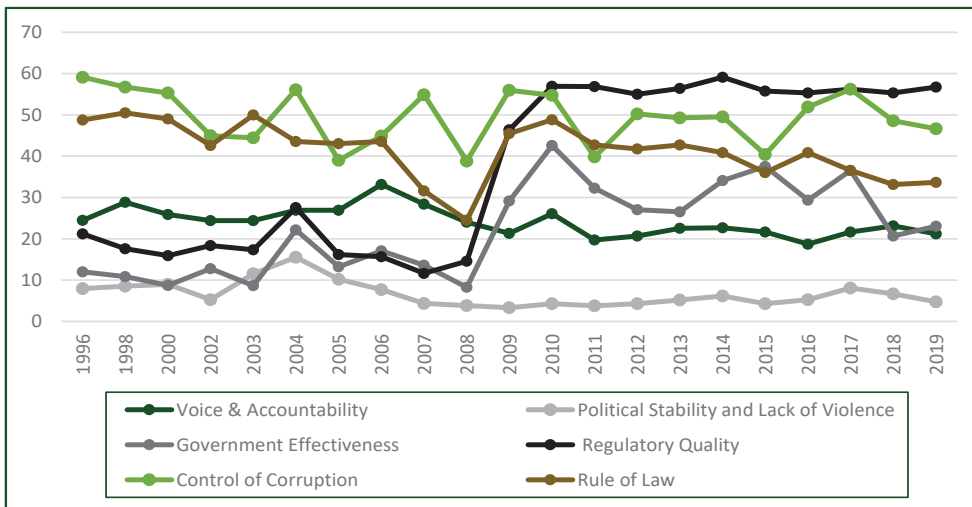
and to international public opinion in solidarity with Palestine, who want to see an independent Palestine, that also enjoys freedom, democratic systems and social justice.

5-2 Global Governance Indicators in the Palestinian Context

It is clear from Palestine’s performance in the six governance indicators, defined and monitored by the World Bank, that during the five years ending in

2019, the regulatory quality indicator ranked highest at 57%, followed by control of corruption at about 47%, followed by the rule of law, government effectiveness, voice and accountability and political stability at 34%, 23%, 21%, and 5% respectively. Figure 27 shows the trends in the six indicators’ progress, within dimensions and areas that have been accomplished, whether in terms of legal frameworks or in practice, covering the whole period since the inception of the PNA.⁶⁷

Figure 27. Global Governance Indicators in Palestine: 1996-2019 (All Six Indicators)



Source: World Bank, 2021. Global Governance Indicators Databank⁶⁸

5-2-1 “Voice and Accountability”

This indicator addresses the extent to which a country’s citizens can participate in selecting their government, as well as freedom of expression, freedom of association, and free media. It covers the measurement of citizens’ participation in all form of elections, freedom of expression, the formation of grassroots institutions and civil-society organizations, as well as the accountability of officials to citizens and public bodies, across all levels. This indicator combines a mixture of information, which is not necessarily related to the conduct of elections alone, or to laws and regulations on freedom of expression and the exercise of this right, but includes the freedom of association, the prevailing culture of expression of opinion, freedom of criticism and others.

The highest value recorded by this indicator was 33% in 2006, which coincided with the implementation of the second PLC and Presidential elections. The latest value of this indicator - for 2019 – had fallen to only 20%, a stunning reversal in what was never a strong indicator of the quality of Palestinian governance. It is hard to conceive of how much lower this index must have fallen by 2021, in the light of the developments that year.

The obvious factors that played a role in the decline of this indicator in Palestine is the failure to implement legislative and presidential elections. This period should have witnessed two electoral cycles, and preparations for a third. Moreover, elections for mu-

67. A higher value indicates a better performance in this indicator, and the discussion here does not engage in comparative regional analysis, but Palestine’s performance is generally middling in the scale of comparable Arab experiences.

68. <https://databank.worldbank.org/source/worldwide-governance-indicators>

municipal and local councils/bodies have been held only partially, often replaced by the direct appointment of the heads and members of these councils and bodies. This has been accompanied by the absence of efforts aiming at guaranteeing the expansion of political participation through existing organizational and political structures and frameworks.

In this context, the Palestinian leadership's decision to not hold legislative and presidential elections, scheduled for May 2021, owing to the complexities of holding elections in East Jerusalem, to citizens trust in the political system and the ruling political factions. Whatever the reasons, this postponement represents yet a step backwards in political participation and government accountability.

The voice and accountability record is perhaps more nuanced than a percentage can convey. For example, the (generally critical) AMAN Coalition 13th annual report on the reality of integrity and anti-corruption for 2020, was titled "Relapse in transparency and participation compromises integrity", (AMAN 2021a). While the report makes reference to the weakness of coordination between official entities and civil-society institutions in managing the Corona pandemic and addressing its various repercussions, it points to positive developments in 2020. Among them, the commitment of NGOs and the private sector in the West Bank and Gaza Strip to basic, internal, accountability procedures and mechanisms, and the role of the media and NGOs in exercising accountability over the management of public affairs and money. The use of social networking sites as a tool for social accountability has expanded, and the percentage of companies that have committed to disclosing basic data in published financial reports has continued to rise.

5-2-2 "Control of Corruption"

This indicator, as defined by the World Bank, measures the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. It portrays the decision making to disclose corruption cases of all kinds: financial, administrative, political and economic, as well as efforts made to hold corrupt parties accountable, and to formulate policies and measures to combat corruption and limit the control of interest groups over governance.

In 2019, the Corruption Control Index for Palestine, according to the World Bank metric, was about 47%. Despite the decline in this indicator compared to previous years, its high levels of fluctuation, ranging between 39% and 59%, are notable. It is possible to associate this index with practices on the ground from year to year. For example, as the official body entrusted with leading efforts to combat corruption, the Anti-Corruption Commission received 1,191 complaints and reports during 2020, of which 77%, were processed. Only 155 of these cases were referred to the Attorney General (AMAN 2021). According to AMAN there has been an increase in the number of files transferred from the Anti-Corruption Commission to the Public Prosecutor for the second year in a row after confirmation that complaints contained genuine suspicions of corruption, across various areas.

The public procurement system also witnessed an improvement during 2020, by increasing the dissemination of tender and procurement documents through the unified public procurement portal. However, a failure to update public procurement processes, and to develop policies to protect whistle-blowers in the Gaza Strip, as well as the lack of clarity in the relationship between concerned agencies regarding requests for exceptions for direct purchase are the most prominent problems related to integrity. Exceptions are especially relevant in light of the increased need for them during the Covid-19 state of emergency. This included the formation of a committee to purchase Covid-19 vaccines as well as foot-and-mouth disease vaccines, which must be performed with a high degree of transparency and accountability, so that these purchases are not misused to achieve private interests.

5-2-3 "Regulatory Quality"

This indicator, according to the GGI, attempts to measure the ability of the government to provide sound policies and regulations that enable and promote private sector development. This indicator is related to the evaluation of laws and other legislation that regulate society, and the mechanisms by which the people respond to the implementation of these laws by government. This indicator also reveals the extent of the government's ability to formulate executive regulations, and the existence of public policies to implement laws for achieving social justice.

The second decade of the PNA witnessed a sharp improvement in this indicator, despite the absence of the legislative arm of government and the political division affecting the PNA regulatory role between the West Bank and the Gaza Strip. By 2019 it stood above all other governance indicators. General policies and executive decisions implemented to encourage the private sector and promote economic recovery seem to have powered relative progress in this indicator, though less in the past decade. Despite the positive trajectory over the long term for this indicator, there is still an urgent need to focus on improving the legislative environment, reconsidering the crowded fields of decision-making players and complex mechanisms and processes, as well as ensuring quality and pertinence in legislation and in regulations for implementing and enforcing laws.

The paradox here is that Palestine is well placed in this indicator ahead of many Arab countries, despite the general situation under occupation, and the prolonged absence of the Legislative Council during the period elapsed since the establishment of the PNA. One of the most important factors in developing regulatory quality in Palestine is the election of a new and effective Legislative Council that approves laws and reviews Presidential decisions, or those issued by the Council of Ministers. It makes necessary amendments, in line with the provisions of the Basic Law and the human rights' system, and in line with the Palestinian reality and its needs and developments in various fields. Some laws are deficient, while executive regulations are required to implement others. There is a need to remove obstacles to the adoption of new laws in some vital areas, such as the law on the right to obtain information, and the development of financial and administrative systems required for the better performance of some public sectors: the security and health sectors. The backlog of laws passed by Presidential decree since 2007, which all must be reviewed for both technical and legal coherence, constitutes a formidable task for any future Palestinian legislative body, indeed a legal morass that only an elected, credible, and competent legislative body could hope to tackle.

5-2-4 “Rule of Law”

This indicator refers to “the extent that agents have confidence in, and abide by, the rules of society, including the quality of contract enforcement and prop-

erty rights, the police, and the courts, as well as the likelihood of crime and violence” The rule of law indicator is one of the most widely considered concerning the issue of governance. It reflects the confidence of individuals in the application of the law, especially those who previously resorted to legal institutions, and their perception of equality before the law and existing guarantees for the right to litigation. On the other hand, applicable laws should be comprehensive, consistent and in accordance with the standards and principles of human rights and enshrined freedoms. Rule of law is also an essential, if not sacred, component of a liberal free market economy,

In general, this indicator has never fallen outside the middle range in the ranking shown above. At best, during the years since the formation of the PNA, this indicator recorded a maximum value of 50%. Irrespective of the degree to which this indicator exactly measures Palestinian reality concerning the rule of law, the general trend over recent years has been one of decline, reaching 33% (or possibly less) today. The lowest value was recorded in 2007/8, a period in which the Palestinian conflict reached its climax due to fighting between Fatah and Hamas in the Gaza Strip.

The weakness of the rule of law, combined with the decline of public confidence by many citizens in the role and integrity of the judiciary, has impacted on the perceptions concerning rule of law. According to one Palestinian opinion poll, about 75% of citizens in the West Bank believe that there is corruption in the judicial system (AMAN 2020). This is also stated in the report of the AMAN Coalition on the judicial reform plan that was assigned to the Supreme Council of Transitional Judiciary. The report describes, from the point of view of numerous civil society organizations, attempts of political interference to interfere with judicial authority.

5-2-5 “Government effectiveness”, with Special reference to the COVID-19 Pandemic Response

The government effectiveness indicator is one of the key pillars of the World Bank's Governance Index, and perhaps one of the easier to faithfully reflect in a number. It combines the quality of public services, the capacity of the civil service and its independence from political pressures and the quality of policy formulation. It includes direct practical aspects of managing public affairs, highlighting the extent of

the independence of government institutions from the interactions and pressures of political parties or other elites. The indicator also includes the quality of laws and regulations, and the extent of the government's commitment to their implementation. It also assesses the ability and efficiency of government institutions in employing national resources soundly and effectively, based on comprehensive development plans, and in providing quality services.

In Palestine, this indicator scored less than 25% in the last recorded year (prior to the pandemic). It fluctuates according to the existing government, its formation, the circumstances it is experiencing and its practices. A pivotal factor is how citizens evaluate these practices. In the first few years following the formation of the PNA, this indicator had a low value, most likely reflecting by institutional inexperience and incipient institution building. At best, this indicator did not reach a mid-range value and as for other indicators, the peak performance year was 2010.

The government's recent efforts during the pandemic focused on providing a health sector response to begin with, and ensuring continuity of basic services, especially vocational and technical education, transportation, communications, and others, in addition to water, sanitation and electricity services, as well as relief interventions for day-workers and the new poor (MAS, 2021a). The pandemic revealed the increasing importance of the role of the local governmental sector and its various bodies, as well as intermediate, regional levels of governance across different governorates. Since the first cases of the virus appeared in one region, the PNA and its associated executive bodies (security agencies, governorships, municipalities, and local government units) played a central role in confronting the pandemic impacts. Despite the relatively rapid response of the government, the declaration of a state of emergency, and the formation of emergency committees in various regions, the pandemic revealed some important gaps in the governance system in Palestine at different levels, including an erratic and weakly enforced series of lockdowns, public health measures and the near collapse of the health sector once critical cases reached their peak in the early 2021 wave.

According to the comprehensive assessment of the pandemic impacts, prepared at the time (MAS 2021a, in six volumes), weaknesses have been noted in the

government's pandemic response plan, especially in its role working with popular and emergency committees, due to the absence of robust strategies that would allow for multilateral and coordinated responses with local governmental units. This was combined with the absence of coordination and cooperation between various relevant authorities (the central government, governorates and security agencies, local government bodies, emergency committees, supporting and partner institutions). This meant there was not an adequately effective response (despite the intensive efforts at the governmental central and local levels) in the face of the pandemic, as well as weaknesses in systematic coordination between government institutions in the main cities and areas far from city centres, especially in Area C. However, compared to many countries, the Palestinian Government showed a serious appreciation of the risks of the pandemic and allocated available resources, already scarce, to bring services up to the level of the challenge.

The challenges facing the government were further exacerbated by the scarcity of financial resources, poor communication abilities, and the central government's inability to respond to the pandemic economic impacts affecting smaller, informal economic sectors and marginalized social groups. According to the above mentioned study, public and private institutions, local governments units, and many citizens expressed their weak confidence in the central government's for example its inability to adequately provide the equipment necessary to confront the pandemic (e.g. virus screening strips, respirators, ICUs, hygiene products, etc..). The immunization campaign has been subject to official inquiry, as well as public cynicism and susceptibility to misinformation, leading by mid-2021 to a seeming acceptance of Palestinian public health authorities (as in many developing countries) to the reality of public unwillingness to accept the level of vaccination necessary to confront future pandemic outbreaks, as well as to the inevitable spread of the virus and an exit from the pandemic in 2022.

Among the encouraging lessons from the Government's experience during the state of emergency, is that local governance units (LGUs) have shown themselves to be the effective backbone of the basic services sector and public administration in Palestine. Despite the important role local authorities have tried to play in managing the crisis in the face

of scarce financial and human resources, they have often suffered from the serious repercussions of the pandemic. It has had a negative effect, across many levels, on the performance of many LGUs, revealing weaknesses and deficiencies in the procedures for organizing, decision-making, and coordinating with other relevant governmental agencies. The absence of clear instructions from the governmental agencies at some stages resulted in LGU heads relying on their personal judgement in forming emergency committees. Such judgement, of course, varied from one person to another and from one community and another, according to experience, knowledge, and relationships. The result was the emergence of multiple kinds of emergency committees in different regions.

5-3 Governance and the Human Development Index

A recent study by the UN Economic and Social Commission for Western Asian (ESCWA, 2016) examines the possibility of recalculating the UN's HDI, by taking into account governance, through suggesting the integration of two indicators - participation/accountability and the rule of law – to act as enablers of governance in relation to human development. The objective was to examine the change in countries' HDI value when “modified” governance indicators are included.

Table 6. HDI Adjusted for Governance (GHDI) and its Components in Arab Countries (2013)

Country	Governance Index (GI)	Human Development Index (HDI)	HDI Adjusted for Governance (GHDI)
Qatar	0.482	0.852	0.739
UAE	0.43	0.839	0.710
Kuwait	0.462	0.815	0.707
Oman	0.428	0.784	0.674
Bahrain	0.367	0.815	0.668
Jordan	0.441	0.746	0.654
Lebanon	0.377	0.765	0.641
Tunisia	0.468	0.712	0.641
KSA	0.273	0.837	0.633
Algeria	0.342	0.717	0.596
Palestine	0.367	0.687	0.587
Egypt	0.333	0.682	0.570
Morocco	0.4	0.617	0.554
Iraq	0.24	0.643	0.503
Syria	0.173	0.658	0.471
Comoros	0.347	0.487	0.447
Mauritania	0.312	0.486	0.435
Yemen	0.248	0.5	0.419
Djibouti	0.271	0.467	0.407
Sudan	0.19	0.473	0.377
Average	0.348	0.679	0.572

Source: ESCWA 2016.

The twenty Arab countries included in UNDP's classification (in Table 6) are divided into five countries within each classification: very high level of achievement (Qatar, UAE, Kuwait, Bahrain and KSA), high level of achievement (Oman, Jordan, Lebanon, Tunisia and Algeria), average level of achievement (Palestine, Egypt, Morocco, Iraq and Syria) and low level of achievement (Comoros, Mauritania, Yemen, Djibouti and Sudan). The general average is on the threshold of a high rating (0.679). After integrating the two indicators of governance into HDI, the general trend in HDI achievement declines for all Arab countries. In the case of Palestine, the governance-adjusted HDI falls by some 10 percentage points, around the average rate of decline of 16% for all Arab countries. The least decrease in the HDI adjusted for governance was in Comoros, Tunisia, Morocco and Mauritania, which score only 8-10% less in human development because of the governance deficit. The overall average HDI reached a low threshold (0.572).

The blow to the HDI when integrated with governance measures globally is not limited to countries with low or medium achievement, but covers all countries, including those that topped HDI. The difference is in the degree of vulnerability and change, where the highest reduction in performance in the top 15 HDI performers was in the U.S., Germany and Australia, with rates ranging between 3-4%. The lowest governance impact on HDI was in Finland, Sweden and Denmark, bringing it down by only 1 percentage point. The remaining nine countries had reduced HDIs of about two percentage points. This reading reinforces the conclusion that countries that top the World Bank's governance indicators and are considered as models of governance, are less affected by the "modified" HDI.

According to the data presented above, the value of governance indicators in Palestine is mostly low, or moderate, when compared to Arab countries. The Palestinian political system has many steps, policies and institutions that must be developed, creating what does not exist, improving what is present, and abandoning what has proven to fail. This will help to raise the value of Palestine's governance indicators, and thus raise the level of social, economic and hu-

man development. As a foregone conclusion, this would contribute to the advancement of Palestine's rank ahead of various countries, whether at the regional or international level.

The uniqueness of the situation in Palestine constitutes a great challenge. At the same time, it represents an opportunity for development. The harsh realities of occupation distort the reality of governance in Palestine. However, this constitutes a positive incentive for the Palestinian citizen and the Palestinian government alike. It constitutes a positive environment for the further embodiment of good citizenship for the individual, and beseeches the government to be more effective, ensuring the building of a comprehensive and strong system of integrity for a better life.

5-4 Governance Amidst Twin Political Conflicts and Fiscal Fragility

In Palestine, over the past decade, two key political processes have shaped the trajectories of Palestinian governance: the failing peace process with Israel, and bitter internal political division. The interaction between the two and the trade-off with donor sponsored liberal economic policy has ultimately fed a state of stalled governance, whereby the political, economic and social systems can only reproduce, rather than transform, the dire conditions for development.

Ever since the first internationally sponsored effort in May 2000 to rehabilitate the economic governance record of the PNA, issues of corruption, transparency, and reform have become inextricably intertwined with the political debate (Khalidi, 2005). In 2002, Israeli Prime Minister at the time, Ariel Sharon clearly set forth his conception of "economic reforms" in a speech at the Israeli resort of Herzliya⁶⁹, a concept that was soon taken up by the Bush Administration and became the clarion call for the subsequent years of donor supported Palestinian security and governance reform, culminating in a three year "Palestinian Reform And Development Plan".

The conditionality since the 2000s for continued engagement in Palestinian institution/state building is most brutally spelt out by Sharon in that speech "It

69. <https://www.mfa.gov.il/mfa/pressroom/2002/pages/speech%20by%20pm%20sharon%20at%20the%20herzliya%20conference%20-%202004.aspx>

is of great importance that the PA manage its financial affairs in concordance with the rules of proper government which will obligate the Palestinian Authority, inter alia, to produce a detailed budget, under a budgetary control system. This budgetary auditing system will ensure a balance between income and expenditure and will verify that budget spending only serves appropriate economic purposes for the benefit and welfare of the Palestinian people. Such a supervising mechanism will also prevent the transfer of money for the financing of organizations or individuals involved in terror. Taking the financial system out of Arafat's hands, and appointing a strong Minister of Finance with authority, constitutes an important factor stopping the terrorist system operated by the Palestinian Authority". Twenty years later, demands made by Israel and the USA for PNA financial reform echo this approach, and target social welfare payments to families of prisoners and those killed in conflict as alleged "terrorist funding".

The international conjuncture being what it was, Israel succeeded in turning its demand for "reform of the Palestinian Authority" into an international work-programme. In exchange for the continuation of the peace process, Israel demanded reforms of the PNA in every possible area, followed by donors alarmed at the threat to the PNA perceived in the ascendance of Hamas through the electoral process and the subsequent political division since 2007. The idea at the earliest stage was to limit Yasser Arafat's role and place the PNA under its international monitoring, to divert efforts away from opposing the occupation, especially through intensive and intrusive reform of its financial system and its security apparatus under US General Dayton, (Leech 2012; Kayyal 2018).

Since 2004 much attention was paid by donors to prepare the PNA for statehood, by improving the performance of its security apparatus, enforcing fiscal rigor and accountability, and enhancing the performance of the government and the working of the judiciary Farsakh (2016). Some saw in such pressures an effective "international financial trusteeship (. . .) auditing mechanisms, built-in budget

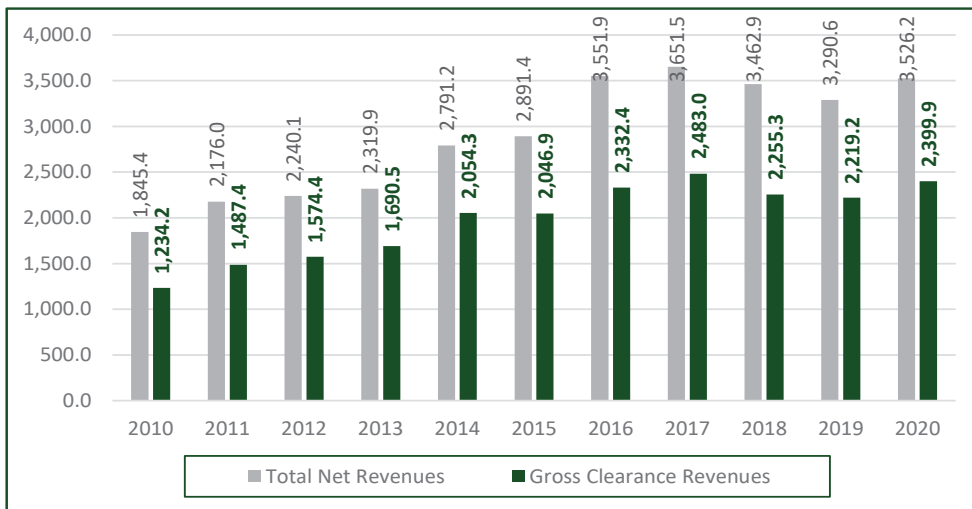
controls, and technical assistance projects, donors and international institutions were well placed to monitor the operation of PNA public finances down to the last shekel" (Khalidi 2004:6). In the financial sector, reform was overseen under the close surveillance of the IMF, which reported regularly to the donor countries ad-hoc liaison committee. The results were conclusive: tighter controls over the PNA's expenditures, rigorous preparation and execution of the budget, reconstitution of a statistics system, elaboration of a juridical framework for the fight against terrorism.

In the banking sector strict rules were adopted for the West Bank and Gaza Strip. The PMA made sure that the regulations of the Basel Committee were effectively enforced by the banks and in particular the obligation to make available any required financial information, the measurement of credit risk and the system of electronic payment to limit the liquidity risk. A legal framework was established in keeping with international requirements, with new bank laws, a law to fight money laundering (amended to become a "law against laundering and for counter-terrorism").

The economic policy framework of the 1994 Paris Protocol, along with measures imposed by Israel, are important drivers of the fiscal fragility of the State of Palestine, and fiscal losses, including leakages to Israel (UNCTAD 2019a). These in turn further erode the potential for effective governance or related indicators. Historically, the revenues of the PNA have been dependent on two "uncertain" sources: clearance revenues and external aid.⁷⁰ Estimated at \$2.4 billion annually (15 percent of GDP), clearance revenues constitute the backbone of the PA budget (Samhuri 2019:2). They account for 66 percent of total PA revenues and cover over half of its expenditure (see Figure 28). External aid however, decreased from \$1.2 billion in 2010 (62% of total revenues) to \$464 in 2020 (12% of total revenues – Figure 29). The sharp decline in external aid, and the repeated interruption of clearance revenue due to political developments, have exacerbated the chronic PNA financial crisis.

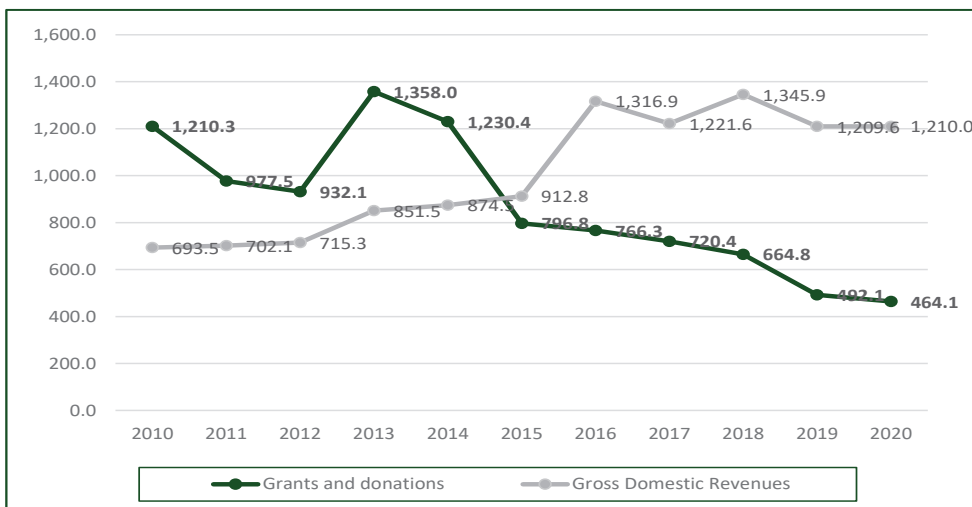
70. Clearance Revenues are Palestinian tax and custom money that Israel collects on behalf of the PA and transfers monthly to the Palestinian coffers after deducting collection fees of 3%, in accordance with the 1994 economic arrangement commonly referred to as the Paris Protocol.

Figure 28. Gross Clearance Revenues as a Percentage of Total Revenues



Data source: Palestine Monetary Authority website ⁷¹

Figure 29. Total Revenues, CRs, and External Aid 2010 - 2020



Data source: Palestine Monetary Authority website

In line with BWI and donor prescriptions, the PNA pursued efforts since 2008 to reduce the budget deficit, achieve financial sustainability and reduce dependence on donor aid. Between 2006 and 2018, the relative size of the fiscal deficit fell from 30 percent of GDP to around 8 percent—an impressive achievement. (World Bank 2019d). These efforts were implemented in an unfavourable environment characterized by declining aid, falling development expenditures and internal political divisions. At the same time, the private sector remained incapable of

reducing the burden on PNA of stimulating aggregate demand by expanding investment and production, and thus creating jobs, increasing tax revenue and reducing the pressure on PNA social spending.

In a pioneering 2014 study, UNCTAD (UNCTAD 2014b) addresses the negative effects of the Paris Protocol on the fiscal revenues of the PNA, how Israeli authorities apply it and the additional constraints unilaterally imposed by Israel. The study focuses on fiscal leakage from the revenue flows that the Palestinian

71. <https://www.pma.ps/ar/Statistics//TimeSeriesData>

treasury should be able to collect from indirect taxes imposed on Palestinian imports. In a subsequent study published in 2019, UNCTAD estimated the total value of fiscal leakage resulting from six main sources at \$473.4 million in 2015, which represents about 3.7 per cent of the Palestinian GDP or 17.8 per cent of total Palestinian tax revenues that year. In other words, had fiscal leakage to Israel been stopped, the budget deficit of the Palestinian Authority in 2015 (on a commitment basis) could have been reduced by 33 per cent, from \$1,431 million to \$ 950 million (from 11.3 per cent to 7.6 per cent of GDP).

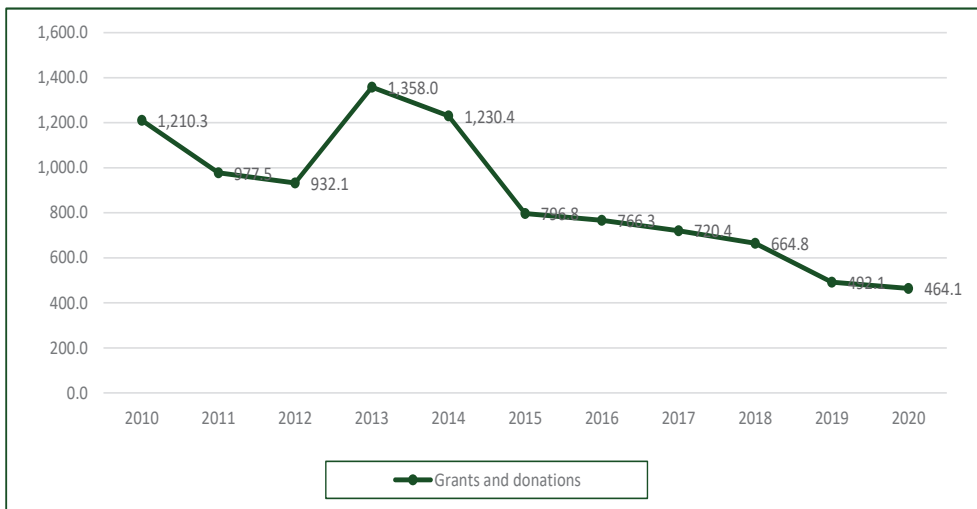
In three reports to the Ad Hoc Liaison Committee, the State of Palestine pointed out that the implementation of certain articles of the Protocol on Economic Relations would increase Palestinian public revenue by about \$300 million per year (2 per cent of GDP in 2017).⁷² The sources of fiscal leakage mentioned in these reports were: the outdated mechanism of clearance of Palestinian imports through Israel; the excessive administrative fees levied to clear those imports; the unfair distribution of revenue from exit fees paid by Palestinian passengers exiting the oPt; the withholding, by Israel, of deductions from wages of Palestinians working in Israel and the settlements, in particular the equalization levy, the health stamp, social security and the pension funds; indirect imports, and public revenue from Area C. While AHLC, IMF and donor lip service has been paid to the issue of fiscal leakage, the combined unwillingness of external parties to pressure Israel, and the latter's innovative obfuscation of numbers and other financial pressures on the PNA have kept the issue off the table, further encumbering the PNA. In the light of such formidable challenges to good financial governance, the ability of the PNA to continue to manage the public resources with professionalism, transparency and agility, notwithstanding many shortcomings (AMAN 2021), is a testament to one of those important achievements of the (overly maligned by some critics) "national project".

Meanwhile, international aid, even though vital, has failed to lead the Palestinian economy to achieve sustainable development. It has become an increasingly small component of PNA public financing (Figure 30), however critical that aid remains to certain sensitive items of the PNA budget. Israeli policies had the lead role in interrupting the development process, as it led donors on numerous occasions to re-direct funds that were originally allocated for development purposes to contingent crisis-relief uses. Even in periods of relative calm, Israeli restrictions on movements of individuals and goods and control over resources have always managed to smother this economy enough to hinder real economic development. If the fragility in PNA finances demonstrates anything, these are two: one, that donors face a rather difficult challenge, which is to eradicate, with money, the economic and social problems created by politics; and two, that they have failed, or at best, have fallen short of this challenge for the time being.

Furthermore, scholars have argued that aid has actually led to 'de-democratization' of Palestinian society and securitization of the political system (Mandy Turner, Farsakh, Tartir and Siegal). Some Palestinian scholars go further, like Karma Nabulsi, among others, who contends that international aid contributed to the rise of an authoritarian neoliberal regime, claiming not only that such a configuration puts at risk not only Palestinian fundamental rights to freedom and civic participation but also the Palestinian national liberation project (Nabulsi 2005) to promote liberal agenda that makes the market the central agent of change and defender of democracy, a perspective that leads to the de-politicization of the society in the name of empowerment (Farsakh 2016). By focusing on fostering individual rather than associational relation towards authority and the state, democracy promotion projects ultimately weaken political parties and civic engagement.

72. State of Palestine, "Government of the State of Palestine AHLC report" (n.p., May 2017); State of Palestine, "Government of Palestine's report to the Ad Hoc Liaison Committee", (Brussels, 20 March 2018); State of Palestine, "Stopping fiscal leakages: the Government of Palestine's report to the Ad Hoc Liaison Committee Meeting" (Ramallah, 2018). Available at http://www.lacs.ps/documentsShow.aspx?ATT_ID=36702.

Figure 30. External Aid as a Percentage of Total Revenues



Data source: PMA website

To maintain core recurrent spending, the PNA had to accrue large arrears and increase borrowing from domestic banks. On a commitment basis, the PNA's total deficit amounted to US\$804 million in the first nine months of 2020, while aid received was US\$380 million. After accounting for the loss in clearance revenues between May and September, the financing gap after aid amounted to US\$1.27 billion in the first nine months of 2020. To finance the gap, the PNA had to accrue arrears to its employees, private suppliers, and the public pension fund, which have resulted in liquidity constraints. According to MoF data, the net accumulation of arrears in 2020 reached US\$950 million. The PNA has also resorted to additional borrowing from the domestic banking sector, raising its stock of debt from US\$1.6 billion as of end-2019 to US\$2 billion, as of September 2020, (World Bank 2021).

The PNA continues to spend the largest sectoral share of the general budget on the security sector (the Ministry of interior and Security) or the equivalent of 26% in 2017, which is the highest compared to the Ministry of Education and Higher Education 21%, health 11%, and social development 6%, and which has almost doubled in size since 2000 compared to less growth in other priority sectors. While security expenditures have served to maintain internal civil peace, they have also served to maintain the PNA commitment to preventing violent attacks against Israel. Their large share of the public budget continues to invite questioning financial policy pri-

orities in a situation where more emphasis could be given to the grave social and economic development challenges facing Palestine.

5-5 Pitfalls of Palestinian “Self-governance”

The preceding 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, it may be ventured that such a social class 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) 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 (Khalidi, 2012). Combined with the other strata of the middle class, this social formation may be considered the core constituency of a 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 (which usually takes place post-independence as experienced in Africa and the Middle East) with an unachieved national liberation project. For example, in what resembles the post-colonial “de-mobilization” of the previous militant leading cadres vividly described by Vijay Prashad with respect to the Algerian experience (Prashad, 2008), a new “entrepreneurial” technocracy has taken the place of PLO and revolutionary-era administrators. But paradoxically such a usual transition of governance pattern 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.



Chapter Six

LEVERAGING COLLECTIVE POWER, FORGING PARTNERSHIPS, SEIZING OPPORTUNITIES

Key Findings

National and Human Rights – by Hook or by Crook

The preceding 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 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 political settlement in Israel-Palestine. The near 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 begins to demand 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 to them 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 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 this Chapter. But prospects depend essentially not only on the Palestinian people's ability to create a deterrent to occupation and more settlement, but also to mobilize socially, economically and politically, and to achieve their denied national and human rights by hook or by crook.

6- LEVERAGING COLLECTIVE POWER, FORGING PARTNERSHIPS, SEIZING OPPORTUNITIES

6-1 “Political Settlement Analysis” Methodology for Palestinian development?

The methodology of “Political settlements analysis” used in political and social sciences, looks at the interaction between institutions/policies on the one hand and the relative power of relevant organizations on the other, to explain policy outcomes. According to this methodology, the distribution of power across the affected organizations is the relevant ‘political settlement’ for that analysis. This distribution of power is of course not static, and it changes over time. But usually changes in the distribution of power are gradual and happen for reasons that can in turn be identified and analysed. The initial distribution of power is particularly important, but clearly it is also important to track how power may be changing during the policy implementation process, as a result of the management of the process itself and other exogenous factors. These dynamics are particularly relevant in the context of peace negotiations when the relative power of the parties may be evolving in important ways.

A political settlements analysis can help to identify why a policy or institution, in this case strategies for allocating aid to support the peace process, is not having the expected result. It could also help to identify feasible ways in which implementation may be improved from the perspective of expected or desired outcomes. Sometimes, these outcomes may be improved by redesigning the policies or institutions, for instance by changing the policies so that they are of interest to a broader group of organizations who now have an interest in their implementation, and who can check the power of those blocking earlier policies, or to make the policies less threatening to those opposing them, so that they allow their implementation in ways that still achieve the main objectives.

At other times it may not be possible to improve outcomes significantly with policy changes given the existing distribution of power. In these cases, the only feasible approach may be to consider changing the distribution of power itself. Indeed, configurations of power are not immutable. Organizational activi-

ty, such as the participation of organizations in new coalitions, or political activity that creates new social mobilizations supporting particular organizations can change the relevant configuration of power sufficiently to enable policy outcomes in the desired direction.

The ways in which organizations are likely to deploy their power to modify, distort or block particular policies will depend on the type of policy being considered. The issues of power and enforcement are different in each case. For some policies, their successful implementation only requires addressing a coordination problem. For other policies, success depends on finding effective solutions to free riding problems. And finally, some policies can only be successfully implemented if ways are found of limiting or overcoming distributive conflicts. The exercise of organizational power by more powerful organizations to block or distort policies is least serious when the primary aim is coordination, somewhat more serious when there are strong free-riding incentives, and most serious when there are distributive conflicts involved.

In reality, most policies have to address all three problems but in different proportions. Coordination problems are the easiest to enforce, but free riding and distributive conflicts embedded in particular policies may be more or less difficult to address depending on the distribution of power across affected organizations. This simple framework allows us to analyse the relationship between donor policies of supporting the peace process with aid and the outcomes achieved. One of the problems with the Oslo process was that it implicitly assumed (or the PLO understood) that achieving peace would essentially be a coordination problem, that the parties really only needed to be brought around a table, some additional incentives provided for good behaviour, and then the self-interest of both sides would take care of the problem.

In fact, there were serious free-riding problems as well as major distributive conflicts that were not adequately identified, and the distribution of power

across Israeli and Palestinian organizations did not offer any way of overcoming these to achieve a minimal outcome that Palestinians could accept. On the contrary, external donors became influential actors on the scene, and while they had neither the inclination nor the power to impose rules on the Israeli side, they could and did set conditions for the Palestinian side, like insisting that they prioritize investments in 'good governance' and 'security first' that further constrained Palestinian freedom in setting their own development priorities and limited their bargaining power with Israel (MAS 2010a, 2005; Khan, et al. 2004).

In the next sections we outline some aspects of the relationship between power, policy and outcomes in the Oslo process, and look at some of the implications of the embryonic changes in Palestinian organizational power that began to emerge in May 2021, and the changes in economic flows that may come about (though not necessarily very rapidly) if the normalization process signalled by the Abraham Accords of 2020 proceeds further. This will help frame the most feasible strategies for accelerating Palestinian development with international partnership, including through addressing core economic, social and governance deficits, while maintaining sight of Palestinian national policy goals amidst a changing political landscape.

6-2 Take-aways from the Failures of Oslo: Ending Israeli Free-riding

The poor outcomes of the aid strategies supporting the peace process during the Oslo period are now well documented (Calis 2013; Farsakh 2012; Khan 2010b, 2005, 2004). The aim of donor policy during this period was to facilitate the negotiations, achieve some variant of a two-state solution (though Palestinian statehood was not explicitly stated at the outset), and to help the Palestinians to set up a well-governed and peaceful state that could live side-by-side with Israel.

Despite the stated policy objectives, on many criteria, aid appeared to achieve just the reverse. Settlements in the West Bank accelerated, undermining the geographical feasibility of a two-state solution, evictions and house demolitions continued in East Jerusalem and elsewhere in the occupied territories, and the implementation of the Paris Protocol

stymied Palestinian attempts to promote their own economic development (Khan, et al. 2004). The impasse ultimately led to the rupture of 2007, a growing detachment between the Palestinian population and PNA institutions, and no realistic negotiations between Israel and the Palestinians for most of the last decade, despite the donor framework of coordination of aid flows (AHLC) that remained in place. A brief explanation of this paradox using a political settlements/organizational power-based explanation can set the frame for looking at other strategic and policy options going forward.

To simplify the Oslo analysis, we look at three sets of organizations: Israeli, Palestinian and external, making further distinctions within these groups as required. The relevant Israeli and Palestinian organizations include the political organizations conducting the negotiations on each side, their bureaucratic and security organizations, and their economic organizations. All these organizations had something to gain or lose and an interest in the implementation and interpretation of the different aspects of the negotiations. In general, Israeli organizations of each type were far more powerful than their Palestinian counterparts in terms of almost every criterion determining holding power as discussed earlier. Looking at the international organizations sponsoring and funding the peace process, even those who tried to be neutral had much closer historical, cultural and political ties with the Israeli side, and their domestic constituencies were more inclined to be sympathetic to Israel, even while accepting the injustice that had been done to the Palestinians, which led them to seek an acceptable negotiated solution that both sides could live with.

This configuration of power deeply influenced the calculations of Israeli organizations in ways that are outlined below. The fundamental observation is that the emergence of a feasible two-state solution was primarily not a coordination problem, and without addressing the free riding and distributive conflicts on the Israeli side, the progress towards a two-state solution should not be expected. This outlines the fundamental challenge at the heart of the Oslo process. A two-state solution would not emerge simply out of the self-interest of powerful Israeli organizations without a significant change in the configuration of power. As any change in the configuration of

power was and is unlikely to be driven by external actors, or from credible military threats from the Palestinian side, the really important question is what are the other alternatives available to ensure Palestinian rights and a viable and sustainable peace? There are three possible options to alter the balance of forces according to this analytical framework.

i) Not a pure coordination problem. From the outset of the Oslo process, no powerful voices on the Israeli side articulated a sovereign Palestinian state on 1967 borders as the obvious solution. Yet this was the minimum expectation on the Palestinian side. Given this significant divergence, a viable two-state solution could not possibly emerge simply by enabling the coordination of expectations since there was no solution that both sides agreed upon.

ii) Asymmetric free riding. With no clear outcome to coordinate around, the focus shifted to process and the enforcement of intermediate agreements and protocols. But these agreements and protocols were in turn unequally formulated, interpreted and enforced, leading to the 'asymmetric containment' of Palestinian development (Halper 2007; Hilal and Khan 2004; Khan 2004; Zagha and Zomlot 2004; Halper 2001). The political settlements framework offers an obvious explanation for this: the Israeli organizations, including settler organizations, right wing parties, business interests and others were too powerful for their free riding behaviour to be controlled by Palestinian organizations or external agencies. On the contrary, Israel was able to successfully persuade external agencies that Palestinian institutions would first have to adhere to 'good governance' and deliver 'security first' for Israel to feel secure enough to start making any concessions. Who could have possibly contained Israeli free riding at this stage? Clearly, neither the external organizations nor the Palestinians had the combination of interests and power to enforce a different interpretation and implementation of the transition. If Palestinian statehood had to emerge out of and be enforced by Israeli self-interest, it would require powerful Israeli organizations to start enforcing adherence to a reasonable interpretation of transitional rules in their own interest. Why did this not happen?

iii) Insufficient pressure on Israel to resolve its internal conflicts. For the more powerful side to begin to control its own free riding, it first has to resolve its internal distributive conflicts. If these conflicts cannot be resolved, there is no point trying to control free riding, since the peace process will lead nowhere in any case. The 'distributive conflicts' were driven by powerful forces inside Israel who did not see the handing over of 'Judea and Samaria' as an acceptable price to pay for peace. Others did not see how 'land for peace' would contain the demands of Israel's internal Palestinians for equal rights and treatment, which may in any case have threatened the superior rights of Jews regardless of a two-state solution. If anything, keeping the borders and status of possible Palestinian homelands vague made it easier to internally manage the internal Palestinians. No Israeli leadership emerged that could force concessions from opponents of 'land for peace' or from those who saw permanent 'management' of Palestinians as an acceptable strategy for Zionism, most recently (and brutally honestly) articulated by the new Israeli Foreign Minister as "security for economy".⁷³ This was the Achilles heel for the Oslo route to the two-state solution. Without a resolution of these internal conflicts and the enforcement of an internal solution, no solution to the free-riding problem was possible either. Why did Israel fail to find a solution for its internal conflicts that blocked a two-state solution?

Issues of ideology, political and strategic miscalculations on both sides, deep fears and a lack of trust are all part of the explanation for this failure. But the most significant explanation over and above the failure to achieve national reconciliation and unity, was the absence of any credible organizational power on the Palestinian side that could credibly demonstrate the consequences of a failure to achieve a two-state solution. The only reason why Oslo came about at all is because there was a potential threat, vividly illustrated by the first Intifada, that Palestinians would soon match the Jews numerically and Israel would then have to choose between being a democracy and having any type of Zionism as its state policy. This was a potential existential threat for Zionism. The problem, however, was that the threat was only ever going to be a real and credible one if Palestinians could organize to demand the right to political representation in Israel-Palestine.

73. Ynet, "Lapid outlines long-term vision for calm in Gaza", 12 September 2021, <https://www.ynetnews.com/article/rjq7v3smy>

There are three possible options to alter the balance of forces according to this analytical framework, in the absence of a two-state solution, a demand for rights irrespective of statehood would be a very reasonable demand and one that Israel would find very hard to reject in a global context, particularly if the demand was peaceful and persistent. However, this potential threat would only become real if organizations emerged linking up Palestinians in a coherent mobilization for political rights, simultaneously under the different jurisdictions imposed on Palestinians by Israel in the occupied territory, as well as on Palestinian citizens of Israel. Without real organizational power, a potential threat has no effect on changing the behaviour of other organizations in their interactions. Israelis opposed to the two-state solution could continue to argue that despite the potential threat, Palestinians may never achieve this organizational capability, and the Israeli focus should therefore be on ensuring that Palestinians remain indefinitely divided and pursuing different strategies.

The necessity of building real organizational power that could feasibly force changes in organizational behaviour on the Israeli side was not adequately appreciated either by international or Palestinian organizations. Palestinians and international actors would frequently say that without a two-state solution Israel would soon have to choose between being a democracy and being a Jewish state. They would just as frequently be surprised that this line of argumentation has had no effect on Israeli strategies.

The political settlements analysis suggests that in fact, Israeli responses were perfectly rational. For Israeli political, security and other organizations to come forward and politically take on and defeat other Israeli organizations opposed to the two-state solution requires a huge investment of resources and political capital. They are only likely to do this if they perceived an existential threat that was real and immediate. At the very least, Palestinians would have to demonstrate they had begun to organize and demand political rights and that they could build organizations with high holding power to make these demands non-violently and persistently. This would have made real the choice between democracy/rights and an exclusionary Zionism, and only then might some Israeli organizations have taken on those opposed to the two-state solution. If these

Israeli organizations emerged dominant out of this conflict, only then would they also take real steps to prevent free riding in pursuit of the two-state solution that they perceived as existentially necessary. None of this happened, because no Israelis perceived any such real existential threat coming from Palestinian organizations (MAS 2010).

iv) Implications for aid strategies under the status quo. The political settlements analysis suggests that the failure of aid strategies under Oslo to deliver their expected outcomes was ultimately due to the configuration of power across different types of organizations. The one dimension along which Palestinians could have dramatically changed the distribution of power in their favour was not fully understood or deployed during the Oslo period.

If the current configuration of power persists, are there changes in the design and allocation of aid that could make a significant difference to outcomes from the Palestinian perspective? The analysis of power and political settlements suggests that feasible changes in the design of aid may at best have marginal effects on a few economic dimensions but are unlikely to change the likelihood of achieving Palestinian rights let alone an end to occupation. Those outcomes require a significant change in the distribution of power or other factors that can bring about rational changes in the strategic choices of powerful Israeli organizations.

For instance, a demand to use a greater part of aid to create sustainable jobs based on economic self-sufficiency within the Palestinian territories may well be accepted by donors. It is not threatening to any powerful organizations on the Israeli or Palestinian side, though aid may be diverted from some sectors such as NGOs to others such as productive firms providing goods and services and requiring assistance in acquiring technologies and training. Instead of creating jobs in activities that are likely to end immediately as soon as aid is suspended, the allocation of aid to support potentially self-sustaining activities supplying local markets may indeed create more resilient economic activities, more sustainable jobs and enhance the capability of the local economy to adapt to Israeli lockdowns and localized conflicts.

Such adaptations in the aid package may therefore improve welfare. But from the perspective of political settlements analysis, there is no reason why such modifications in the aid package would change any fundamental strategic calculations by powerful Israeli organizations. Therefore, we should not expect such changes to have any effect on the achievement of Palestinian development, rights or an end to the occupation. The high levels of aid dependence in Palestine can only be justified if aid is used to facilitate the transition to Palestinian statehood or the achievement of Palestinian rights in ways that unleash genuine economic development and reduce the dependence on aid. It is not at all clear how achieving greater self-sufficiency alone will give Palestinians the bargaining power relative to Israeli organizations to achieve these goals.

6-3 May 2021: From “Land for Peace” to “Rights for Peace”

If a powerful Palestinian movement for political rights had emerged ten or fifteen years ago, progress on the two-state solution may have been radically altered as was argued at the time (MAS 2010). The best strategy for Israel may then have been to concede a Palestinian state on 1967 borders and equal rights to Israeli Palestinians. Indeed, negotiations in 2000 and 2008 with the Barak and Olmert governments revealed precisely such a potential Israeli partner. Israeli Jews would have been more than 80 percent of the population, and Jewish rights could have been protected democratically.

This calculation has changed in one dramatic respect since then. The free-riding opportunities created for Israel by Oslo, and especially in the past decade, enabled the construction of new settlements, walls and barriers. These created new facts on the ground so successfully that much higher resistance can now be expected from Israeli organizations opposed to a two-state solution. The cover story of the Economist of 29th May 2021 entitled ‘Two States or One? The Hopeless Peace Process’ outlines why the struggle over land and statehood seems no longer feasible for the Palestinians and the most feasible path forward must now be a demand for equal rights. This may make sense if one looks at the maps and asks what a feasible two-state solution may entail in terms of population transfers. If Palestinians reject a ‘state’ without territorial contiguity that is only connected

by tunnels and bridges, then either there has to be significant population transfer, or the discussion is primarily one about the rights of minorities, whether in one state or not.

Briefing the UN Security Council in 2014, the UN Special Coordinator Robert Serry stated presciently and bluntly: “Difficult choices are now required of the parties. They should realize that not making a choice is the most detrimental choice of all – namely to accept that we are going down the path of a one-state reality on the ground. This is a time for the parties to reflect whether they wish to live up to their stated commitment to the two-state solution, or whether they will by default let it slip further away.” The feasible outcomes of the Palestinian search for statehood have thus become more complex and uncertain, certainly in territorial terms.

The important conclusion for now is simply that Palestinians are not going to achieve any meaningful state or political rights unless the configuration of power significantly changes with Israel. Statehood or rights will not be conferred by outsiders. Nor will they be conceded by Israel unless it believes it must. The promising aspect of May 2021 is simply that it marks an emerging Palestinian consciousness that there is much to gain by connecting parallel struggles using the common language of rights. Whether effective organizations emerge that can make these mobilizations ever more connected and coherent remains to be seen. Even if organizational links begin to emerge, achieving meaningful changes in the distribution of power in Israel-Palestine will be a long process: May 2021 is at best not ‘the beginning of the end but the end of the beginning’.

Can feasible changes in aid strategy support emerging mobilizations for Palestinian rights? The answer must be yes, but powerful interests on the Israeli side can already see the danger and are likely to work openly or behind the scenes to block any type of support for Palestinian civil society mobilizations. The implications of Palestinians synchronising their separate struggles were repeatedly discussed in the international media reporting on the events of May and the implications cannot have been lost on Israeli strategic planners. On the one hand, the Palestinian advantage here is that it is difficult for neutral development partners to say that they do not support de-

mands for political and individual rights. On the other hand, the dominant party in Gaza Strip is Hamas, and its military strategy easily offers valid reasons for development partners to stay away from any joint strategy that legitimises violent resistance.

This will be an important challenge for the Palestinian movement. Ideally, Hamas may be persuaded that joining in a united and non-violent Palestinian struggle for rights is more threatening to Israel than missile attacks that achieve little strategic damage. This may be unlikely, but it is a debate that Palestinian factions and public need to have. At the very least, the demands for basic rights for residents of Gaza Strip, including their right to security, to basic consumption goods, to travel and other fundamental rights can be articulated and organized by civil society organizations independently of Hamas.

Israeli Palestinians are a critical component of the potential collective action that could change the configuration of power in Israel-Palestine. Israeli Palestinians are much poorer relative to the average Israeli, and improving their economic and social conditions is also a struggle for rights and against unequal treatment (Khalidi and Shihadeh 2017; Khalidi 2008). They have long been neglected in discussions of Palestinian rights, partly because they have often deliberately stayed out of Israeli conflicts with other Palestinians. This is partly an outcome of Israeli strategies of leaving borders, homelands and rights of different Palestinian groups deliberately vague and unsettled to disincentivize political engagements that could be turned against particular groups. This is most vividly illustrated by Israeli mainstream politicians calling for “transfer” of hundreds of thousands of Palestinian Israeli citizens and their villages now in central Israel to an eventual Palestinian state.

But in May 2021 Palestinians in Israel revealed that they too had collective power to demand their civil rights and their engagement with Jerusalem immediately showed the important role they can play in changing the configuration of power. Here too, at the very least, Palestinians need to lobby donors to support Israeli NGOs working for promoting the rights and development of Palestinians as a national minority in Israel.

Support for rights-based mobilizations is perhaps least likely to be resisted in the West Bank. Here too,

there is a case for lobbying for more aid to be targeted to civil society groups that protect Palestinian rights, particularly in East Jerusalem and that lobby for democratic accountability. These types of support are likely to be strongly resisted by Israel, for obvious reasons, but the tide may be slowly turning against arguments that rights can be ignored till a later date. Given the diverse governance challenges and deficit outlined above, affecting economic, social and political rights, any future rights-based development agenda will not only place demands on Israel, but also on the Palestinian political system. It may be worthwhile for Palestinians to invest a lot of their organizational lobbying time and effort to ensure that donors start to seriously support activities protecting rights, and that the organizations getting the support are able to coordinate their activities across different segments of the Palestinian population.

6-4 The Abraham Accords: From Aid to Investment

Prior to 2021, the options assessed in the previous section were not seriously on the table, and the impact of four years of hostile US policy to Palestine had yet to be reversed. The Trump administration had attempted to break the impasse in peace negotiations in the Middle East, which it attributed to a Palestinian intransigence and unwillingness to compromise. Trump fully accepted the position of Israeli hawks like Netanyahu who had long sought to replace ‘land for peace’ with the much less problematic ‘peace for peace’. The Palestinians, it was argued, had little to gain by holding out for a contiguous territory for a state, which was in any case not on offer any more. They would gain more by engaging in economic exchanges with Israel and the outside world, with limited self-government in a patchwork of areas.

To induce Palestinian acceptance of the new model, Trump’s Administration sought a normalization of relationships between Israel and several Arab states. The normalization was expected to put pressure on the Palestinians (“from the outside-in”) since their bargaining power with Israel would decline even further because of reduced support from Arab countries, something vividly demonstrated by the precipitous decline in official Arab aid to the PNA in the past few years. It would also create opportunities of benefiting from joint Arab-Israeli investments that may

follow, and more entrepreneurial Palestinians could be tempted to benefit from these investments if they accepted the new terms for peace (Agha and Khalidi 2021). Of the Arab countries engaged by Trump, the UAE was the most significant, given its economic resources and its own desire to engage in joint investments with Israel in order to gain access to technologies that could give it an advantage in its regional competition with Iran.

The outcome was the much-touted Abraham Accords of late 2020. Though the Accords did not result in any immediate changes on the ground, they revealed changes in underlying interests and perceptions both in Israel, but also in several important countries providing external support to the Palestinians. Nevertheless, the underlying drivers of the Accords may affect how aid and investments evolve in the future. These drivers include the perception in some Arab and Gulf countries that normalization would allow them to achieve their own national objectives with US support, including accessing Israeli technologies, improving their ability to confront Iran, or other objectives. These very specific calculations may change over time.

But in addition, the Accords were also driven by a growing perception within the US that the peace process was blocked. This perception was not wrong and is aligned with our analysis of the distribution of power on the ground. But the perception is nevertheless mistaken in believing that if the Palestinians could be further pressured to accept a virtual state “with provisional borders” and limited rights, this answer would be sustainable in any way. Indeed, Palestine is rightly noted for President Abbas being the only Arab leader to openly resist, for years, Trump’s doctrine and to pay the price. Nevertheless, given the impasse of the Oslo process, US aid to Palestine is understandably perceived to be unjustifiably high given how little it had achieved. As the US faces demands for increasing domestic investment in manufacturing and infrastructure, and faces challenges from China, aid for a peace process that is not leading anywhere becomes harder to justify. Not surprisingly, an unwillingness to engage or commit political capital or significant diplomatic resources to the Middle East peace process is also visible in the current Biden administration, despite pressure from progressive Democrats.

Given the increasing competition for domestic resources within advanced countries, it is likely that Western donors, and in particular the US, will want to reduce aid in real terms over time. In Palestine, it means they will be tempted to support investment flows as an alternative mechanism of financing Palestinian livelihoods, if only to reduce dependence on permanent aid flows. The “Beyond Aid” concept was already floated in the Palestinian context (Lang & deLeon 2016) in the past decade and “donor fatigue” is often cited in the Palestinian context (yet rarely acknowledging the Palestinian side of donor fatigue). In that sense, the Abraham Accords signal deeper dynamics that need to be factored in by Palestinians fighting for their rights. If investments become more important as a way of supporting livelihoods, it will be important to ensure that the broadest range of Palestinians benefit from employment and investment opportunities linked to these investments, and to encourage backward and forward linkages in investment zones. This is not just to enhance jobs and welfare, but also to ensure that Palestinian organizational power is enhanced rather than diminished as a result of these investments.

Without an active Palestinian strategy for developing backward and forward linkages with potential investments, the result is likely to be the creation of pockets of activity that further isolate and divide Palestinians. If that happens, external investments that favour the free market over the social market may weaken collective action by Palestinians and make the management of Palestinian demands for rights less pressing. In effect, the result would be a more adverse distribution of power between Israelis and Palestinians by further fragmenting links between Palestinian businesses.

In contrast, if Palestinian institutions can anticipate the arrival of a flow of specific investments into specific zones and take steps to support backward and forward linkages by planning for the development of skills and entrepreneurial training programmes, the result may be the very opposite. External investments could then drive the creation of a more integrated Palestinian economy and enhance the bargaining power of Palestinian business, labour and political organizations. In preparing for these opportunities, aid can play a critical role in enabling the development of Palestinian skills and entrepreneurial capabilities that are required to maximize the chances of backward and forward linkages with

specific types of external investments. Monitoring the development of emerging investment plans and planning to ensure that they support rather than constrain Palestinian aspirations for rights will be an important task for Palestinian institutions and for the development partners supporting the strengthening of Palestinian rights and livelihoods.

6-5 The Imperative for a New Economic Development Strategy

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 labour force, in particular for the youth and women, and to progressively improve the overall wellbeing of its population it will be imperative to radically re-structure its economy. The examination of future development and trade policies for an occupation-free Palestine needs to be grounded on the recognition that Palestine is by no means a normal case, and the ‘one-fits-all’ recipes commonly recommended to all developing countries will certainly not measure for such a taxing task. Even if 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 impact of occupation, by repressing the economy and providing the wrong signals guiding economic agent’s behaviour, is constantly aggravating the structural distortions of the economy undermining growth and any prospect for a sustainable improvement of its population welfare. The enormous challenge faced by Palestinians demands a bold development policy shift. It would be imperative to depart from of 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. These policies have mostly guided the approach followed during the last decades by the PNA and donors. Instead the PNA should focus on “production-capabilities en-

hancing” policies, focusing on governance capacities to overcome entrenched market failures, acquiring productivity-enhancing technologies and maintaining political stability in context of rapid economic and social transformation. The Palestinian Government’s programs since 2019 related to the enhancement of the productive sectors, including by means of horizontal and vertical clusters, came in the context of a general tendency to disengage from colonial economic dependency. This lays foundations for a new phase of a long-awaited development vision, entailing a return to the origins of the Palestinian development case that was adopted by the PLO in its development program, elaborated by the late Professor Youssef Sayegh, from the pre-Oslo era..

In the light of the failure of the Washington Consensus prescriptions in lifting countries out of poverty and generating sustainable growth making income convergence with developed countries possible, a divergent view arguing for an alternative policy package to neoliberalism has emerged. There is growing consensus calling for a development-friendly macro-economic 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 putting emphasis on equity and distributive and targeted pro-poor policies in contrast to the “trickle-down effects” notion embedded in neo-liberalism. It calls for pro-active fiscal policies which identify sources and agency for resources to finance developmental programs expanding the available fiscal space, and the utilization of 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 (Abugattas and Paus 2008).

Following mainly neoliberal prescriptions, public policy in Palestine as well as most technical assistance projects have prioritized establishing a “business friendly environment” through investment climate improvements interventions. They have also promoted free trade with the expectation that as result there would be a spontaneous positive reaction by the private sector undertaking increasing levels of

investments in production activities and enhanced firm-level upgrading efforts. However, the basic propositions of neoliberalism, particularly that free markets by themselves and liberal trade policies can provide a solid foundation for economic growth and development, have been increasingly challenged by a wide body of literature (Lall 2005), (Stiglitz 1998a, 1998b), (Arndt 1988). The disjuncture between its theoretical underpinnings, where markets are perfect and complete, and the realities in most developing countries, where markets are riddled with imperfections and failures, of which Palestine is without doubt an extreme case, has been highlighted giving sound basis to cast serious doubts about the efficacy of policies based on neo-liberal premises.

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, that a business-friendly environment could be a necessary condition, but it is definitely not sufficient to promote a healthy development of a modern private sector and for boosting its contribution to income, employment and exports of goods and services. This absolutely requires ending occupation, but it is also indispensable to implement substantially different policies than the ones pursued. As Rodrik (2021) has correctly pointed out, “mapping the links between real-world circumstances and the desirability of different types of interventions is what good economics is about”. A new approach will certainly demand significant policy experimentation before bearing all its fruits, therefore what would be needed are doses of imaginative realism in economic policy-making geared towards achieving the appropriate balance between the state and the market in accordance with the conditions prevailing in the country.

Palestine development policies should aim at escaping the trap of a low growth path and to promote growth enhancing structural transformation of the economy, moving the malformed Palestinian economy from a 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 labour-intensive goods and traditional services.

This would definitely 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 further demand long-term investment aiming at enhancing social capabilities supporting the expansion of more complex productive capacities in both goods and services. Moreover, it will also 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. Public investment is significantly low compared to well-performing developing countries, and certainly insufficient in the light of Palestinian needs. Most of public investment is financed through international development assistance, being contingent to the availability of resources and highly volatile. Palestine urgently needs to attain international fiscal independence (MAS, 2021c) and to expand progressively the tax base and improve collection efficiency in parallel to the growth of the private sector.

The shift from factor-driven to innovation-driven growth has proven to be extremely challenging for all middle income countries; which are caught in what has been termed the “middle-income-trap”. This term captures a situation in the current globalization context where a middle-income country cannot longer compete internationally in standardized labour-intensive commodities because wages are relatively high. But it can also not compete in higher value added and technology intensive activities on a broad enough scale because productivity is too low, resulting in slow growth and less potential for rising living standards for the population.

Palestine is starting from a very disadvantageous baseline, therefore the challenges it faces are even much greater than those being confronted by other low middle-income countries. This imposes urgency to implementing as soon as possible a new development approach, which should progressively be put in place as the political situation might allow.

However, under occupation the degrees of freedom to implement the necessary measures to achieve a growth-enhancing transformation of the economy, as well as their efficacy, will most certainly be quite limited. Therefore, any real progress will be contingent on a significant political breakthrough ending occupation and the establishment of a sovereign Palestinian state in full control of its territory, its policies and of 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.

6-6 The Right to Comprehensive, Universal Social Protection

As long as the PNA is incapable, for internal or external political reasons, of delivering on national liberation goals and independence or in changing for the better the status quo with the occupation, and if the economic policy shift suggested above is beyond reach for the moment, there are at least two functions that the PNA could still conceivably emphasize in its effort to maintain relevance to the most impoverished masses, and purpose in serving the citizen and promoting the public good. One of these, namely more responsive and accountable governance and community services is discussed in the following section. Here we focus on a low hanging fruit that would provide important impetus towards addressing one of the key development deficits discussed in this report, namely addressing social deprivation through ensuring comprehensive social protection for all citizens (MAS, 2021d).

6-6-1 The Inevitable Social Contract

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, which excludes none. 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 all segments of society. This will help direct social aid first to those who need it most, with transparency and justice.

6-6-2 Macroeconomic Costs and Benefits of a Social Security System

Macroeconomic modelling of the application of the Social Security Law of 2018 (which could not be implemented) confirms the long terms economic and social benefits of pursuing the establishment of the system while there would some negative impacts in the short term. However, there are positive effects in the long run, as all contributions are pooled and con-

verted into physical capital, due to the conversion of savings into investments. This is the main assumption that generates long-term growth. The payment of end-of-service benefits for all previous years of work at the moment of application of the Social Security Law, leads to negative consequences for the economy, which are exacerbated by shorter payment periods. It is possible to implement the social security system at enterprises that are currently committed to the end-of-service system, according to the labour law, as a starting point, while keeping end-of-service benefits until the end of work, or paying these over a period of seven years, which is the least harmful option.

A scenario of gradual implementation of the social security system over a period of five years, starting with companies that are currently committed to the end-of-service compensation system (31.1% of private sector employees) to reach 53.7% coverage, shows the same negative impact in the short term, but the positive impact on GDP doubles. For the best economic outcomes, in the baseline compliance scenario, at least 35% of social security contributions should be directed to investing in new capital in the four economic activities: industry, trade, transportation, communication and information, with the aim of reducing negative impacts on GDP in the short-term.

To reduce the short-term, negative impact of social security implementation and achieve the highest positive impact in the long run, the following policies are recommended for consideration by the Palestinian government and the eventual Social Security Institution:

- The Palestinian government should carefully choose the appropriate macroeconomic timing for implementing the Social Security Law, to ensure that there is sufficient economic growth to limit the expected negative impact of implementing social security in the short term.
- The progressive implementation of social security is important to avoid the negative impact associated with broad compliance. A starting point could be with companies currently complying with the severance payment system, followed by a rapid, incremental expansion of social security compliance.
- The most important element required to achieve a gradual and rapid increase in the rates of compliance with the law is building confidence in the social security system. This requires making

amendments to the Social Security Law and its regulations to increase confidence in the system, conduct awareness campaigns about the importance of social security and its benefits, and announce clear investment plans.

- The negative impact can be reduced in the short-term through investment plans targeting the productive sectors: manufacturing, trade, transportation, communications and information. An investment of at least 35% of social security contributions is required to cancel out the short-term negative impact on GDP growth.
- There is a need to improve efficiency in financial institutions, in order to convert savings into investments in productive sectors. Establishing a national development bank could be a step in the right direction.
- Enforcement of the minimum wage law, prior to the implementation of social security, is necessary to reduce the negative impact of broad compliance with social security on welfare. The Social Security Law states that wages subject to the social security system must not be less than the minimum wage. It is not recommended that the application of end-of-service benefits for previous years be paid once the law is enforced, as this would amplify the negative impact in the short term. Maintaining the current system, where severance pay is paid upon exit from work, is the best option.

6-6-3 The Foundations of Successful Health Insurance

Approaches to providing social health protection, and thus universal health coverage, differ from country to country. However, the common denominator between all countries is a risk pooling system that enables all citizens, each according to their capabilities, to share the risks of contracting disease and resorting to expensive healthcare. This means that the funds allocated to healthcare are collected by prepayment and managed in a way that ensures that all individuals bear the costs of healthcare in the event of illness, rather than each individual bearing these costs separately.

In general, a successful health insurance system depends on basic strategic principles:

- Ensuring the availability of adequate funding for all services that citizens need, with clear and acceptable quality standards.

- It is mandatory for everyone, according to the rules of social solidarity.
- General coverage, as the system covers all risks and compensation.
- Governmental coverage of contributions for groups that are unable to pay.
- Imposing taxes on some luxury goods, to meet the financing needs of the health insurance system, and to develop the necessary infrastructure for the health system.
- Enhancing cooperation between the public and private sectors with regard to hospitals and financing health services.

Among the disadvantages of the current health insurance system in Palestine is that it is compulsory for government employees only, and optional for the rest of the citizens and residents of the country. However, compulsory insurance for all will achieve justice for all citizens, based on a social system that provides the right to health with minimal financial burdens on families, and without burdening the state's budgets, or making it dependent on foreign grants and aid. In addition, it provides the necessary self-financing for the development of health infrastructure, and the improvement of the quality of health services, as well as developing the required manpower to work in the healthcare sector.

Achieving comprehensive health insurance requires adopting the following policies:

Review the study prepared by the national team, formed in accordance with the Cabinet decision of May 27, 2019.

- Completion of a draft, health insurance law, as a basis for issuing a compulsory health insurance law and setting up the necessary mechanisms that require everyone to obtain adequate insurance coverage, including the informal sector, the socially-disadvantaged, the unemployed, and the elderly.
- Following-up on the establishment of a National Health Insurance Institution that is administratively and financially independent, to manage health insurance funds and all available financing, as well as purchasing the required health ser-

vices from health centres, and governmental and non-governmental hospitals.

- Identifying methods for partnerships or contracting with health service funders, for example, UNRWA.
- Developing mechanisms to increase investment in the health sector, developing existing health institutions, and rehabilitating them in line with the right to provide quality health services.
- Conducting studies on the costs and pricing of services for the purposes of procurement, preserving the Institution's funds, and undertaking other studies on the needs of the health system.
- Conceptualizing the implementation of mandatory, full-time employment for workers in the government health sector, and providing the necessary financial allowances for full-time employment, such as sabbatical leave, which is a condition for improving the quality of services provided to citizens.

6-6-4 Reviving the Social Security Law

The Palestinian Social Security Law, even after its amendment, was suspended by the President of the Palestinian National Authority. It still suffers from many problems. Numerous amendments were made and approved by Decree-Law No. (19) of 2016,⁷⁴ which cancelled the first version of Law No. (6) of 2016. This included modifying deduction rates, i.e. the distribution of burdens, and raising the minimum wage which is eligible for retirement benefits from eight times the salary to ten times the salary. Moreover, amendments were made relating to maternity leave for pregnant women, in terms of reducing the number of contributions that a pregnant woman must pay during the year preceding maternity leave, and the entitlement to maternity leave with pay from six months to three months, as well as the right to bequeath her pension. However, these amendments did not remedy the legitimate concerns of those subject to the provisions of the law.

The draft law has not risen to the level of social justice that different segments of society aspire to, despite that it was originally conceived for this purpose. In the light of the escalation of popular protest against the law, the Palestinian President issued Decree-Law No. (4) of 2019, according to which the Social Security Law No. (19) of 2016 was suspended.⁷⁵

74. The Law on Social Security No. 19 of 2016 was published in *"Al-Waqi'at Al-Falastiniya"* on 20/10/2016, page 2.

75. The Decree-Law No. (4) of 2019 repealed the Social Security Law No. (19) of 2016, and its amendments. It was published in *"Al-Waqi'at Al-Falastiniya"* on February 19, 2019, in issue 152, on page 4.

Based on the above, the below points highlight the pending priority problematic points which must be resolved around the negotiating table in preparation for the law's re-submission, with eleven specific areas for reformulation whose tripartite deliberation could help to launch the policy reform agenda swiftly:

- Duplication in the mechanisms and rules for calculating retirement pensions in case of old age, disability and natural death
- Calculation of the retirement pension in the event of complete permanent disability and partial permanent disability (Articles 56-59)
- Calculating the retirement pension in the event of death and the number of contributions required for eligibility (Article 64)
- Duplication in provisions indirectly related to calculating the pension
 - *Concerning the adjustment of the minimum wage*
 - *Concerning the calculation of personal and family allowances*
- Overlap/Duplication with other Laws
 - *Concerning early retirement provisions (Article 51/2)*
 - *Concerning maternity leave (Article 90)*
 - *Concerning differences related to end-of-service benefits (Article 116/1/A)*
 - *Concerning the settlement of labour rights prior to the enforcement of the law (Article 116/1/b)*
 - *Concerning complementary old-age insurance (Article 10 and Article 116/3)*
- Composition and Responsibility of the Board of Directors of the Insurance Institution (Article 18)

6-7 Accountability and Quality Governance – the Pandemic as Litmus Test

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.

As emphasised above, this calls for a renewed 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 risks 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 cited, beginning in the realm of guaranteeing political freedoms and restoring an elected governance system, regardless of the prospects for sovereign statehood. The broader goals of establishing a democratic legislative and independent judiciary remain strategic goals that only a change in internal and external power balances may render within reach. However, 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 on 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.

Despite its limited jurisdiction, the PNA has tried to manage development from the centre and the top, most recently its public health response to a pandemic with multiple geographic sources of infection and transmission. That recent (and ongoing) experience which serves as an excellent framing for an empirically informed assessment of the fault lines in Palestinian governance during a prolonged emergency. Government bodies, such as the Ministry of Health and security agencies, have been able to play the central coordinating and enforcement role needed to combat the pandemic and ensure civil compliance with preventive measures. But this has been hindered by the

fragmentation of the oPt. Hence, the effectiveness of day-to-day decision-making and management of the crisis and containment efforts ultimately depended on the role of communal efforts (social capital) at the regional (Governorates) and local (cities, camps, villages) levels. This should be borne in mind in preparation for any new wave that might be expected later in 2021.

The ensuing K-shaped recession (where some sectors and social sectors recover and others remain in recession) demonstrated how the public health system should have geared up, and been enabled, to fight the spread of disease with adequate resources and public-civil engagement. No less crucial is that the economic and social fallout somehow be mitigated, if not by relief measures, then through re-organizing the manner in which society copes and spreads the burden so that households can adapt to a prolonged crisis, something in which the Palestinian people are well-versed. By mid-2021 the COVID-19 threat appears to have been diminished by medical or public health measures. But the pace, direction, and scale of recovery will be largely dependent on how well targeted relief and response programs are in ensuring two major objectives in the short run: that the most vulnerable segments of society be the first in the line of those benefiting from the social protection net and that the strategic productive sectors of the economy are not irreversibly damaged.

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.

If the de-jure sovereignty of a Palestinian state based on 1976 borders is still a distant prospect, then instead can we conceive a path that builds on the de-facto social, economic and administrative autonomous practices of the different levels of the State, and which materially sets the scene for sovereignty

and development? This implies reinforcing the capacity of the network of Palestinian state institutions, especially at the regional and local levels, both in their mobilization towards addressing local socio-economic needs and in their collective resistance to Israeli colonial unilateralism and in trying to chart a path coherent with sustainable development goals. This in turn could be fortified by pursuing greater decentralization towards the regional and local levels in the structure, authorities, and functions of national governance - a form of "municipal activism" or "thinking locally and acting nationally".

When the State of Palestine can function 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. And Palestine's potential as a collective force to halt, or even reverse the advance of settler colonialism acquires greater potency, while a path to recovery, growth, and sovereign governance may be seriously envisaged.

In conclusion, research has shown that in times of scarcity of financial resources to respond or recover, and in a hostile political climate and feeble economic growth, and unprecedented economic siege that Palestine, the conventional wisdom that Palestine's most significant asset is its human resources or social capital, becomes more authentic than any previous time. The 2020 crisis showed the potential strengths of the Palestinian people as much as it revealed economic and social gaps and fissures. Therefore, the governance of development, above all, must focus on mobilizing human capital, organizing and framing them, and enhancing solidarity and social coordination. 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.

6-8 A Strategy for Collective Mobilisation for Development

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.

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