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**ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA**

**REPORT OF THE CONSULTATIVE MEETING  
HELD IN PREPARATION FOR THE PROPOSED  
ARAB-INTERNATIONAL PALESTINIAN REHABILITATION  
AND DEVELOPMENT FORUM  
BEIRUT, 29-30 JULY 2003**



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## I. BACKGROUND

1. On 11 May 2001, the member countries of the Economic and Social Commission for Western Asia (ESCWA) adopted a resolution calling on the Commission to contribute to the rehabilitation of the economic sectors in Palestine. Since then, the situation has worsened and the humanitarian plight of the Palestinian people has considerably deepened, necessitating urgent action to address issues related to the rehabilitation of economic sectors in the occupied Palestinian territory (OPT). In response to this critical situation, ESCWA—the only United Nations institution in which Palestine enjoys full membership—has proposed organizing an *Arab-International Forum on Socio-Economic Rehabilitation and Development in the Occupied Palestinian Territory*. In a second resolution adopted in April 2003, the ESCWA member countries reaffirmed the importance of pursuing efforts towards the socio-economic rehabilitation of the OPT.
2. In order to further develop the Forum concept, ESCWA and the League of Arab States (LAS), in direct consultation with the Palestinian Authority (PA), called for the establishment of an advisory group of concerned entities to undertake the needed preparations. Accordingly, in November 2002, the Advisory Group (AG) was formed, initially consisting of the PA, ESCWA, LAS, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP) and the Office of the United Nations High Commissioner for Human Rights (OHCHR). The World Bank and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) later decided to join the group, along with the United Nations Office of the Special Coordinator (UNSCO).
3. The AG, charged with the task of undertaking all measures required for the successful convening of the Forum, met several times to discuss the scope, objectives and preparatory process of the Forum. All the AG partners deemed it necessary to organize a Consultative Meeting to prepare for the Forum.
4. In making the preliminary preparations for the Consultative Meeting and the Forum, an ESCWA field mission initiated consultations from 5 to 13 June 2003 with concerned departments within the PA and with United Nations and other international entities active on the ground, as well as with institutions of Palestinian civil society. The mission examined the PA's needs, priorities and capacity and conferred on the best means to integrate them into the preparatory process of the Forum. The mission stressed the specific role that ESCWA could play in effectively enhancing the mobilization of Arab support for rehabilitation and development efforts in the OPT. ESCWA, an international agency with a regional mandate, was considered to be ideally equipped to link Arab resources to the urgent needs of Palestinian socio-economic rehabilitation.
5. The PA and Palestinian civil society institutions expressed strong interest in the Forum and its preparatory process (including the Consultative Meeting), in view of the following considerations:
  - (a) The Forum is a valuable opportunity for the Palestinians to present their views, needs and aspirations to the Arab and international communities, and to mobilize their support;
  - (b) It will provide a platform to inform and sensitize the Arab and international communities about the status of various development issues in the OPT;
  - (c) It will serve as a mechanism that will enable Palestinians to effectively and efficiently mobilize, coordinate and better channel regional and international efforts.
6. In light of the above expectations, the Palestinian Council of Ministers issued a resolution on 12 July 2003, reiterating the importance of the Forum and supporting its concept as follows:

*The Palestinian Council of Ministers highly appreciates the resolutions of the United Nations Economic and Social Commission for Western Asia issued in its 2001 and 2003 sessions, which call for organizing an Arab-International Forum on Socio-economic Reconstruction and Development in Palestine. The Council of Ministers also asserts the need to convene this Forum as a fundamental step towards the establishment of an independent Palestinian State, and calls upon all Palestinian, Arab and international parties concerned to actively participate in and ensure the success of all the preparatory activities for the Forum, as well as of the Forum itself.*

## **II. OBJECTIVES**

7. The aims of the Consultative Meeting, as part of the preparatory process for the Forum, were:
- (a) To deliberate on the objectives, themes and agenda of the Forum, as well as on the format and level of participation;
  - (b) To discuss the activities that need to be undertaken as part of the preparatory process of the Forum;
  - (c) To widen the preparatory process through mobilizing more partners among regional and international entities;
  - (d) To keep the social and economic issues and needs of the OPT on the agenda of the international community, in spite of the continued political and military turmoil and confrontation.

## **III. PARTICIPANTS**

8. Around sixty participants attended the Consultative Meeting, representing PA ministries, Palestinian civil society, Arab and regional organizations, United Nations and other international entities, as well as Palestinian and other Arab experts and guests (see annex I).

## **IV. ORGANIZATION OF WORK**

9. The opening statements in the meeting were made by Mr. Mohammed Ghadieh, representative of the PA, Ambassador Said Kamal, representative of the LAS, and Ms. Mervat Tallawy, the Executive Secretary of ESCWA. The presentations and deliberations in the meeting centred on the following three areas:
- (a) Palestinian views and perspectives on rehabilitation and development in the OPT and expectations of the Forum;
  - (b) Current Arab and international contributions to the socio-economic needs of the Palestinian people in the OPT;
  - (c) Preparations for the Forum: objectives, themes, agenda, format, etc.

## **V. DELIBERATIONS OF THE MEETING**

### **A. PALESTINIAN VIEWS AND PERSPECTIVES**

## *1. A vision for independence*

10. At the start of the meeting, a prominent Palestinian expert, Antoine Zahlan, presented a paper entitled “Vision for Independence,” in which he pointed out that after decades of occupation, the priorities of the Palestinian people have now expanded beyond their urgent and immediate needs. In addition to having to deal with their severe problems under occupation, Palestinians also face the same challenges as other nations in trying to prosper following the scientific and technological revolutions of the past fifty years. For this reason, Zahlan noted, the Forum is a good opportunity to discuss the development of a vision for independence. He stated that there were three issues of immediate and strategic importance for realizing that vision: (1) the establishment of a “virtual government”; (2) the call for a “Convention for National Integration”; and (3) the transformation of Palestinian institutions and economy to enable them to cope with the process of dematerialization.

11. Given the recent destruction of the PA facilities during the ongoing Intifada and the resulting interruption of government services, the PA should create a “virtual government” to enable it to continue to function and support Palestinian communities under difficult or even catastrophic conditions. The “Convention for National Integration” would enable the Palestinians in the diaspora to serve as the natural link with Arab and international communities. Furthermore, Palestinians should adopt policies to promote competitiveness, innovation, quality, standards and transparent procedures and practices.

## *2. The Palestinian Authority’s expectations from the Forum*

12. The representative of the PA presented an overview of the socio-economic conditions in the West Bank and the Gaza Strip. He stated that the socio-economic situation for Palestinians in the OPT has been deteriorating very rapidly since Israel’s re-occupation of most of the West Bank and Gaza in March/April 2002. The closures, continuous curfews and on-going daily assaults on the Palestinian people have led to very high rates of poverty, with unemployment reaching nearly 50 per cent in 2002, as well as a sharp decline in the gross domestic product (GDP). Other critical problems for Palestinians include the ongoing high deficit of the government budget (80 per cent in 2002), the sharp decrease in private investment, lack of access to proper healthcare and medical facilities, the inability of the majority of Palestinian students to attend school (since March 2002) and the severe psychological problems faced by Palestinian children and youth.

13. In view of the above, the PA investment and emergency plan has emphasized the following three priorities: (1) combating poverty and reducing unemployment; (2) reconstructing damaged infrastructure; and (3) supporting the process of reform.

14. The representative of the PA, in expressing the Authority’s expectations from the Forum, focused on the following most important points:

- (a) To consider the Forum a suitable tool for enhancing the mobilization and channelling of Arab, international, governmental and civil efforts—in cooperation with the United Nations and the LAS—and to coordinate, support and ensure the continuity of the process of reconstruction, rehabilitation and development in the OPT;
- (b) To assist in formulating clear and specific mechanisms for that process, through forging partnerships among all the actors on the Palestinian rehabilitation and development scene and contributing to the establishment of an independent Palestinian State;

- (c) To present the vision, plans and programmes of the PA, Palestinian civil society and the private sector towards the achievement of socio-economic development in the OPT;
  - (d) To discuss with Arab and international donors the plans, activities and suggestions for general socio-economic rehabilitation and development in the OPT.
15. He stressed the following views of the PA:
- (a) The Forum is expected to be a continuous process that will emphasize and ensure the continuity of development efforts in the OPT, in light of the severe social and economic conditions resulting from Israeli occupation. The PA emphasizes the importance and necessity of sustaining those efforts to enable the Palestinian economy and society to endure occupation, and to prepare more effectively for the eventual establishment of an independent Palestinian State;
  - (b) The process of reconstruction and development in the OPT is an international responsibility. Hence, the aspirations of the Palestinians in light of related United Nations resolutions should be taken into consideration, in particular Security Council resolution 1379 (2002), which envisages a State of Palestine living side by side with the State of Israel within secure and recognized borders;
  - (c) The Arab contribution must be placed within the international framework;
  - (d) The PA regards the Forum as an important vehicle to provide support to the Palestinian people, its national authority and all constituents of the Palestinian society, through practical and tangible steps.

### *3. Views of the Palestinian civil society*

#### *(a) Role of the Palestinian NGOs in the rehabilitation process*

16. The role of Palestinian non-governmental organizations in rehabilitating socio-economic conditions in the OPT was extensively discussed during the meeting. Palestinian NGOs played an important role during the Al-Aqsa Intifada, particularly in implementing humanitarian and relief programmes for Palestinian citizens. According to recent studies and surveys carried out by Palestinian civil society institutions and presented by the Director General of the Palestine Economic Policy Research Institute and the Director of Bisan Center, the developmental needs and priorities of Palestinians may be summarized as follows:

- Creating employment opportunities in the OPT by improving infrastructure and introducing income-generating projects.
- Offering financial assistance programmes to Palestinians in the OPT, as well as providing in-kind assistance programmes.
- Improving capacities in a number of key sectors, including health services, education and housing.

17. In view of the proposed Road Map—under which it is expected that some degree of normalcy will return to the OPT—and in light of the priorities discussed above, Palestinian NGOs expect to be involved in such things as:

- Providing emergency and developmental services for the Palestinian society. In this context, NGOs will seek to strengthen relations with the PA in order to formulate a joint development plan and ensure a democratic and viable Palestinian State.



- Influencing the PA laws and public policies.
- Improving institutional and organizational capacities, developing human resources in civil society institutions and assisting the PA in implementing capacity-building programmes.
- Strengthening cooperation, coordination and networking among themselves and with the private sector, donor organizations and United Nations bodies.

18. It was pointed out in the deliberations that Palestinian NGOs have moved to link on-going emergency rehabilitation programmes with short- to medium-term development programmes. Representatives of Palestinian NGOs expressed varying views regarding the need to develop a vision for the future Palestinian State. It was stressed that there cannot be successful development without an end to the occupation and that assistance should continue to be provided to meet immediate needs, particularly among the youth in the OPT (constituting about 70 per cent of the Palestinian population), since they have born the brunt of occupation and violence.

*(b) Economic programme for the OPT: needs and priorities*

19. Most Palestinian NGOs emphasized the importance of strengthening the capacity of the Palestinian people to endure Israeli measures and policies. Hence, an economic programme needs to be prepared along the following axes:

- Building the Palestinian economy's own capabilities by focusing on the productive agricultural and industrial sectors and related services.
- Enhancing Palestinian–Arab economic and trade relations, taking into consideration the importance of supporting Palestinian resistance to occupation and the achievement of independence and a permanent settlement.
- Reducing the dependence of the Palestinian economy and society on Israel, and thus reducing Israeli ability to exert pressure on the Palestinians for political and economic concessions.

20. The Palestinian civil society requires support for and enhancement of its institutions in order to be able to face the occupation and resist any attempts to marginalize it. In this regard, the following issues were deemed as essential:

- Setting the scale, priorities and channels of Arab support to the OPT.
- Reducing barriers to Palestinian exports to the Arab states, thereby actually implementing the political resolutions of the numerous Arab summits that have been held.
- Strengthening the market competitiveness of Palestinian products.
- Supporting the Palestinian agricultural and industrial sectors to enable them to cater to Palestinian consumer needs.
- Fighting high unemployment through the introduction of sustainable job-creation programmes.

#### *4. Palestinian private sector views*

21. The representative of the Palestinian Trade Centre (PALTRADE) pointed out that the Palestinian private sector is receiving little support. In light of the political uncertainty and insecurity in the OPT, the PA and donor communities must take into consideration the private sector's long-term development needs.

22. The representative stressed the strategic developmental importance of the following key areas, which must be addressed:

- Drawing up a comprehensive and transparent PA regulatory business framework for firms, reducing the influence of political instability and providing a reasonably predictable macroeconomic environment.
- Improving dialogue among various PA departments and strengthening public-private coordination, to insure policy and procedural consistency, as well as to enhance efficiency in the provision of public services.
- Helping improve the competitiveness of dynamic firms, even under political and military uncertainty.
- Facilitating the access of the private sector to financial resources, in order to maintain a sustainable level of operation (donor provision of risk guarantee funds to banks would compensate for the risk of defaulting caused by security and political circumstances).

23. In conclusion, the Palestinian private sector called upon the PA and the Arab and international donor communities for support within an integrated national development strategy designed to enhance overall economic sustainability and growth.

#### B. ARAB AND INTERNATIONAL CONTRIBUTIONS

##### *1. Arab and regional support to the OPT*

24. The presentation of the LAS representative covered various aspects of the Arab contribution to the OPT. Representatives of the Arab Fund for Economic and Social Development and the Islamic Development Bank reported on the financial contributions of their organizations and of other Arab development funds towards helping meet Palestinian socio-economic needs. According to the LAS, Arab support to the Palestinian people and the PA during the period 2000 to 2003 included the creation of two funds in October 2000—the Al-Aqsa Fund and the Al-Aqsa Intifada Fund—in which disbursed contributions had reached US\$ 712.5 million by July 2003. The allocation of these funds was assigned to support the families of the Palestinian martyrs and wounded, as well as to enhance Palestinian economic self-reliance and to help disengage the Palestinian economy from the Israeli economy. Both funds are being managed by the Islamic Development Bank. Other Arab financial support to the PA had reached US\$ 850.56 million by February 2003. At the same time, Arab organizations and unions provided support through various projects and programmes, along with moral and direct and indirect financial support. The Arab Fund for Economic and Social Development has been concentrating its aid on the education and health sectors.

##### *2. International support to the OPT*

25. Several international agencies reported on the socio-economic situation in the OPT and on their contributions to international efforts to alleviate Palestinian hardship. Representatives of UNSCO, the World Bank, UNDP and UNCTAD made formal presentations; and representatives of several other international entities made brief statements on the contributions of their organizations to the rehabilitation efforts.

(a) *The United Nations Office of the Special Coordinator*

26. The representative of UNSCO, in reporting on the economic situation and conditions in the OPT, emphasized the impact of the Israeli closures on the Palestinian economy in causing high unemployment rates and increasing poverty. He considered that the closures have been a central determinant in the creation of a one-way highway in the Palestinian economy, but that the prevailing liberalization of trade also played a part. Owing to the one-way highway, the Palestinian economy has become hard pressed to absorb the massive numbers of unemployed. Consequently, stabilization and sustainable growth will require not only reconstruction; they will also require economic restructuring and much more ambitious aid development programmes than have so far been envisioned.

27. Certain consequences of the economic decline, such as the destruction of infrastructure and depletion of capital stock, can be reversed by reconstruction. Reducing unemployment, however, will present quite a challenge to the private sector in the new economic environment. The impact of the one-way highway has been amplified by a combination of Israeli opening of markets—under WTO concessions and as part of the Paris Protocol—on the one hand, and the construction of the separation wall, internal closures and lack of Palestinian control on their borders, on the other hand. The one-way highway has facilitated the influx of textiles, and the closures have enabled foreign and Israeli goods to acquire new access to Palestinian markets, while Palestinian producers have lost access to their own markets.

28. The economic decline has affected all sectors of activity in the OPT, and as the continued deterioration indicates, current emergency aid measures have merely slowed down the decline; they have not stopped it. Stabilization will be a tremendous challenge once closures are lifted. Support for the private sector, however, could drastically improve the likelihood of the economy's capability to absorb the unemployed. Any strategy for the private sector should take into consideration the sustainable employment-generating potential of the various economic sectors by recognizing which constraints are likely to remain after the closures are lifted. An understanding of the post-closure environment begins with grasping the magnitude of the recent structural change.

(b) *The World Bank*

29. The World Bank representative reported that the Bank currently has 17 ongoing projects in the West Bank and Gaza, worth a total value of US\$ 209 million, in addition to its US\$ 96 million participation in donor co-financing. The Bank's OPT portfolio covers an extensive range of projects, including those in health, education, civil society and emergency services support in the social sector; water, solid waste and electricity in the public services domain; and housing, industrial estate and legalities in the area of private sector development and governance.

30. In response to the ongoing crisis in the West Bank and Gaza, the World Bank—like most other donors—has gradually been putting more emphasis on fast-disbursing emergency operations. For example, the Bank's Emergency Services Support Project (ESSP) provides financial support to the non-salary components of the budgets of the ministries of health, education and social affairs. Currently, the ESSP is disbursing funds at a rate of around US\$ 5 million per month. This is playing a vital role in sustaining, for example, the supply of medicine and other medical supplies to Palestinian health clinics. Over the last twelve months, the Bank disbursed a total of US\$ 82 million, of which US\$ 27 million constituted donor funds.

31. In planning its upcoming operations, the World Bank seeks to maintain a balance between responding to immediate needs arising from the current crisis and the longer term development needs of the Palestinian society. Consequently, while the Bank is considering extending the ESSP, it is also preparing other interventions to improve, for example, the PA pension system, the management of the water sector in Gaza and the higher education system in the West Bank and Gaza. The extraordinarily volatile situation in

the West Bank and Gaza, however, requires a high degree of flexibility on the part of the donors and severely inhibits long-term planning, making such planning relatively tentative.

(c) *UNCTAD*

32. The representative of UNCTAD presented a review of international relief and development aid to the Palestinian people. Foreign aid extended to the Palestinian people rose steadily in the period 1994–1998, at an average of about half a billion dollars per year. Given the weak economic planning and revenue-raising capacities of the PA during that period, almost half of those funds were spent on recurrent types of expenditure rather than on development projects. In the two years prior to the Al-Aqsa Intifada, this pattern had started shifting towards more investments in human and capital infrastructure. However, after September 2000 the PA and the international community were forced to switch their efforts from development to relief to meet the devastating conditions imposed on the Palestinian people by Israel's security measures and closure policy (external and internal).

33. In response to the ongoing crisis, the attention of the PA as well as that of the donor community was diverted away from medium- and long-term development projects to cope with the disastrous humanitarian situation created by the Israeli incursions and closures. Total development aid declined by one third during the period of the Intifada, as compared with 1999–2000. During the period 2001–2003, total project financing amounted to US\$ 610 million. Since 2000, the sectoral allocation of international development assistance has shifted from infrastructure and productive sectors to human resource development and governance. After the Intifada, total emergency assistance increased more than sixfold, to reach US\$ 633 million, representing almost 28 per cent of the total international aid disbursed to the Palestinian people. The ongoing crisis has forced the PA to rely heavily on deficit financing, part of which was provided by the donor community. During 2001–2003, the total sum of budgetary support extended to the PA amounted to US\$ 1054 million, representing the most important segment of international assistance, or some 45 per cent of total international aid.

34. While the development experience of 1994–2000 was not given the chance to correct its shortcomings and create a self-sustaining mechanism to allocate donor and domestic resources according to the Palestinian socio-economic vision and quantifiable objectives, the ongoing crisis and the prevailing uncertain conditions have continued to prevent any tangible accumulation of development. The challenge facing the PA now is to learn from the experience of the past nine years in order to avoid its deficiencies and overcome the present crisis, thus setting the stage for economic recovery and sustained growth. The PA needs to have its economic priorities well established—this will enable it to play the leading role in coordinating substantial financial resources and the activities of a large number of donors, each of whom holds different views, agendas and comparative advantages. At this stage, the objective should not be to use relief aid only to employ people and distribute donor funds to alleviate poverty; relief efforts should also be directed to lead to the creation of a self-sustaining environment for the population in certain sectors of strategic and economic importance. This, in turn, would reinforce the survival mechanism and could later form the economic base required for recovery and sustained growth.

(d) *UNDP/PAPP*

35. The UNDP Programme of Assistance to the Palestinian People is one of the leading development efforts in the OPT. To date, the programme has mobilized over US\$ 440 million, most of which was disbursed after the establishment of the PA. It also has over US\$ 145 million in ongoing projects in the West Bank and Gaza. At present, the annual programmable budget exceeds US\$ 45 million. Despite the difficult situation on the ground, the PAPP has been able to deliver approximately US\$ 40 million per year in assistance. Donor contributions represent over 95 per cent of the resources made available. About 200 projects, with a combined budget of about US\$ 35 million, are currently under implementation in some 15 different sectors. While some of these projects are in an advanced stage of completion, others are in the initial start-up phase.

36. The ultimate goal of UNDP/PAPP is sustainable human development. Meanwhile, it has adjusted the programme's themes, as globally adopted by UNDP, to meet the OPT needs and conditions as follows: good governance, poverty reduction through sustainable economic development and employment generation, a sound energy and environmental policy, and access to information and communications technology.

37. The UNDP/PAPP has supported a number of important studies, among them the "Palestinian Development Plan" (intended as a framework for participatory national, social and economic planning) and another entitled "Physical Planning for Palestinian Rural Communities," completed in October 1995.

38. As a follow-up to a poverty report it also prepared, UNDP is currently embarking on a Participatory Poverty Assessment, which will formulate recommendations related to poverty alleviation strategies. As such, a Palestinian Poverty Eradication Plan will be developed and submitted to the PA.

39. In October 2000, immediately upon the start of the Al-Aqsa Intifada, UNDP/PAPP assumed a leading role in formulating an Emergency Response Programme, in collaboration with Palestinian NGOs, the PA, United Nations agencies and other international donors. During periods of high tension and extended curfews in the OPT, UNDP embarked on a humanitarian assistance programme that included distributing food, water and household items in Jenin, Nablus, Rafah and other villages. The aim of such programmes is to generate employment, while at the same time improve the social and civic infrastructure throughout the OPT.

*(e) Other entities*

40. The representatives of other United Nations and other international entities also provided accounts of their programmes on behalf of the Palestinian people and made pertinent contributions to a better understanding of the issues under discussion. The entities, in particular, were: the United Nations Centre for Human Settlements (Habitat), the United Nations Children's Fund (UNICEF), UNRWA, the UNDP/Regional Bureau of Arab States, the United Nations Population Fund (UNFPA), OHCHR, the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Centre for Agricultural Research in the Dry Areas (ICARDA), the Food and Agricultural Organization of the United Nations (FAO) and the World Food Programme (WFP).

### C. PREPARATIONS FOR THE FORUM

41. The second day of the Consultative Meeting was devoted to: (1) presentation of the findings of the ESCWA mission to the OPT, with regard to what the Forum was expected to yield, as viewed by the PA and the Palestinian civil society; and (2) discussion of the working paper presented by the AG regarding the objectives, themes, agenda and format of the Forum, in addition to the activities that need to be undertaken in preparing for the Forum.

#### *1. Main findings of the ESCWA mission*

42. The PA, Palestinian civil society and private sector, as well as the various international donors and agencies, voiced their expectations as to the outcome of the proposed Forum. The PA, Palestinian civil society and private sector are eager to move the Palestinian economy and society forward, from an emergency and humanitarian situation to a developmental one, in order to prepare the grounds for the establishment of an independent Palestinian State. Though it is understandable that, in view of the prevailing political conditions in the OPT, most of Arab and international aid is geared towards emergency and relief services, there is still concern on how to link this aid effort to a long-term developmental vision and strategy. The Forum would give an opportunity for the PA, in consultation with the Palestinian civil society and private sector, to articulate and present its policies, programmes and economic recovery plan for 2004–2005.

Thus, the Arab countries would become much more aware of the specific nature and needs of the Palestinian economy, as well as its constraints.

43. Consultations with members of the PA, Palestinian civil society and the private sector during the ESCWA mission revealed that the following issues, among others, should be considered for deliberation during the Forum:

*(a) Relations of the Palestinian economy with Israeli and Arab economies*

- What should the relations of the Palestinian economy with the Israeli economy be in the future: free trade, customs union or separation?
- How to better link the Palestinian economy with other Arab economies.
- Should the Palestinian economy continue to tie its labour force to the Israeli economy? Should it export its labour to Arab countries or absorb it within the Palestinian economy?
- How can the OPT be part of and participate in the Greater Arab Free Trade Area (GAFTA)?

*(b) Emergency, relief and social services, rehabilitation and development*

- How to establish the relationship between emergency, rehabilitation and development.
- How to assist relief and social services organizations, particularly NGOs, to shift from humanitarian to developmental activities and services.

*(c) Role of the PA*

- The role of the PA as the regulator and facilitator of development.
- What should the relationship between the PA and the Palestinian private sector and civil society be?
- What is the role of international NGOs?

*(d) Support to various sectors*

- How can the Arab private sector support its Palestinian counterpart?
- How can farmers be helped to stay on their lands?
- What strategy, in the area of vocational training, should be devised in order to link programmes of vocational centres to economic development?
- How to rehabilitate university graduates (continuous education, training in new skills, on the job training, etc.).
- Networking among Palestinian and Arab universities to overcome isolation.
- Programmes for rehabilitating the large number of injured and imprisoned, as well as those affected by trauma and other psychological damage.
- Twinning Palestinian and Arab municipalities.

*(e) Donor networking and joint action*

- Views of the PA on the importance of coordination and networking between Arab and international agencies.
- Bridging the existing gap in the coordination of Arab and international support to the OPT.

*2. Working paper of the Advisory Group*

44. The working paper, which was presented to the meeting for discussion, proposed the title of the Forum, an outline of the objectives, themes, agenda, format, level of participation, potential partners and activities to be carried out as part of the preparatory process of the Forum.

45. There was consensus among all participants of the Consultative Meeting that ending the occupation and creating a democratic and viable Palestinian State remains the major challenge to development efforts. Thus, there is need for the creation of a mechanism to enable all Palestinians, regardless of geographical location, to participate in the process of generating a national vision for the development of a “nation.” To this end, it was agreed that an important first step in articulating that vision was the launching (prior the Forum) of an intra-Palestinian dialogue to arrive at a coordinated vision, characterized by a democratic partnership of all Palestinian actors: government, civil society and the private sector, as well as Palestinian expertise in the diaspora. This step was considered as a Palestinian national priority and, in addition, would be most useful as a guide in preparing for and convening the Forum. The intra-Palestinian dialogue, in adopting a suitable critical approach to OPT development, should address such issues as the nature of development needed, taking into consideration the role of the various Palestinian stakeholders. Accordingly, it was proposed and agreed that representatives from the PA, Palestinian civil society and private sector jointly organize a suitable forum to reach a Palestinian coordinated vision for rehabilitation and development. The PA would then present this coordinated vision to the Arab-International Forum.

46. The meeting also stressed the importance of linking immediate humanitarian aid and relief efforts to long-term development objectives, even if the crisis conditions continue. Hence, capacity-building and long-term development goals in donor aid must also be prioritized. This process would be further enhanced by increasing coordination among donors and other international/regional organizations under the leadership of the Palestinians.

47. The participants further discussed the importance of creating more effective mechanisms to channel Arab support to development in the OPT. It was agreed to organize a number of events to prepare for the Forum. The representative of the Palestinian private sector presented a proposal for a workshop that would bring together Arab private institutions and those of the Palestinian private sector. The workshop, which would seek the backing of the General Union of Chambers of Commerce, Industry and Agriculture for the Arab Countries (GUCCIAAC), would discuss ways to enhance the mobilization of Arab private sector support for the Palestinian private sector.

48. Suggestions for additional activities to be undertaken prior to the Forum were made by a number of organizations and experts, including initiatives to organize a Palestinian-Arab NGO meeting and a workshop addressing the linkage between human rights and development (as relevant to the Palestinian situation), and to disseminate information on the Forum at all events of concern to Arab economic organizations, Arab investors, the Palestinian diaspora and other relevant parties.

49. The meeting succeeded in mobilizing additional partners, as several international agencies requested to join the AG and to participate in the preparatory process of the Forum.

50. The Consultative Meeting identified the following challenges to be addressed in any initiative being considered for the development of the OPT:

- (a) Integrating the Palestinian and Arab economies;
- (b) Enhancing Arab and Palestinian social and cultural relations;
- (c) Making a deeper analysis of the implications of Palestinian-Israeli economic relations on Palestinian regional economic and trade integration;
- (d) Strengthening the partnership between the PA and Palestinian civil society;
- (e) Understanding donor policies, procedures and coordination;
- (f) Addressing core needs, such as individual human rights, children and youth, labour issues (including unemployment), trade, legal framework (including support for an independent judiciary system), infrastructure, natural resources and environment, food security, sustainable development, refugees, housing, agriculture, health, education and culture.

51. Following intense discussions among the participants, the following general objectives for the Forum were proposed as a basis for further elaboration:

- (a) Present a Palestinian vision for rehabilitation and development;
- (b) Enhance Arab efforts supporting the process of rehabilitation and development in the OPT;
- (c) Enhance the complementarity of efforts between Arab and international organizations in the process of rehabilitation and development in the OPT;
- (d) Enhance participation of Arab and other donors in the process of rehabilitation and development, taking into consideration the Palestinian development vision to be presented to the Forum.

52. The Consultative Meeting also proposed the following agenda for the Forum:

- (a) Present the Palestinian plan and the proposed programmes for the rehabilitation and development of the various economic and social sectors;
- (b) Deliberate on the role of the civil society, including NGOs, professional unions and the private sector, in the process of rehabilitation and development;
- (c) Deliberate on enhancing the linkage between the Palestinian and Arab economies;
- (d) Deliberate on the role of Arab, regional and international organizations in the rehabilitation and development process, as well as on the positive role that international law can play.



## VI. RECOMMENDATIONS ADOPTED BY THE ADVISORY GROUP

53. The Advisory Group met on 31 July 2003 and, on the basis of the deliberations and proposals made by the participants of the Consultative Meeting, adopted the following recommendations:

1. Call upon donors and international agencies to link immediate humanitarian aid and relief efforts to long-term development objectives and programmes. Active involvement in the Forum of all concerned will provide a unique opportunity to realize this important goal and to provide a framework for international support to the Palestinian people, even under the conditions of continued crisis.
2. The PA, in close coordination with the Palestinian civil society, is to convene a Palestinian consultation meeting by the end of December 2003 or early January 2004 in order to reach Palestinian coordinated vision for rehabilitation and development. Input from interested agencies that can offer technical, logistical or substantive support to assist in this process will be coordinated by UNDP/PAPP. UNCTAD and UNSCO informed the AG of their willingness to offer technical/substantive support for this process, and other AG members were expected to follow suit.
3. The Palestinian private sector, in cooperation with the GUCCIAAC, is to convene a workshop by early January 2004, bringing together Arab and Palestinian private sector institutions. The workshop would discuss the methods and means of enhancing the support of the Arab private sector to its Palestinian counterpart.
4. The Welfare Association is to organize a special session during its meeting of December 2003, in which it would call on Palestinian expatriates to enhance their participation in the rehabilitation and development process.
5. The objectives of the Forum are to be presented at all relevant regional events organized by the LAS and Arab regional organizations (e.g., the meeting of Arab economic organizations in October 2003, and the Arab businessmen and investors meeting organized by the GUCCIAAC in December 2003 in Algiers).
6. Introduce the Forum as an agenda item at the UNSCO interagency meeting (November 2003); and include a reference to the Forum in the 2003 General Assembly resolution on assistance to the Palestinian people.
7. ESCWA is to contact regional and international agencies interested in joining the AG and in contributing to the preparatory process of the Forum.
8. Arab and international agencies are called upon to contribute financially to the preparatory process and activities of the Forum.

## ANNEX I

### SUMMARIES OF SELECTED PAPERS PRESENTED AT THE MEETING

#### STATUS OF THE PALESTINIAN PRIVATE SECTOR

##### Intervention Programs and Needed Support for Rehabilitating the Palestinian Economy

Prepared by the Palestinian Trade Center (PALTRADE)

#### I. Introduction

Since the outbreak of the recent Palestinian uprising in late September of 2000, intensified internal and external closures have placed a heavy burden, financially and otherwise, on the movement of people and goods, and the Israeli so-called "security procedures" have complicated those movements. Additionally, the continuous destructive Israeli military attacks on the West Bank and Gaza have resulted in the demolition of the physical assets and institutional infrastructures that constitute the life support systems for active private sector development, seriously affecting its economic sustainability.

It is obvious that, being the recipient of those blows on the political level, the Palestinian economy and society are fighting for their existence. The latest World Bank estimates indicated that by the end of 2002 Palestinian economic losses had reached US\$ 5.4 billion in income-earning opportunities, excluding the material damage to infrastructure and property. The OPT gross national product (GNP) declined from US\$ 5.4 billion in 2000 to US\$ 3.8 billion in 2002. This drastic decline is mainly the result of reduced domestic production and employment losses in the Israeli market. The overall adjusted Palestinian unemployment rate rose to 44 per cent in 2002, clearly indicating the inevitable accumulated outcome of the given political situation since the outbreak of the Intifada.

#### II. Implications for Private Sector Development and SMEs

At one point in time, the Palestinian private sector was the driving force of economic growth. The Palestinian private sector currently consists of some 50,250 individual establishments, approximately one quarter of which are in the secondary sectors (manufacturing, utilities and construction) and two quarters in the tertiary sectors (commerce and services). Of these, 98 per cent are considered small- and medium-sized enterprises (SMEs), employing from one to twenty persons. Altogether, the service, industrial and trade sectors contribute more than 77 per cent to the gross domestic product (GDP), and at one point employed at least 70 per cent of the total labour force. Of all Palestinian economic sectors, the private sector—and more specifically the industrial sector—was hit the hardest by the political situation, resulting in greater deterioration of the social and macroeconomic status.

##### A. THE PRIVATE SECTOR STATUS WITHIN THE PALESTINIAN DEVELOPMENT PLAN AND DONOR SUPPORT

The continued occupation has caused the Palestinian private sector to become heavily reliant on Israeli trade partners and has limited its capacity to move beyond and diversify its products and services.

Additionally, the impact of Israeli restrictions on movement during the past three years of the Intifada has further weakened the Palestinian private sector's competitive position on all levels. The sector has been seriously affected by the loss of its local market share due to closures. This has led to decreases in productive capacity, profitability, financial liquidity and product added value, as well as to increases in the costs of production inputs, transportation and distribution. The overall result, finally, has rendered the private sector unable to cope with the rapid pace of international trade developments and competition.

The fact is that the progressive liberalization of markets—and their consequent globalization—will simply aggravate the implications that all the existing built-in deficiencies and political instabilities have had on the private sector's competitive position (this includes the re-shuffling and changes within the PA and in the reform process). Palestinian firms have a formidably complex task; they face stiff competition both inside Palestine and in the international market place. They will have to adjust to the domestic situation and seek to become globally competitive in their active pursuit of new commercial opportunities, or else they will continue to face the inevitability of diminishing sales and profits, as in past years.

The Palestinian Ministry of Foreign Affairs, in its June 2003 monitoring report on donors' assistance, set forth in general terms the following priorities of the Palestinian Development Plan (PDP): (1) infrastructure and natural resources; (2) institutional capacity-building; (3) human resources and social development; and (4) productive sectors.

For Palestine to achieve economic sustainability and growth, the essential ingredient would be the re-direction of the priorities of the PA and the donor communities to provide support to the productive sectors of the economy, more specifically in the field of international trade in goods and services. This may be achieved through a realistic trade and export development strategy, whose priorities would be to encourage local entrepreneurs to invest; increase private sector employment; develop specialized skills; innovate technologies; and facilitate the generation of profits.

In the Palestinian context, the PA has not been able to establish or maintain most of the above priorities, owing to the following reasons:

- (a) The PDP's choice of priority sectors, and consequently the reliance of donors on the PDP as a guide for their support programmes;
- (b) The PA and donor community focus on coping with short-term survival and crisis needs;
- (c) Internal institutional deficiencies within the PA, owing to lack of transparency in the legal and regulatory framework, as well as to administrative inefficiencies.

These factors exemplify the problem posed by the fact that both the PA and the donor communities are undermining the importance of the private sector as a main driver for economic sustainability. The reality is that the Palestinian economy is caught in a vicious cycle for survival; and it will remain in that cycle until both parties break away from this practice and readjust their priorities to the long-term trade and export development needs of the private sector, as stated above, through the manifestation of a realistic and coherent national trade development strategy.

## B. AREAS TO SUPPORT

In light of the above, the Palestinian private sector is well aware that in order to overcome this short-term crisis it must be supported by the PA and the donor communities in developing its competitive capacities through the dedication of financial and technical resources to the productive sectors of the economy.

The key answers in responding to the private sector need for short- to medium-term crisis management and long-term strategic development are:

- (a) Implementing a comprehensive and transparent legal and regulatory framework for firms;
- (b) Facilitating trade;
- (c) Strengthening public-public dialogue and public-private coordination;
- (d) Assisting in the recovery and improved competitiveness of both the public and private sector firms;
- (e) Providing firms with access to financial facilities.

In conclusion, what the Palestinian private sector is seeking is PA, Arab and international donor community support within an integrated national trade development strategy to enhance overall economic sustainability and growth. This may be accomplished through the above-mentioned priority areas and the directing of future programmes towards the productive sectors of the economy, more specifically to industry and services.

# INSTITUTIONS OF PALESTINIAN CIVIL SOCIETY: PRIMARY INDICATORS

Prepared by the Palestinian Economic Policy Research Institute (MAS), June 2003

## I. Institutions of Palestinian Civil Society

### A. ORIGIN AND GOALS

A salient characteristic of the Palestinian people is the relative strength of its civil society and the role that it plays in maintaining social coherence, as well as in the development process. In the aftermath of the Israeli occupation, institutions of the Palestinian civil society became increasingly active in providing health, educational and social services to the displaced and afflicted and also to the weak and vulnerable. In general, civil society institutions played two main roles: contributing to the resistance to Israeli occupation; and supporting the Palestinian society in coping with the repercussions of that occupation.

Institutions of Palestinian civil society may be broadly categorized as civil or non-governmental organizations; trade unions, specialized federations and professional associations; and political parties and organizations. Presented below is a review of some the basic components of Palestinian civil society institutions.

#### 1. *Civil (non-governmental) organizations*

Non-governmental organizations (NGOs) in Palestine are very important and vital to the people; their services cover all areas of life, including education, health, media, human rights, women's rights, research centres, vocational and developmental training, in addition to relief services provided by charity organizations to help Palestinians cope with the poverty resulting from Israeli occupation.

According to a survey carried out by the Palestinian Economic Policy Research Institute (MAS) in 2001, there were 1,073 NGOs working in the Palestinian territory in 2000.

The number of NGOs active in the West Bank (76.6 per cent) exceeds that of Gaza (23.4 per cent), most of which are based in the middle and northern parts of the West Bank (34.4 per cent and 34.2 per cent respectively).

Around 10,300 persons work in the NGOs based in the Palestinian territory—36.2 per cent work in NGOs offering health care, 15.7 per cent in NGOs devoted to child care and 9.6 per cent in NGOs that provide educational and teaching services.

#### 2. *Trade unions and student federations*

During the first years of occupation, labour and student unions played an active politically-oriented role on the national level and constituted around 11 per cent of all civil society institutions. Their organizational structure was predominantly factional—many were established as extensions of the Palestinian Liberation Organization and its factions. Representing a wide political and social spectrum, both labour and student unions played a significant role on the social and political levels. There are 16 labour unions, made up of a total of around 86,000 members.

### 3. *Chambers of Commerce*

There are 15 chambers of commerce, only one of which is in Gaza, with the remaining 14 located in the West Bank, including the one in Jerusalem which was later closed. There is also a general union of chambers of commerce in the Palestinian territory.

The chambers of commerce, which are spread all over the Palestinian provinces, offer a number of services to the private sector, the most important of which is trade services. Those services include organizing commercial exhibitions in international markets, coordinating with Israel to get permits enabling businessmen to enter or pass by Israel, issuing certificates of origin and organizing training workshops for the employees of private institutions.

### 4. *Federations and specialized associations*

Specialized and sectoral associations in the Palestinian territory number 25, all of which are part of the Confederation of Palestinian Industries. They are spread throughout the West Bank (15) and Gaza (10). Industrial associations are comprised of only a few hundred industrial producers, owing to the limited services they provide to their members. There are also around 68 other federations and specialized associations.

### 5. *Institutions of higher education*

Universities are very important in the development process, as they represent an essential component in preparing the labour force to meet the needs of the Palestinian labour market in terms of administrative and productive skills. In addition, being the centres of active student movements, they have been playing a political role and constitute an integral segment of Palestinian political parties and activities.

### 6. *Political parties and organizations and popular committees*

Despite the limited public membership in political parties, statistics showed that 60 per cent of adults support one of the existing political organizations or parties (*Birzeit University Development Report 1999*). Active political parties in the Palestinian territory number around 27, categorized as 5 Islamic parties and 22 left wing parties. On political settlement issues, however, the various parties and organizations hold different views, owing to differences in political thought and programmes.

# **THE ROLE OF PALESTINIAN CIVIL SOCIETY IN THE REHABILITATION OF THE SOCIO-ECONOMIC STRUCTURE IN THE OCCUPIED PALESTINIAN TERRITORY**

**Prepared by the Bisan Center for Research and Development**

## **I. Introduction**

It was expected that, after having been approved and supported by most concerned regional and international parties, the Road Map would constitute a new start for the Middle East peace process on the Israeli-Palestinian track. The approval of the Road Map generated a glimpse of hope for the Palestinians to ameliorate their socio-economic situation; and more importantly, it has been perceived as a serious move towards the establishment of an independent and viable Palestinian State. Despite criticisms, the Road Map currently constitutes the only plan capable of resolving the Israeli-Palestinian conflict, but it will require the full and serious collaboration of the different parties, including the civil society institutions, whose vision, roles and programmes will be seriously affected.

The Palestinian NGOs played a significant role on the overall national level during the Al-Aqsa Intifada through their various programmes of relief and humanitarian assistance to the Palestinian people. It is furthermore expected that Palestinian NGOs will be active on various important levels during the implementation of the Road Map, although they will play considerably different roles. During the Al-Aqsa Intifada, Palestinian NGOs focused on their developmental role, in addition to their relief and humanitarian concerns. They were also keen on establishing a strong linkage between emergency programmes and short- and medium-term development programmes.

According to a general survey carried out by the Palestinian Central Bureau of Statistics, in February 2002 on the prevailing income of Palestinian families, it was found that 56.6 per cent of Palestinian families had lost 50 per cent of their normal income since the outbreak of the Al-Aqsa Intifada.

On the social level, however, a study sponsored by the United States Agency for International Development (USAID) and conducted by Johns Hopkins University, which assessed nutrition conditions in the Gaza Strip and the West Bank, revealed that 13.2 per cent of Palestinian children are suffering from chronic malnutrition and 20 per cent from anemia. Moreover, the closures imposed by Israeli forces have reduced the access of Palestinians to clean water sources.

The political and security situation has also made it difficult for Palestinians to receive medical care, especially for those living in rural areas. Studies showed that 73 per cent of the rural population do not receive adequate medical care. The Ministry of Health also indicated that Palestinian hospitals and medical clinics are currently working at roughly 30 per cent capacity. Furthermore, The International Committee of the Red Cross reported numerous incidents in which its crews were prevented from providing necessary medical attention to Palestinian citizens.

The ongoing situation has made it difficult for youth and children to reach education institutions and facilities. The Ministry of Education reported that around 22 per cent of Palestinian preparatory and primary schools have been damaged by Israeli bombardment and that most Palestinian students in both Gaza and the West Bank have been unable to attend school regularly since March 2002.

Women specifically have suffered from the extended curfews and siege imposed by the Israeli authorities on Palestinian towns and cities. Unable to join the labour market, unemployment rates increased among the male population, forcing women, as a result, to bear the burden of their family's economic needs through informal jobs. Furthermore, the presence of an increasing number of husbands and brothers in Israeli prisons has doubled the economic responsibilities of Palestinian women.

## **II. The Civil Sector in Palestine: General Background**

A survey carried out by the Palestinian Economic Policy Research Institute (MAS) revealed that the number of Palestinian NGOs working in the Gaza Strip and the West Bank had reached 926 organizations in mid-2000, 76.6 per cent of which are in the West Bank and 23.4 per cent in the Gaza Strip. Most of these organizations (around 60.2 per cent) are concentrated in urban areas, while 29.2 per cent are based in rural areas and 10.6 per cent in refugee camps.

The largest number of NGOs active in Gaza and the West Bank are charity organizations (40.4 per cent); youth and sport clubs come in second, constituting 30.4 per cent; and vocational organizations make up the remaining proportion (29.2 per cent), which are divided as follows: 10.2 per cent cultural, 4.8 per cent relief, 4.9 per cent developmental, 3.5 per cent research, 2.7 per cent rehabilitation and training, and 2.7 per cent legal. Another study carried out by the Bisan Center, which was entitled "The Role of NGOs in Building Civil Society" and included a survey of 207 Palestinian civil society institutions—identified the various roles of civil society institutions. Of the sample, 35 institutions (65.2 per cent) were involved in development and relief services; 21 (10.1 per cent) in mobilizing and affecting legislation and public policies; 123 (59.1 per cent) in social education and raising public awareness; 75 (36.2 per cent) in institution-building and developing human resources; and 23 (11.1 per cent) in networking, coordination, cooperation and deliberation.

Regarding the relationship with the Palestinian Authority (PA), the same study revealed that 185 organizations of the sample surveyed (89.4 per cent) believe that establishing professional work relations with the PA is essential in developing a democratic civil society—mainly because such a relationship reflects complementarity and would give the civil society influence on the policies of the PA. Through such a relationship, it would also be more possible to acquire material and moral support from the PA. However, the NGOs stressed the importance of meticulously implementing laws relating to civil society institutions and thus create a legal environment for NGO activities. They also emphasized the necessity of developing a professional paradigm for cooperation based on full partnership.

## **III. The Role of NGOs in Palestinian Economic Rehabilitation and Social Development**

It is expected that Palestinian NGOs will play an important role in rehabilitating the socio-economic structure in the occupied Palestinian territory (OPT). Over the past three years, civil institutions have clearly exerted efforts in the implementation of various relief and development programmes, and have met the needs and priorities of the Palestinian society despite difficulties resulting from drastic Israeli measures against the people. Moreover, NGOs were able to link relief and emergency assistance with short-term (rehabilitation) needs and medium-term developmental ones.

During the next period, which may be relatively calm, owing to the Road Map initiative, it is expected that the Palestinian civil society will:

- (a) Pursue its role in providing emergency and developmental services to the Palestinian people;
- (b) Affect legislation and public policies of the PA;
- (c) Develop institutional and organizational capabilities as well as the human resources of NGOs;
- (d) Enhance cooperation, coordination, networking and consultation among various civil society institutions and organizations, the private sector, donors and United Nations entities in order to guarantee a real and fruitful development process.



## Closure and the One-way Highway in the Occupied Palestinian Territory

### UNSCO Outlook 2003

Liberalization and closure are two elements that have played a central role in the creation of the one-way highway that now characterizes the economic structure of the occupied Palestinian territory (OPT), making it hard-pressed to absorb the massive numbers of unemployed. Consequently, stabilization and sustainable growth will require not just reconstruction, but economic restructuring as well, which will demand a much more ambitious aid development program than has so far been envisioned.

An economic decline has occurred across all sectors of the economy and, as revealed by the continuing deterioration, current emergency aid measures have merely slowed the decline; they have not stopped it. Stabilization will be a tremendous challenge once closures are removed. Support for the private sector, however, could drastically improve the economy's ability to absorb the unemployed. Any strategy for developing the private sector should take into consideration the sustainable employment-generating potential of individual sectors by determining which constraints are likely to be binding in the aftermath of closure. An understanding of the post-closure environment starts with grasping the magnitude of recent structural change.

In 2003, according to income-based poverty estimates, the proportion of households below the poverty line reached 63.3 per cent in the West Bank and 83.6 per cent in Gaza. Unemployment (and adjusted unemployment) increased from 14.5 per cent (24.9) in 2000 to 25.6 per cent (36.3) in 2001 and to 33.7 per cent (44) in 2002. Unemployment (adjusted unemployment) stabilized in Q1-2003 at 30.3 per cent (39.3). Stabilization of employment, however, is not indicative of economic stabilization—the Palestinian economy is gradually shifting out of production. With income diminished, those who have lost jobs are struggling to find employment, with many turning to subsistence agriculture and increasingly minor activities in trade and other services. For the first time ever, in Q1-2003, the unemployment rate in the West Bank (40.3 per cent) exceeded that of Gaza (37.3 per cent). This can be attributed, in part, to the construction of the separation wall.

Absorbing unemployment in the Palestinian economy will be all the more difficult, owing to the minimal role played by the private sector. The reduction of employment in Israel, upon which the Palestinian economy grew dependent, and the consequent reduction in domestic jobs under both closure and the one-way highway, has diminished the unstable private sector. Those employed outside the OPT are merely 15 per cent greater in number than the total number of unemployed.

Furthermore, those who are employed are engaged at lower levels of productivity and, therefore, generate less output and less income than before the Intifada, and the self-employed are making up more of those actively employed. Similarly, agricultural employment, often the last resort for those in search of employment, is on the rise.

In light of recent changes in the Palestinian economy, the likelihood of absorbing the unemployed can be sketched according to certain short- to medium-term sectoral limitations. Some preliminary sectoral observations are the following:

- The service sector is a flexible sector that is capable of absorbing the unemployed in times of crisis, but it may be fairly limited at the short- to medium-term level for two reasons. In the short-term, increases in the supply of many types of services are not necessarily a response to demand, nor do they inject demand. Rather, they merely redistribute current national income. In the medium-term, for services to offer income-stabilizing potential, either local or external “motors” will have to appear.

- Construction is a sector with substantial multiplier effects. Reconstruction efforts, therefore, may well present an unequaled stimulus in the medium run for the Palestinian economy. However, it may be that such activities will only take place in piecemeal fashion until the crisis has subsided, in order that what is reconstructed is not merely subjected to Israeli destruction.
- The one-way highway in Palestine has made it difficult for stabilization to include a role for small manufactures, which are often important in generating low-productivity employment in the early stages of growth in a developing country.
- Agriculture may have a unique role in the aftermath of closure, especially since it has always been important in serving to absorb the unemployed in times of crisis. There is a high level of acquired knowledge in this field, owing in part to the years of working in Israeli agriculture and learning by doing. The agricultural sector has a significant impact on rural areas—on the women, the poor and especially on those who lack other sources of income. However, to the extent that lack of government services and development strategies in this sector reduce profitability—as the lack of post-harvesting processes and services reduces quality and increases the risks inherent to agriculture—the resort to agriculture as a coping mechanism may be expected to merely redistribute income and generate scarce output growth.

Clearly, the Palestinian economy is quite limited. Therefore, stabilization efforts will be more likely to succeed when they identify ways of absorbing the unemployed as well as identifying pockets of sustained demand for output. It is hoped that with essential restructuring and the complete removal of all closures (including the wall and internal closures) combined with the establishment of border controls, the Palestinian economy can absorb the unemployed and increase output, productivity and growth.

## ANNEX II

### LIST OF PARTICIPANTS

(Contact information for the participants listed below can be provided upon request.)

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