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**Development Opportunities in the  
Occupied Territories**  
(West Bank and Gaza Strip)

**Industry**

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**Policy Research Incorporated  
5740 Trotter Road  
Clarksville, Maryland 21029**

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## PREFACE

This analysis of the industry sector was prepared by Policy Research Incorporated (PRI) as part of an assessment of development opportunities in the Occupied Territories. That assessment, initiated in December, 1991, included a review of eight sectors: agriculture, education, finance and credit, health, industry, infrastructure, trade, and water and sanitation. The process by which the reports were developed included:

- 1) on-site data collection by two American development experts, Dr. Irene Jillson-Boostrom (Senior Technical Advisor) and Dr. Alan Richards (International Consultant);
- 2) the preparation of literature and information syntheses by Palestinian experts in each of the sectors (see attached list);
- 3) review of extensive documents across the sectors (including more than 300 documents from the Occupied Territories, Israel, donor organizations and relevant general development reports);
- 4) preparation of the draft analyses for each sector, with Dr. Jillson-Boostrom preparing those for health, industry, infrastructure and trade and Dr. Richards preparing those for agriculture, education, finance and water;
- 5) follow-up data collection and analysis by Dr. Jillson-Boostrom (to clarify issues and obtain additional data, when possible); and
- 6) preparation of the final development report for each sector and of the cross-sectoral analyses, by Dr. Jillson-Boostrom.

Each of the eight sectoral reports follows a consistent outline, as follows: executive summary of findings, introduction (including a discussion of the importance of the sector for development and key issues, if any), sectoral status and trends, institutions involved in the sector, constraints to development, and development opportunities. Citations for data and information presented in the reports are included at the end of each report; the Executive Summary does not contain specific citations. In addition, each report includes two appendices: 1) *Context of Development in the Occupied Territories* (background relevant to all sectors), and 2) *Visions of a Sustainable Future*, (a discussion of the overall potential for development in the Occupied Territories). In order to contribute to the discussion of sectoral as well as cross-sectoral needs and development opportunities, a particular effort was made to describe the organization and function of each sector in the Occupied Territories insofar as possible.

The sectoral reports are intended to add to the resources available for those involved in development planning in the Occupied Territories. In reviewing these reports, it should be recognized that circumstances have limited the degree to which preparation of these documents has followed standard sector analysis procedures. Data limitations are discussed in each of the documents; such limitations exceed those that pertain in many developing countries. Curfews and strikes hamper data collection. Thus far the final draft documents have not been

reviewed by those involved in development planning and implementation in the Occupied Territories in order to ensure that the documents accurately reflect the reality of each sector. Nor is it possible to ensure that the complete range of opinion and all available data sources have been included, although every effort was made to do so.

The conclusions and recommendations presented in the sector analyses are intended to serve as examples for Palestinians, donors and others involved in development planning for the Occupied Territories. It is recognized that each entity involved in this process will have its own specific world view and development goals to which these recommendations may or may not relate. The goals included in this report (in Appendix II, Table 2), based on general development goals derived from World Bank documents and other sources, are intended to stimulate ideas and discussion.

### *Acknowledgments*

Preparation of this report on the industrial sector in the Occupied Territories would not have been possible without the contributions of many individuals. Dr. Hisham Awartani facilitated access to important data resources in the West Bank; Mr. Fayez Al Wahaidi facilitated access to data resources in the Gaza Strip and prepared a report on non-governmental organizations in the Gaza Strip. Dr. Hind Salman, Mr. Samir Huleileh and Dr. Mohamad Okasha each prepared a report on industry and enterprise in the Occupied Territories. Ms. Monica Awad provided invaluable assistance with respect to identifying and collecting relevant documents, making logistical arrangements and performing other research and administrative tasks.

Cora Gordon and Christine Baluck, both of Policy Research Incorporated, assisted in compiling information resources available in the United States, reviewed and commented on multiple drafts of the reports and assisted in the production of the document. Dr. Mae Thamer, also of PRI, reviewed and commented on the initial draft prepared by Dr. Jillson-Boostrom. Sara Davidson edited the final draft of the report and designed and executed the desktop published version.

I am also most grateful to the representatives of donor organizations and international private voluntary organizations (PVOs), and to the more than 100 Palestinians who agreed to be interviewed. All provided information and ideas necessary for these analyses and engaged in constructive discussion of development opportunities in the Occupied Territories. I trust that this report will be useful to them and to all those involved in efforts to promote sustainable development in the West Bank and Gaza Strip.

Irene Jillson-Boostrom, Ph.D.  
Clarksville, Maryland  
October, 1992

## ACRONYMS

|          |   |
|----------|---|
| ACC      | Agricultural Coordinating Committee                             |
| ACCI     | Arab Development and Credit Company                             |
| ACDI     | Agricultural Cooperative Development Institute                  |
| ADCC     | Arab Development and Credit Company                             |
| AGREXCO  | Israeli State-owned Agricultural Marketing Company              |
| AID      | Agency for International Development                            |
| AIE      | Arab Insurance Establishment                                    |
| AMIDEAST | American Mideast Education & Training Services                  |
| ANERA    | American Near East Refugee Aid                                  |
| CBS      | Central Bureau of Statistics                                    |
| CCC      | Civilian Conservation Corps                                     |
| CD       | Cooperation for Development                                     |
| CDP      | Cooperative Development Project                                 |
| CIS      | Commonwealth of Independent States                              |
| CIVAD    | Civil Administration  |
| CRS      | Catholic Relief Services  |
| CWA      | Communications Workers of America                               |
| DOA      | Department of Agriculture                                       |
| DOS      | Department of State   |
| EC       | European Community  |
| ECWA     | Economic Commission for Western Asia                            |
| EDG      | Economic Development Group                                      |
| FTA      | Free Trade Agreement  |
| GCMHC    | Gaza Community Mental Health Committee                          |
| GDP      | Gross Domestic Product  |
| GFTU     | General Federation of Trade Unions                              |
| GHS      | Government Health Services                                      |
| GNP      | Gross National Product  |
| GOI      | Government of Israel  |
| ICARDA   | International Center for Agricultural Research in the Dry Areas |
| ICD-9    | International Classification of Diseases                        |
| ICS      | International Christian Society                                 |
| IDF      | Israeli Defense Force   |
| ILO      | International Labour Organization                               |
| IMR      | Infant Mortality Rate   |
| JCO      | Jordanian Cooperative Organization                              |
| JD       | Jordanian Dinar   |
| JFPP     | Jordanian Family Planning Program                               |
| MAP      | Medical Aid to Palestinians                                     |
| MCH      | Maternal and Child Health                                       |
| MOI      | Ministry of Interior  |

|        |  |
|--------|--|
| NGO    | Non-Governmental Organization                                  |
| NHI    | National Health Insurance                                      |
| NICU   | Neonatal Intensive Care Unit                                   |
| NIS    | New Israeli Shekel   |
| OECD   | Organization for Economic Co-Operation and Development         |
| OT     | Occupied Territories   |
| PARC   | Palestinian Agricultural Relief Committee                      |
| PFS    | Patients Friends Societies                                     |
| PFWAC  | Palestinian Federation of Women's Action Committees            |
| PHC    | Primary Health Care  |
| PLO    | Palestinian Liberation Organization                            |
| PRCS   | Palestinian Red Crescent Society                               |
| PVO    | Private Voluntary Organization                                 |
| SAI    | Statistical Abstract of Israel                                 |
| SCF    | Save the Children Federation                                   |
| SCHC   | Society for the Care of Handicapped Children                   |
| TDC    | Technical Development Center                                   |
| TDG    | Technical Development Group                                    |
| TDP    | Trade and Development Program                                  |
| UNCTAD | United Nations Conference on Trade and Development             |
| UNDP   | United Nations Development Program                             |
| UK     | United Kingdom   |
| UNESCO | United Nations Educational, Scientific & Cultural Organization |
| UNICEF | United Nations Children's Fund                                 |
| UNIDO  | United Nations Industrial Development Organization             |
| UNRWA  | United Nations Relief and Works Agency                         |
| UPMRC  | Union of Palestinian Medical Relief Committees                 |
| USG    | United States Government                                       |
| VAT    | Value Added Tax  |
| WHO    | World Health Organization                                      |
| WUB    | Workers' Unity Block   |

## I. EXECUTIVE SUMMARY

The Occupied Territories lack most of the essential factors which ensure successful industrialization. These include: a) raw materials (absent, with the exception of sand, salt and stone quarries), b) indigenous investment capital, c) access to markets, d) supportive managerial and regulatory infrastructures, e) self-determination with respect to laws and regulations pertaining to industrial development and f) the ability to educate, train and provide experience for both the skilled and unskilled work force. However, even in the absence of these essential factors, some industrial expansion has occurred in the past 20 years, although this expansion has decreased more recently. As of 1989, the most recent year for which data are available, the industrial sector represented approximately 12% of gross domestic product (GDP) for the Occupied Territories. The primary types of industry and enterprise include clothing, textiles and leather, fishing, tourism, construction, pharmaceuticals, quarries, plastics and paper products.

Investment in the private sector in the West Bank and Gaza Strip derives from the owners and investors in the private sector, Arab donors (primarily through grants) and other donors (primarily through credit arrangements). Investment in Palestinian companies rests primarily with the "large" (i.e., more than eight employees) firms, derives largely from the family-owners, and is significantly smaller than investment in Israel. As is true with many developing countries, "industries" in the Occupied Territories comprise primarily owner-operated businesses. For example, in 1987, of the total of 4,255 "industrial" firms in the Occupied Territories, only 2,431, or 57% have employees. As of 1989, 19,849 workers (17% of the work force) in the West Bank worked in industry, as did 7,990 workers in Gaza (13.5% of the work force). In the West Bank, the proportion of the work force employed in industry remained relatively stable from 1980 to 1989; in the Gaza Strip, however, it declined by 16% over the same period. This shift has been due in part to employment of Gazans in Israel and is reflected in changes in employment by type of industry; for example, the proportion of Gazans working in the construction industry rose appreciably from 1987 to 1990 and rose slightly in the West Bank during the same period.

The economies of the West Bank and Gaza Strip are inextricably linked with Israel, both as the occupying nation and as an economic "competitor"; this is particularly true for industry and enterprise. A specific example of the link between the industrial sector in the Occupied Territories and Israel is the fact that, as with the West Bank, Israel is the primary source of raw materials used in manufacturing in the Gaza Strip, providing just over 40% of such materials in 1990. In 1986, the Occupied Territories exported more than 80% of their industrial goods to Israel (no data are available with respect to the types of goods exported).

Subcontracting arrangements, which entail Palestinian enterprises subcontracting to Israeli firms for small-scale production, have been an important factor in Palestinian industry since the Occupation. These subcontracting arrangements are primarily for the production of goods requiring labor-intensive finishing (final stage of production), including clothing, shoes, wood and leather products, and, in addition, the repair of durable goods, including electrical appliances and motor vehicles. Although subcontracting has provided employment for large numbers of Palestinians, these arrangements—which make use of low-wage workers—have

been criticized by some Palestinians as hindering expansion of small-scale enterprises. In the event that the bureaucratic and economic climate changes in the Occupied Territories, subcontracting would hold promise for economic expansion as has occurred in other developing areas (including, notably, the Pacific Rim).

Table 1, found on page 32 of this report, presents a summary of conclusions and recommendations for industry and enterprise.

## II. INTRODUCTION

It must be noted at the outset that, as with other sectors in the Occupied Territories, the statistical data available from the Government of Israel (GOI)--that is, those published in the Statistical Abstracts and other governmental sources--which relate to the industrial sector do not include East Jerusalem. This significantly skews the data and inhibits analysis of trend data which could be used for economic planning purposes. This flaw in the data should be considered by the reader of this sector analysis when examining tables and figures. What is more, as Benvenisti has suggested,

"For statistical purposes the West Bank and Gaza Strip are considered by Israel's Central Bureau of Statistics to be units independent of Israel. Economic activity there is investigated and reported as though it constitutes a 'national economy' united with Israel in a 'common market.' The official reporting of GDP, GNP, exports and imports and balance of payments of the territories is, however, inaccurate at best and misleading at worst. The daily, complex, economic interaction over the nonexistent 'green line,' lacking any effective monitoring and control, calls the reliability of the statistics into question."

Unfortunately, because of the impediments to the conduct of empirical studies in the West Bank and Gaza Strip, most of those who have described or assessed the economy of the Occupied Territories depend primarily--and necessarily--on GOI statistics, notwithstanding their limitations. Insofar as data are available with respect to East Jerusalem, they have been included, either as part of data relating to the West Bank, or separately, as appropriate or necessary.

### A. IMPORTANCE OF INDUSTRY AND ENTERPRISE FOR DEVELOPMENT IN THE OCCUPIED TERRITORIES

The contribution of Palestinian industry to the GDP of the Occupied Territories, which has remained at 9% since 1987, belies its importance for the economy of the area, particularly in terms of potential future growth. Land and water resources limit the potential for the agricultural sector to expand (although productivity can be substantially improved). However, the opportunity for Palestinians to compete in an open market with respect to industry and enterprise (including the important tourist sector) is substantial.

Traditional Palestinian manufacturing enterprises include food-processing, textiles, clothing, furniture, construction materials, plastics and pharmaceutical companies and souvenirs for tourists. Most of the companies are family-owned and controlled, and few have made recent significant investments in new technology or worker training. While industrial output has been relatively low, and has decreased over recent years, most of the impediments to industrial expansion are related either to externally-imposed constraints or technical or managerial problems (which can be alleviated through technical assistance and training as well as support for newer industrial technologies). Expansion of credit is also

sorely needed if the industrial and enterprise sector is to contribute to economic development. Related issues are discussed in the companion report, Finance and Credit in the Occupied Territories.

## **B. KEY SECTORAL ISSUES**

The Occupied Territories lack most of the essential factors which ensure successful industrialization. These include raw material (with the exception of sand, salt and stone quarries), indigenous investment capital, access to markets, favorable infrastructures and self-determination with respect to laws and regulations pertaining to industrial development and the ability to educate, train and provide experience for both the skilled and unskilled work force. Even in the absence of these essential factors, some industrial expansion did occur in the West Bank during the Jordanian period, and some--albeit minimal--expansion occurred in Gaza under Egyptian control. This demonstrates the degree to which Palestinians are able to overcome obstacles to economic development. However, the industrial sector continues to be dominated by comparatively small and predominantly family-owned companies which are heavily dependent on Israel for imports and on Israel and Jordan for exports.

### **B.1 Economic Link Between Israel and the Occupied Territories**

The economies of the West Bank and Gaza Strip are inextricably linked with Israel, both as the occupying nation and as an economic "competitor." However, the economy of Israel completely overshadows the economy of the Occupied Territories. For example, Israel is classified by the World Bank as a high-income country; in 1988, the Bank defined as high-income those countries with a per-capita income of \$6,000 or more. In 1990, Israel ranked 23rd of all countries in per-capita gross national product (GNP), with a per capita GNP of \$10,920.<sup>2</sup> In the same year, the estimated per-capita GNP of the West Bank was estimated to be \$1,400; in Gaza it was an estimated \$780.<sup>3</sup> According to World Bank criteria, this places both the West Bank and Gaza Strip in the lower-middle income country category.

According to a 1989 United Nations Conference on Trade and Development (UNCTAD) report on Palestinian external trade under Israeli occupation, the capacity of the Palestinians to plan, regulate and support their economy have been "eroded" since 1967.<sup>4</sup> The agency also noted that "exclusion of the Palestinian people from authority and responsibility over their own economy covers a wide range of functions." The functions listed by UNCTAD, which comprise traditional roles for the public sector, included:<sup>5</sup>

- \* industrial and commercial licensing and regulation;
- \* agricultural production planning (cultivation and planting quotas, marketing contracts, water distribution and input provision);
- \* trade regimes (e.g., tariffs, levies, import and export licensing);

- \* industrial, agricultural, trade and other credit facilities, in both the private and government sectors;
- \* agricultural, industrial and residential land use and construction;
- \* the development and provision of public utilities and infrastructures; and
- \* the establishment of appropriate public services.

UNCTAD warned that "the increasing concentration of such activities within the jurisdiction of the Israeli military authorities continues to inhibit economic performance and potentials in the occupied Palestinian territory."<sup>6</sup>

A specific example of the link between the industrial sector in the Occupied Territories and Israel is the fact that, as with the West Bank, Israel is the primary source of raw materials used in manufacturing in the Gaza Strip, providing just over 40% of such materials in 1990. The second most common source was Western Europe (25.5%). The Gaza Strip contributed only 16.8% of raw materials used in Gazan industry, and the West Bank provided only 6.4% (primarily leather and building materials).<sup>7</sup> However, just over 60% of industrial production in the Gaza Strip was consumed by the local market, with 13% each exported to the West Bank and Israel.<sup>8</sup> In 1986, the Occupied Territories exported more than 80% of their industrial goods to Israel (no data are available with respect to the types of goods exported). Olive oil and olives represented 42.5% of the monetary value of industrial goods exported to Jordan in 1986; dairy products accounted for 27.2% of industrial exports to Jordan, followed by stone and marble (20.3%).<sup>9</sup>

## **B.2 Israeli Industrial Subsidies**

As is true with most industrialized and upper income countries, including the United States, the Israeli government provides extensive direct and indirect subsidies for its own industries. These subsidies are used by governments to ensure that their industrial base is competitive with those of other countries as well as to provide mechanisms for continued or expanded technological development in those industries most likely to contribute to their economy. In the U.S., the Small Business Innovation Research Program is specifically designed to provide grants to small business to encourage the development and adaptation of new technologies; both the agricultural and industrial sectors have been provided with governmental subsidies on which they have based their competitive advantage. Examples of subsidies which are available to Israeli companies, but not to Palestinian firms, include but are not limited to, tax incentives, concessions on foreign exchange earnings, protective customs duties, research and development programs, and protectionist policies with regard to imports. This creates a situation in which Palestinian industries are at a significant disadvantage relative to Israeli competitors.

### **B.3 Palestinian Industrial Development**

The industrial development of the West Bank and Gaza Strip, which have been, for all intents and purposes, without government subsidy for nearly 25 years, are models for private sector initiative. Development in the Occupied Territories has occurred under the most difficult circumstances for most Palestinian entrepreneurs. Such circumstances include:

- \* the inability to have free access to vital economic and other information available to the Government of Israel (GOI) and to Israeli competitors;
- \* difficulties in obtaining technical expertise from outside the Occupied Territories;
- \* impediments to travel to other countries (e.g., to assess the competitive advantages of other firms);
- \* diminished public sector education, with consequential problems of language and numeric illiteracy;
- \* difficulty in importing materials and machines required for production and expansion; and
- \* constraints on export, resulting from regulations ostensibly related to security and quality control.

These and other bureaucratic and legal constraints are described in more detail in Part IV of this report.

### **B.4 Industrial Zones**

In many countries, industrial zones are used to target economic development in depressed areas. A government (national, state or local) usually provides public domain property as well as tax benefits to attract firms to invest in the zone. Other types of subsidies or assistance may be provided as well. Industrial zones are not without problems, however. If located near residential areas, they can be a major source of pollution; if not well-planned, they can be little more than a collection of individual enterprises. The first industrial zone in the Occupied Territories was established in Jerusalem prior to 1967; this "industrial zone" is, essentially, a collection of garages. Since then, zones have been established in Beit Jala and Ramallah. The former has not been successful because the incentives and services have not been sufficient to attract new firms;<sup>10</sup> the latter has attracted industries, including a paper products company, detergent manufacturer and a chocolate factory. Palestinian companies located in the Israeli-operated industrial zones are, for the most part, engaged in subcontracting for Israeli companies. In spite of these difficulties, Palestinians, donors and the GOI are encouraging the development of industrial zones. In late May, the GOI gave final approval for development of an industrial zone in the Gaza Strip. The Union of Industrialists

in Gaza will have primary responsibility for development of the zone, and is now initiating efforts to coordinate planning and implementation with local credit institutions and donors. The GOI is providing no financial support for basic physical infrastructure (electrification, water hook-up, etc.).

### **B.5 Role of Infrastructure**

In addition, the importance of infrastructure for industrial development cannot be overemphasized. Huleileh and others have emphasized the importance of infrastructure required for industrial development, including electricity, water, telecommunications, roads, industrial zones, airports and seaports. He suggests that the development of industrial-related infrastructure be coordinated "with the municipalities in most of these areas, and particularly with elected municipalities or municipal committees formed by national consensus."<sup>11</sup>

A'bdallah and Dakkak have also raised the critical issue of industrial pollution, noting that significant trade-offs will have to be made by those involved in economic planning.<sup>12</sup> As elsewhere in the developing, as well as the industrialized world, the opportunity for investment in industrial development, with concomitant job prospects and other economic benefits, is more immediately attractive than the long-term prospect of environmental pollution and its socioeconomic and health consequences.

### **B.6 Future Palestinian Industrial Development**

Given that the Arab countries, the most important potential market for the West Bank and Gaza, are also engaged in rapid industrialization, some Palestinians are understandably concerned about the realistic options for trade and industrial development. It will be critical for Palestinian industry to make the most effective use of its human resources, given the technological advantage of its regional and international competitors and the relatively low productivity that is possible under the current circumstances. It is also important to facilitate the transfer of new industrial technology, to allow for needed advances in productivity and quality.

The degree of technological change and industrial development which would likely be required to ensure competitive advantage is more than can be borne by the resources available to Palestinian industry; therefore, the issue arises with respect to the degree to which international capital—from donors and international financial systems such as the World Bank and the IMF—can or should offset the relatively scarce resources available from Palestinian sources. While Palestinians recognize that they urgently require large infusions of capital in order to have a viable economy and to develop the capacity to compete in the global economy, many are wary of becoming dependent on external donors.

The comparatively small size of the Palestinian domestic market, coupled with the competitive disadvantages faced by Palestinian firms with regard to exports, fuel the fire of the debate concerning preferable strategies for economic development: export orientation versus import substitution. While the latter has been a political position for several years, interest seems to be waning, as there is increased concern for a balanced economy in the event of political change. Under the circumstances, it is impossible to plan for either option. A related issue concerns

the degree to which protective measures should be taken to support Palestinian industry and develop some level of import substitution. The recently held Group of Seven Economic Summit attests to the complexity and political sensitivity of protectionist policies; one country's trade barrier is another's protection against dumping practices.

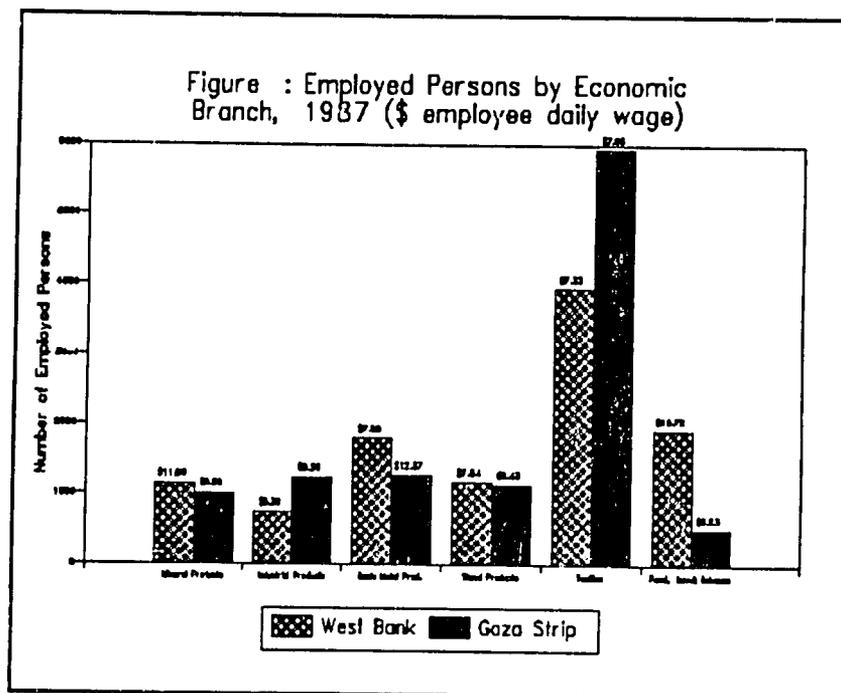
### III. SECTORAL STATUS AND TRENDS

#### A. GROWTH OF THE INDUSTRIAL SECTOR

Prior to 1967, in both the West Bank and Gaza Strip, the proportion of GDP attributed to manufacturing and mining was minimal: 4.2% for Gaza and 5.8% in the West Bank. By 1983, the proportions were 9.9% in Gaza and 6.9% in the West Bank.<sup>13</sup> The comparatively poor industrial development in the Gaza Strip reflects the economy of Gaza, more fragile even than that of the West Bank.

Tuma points to the conflicting data with respect to growth in industry in both the West Bank and Gaza, and to the disparity between the two areas.<sup>14</sup> For example, while gross fixed private capital formation increased sharply in both the West Bank and Gaza Strip between 1968 and 1989 (as it increased in most developing countries), the average manufacturing wages were only slightly above those for agricultural workers in the West Bank and less than those in Gaza. As Figure 1 shows, those working in the textile industry were among the lowest paid; this is one of the predominant subcontracting industries described previously.

Figure 1



Source: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem; 1991.

According to Tuma, "If wages may be used as indicators of productivity and level of technology, then manufacturing has not developed noticeably during the period under study."<sup>15</sup> Even emigration has played an important role in the lack of development of the industrial sector. As Abu Kishk pointed out, "in the late 1970s and early 1980s ... a large number of owner-managers of small establishments liquidated their businesses either because of Israeli competition or emigration in search of greater opportunities in the booming economies of the neighboring Arab countries."<sup>16</sup>

It is particularly difficult to estimate the "growth" of industry/enterprise in the Gaza Strip, given the paucity of data and the degree of dependence on Israel, which results in wide fluctuations of indicators such as employment and GNP. The contribution of the industrial sector to GDP in the Gaza Strip has fluctuated since 1980, decreasing during the period 1980-1985, increasing in 1986 and 1987 (to 13.7% of GDP in the latter year), but has fallen again in 1989 (to 11.6% of GDP).<sup>17</sup>

In 1986, Abdallah studied 49 Palestinian enterprises in the West Bank and Gaza Strip which had 30 or more employees.<sup>18</sup> He found that production in comparison to consumption was small--some 39%--which seems to indicate unmet demand; this unmet demand was most likely being met primarily by Israeli imports.<sup>19</sup> During the period 1978 to 1983, labor productivity and per capita industrial output in these larger firms increased, and although contrary to expected changes during periods of industrialization, industrial productivity did not keep pace with agricultural productivity. Notwithstanding the obstacles to industrial development that face manufacturers in the Occupied Territories, advances were evidenced in terms of both quantity (i.e., expansion in product lines) and quality in firms such as metal works, chemicals, plastics, pharmaceuticals and cosmetics and paper products. The data from these firms confirmed the findings of other research which demonstrate that Palestinian industry is labor, rather than capital intensive. Finally, data collected from these firms in 1986--prior to the extensive curfews and strikes in subsequent years--indicated that industry operated for only 57% percent of the time.<sup>20</sup> This last point is critical; underutilization of productive capacity severely hampers the competitive advantage of any industrial enterprise, inefficiently utilizes capital resources and limits the degree to which Palestinian firms are amenable to absorbing labor. A previous (1981) Economic Commission for Western Asia/United Nations Industrial Development Organization (ECWA/UNIDO) study found that approximately 68% of the 182 firms studied were operating at 75% of capacity, while only 14% were operating at 90% or more of capacity.<sup>21</sup>

In 1989, UNCTAD expressed concern with regard to the underutilization of productive capacity in Palestinian industries:

"While industrial decline since 1987 might be a passing manifestation of production and marketing re-orientations since the uprising, it also reflects the under-utilized capacity of most establishments ... and the continuing marketing bottlenecks faced by most sectors, and by industry in particular. This situation gives rise to serious concern owing to the sector's potentials for income and employment

generation in the longer term as well as for market expansion to allow capacity utilization and economies of scale in output." <sup>22</sup>

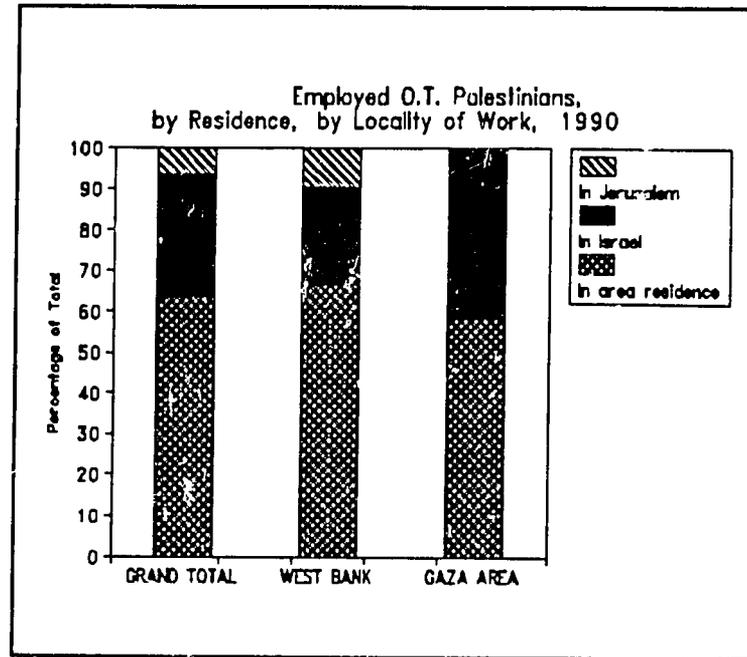
While donors, Palestinians and some Israeli economists are in agreement that economic expansion (and related jobs creation) will be dependent in large part on expansion in the industrial sector, unplanned expansion, given limited investment capital, may be counterproductive. In late 1991, the GOI issued 73 licenses for new industries in the Occupied Territories and 337 licenses for existing industries operating without a license. This compares with the total of 80 licenses for new industries issued during the period 1980-1990.<sup>23</sup> Notably, of the 73 industries for which licenses were issued, there are existing firms which do not operate at full capacity. Moreover, in many cases, the individuals (families) to whom the licenses were issued do not have the necessary capital to invest in the industries. It is simply unclear how the issuance of these licenses will benefit economic development in the Occupied Territories, without a clearly defined industrial development plan and the removal of bureaucratic restrictions which impede industrial development.

For example, many licenses granted by the GOI for new industries in late 1991 were for quarries. If all of the Palestinians to whom licenses were granted were to establish their new firms, there would be more quarries operating in the West Bank than the economy can now absorb. Although quarries have both jobs creation and export potential, it will be important to ensure that resources are not expended on companies which are undercapitalized and cannot compete on the open market. On the other hand, it would be inappropriate to discourage firms from entering this potentially lucrative market. Palestinians are also concerned about the political issues inherent in expanding quarrying operations, specifically the concern that quarried stone is to be used in the construction of settlements.

## **B. THE LABOR FORCE**

As of 1989, 19,849 workers (17% of the work force) in the West Bank worked in industry, as did 7,990 workers in Gaza (13.5% of the workforce).<sup>24</sup> In the West Bank, the proportion of the workforce employed in industry remained relatively stable from 1980 to 1989; in the Gaza Strip, however, it declined by 16% over the same period.<sup>25</sup> This shift has been due in part to employment of Gazans in Israel. For example, as Abu-Amr notes, in 1984, "8,000 workers were employed in local industry and 7,300 had industrial jobs in Israel."<sup>26</sup> Figure 2 shows employment of Palestinians in the West Bank and Gaza Strip by locality (i.e., in place of residence, in Israel and in Jerusalem) for 1990. The Statistical Abstract of Israel data for the West Bank do not include East Jerusalem.

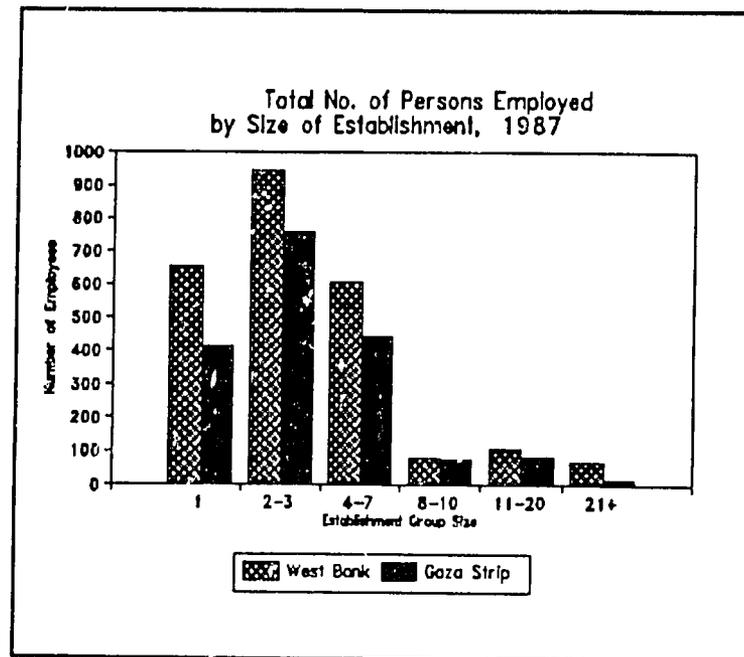
Figure 2



Source: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem; 1991.

As is true with many developing countries, "industries" in the Occupied Territories comprise primarily owner-operated businesses, most of which have few employees. (See Figure 3 below.) For example, in 1987, of the total 4,255 "industrial" firms in the Occupied Territories, only 2,431, or 57%, had any employees other than the owner-operators. In that same year, 58% of the 2,431 manufacturing companies having employees in the West Bank and Gaza employed four or fewer workers, while only 30 companies (just over 1%) employed 50 or more workers.<sup>27</sup> In their 1990 survey of industry in Gaza, Okasha and Aba-Zarifa identified 1,563 productive industries, approximately 40% of which were family-owned and operated, having no other employees. Only 17% employed eight or more workers.<sup>28</sup> In contrast, the Statistical Abstract of Israel for 1991 shows that, of the 7,315 establishments on which data were available in 1988, none employed fewer than 5 persons, 7% employed 50-99, 4% employed 100-299 and 2% employed 300 or more persons.<sup>29</sup>

Figure 3



Source: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem; 1991.

Palestinian wages are far below those of Israelis. In 1989, the most recent year for which data are available, the average annual wage for Israeli employees (i.e., workers excluding Palestinians from the West Bank and Gaza Strip) was \$10,696 (exchange of New Israeli Shekel (NIS) at 2.3/1). In the same year, the average wage was \$3,390 for the West Bank and \$3,597 for Gaza.<sup>30</sup> The Israeli wages—more than three times those of Palestinians in the Occupied Territories—do not include the extensive social benefits which accrue to Israelis, including those available to settlers, but which are largely unavailable to Palestinians. For example, Palestinians pay higher rates for basic utilities (water and electricity), relatively few can afford the premiums for the national health system, and most are without unemployment insurance, or any type of insurance. This low average wage is of concern in part because of the dependence on family wealth for capital investment in industry and enterprise.

Most newly hired workers in the West Bank and Gaza are unskilled; as a result, more than 90% of workers are trained on the job.<sup>31</sup> This practice, which the World Bank terms "enterprise-based training," can have important advantages<sup>32</sup>. However, in the context of the labor market in the Occupied Territories, it is reflective of the absence of adequate industrial education and training resources outside of the firms themselves. Because the firms have few resources to use in on-the-job training, and because they depend almost exclusively on skills-transfer by older (often less-educated) employees, there is no guaranteed mechanism for knowledge and skills enhancement.

Scant information with respect to trade unions is available. According to the most recent annual report of the International Labour Organization (ILO), based on a site visit to the Occupied Territories, the two largest federations of unions are the General Federation of Trade Unions of the West Bank (GFTU), which was closed down by the Civil Administration (CIVAD) from 1988 to 1990 and the GFTU Workers' Unity Block (WUB). The former includes approximately 90 unions in the West Bank (31 of which are registered by the GOI), and the latter includes 46 unions.<sup>33</sup> Together, they reportedly represent 90% of the work force of the West Bank.<sup>34</sup> The General Federation of Labour in Israel (the Histadrut) negotiates conditions of Palestinian workers in Israel and represents them in issues concerning Israeli labor laws. However, the GOI prohibits Palestinians from becoming members of Histadrut, even though 1% of their wages are deducted in recognition of the representation that Histadrut provides.<sup>35</sup> According to the Ministry of Labour of Israel, there are seven registered trade unions in the Gaza Strip, but only six are operational.<sup>36</sup> No additional information was available with respect to trade unions in Gaza.

### C. INVESTMENT IN THE INDUSTRIAL SECTOR

Investment in the private sector in the West Bank and Gaza Strip derives primarily from family owners and friends, Arab donors (primarily through grants) and other donors (primarily through credit arrangements). Investment in Palestinian companies rests primarily with the "large" (i.e., more than eight employees) firms, derives largely from the family-owners and is significantly smaller than investment in Israel. While accurate data are virtually impossible to obtain, the following may be useful for purposes of this discussion.

The fixed capital formation in industry in the West Bank was NIS 100.4 million in 1989 and NIS 23.4 million in Gaza.<sup>37</sup> In comparison, fixed capital formation in industry in Israel was NIS 4.6 billion in 1989.<sup>38</sup> Moreover, 39% of the productive capital in both the West Bank and Gaza Strip rests with larger firms, and nearly all (95%) of capital formation in the Gaza Strip was financed by the company owners or their families, with commercial lending institutions having a minor role.<sup>39</sup> A 1979 study by Awartani found that 95% of fixed capital was in equity capital, which also accounted for 97% of current transactions. The remainder of fixed capital was from banks, friends and relatives. Only 17% of the companies had received credit from Israeli banks.<sup>40</sup>

Perhaps as a result of this dependence on family-owner investment, firms in the Occupied Territories are severely undercapitalized. A 1981 study by ECWA/UNIDO found that 79% of the firms in the West Bank and Gaza Strip had an initial investment of less than Jordanian Dinar (JD) 10,000, 13% had investments of JD 10,001 - 50,000 and only 7% had initial investments of more than JD 50,000.<sup>41</sup> In Gaza, 90% of the firms had an initial investment of less than JD 5,000.<sup>42</sup> Unfortunately, more recent data with respect to this important indicator of the capacity for industrial growth are not available.

What other investments have been available for industrial development? Funds provided through the Jordanian-Palestinian Joint Committee, supported by the Arab states, totaled just over JD 125 million between 1979 and 1983. Of this amount, JD 6.7 million was allocated for industry.<sup>43</sup> No significant investment has

been made in Palestinian industry by Arab investors since that time. Other donors have not provided support for the industrial sector, with one exception. Through its Cooperation for Development office, established in 1986, UNRWA has provided credit for 32 industrial projects, each one averaging just over \$8,000; the annual interest rate is 6-9%. Through its Planning and Development Department, in August, 1991, UNRWA initiated a program for provision of small loans (up to \$30,000/industry, with 25-30% capital contribution from the borrower), at rates of 6-9% and with a three-year pay-back period.<sup>44</sup>

Three local credit institutions have provided loans to industries and enterprises over the past four years. These include the Economic Development Group, the Technical Development Company and the Arab Development and Credit Company. During this period, the total amount of loans provided by these institutions has not exceeded \$5 million. Most loans are relatively small (\$5,000-\$60,000), and loans to small and medium size enterprises predominate.<sup>45</sup>

Relatively scarce resources are thus available for expansion of the existing industrial base, for retrofitting of existing industries, expansion of the number of employees, or even for operating costs, including maintenance of equipment and retaining the current labor force. Given the paucity of investment capital, the opportunity to open new industry may be minimal, even given the approval of licenses for new industries by the GOI. The recent "Encouragement of Capital Investments Income Tax Reform" was issued by the CIVAD in November, 1991, but was made available in Arabic only in February, 1992. This law, which calls for a three-year "tax holiday" for new businesses (with certain restrictions), is implemented by a CIVAD-appointed committee comprised primarily of Israeli military officials. Economists, accountants and attorneys who have read the regulations maintain that the nature of the regulations is such that they are unlikely to result in significant (if any) increased private sector investment in the industrial sector, in part because the exemptions cannot be readily applied, and most Palestinian factories cannot meet the conditions of the law.<sup>46</sup>

## IV. INSTITUTIONAL ARRANGEMENTS

### A. PALESTINIAN INDUSTRY AND ENTERPRISES

Traditional Palestinian manufacturing enterprises include food-processing, textiles, clothing, furniture, construction materials, plastics and pharmaceutical companies and souvenirs for tourists; most of the companies are family-owned and controlled. The remainder of this section of the report presents summary information with respect to the industries and enterprises which are playing an increasingly important role in the Palestinian economy, or which have the potential to do so.

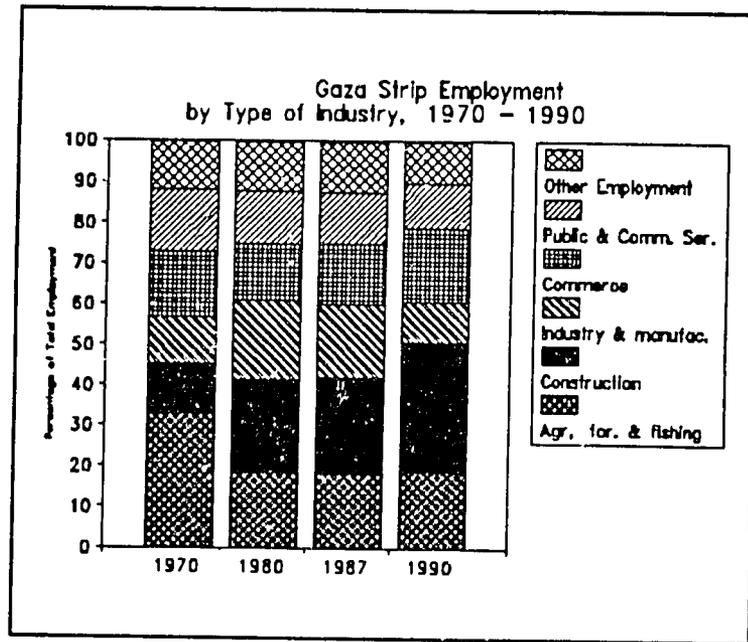
*Clothing, textiles and leather* continue to comprise an important part of Palestinian industry. In 1987, the most recent year for which data are available, 3,945 persons were employed in these industries in the West Bank (33% of the industrial work force), and 3,124 persons were employed in Gaza (44% of the industrial work force). These industries have total revenues of \$2.7 million and \$2 million, respectively. The average daily wage of workers employed was only \$7.34 in the

West Bank (the second lowest after woodworking) and \$7.13 in Gaza, where it was the lowest wage category.<sup>47</sup> According to a 1989 UNIDO report, as of 1987 there were 305 shoe manufacturing firms in the West Bank and six in Gaza, with a total of 1,000 employees.<sup>48</sup>

*Tourism* has been an important segment of the Palestinian economy for some time, primarily in the West Bank and East Jerusalem. This has been true in spite of severe restrictions on growth of the industry. For example, hotel expansion in the Occupied Territories has been frozen since the Occupation, while hotel capacity in West Jerusalem has increased by 380%.<sup>49</sup> At present, 36 Palestinian tourist agencies are in operation (a decrease from the 46 in operation in 1967). Although 300 Palestinian tourist guides worked in the West Bank in the early 1970s, only 50 are currently active.<sup>50</sup> Although precise figures are difficult to obtain (Israeli data on tourism are not disaggregated for the Occupied Territories), it is estimated that tourist expenditures in the West Bank and East Jerusalem approximated \$90 to \$100 million in 1989. From August, 1990 to the summer of 1991, the period covering the Gulf War, the tourism sector lost approximately \$100 million, including hotels, travel agencies, tourist transport companies, handicraft manufacturers and restaurants.<sup>51</sup> Yet, tourism has important potential for the economy of the Occupied Territories, as it does in other developing countries. According to a 1989 report in The Economist, "tourism earned poor countries about \$55 billion in 1988, according to UN estimates. That makes it their second biggest earner of foreign exchange, after oil (\$70 billion)."<sup>52</sup> The Economist predicted in 1989 that spending on international tourism, exclusive of fares, would increase by about 5% per annum, in real terms, until the year 2000. The Economist also pointed out that, in contrast to manufacturing which is faced with protectionist trade barriers (and the need for often significant expenditures on new technology), tourism creates many jobs and does not face such barriers.

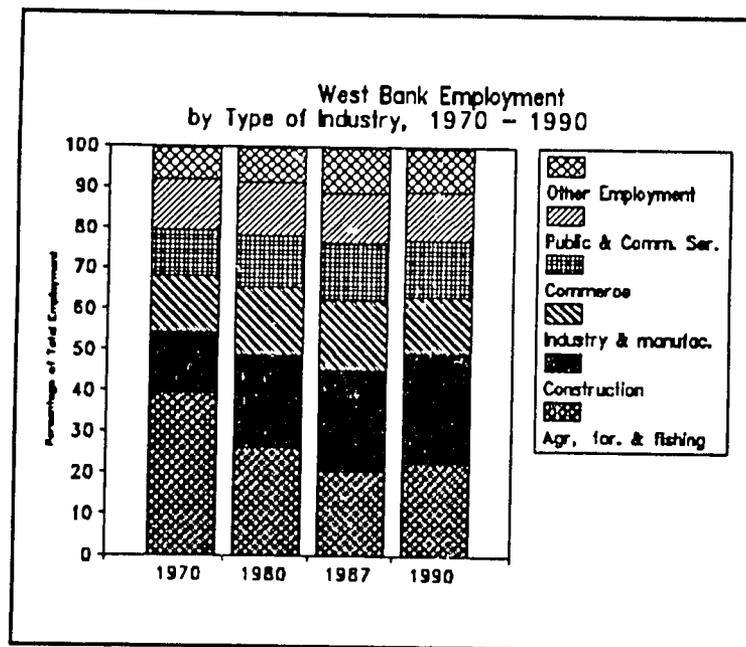
Employment in the *construction* industry has increased significantly in both the Gaza Strip and the West Bank between 1987 and 1990 (see Figures 4 and 5 that follow). In 1989, 11% of employed Palestinians in the West Bank worked in construction—primarily housing construction—a minimal increase over the 10.7% employed in this sector in 1980. In Gaza, on the other hand, there was a 73% increase in Palestinians employed in this sector, from 7.3% in 1980 to 12.6% in 1989.<sup>53</sup> While it was not possible to obtain more detailed data, it is possible that the relatively small increase in the West Bank is due to the fact that the data do not include East Jerusalem; Palestinians in the Gaza Strip, on the other hand, are employed in construction in Israel and in settlements, in addition to construction in the Gaza Strip.

Figure 4



Source: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem; 1991.

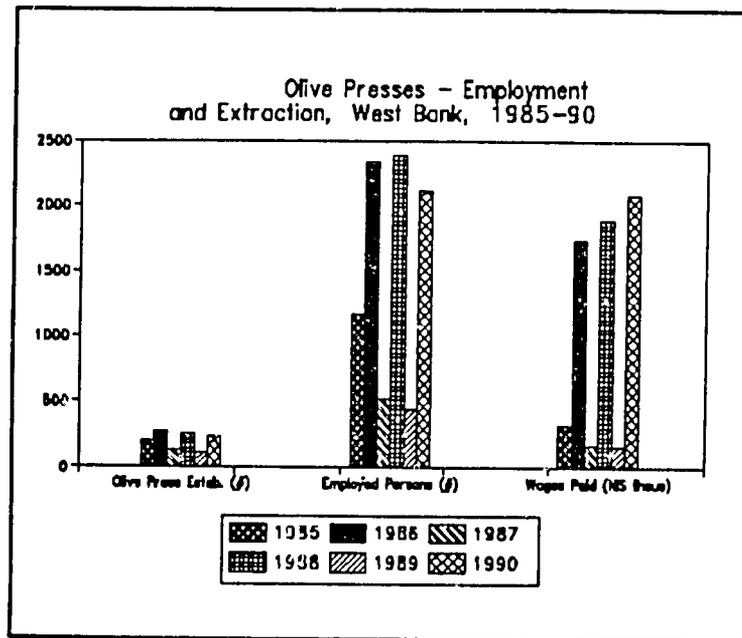
Figure 5



Source: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem; 1991.

Two examples of industries which have had some modicum of modernization since the Occupation are *olive oil production*, including the introduction of new technology; and *quarrying*, in which the production process has been modernized.<sup>54</sup> Importantly, in 1985, these industries accounted for a significant proportion of the industrial contribution to GDP of the West Bank in 1985: 34% for olive presses and 7% for quarries.<sup>55</sup> However, although olive pressing contributes significantly to the food processing industry in the West Bank, it is both seasonal and dependent on crop yields; the number of persons employed can range from 500 to 2,500 in any given year. See Figure 6 below.<sup>56</sup>

Figure 6

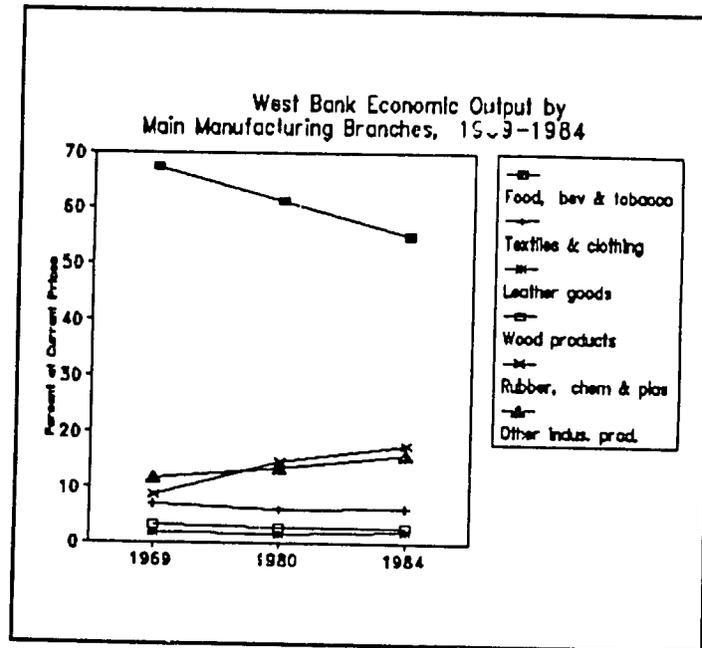


Source: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem; 1991.

Finally, *several new industries* have been introduced, including plastics, pharmaceuticals, paper products, detergents and soft drinks. In each of these, there are examples of companies which have introduced new technologies and/or creatively adapted from existing equipment when it has been difficult to import new, more efficient equipment through Israel. According to Ahiram, it is the paper products industry which has "made probably the largest inroad of all Palestinian products into the Israeli market."<sup>57</sup> This is particularly interesting because the marketing of Palestinian paper products has been hampered by the same constraints as pertain to other companies. The degree to which these industries are involved in subcontracting to Israeli companies (for re-export to Israel) or import substitutions is not clear.

In the West Bank, the industrial classifications of rubber, pharmaceuticals and plastics "increased their share of manufacturing income from 8.7 per cent in 1969 to 17.8 per cent in 1984."<sup>58</sup> See Figure 7 below. No detail is available for those companies classified as "rubber."

Figure 7



Source: Mansour, A. *The West Bank Economy: 1948-1984*. In: Abed, G. (ed.) *The Palestinian Economy*. London: Routledge; 1988, Section I, Chap. 4.

The *pharmaceutical industry* has been an increasingly important one in the West Bank. Prior to 1967, there were no pharmaceutical companies in either the West Bank or Gaza Strip; as of the end of 1991, there were 10 companies in the West Bank and one in the Gaza Strip (which is essentially a small-scale toiletries enterprise). According to Mansour, "the pharmaceutical industry ... has constituted the most significant development in West Bank industry since 1967." The fact that Palestinian doctors tend to prescribe pharmaceuticals from their own (or colleague's) companies (of which they are shareholders) has helped to ensure the growth of this industry.<sup>59</sup> However, most of these companies do not manufacture pharmaceuticals, but rather re-package imported chemicals.<sup>60</sup>

While pharmaceutical companies contributed significantly to this expansion, plastics have also played a large role. Only one of the 17 plastics firms currently in operation in the West Bank<sup>61</sup> and none of the firms in the Gaza Strip was in operation prior to 1967. Several of the plastics companies have modern equipment for most of their operations and, within the constraints of the GOI, make creative use of their product lines, including scrap materials.

Although the *fishing industry* in Gaza provides employment for just over 1,200 Palestinians (as of early 1992), its importance has diminished significantly since the Occupation. Prior to that time, 7,500km<sup>2</sup> of land in Gaza were used as fishing areas; this has been reduced to 600 km<sup>2</sup>. The tonnage of catches has decreased by 63%, from a high of 2,600 in 1972 to 962 in 1983, the most recent year for which data are available.<sup>62</sup> This reduction in fishing areas is not the only factor which has decreased the importance of the fishing industry in Gaza; other factors include: Israeli restrictions on hours in which fishing is permitted; competition from Israeli fishermen, who have modern boats and other equipment; allowable fishing boundaries for Palestinians; and disparity in taxes imposed on Gazan, as opposed to Israeli fishermen.<sup>63</sup>

## B. INDIGENOUS INSTITUTIONS FOR DEVELOPMENT

Several institutions which have the potential to contribute to industrial development in the Occupied Territories are the Economic Development Group (EDG), the Arab Technical Development Center (TDC), Arab Development and Credit Company (ACDI), the Union of Industrialists, Cooperation for Development (CD), the Arab Thought Forum and the Ma'an Development Center (through the conduct of studies and workshops). The credit institutions are described in more detail in the companion report, Finance and Credit in the Occupied Territories.

Historically, the local Chambers of Commerce play roles of varying importance in their regions. These organizations, whose members include most of the medium and large-scale business owners in the Occupied Territories, have encouraged business development and supported industries which face legal and bureaucratic constraints from the GOI. The Chambers of Commerce have recently held elections in the major industrial centers (including Nablus and Ramallah, for example). They are currently playing a key role in facilitating export to Arab countries through the free-trade zone in Jordan. (See the companion Trade report for a more detailed discussion of their role in this regard.)

The Union of Industrialists in Gaza (founded in 1990) and the Union of Industrialists in the West Bank (founded in 1991) are likely to play an increasingly important role in economic development, and are therefore highlighted here. The Union of Industrialists of the Gaza Strip initiated attempts to incorporate in 1986; the Israeli authorities gave final approval for establishment of the organization in late December, 1990. The Union represents more than 500 Gazan factories, includes an 11-member board of directors and has a four-member staff (primarily voluntary). Albeit with limited resources, the Union has initiated a wide range of activities, including, for example: collecting information concerning industries in the Gaza Strip (for use by their members, investors, donor agencies); conducting exhibits of local industrial products; facilitating export arrangements through Jordan to other Arab countries and European markets; providing technical expertise to member industries through its consultancy research unit; and sponsoring training workshops for management and labor. The Union of Industrialists of the West Bank, founded in 1991, has comparable objectives.

## B.1 Subcontracting Arrangements

These arrangements, which entail Palestinian enterprises subcontracting to Israeli firms for small-scale production, have been an important factor in Palestinian industry since the Occupation. These subcontracting arrangements are primarily for the production of clothes, shoes, wood and leather products, electrical appliances (primarily in Gaza) as well as construction materials. They also may include the repair of durable goods, including electrical appliances and motor vehicles.<sup>64</sup>

For the most part, Israeli companies engage in subcontracting arrangements for goods requiring labor-intensive finishing (final stage of production).<sup>65</sup> Moreover, the subcontracting arrangements are economically beneficial to the Israeli companies because of their comparatively low unit costs and wages, and higher benefits than are paid in the West Bank and Gaza Strip. These subcontracting arrangements utilize low-wage workers, often women who are not protected by labor regulations, avoid capital outlay for equipment (costs borne by the Palestinian entrepreneur) and avoid other regulations which apply to Israeli industries (e.g., environmental and occupational health laws).

Although subcontracting has provided employment for large numbers of Palestinians, these arrangements have been criticized by some Palestinians. The ethical, legal and social arguments against this type of arrangement (particularly when it is abused) are countered by the harsh economic realities faced by Palestinians. Given these realities, subcontracting arrangements continue to exist, if not thrive. However, since 1990 there have been reported decreases in the number of Palestinian firms involved in subcontracting arrangements, as well as decreases in the number of employees of those firms which still exist. Several factors are related to this decrease:

- \* the increase in West Bank wages over the years since the subcontracting arrangements were initiated by Israeli firms, making use of subcontracted labor less lucrative to Israeli firms;
- \* the ability of Israeli industry to employ economies of scale and specialization and the increased utilization of capital-intensive techniques by Israeli companies, reducing the need for use of Palestinian subcontractors for final processing of goods; and
- \* Palestinian companies are now usually required to pay cash in advance for raw materials received from Israel; there are no, or limited credit arrangements possible; under the current economic circumstances, fewer Palestinian companies are able to make such cash advances.

Palestinian firms involved in subcontracting have pointed to an additional problem which impedes their ability to survive or expand. When raw materials used in processing goods for Israeli firms are received from Israel based on cash in advance payments made by the Palestinian firm, they are often of poorer quality or there is a shortage in the volume of materials ordered, sometimes by as much as 20%. The Palestinians believe that they have little recourse when this occurs. The result is that the Palestinians absorb the loss.

### **C. THE ROLE OF WOMEN IN INDUSTRY AND ENTERPRISE**

Salman and others have suggested that women play an insignificant role in the industrial sector in the Occupied Territories, with their employment centered in the clothing, food and chemical industries.<sup>66</sup> In fact, according to Salman, "Women's work [in the Occupied Territories] is overwhelmingly concentrated in 'pink-collar' occupations--cleaners, secretaries, clerks, nurses, teachers, waitresses, textile workers--employing the skills women pick up as part of their domestic role."<sup>67</sup>

In the late 1970's and early 1980's, Palestinian grassroots women's organizations began to move from the more traditional women's charitable associations to a focus on the role of women and work. Initially concerned with the conditions of women factory workers, the committees (including the Women's Work Committee, the Working Women's Committee (a separate organization), the mainstream Palestinian Women's Committee, and the Women's Committee for Social Work) began in the mid-1980's to support services for women, including literacy, child care and early childhood education, health education and training for small-scale production.<sup>68</sup>

Women have been only minimally involved in technical training for employment in industry and enterprise. Of 694 students enrolled in technical training in three "community colleges" in 1987, only 3.3% were women.<sup>69</sup> Moreover, only 6,870 women worked in industry in the West Bank and Gaza Strip in 1990, only 25% of the total estimate of 26,998 Palestinians working in that sector;<sup>70</sup> most of these are employed in the low-wage garment and textile industry.

Women's organizations have increasingly developed cooperatives which focus on the production and marketing of specific commodities. For example, the Palestinian Federation of Women's Action Committees (PFWAC) has sponsored such income generating projects as baby food production, sewing, dairy products processing, and crafts for sale primarily to tourists.<sup>71</sup> However, in the broader economy, these efforts have had relatively little impact.

## **V. CONSTRAINTS TO INDUSTRIAL DEVELOPMENT IN THE OCCUPIED TERRITORIES**

The impediments to industrial development in the West Bank and Gaza Strip include those faced by other developing economies and those which are particular to the Occupied Territories. The impediments described in this section are, for the most part, distinct to the Territories, although it is often difficult to make such a distinction.

### **A. BUREAUCRATIC AND LEGAL CONSTRAINTS**

The import/export policies of the GOI, combined with the policy of the League of Arab States Special Bureau for Boycotting Israel with regard to exportation from the Occupied Territories, have had significant impact on the type of Palestinian

industries which have maintained or expanded their operations. Because the policies of the League restrict "manufactured exports to those relying on inputs available locally or imported through Jordan," and those of the GOI prohibit virtually all Jordanian imports, not only has the industrial sector's share of the GDP declined since 1975 (in contrast to Israel and Jordan), but the dominant exports to or through Jordan have been refined vegetable and olive oils and building stone and marble. In fact, as Mansour has noted, "Exports of food products have constituted, since 1968, half of the total industrial exports to Jordan and, including olive oil, 75 per cent of the total."<sup>72</sup>

A number of studies<sup>73</sup> have described several types of bureaucratic policies which hinder the establishment of new industries and improved productivity of existing industries in the Occupied Territories. Those particular to the Israeli government include:

- \* the system of personal and corporate taxation, which is important in light of the degree to which industries are dependent on family wealth for investment capital;
- \* denial of or extended delay in approval of licenses, including import licenses for new equipment;
- \* the de facto suspension of the Jordanian law for encouragement of investment in the West Bank (In November, 1991, the GOI introduced a comparable law which was to be effective January, 1992; this law is discussed in the previous section of this report;
- \* provision of direct and indirect subsidies to Israeli producers, with little or no concomitant subsidies for Palestinian industries;
- \* import and export restrictions, including requirements for permits and licenses, the levying of customs and duties, and the prohibition of the production of certain products; these restrictions are protective measures against imports from all countries and are based in part on the determination that they do not meet official Israeli standards;
- \* inadequate development of physical infrastructure (e.g., electricity, water supply and sewage disposal, and telecommunications);
- \* scarcity of financial institutions to encourage savings for investment and provide loans for investment capital; and
- \* inadequate public, vocational education and post-high school technical and science education, which impedes the ability of the Palestinian labor force to remain competitive.

An additional bureaucratic constraint which is of increasing concern is the virtual absence of a civilian court and the use of the Military Court to adjudicate civil disputes, including those relating to corporate law. As the United Nations Conference on Trade and Development has noted:

"The local courts are almost completely lacking in means of executing court decisions and judgements. This has increasingly weakened the legal framework within which contractual dealings are carried out."<sup>74</sup>

Jordanian policy measures which have impeded industrial development in the West Bank include:<sup>75</sup>

- \* restriction against exports to Jordan from Palestinian firms established after 1967;
- \* restriction against goods "produced from raw materials or by means of equipment brought from Israel or imported through it" (In view of the Israeli requirements that most raw materials and all equipment must be brought through Israel to the Occupied Territories, this places Palestinian companies in an effective vice); and
- \* discouraging Palestinian companies from expanding, or establishing, manufacturing companies in the West Bank, while at the same time encouraging the expansion of Palestinian companies in the East Bank (Jordan).

In view of the importance of taxation with respect to industrial development, issues relating to that bureaucratic impediment are summarized below.

## **B. TAXATION**

Taxation policy—including the regulations themselves and the manner in which they are applied—impact directly and indirectly on industrial development. In the case of the West Bank and Gaza Strip, Israeli taxation policy is consistently described by Palestinians and international observers as a factor which has served to limit industrial development. Legally, an occupying power has the authority to collect taxes, but in the context of the Hague Convention IV (1907) and the Fourth Geneva Convention (1949), two provisions underlie tax collection: a) all revenue collected from the occupied population is to be used in that area, and b) the taxes are to be collected in accordance with international law. According to most international legal opinion, the law which was in force at the time of takeover of the Occupied Territory is the one which applies until there is a final settlement of the disputed territory. In the case of the West Bank, that would be Jordanian law; in the case of the Gaza Strip, that would be Egyptian law. Both have elements of British and Turkish law.

According to the 1991 report of the International Labour Conference, during a mission to the Occupied Territories:

"... the representatives of the Director-General heard widespread protests from academics, trade unionists, workers and employers, about the system of taxation and the methods of revenue collection in the occupied Arab territories. In general, the population of the territories were unable to understand, or to accept, the many different taxes imposed on them and the manner in which they were collected... The representatives of the Director-General observed that the system of taxation was a source of profound discontent among the population of the territories. It is a matter which merits thorough investigation by the authorities in order to remove any discriminatory or arbitrary factors that may exist in the taxation system."<sup>76</sup>

The tax issues which most affect industrial development are briefly described below. Several European legal rights organizations are collecting and analyzing data on tax rates and other tax issues.

1) *Use of value added tax (VAT)*

In 1976, the GOI introduced a "Excise Added Tax," corresponding to the value added tax (VAT) introduced in Israel in the same year. In introducing this tax, which is charged on all goods produced in the Occupied Territories, the GOI stipulated that it was necessary to ensure provision of adequate social services for the population; the VAT is 18% of the total production revenue.<sup>77</sup> Ostensibly, exported goods are exempt, with the GOI returning to companies that proportion of their paid VAT which applied to exported goods. However, many companies reported that the VAT is either not returned, a smaller proportion is returned than has been determined to be due by even Israeli accountants, or its return is considerably delayed, resulting in serious cash flow problems.<sup>78</sup> According to a 1987 UNCTAD report, "Generally speaking, VAT has evolved over the past few years to become one of the most serious fiscal constraints on the development of Palestinian industry and trade."<sup>79</sup>

2) *Disparity between personal income tax rates as they apply to the Occupied Territories and Israel*

A significant disparity exists between tax rates used for Israeli citizens and those used for Palestinians residing in the Occupied Territories. This disparity continues to exist even after the tax reform which took effect on January 1, 1992. Necessarily, this relatively high personal tax paid by Palestinians limits their available disposable personal and investment income. This is particularly important in light of the fact that most of the investment capital in industry is derived from the owners of the companies and their families, rather than from financial institutions.

3) *Application of tax regulations*

Since at least 1989, there have been reports of increased CIVAD collection of taxes from both industry and individuals, which have been perceived by Palestinians as well as by external observers (including representatives of the International Commission of Jurists) as being arbitrary and capricious. Just prior to the Gulf War, for example, the tax authorities demanded pre-payment for taxes due in January and February; subsequently, those companies forced to pay the taxes had minimal production.<sup>80</sup>

Importantly, collection measures, which have increased in number and intensity since March, 1991--and in particular since October/November, 1991--include confiscation of property (industrial and personal) and other measures which have been reported elsewhere. It should be noted that even when Palestinian business owners have hired Israeli accountants and lawyers (an expensive proposition) to assist them in the preparation and maintenance of necessary tax records, and when they have recorded "proof" of tax payment, property confiscation and other forms of harassment have still taken place. Thus, the suggestion that Palestinian individuals and business owners should maintain more accurate records and pay their taxes as required is an insufficient response to this issue.

Additionally, during 1990, the tax authorities frequently revised tax assessments for previous years, then demanded payment in one lump sum for the previous years for which assessments had been revised (up to five years). A number of the targeted businesses produced goods which compete with those produced in Israel.

Finally, an increasing number of businesses which have not been operational for some time (as long as three years) or which have been operational only minimally, have recently received very high tax bills for that same period.

4) *The tax rate on land*

In the Jerusalem area (and elsewhere in the West Bank) tax rates on land have increased substantially since 1987, further limiting the ability of industries to expand.

**C. CLOSURES AND CURFEWS**

Certain actions concomitant with the Intifada, including strikes and early closure of enterprises, as well as GOI-imposed curfews, must be considered in any discussion of constraints to industrial development. According to a 1989 UNCTAD report, the uprising and Israeli responses to it had resulted in:

"... serious losses for small-scale Palestinian industries and entrepreneurs owing to the small domestic market and the rigidities of the industrial structure. A number of larger factories in the West Bank have been forced to shut down temporarily, while others have reduced production. There have been serious difficulties in maintaining raw material supplies from/through Israel, while the commercial strike has discouraged production in some branches (plastics, wood, metals and electrical appliances, and tourist goods)."<sup>81</sup>

During curfews, factory and business owners must continue to pay overhead and meet debt obligations even when production lines have ceased operation. During the Gulf War, three Bethlehem factories reported losses of \$500,000 in the first two weeks of curfew alone. These losses resulted from "foregone production, inability to fulfill already placed orders and spoilage of goods in storage."<sup>82</sup> During periods of curfew, factory owners are often not able to facilitate arrangements for permits for their workers to travel, nor for movement of raw materials imported from Israel, nor for the local or export marketing of products. At one point during the Gulf War, production fell to 10% of capacity.<sup>83</sup> Okasha has suggested that restrictions and targeted action against industries competitive with Israeli companies has resulted in the closure of certain companies.<sup>84</sup>

The three examples of extended curfews and closures which have had serious impact on the industrial sector are:

- \* the 42-day curfew imposed on Beit Sahour in the fall of 1989;
- \* the extended curfew imposed throughout the West Bank and Gaza Strip during the Gulf War, and for periods immediately prior and subsequent to the Gulf War; and
- \* the extended curfews imposed on Ramallah in late 1991 and early 1992 (the city is an industrial and commercial center in the West Bank).

It has been argued that the economic Intifada (the self-imposed restriction on importation of Israeli goods and a move toward import substitution) has had some beneficial results. Okasha, for example, points to the growth of the food and beverage industry in Gaza, which resulted from increased consumption of local products by Gazans.<sup>85</sup>

#### **D. MANAGERIAL, SOCIAL AND ECONOMIC FACTORS**

Given the volatile political and economic conditions and the virtual absence of a normal financial system, the risk-aversion behavior of Palestinian entrepreneurs to industrial investment and decision-making militates against success. This risk-aversion is revealed in such decisions as location of plants near one's residence, rather than in the most economically appropriate site and paucity of capital investment in equipment and plant construction or retrofitting.

Salman has identified several factors which impede the growth of West Bank industry:<sup>86</sup>

- \* scarcity of technical schools and resources to support such education, fundamental for the development of the industrial sector;
- \* lack of clearly defined labor and personnel policies, including for example, fringe benefits and health and safety programs, which have been demonstrated in industrialized and developing countries as linked to labor productivity;
- \* lack of training in, and utilization of, accounting systems which could be used to both improve management decision-making (e.g., estimating unit costs of products) and maintain adequate records to calculate taxes and claim allowable deductions;
- \* limited degree to which market research and advertising are utilized by Palestinian companies; and
- \* the lack of higher education and experience on the part of many of the men who operate family-owned businesses.

Salman and others have also identified the predominance of family-ownership of Palestinian businesses as an impediment.<sup>87</sup> Many of those who have studied industry in the Occupied Territories have suggested that this type of ownership: 1) inhibits the identification and use of human resources outside of the family, 2) places a high level of dependence on family wealth, and 3) encourages conservative management practices (in particular with respect to expansion; one is less likely to risk family wealth for expansion in an uncertain environment). Family ownership of Palestinian firms has also been identified as a positive factor, primarily in terms of stability in small-scale industry. Although family ownership is predominant in the highly successful Pacific Rim countries, the distinctions between these and industries in the Occupied Territories are obvious. In the Pacific Rim countries the investment climate has been positive for some time; governments have encouraged and supported family-owned businesses, provided extensive subsidies and devised highly protectionist trade practices, and provided a sophisticated system of managerial, informational and technological support.

Industrial maintenance, a critical managerial factor in productive industry, is a serious problem in the Occupied Territories. In his 1990 report on industrial maintenance problems in the West Bank, Jaddu cited several causal factors for this problem:<sup>88</sup>

- 1) during start-up phases of development of specific industries, human resource needs are rarely studied and usually underestimated;
- 2) maintenance requirements are not assessed until the first instance of equipment break-down, personnel are not aware of correct maintenance procedures, and managers often prefer to wait until equipment failure, rather than stopping production for regular maintenance;

- 3) company owners/managers often do not ensure that new (or second-hand) equipment has the requisite technical manuals and service contracts, nor do they arrange for training of technicians in equipment maintenance and repair; and
- 4) on-site repair and maintenance capability is poor and managers hesitate to call on outside technical expertise for equipment repair.

This inattention to industrial maintenance is, perhaps, understandable in view of the lack of resources to support the productive private sector in these efforts, as well as the scarce resources available to the firms. Industrial maintenance, particularly with respect to preventive maintenance, may seem a long-term benefit in the context of economic survival.

Importantly, of the 51 companies in the West Bank studied by Juddu, only 20% (10 factories) had a "complete maintenance staff" consisting of one engineer, a mechanical technician, an electrical technician, a welding technician and a machine shop technician, although most (61%) of these maintenance technicians had no scientific background.<sup>89</sup> Seventy-three per cent of the equipment was manufactured outside of the West Bank, Israel or English-speaking countries; as a result, many of the operating manuals are in foreign languages which are not spoken by technical staff in Palestinian companies; this severely hampers the ability of the staff to adequately maintain and repair the equipment.<sup>90</sup>

Other factors which impede the ability of Palestinian industry to expand, or even survive, and which certainly foster their competitive disadvantage on the open market, include, for example:

- \* impediments to importation of new technologies,
- \* the inability to plan for consistent production (partially as a result of curfews and strikes),
- \* poor quality control, and
- \* lack of workers trained in new technologies and management.

Moreover, the types of ancillary systems which support industrial development, most of which exist to some degree in even the least-developed countries, are either nonexistent or minimal in the Occupied Territories. These include, for example:<sup>91</sup>

- \* industrial, trade and professional associations which provide professional/technical guidance (the Chambers of Commerce have only recently begun to re-activate and Unions of Industrialists have recently formed in both the West Bank and Gaza Strip);
- \* indigenous support organizations such as those which could provide managerial, industrial engineering and marketing expertise (Bethlehem University and Beir Zeit University are both developing capabilities in this area); and

national regulatory and standardization bodies, including those which relate to industries in general, and to labor and management specifically (e.g., environmental and occupational safety and health, quality control, credentialing of employees).

## VI. CONCLUSIONS AND RECOMMENDATIONS

### A. DEVELOPMENT OPPORTUNITIES

In spite of the apparent limitations--many of which have been discussed in previous sections of this report--some Palestinian industries have thrived. What are the factors which contribute to success in the face of the constraints described previously? The following have been derived from review of the literature, conduct of site visits to industries (large, medium and small-scale) in the West Bank and Gaza Strip and discussions with representatives of the industrial sector:

- \* innovative, modern management which results in, among other benefits, improved quality of products; such management is reflected in some companies in the bottling and plastics industries, for example;
- \* access to external trade/competition information (through travel abroad);
- \* experience in managing productive enterprises abroad;
- \* family wealth and investment in the enterprise and the continuity provided by a family business (note that some have seen the predominance of family-owned enterprises as an impediment as well);
- \* creative use of limited resources, including inventive adaptation or development of technologies for use in the manufacturing process;
- \* the entrepreneurial spirit inherent in Palestinian companies, characterized by extensive owner-involvement;
- \* notwithstanding the curfews and strikes, absenteeism is rare in Palestinian companies; and
- \* competitive pricing (resulting from lower wages, rents and lower profit margins).

These factors should be taken into consideration in the process of planning for investments in the industrial sector in the Occupied Territories.

One can speculate about the possibilities for industrial development in the context of a true, free market economy, unfettered by legal, bureaucratic and other types of impediments not traditionally faced in other contexts. Palestinians in the diaspora represent an interesting "control group." Few would dispute the significant role that Palestinians have played in the Gulf States, for example, in developing and managing industrial and service enterprises (nor, for that matter, the public sector). In Europe and the U.S., examples, of successful Palestinian

entrepreneurs abound. How, then, can the most effective and efficient use be made of the scarce resources available for industrial development programs in the West Bank and Gaza Strip, taking into account both favorable and unfavorable conditions in the Occupied Territories as well as global market and other developments?

In his 1989 essay on technological development, Vernon identified seven key lessons learned from the experience of developing countries with respect to the adaptation and application of existing technologies since World War II. The findings, based on the extensive review of literature and the author's own experience, were published by the Economic Development Institute of the World Bank. The key findings that are of particular relevance for industrial development in the Occupied Territories were:<sup>92</sup>

- 1) Developing countries that have a capacity to explore and assess foreign technologies are more likely to acquire technologies appropriate for their needs, and as technological capacities change, it is increasingly important to ensure policy and organizational flexibility and to develop technological networks among cooperating firms.
- 2) While not a sine qua non of successful utilization of new technologies in industry, the existence of a strong scientific community or research and development capacity becomes increasingly important as a country begins to adapt or develop new technologies. In addition, firms must "engage in a continuous process of learning."
- 3) The size and structure of the local market and the potential for exports, the country's regulatory and educational policies are all important criteria affecting the choice of technologies.

The findings are instructive for industrial development planning in the West Bank and Gaza Strip, as they point to conditions necessary for technological enhancement of industry which, at this point, cannot exist in the Occupied Territories. However, they also are a source of clear, development strategies for the industrial sector.

Israeli technology has developed considerably over the years, with significant external support; some of its industries are currently competitive with world markets. In 1990, Abdallah and Dakkak suggested that it is in the mutual interest of Palestinians and Israelis--indeed of neighboring Arab States -- to "work together on joint ventures to develop indigenous technologies ... Such cooperation would be particularly relevant to the solving of mutual problems such as arid land agriculture and the harnessing of solar technology where heavy investment is required" to ensure cost-effective development of related products.<sup>93</sup>

In planning for industrial and enterprise development, whatever the political circumstances, it will be important for Palestinians and donors to take into account a number of factors with respect to resource allocation toward that development; for example:

- \* the specific branches of industry that have the most potential to create jobs over the immediate, medium and long term; and
- \* approaches to ensuring that short term strategies (e.g., housing construction) foster longer term ones (e.g., improving the productive capacity of Palestinian building material industries and physical infrastructure to support housing and industrial areas), in order to more effectively utilize capital urgently needed for long-term investment.

Unfortunately, the virtual absence of a macroeconomic planning and financial network (see companion report, Finance and Credit in the Occupied Territories), as well as the paucity of data and information, severely inhibits the ability of Palestinians and donors to adequately consider the alternatives.

Perhaps one of the most critical issues for investment is the degree to which support should be provided for projects which have a potential to impact on the overall industrial environment (e.g., improving the capacity of universities and private institutes to conduct industrial research and provide technical assistance and training for industrial development), versus targeting specific firms in industries or enterprises of high potential for economic impact through technical assistance or facilitation of credit. Under normal circumstances, both strategies would be undertaken, of course, as part of comprehensive industrial development. This is particularly crucial given the urgent need to re-direct development in the Gaza Strip from agriculture to an industry/enterprise/service economy. However, given the circumstances of the Occupied Territories, with scarce investment capital and constrained circumstances for industrial expansion, devising priorities for development assistance will be difficult.

Preparing specific plans for industrial development in the Occupied Territories, including donor selection of priority projects, is an area in which coordination among donors, and between donors and Palestinian industrial and economic planning groups, is particularly important in order to set such priorities. Moreover, donors can and should play an important role in facilitating access to credit for private sector industrial and enterprise expansion. If donors see the private sector as a key for economic development, support should be provided to encourage such development, paralleling the type of support provided by governments in most countries.

## B. RECOMMENDATIONS

Table 1 summarizes conclusions with respect to industrial and enterprise sector development in the West Bank and Gaza Strip, as well as related recommendations. The recommendations are intended as preliminary ideas for those involved in development planning for the Occupied Territories. They should be considered in light of the discussion on overall development opportunities in the Occupied Territories which is included in *Visions of a Sustainable Future*—Appendix II to this report.

**TABLE 1**

**CONCLUSIONS AND RECOMMENDATIONS WITH RESPECT TO INDUSTRIAL DEVELOPMENT**

| <b>Conclusion</b>  | <b>Recommendation</b>   |
|--|---|
| <p>1. Scarce investment resources are available for industrial development in the Occupied Territories. Expanded financial systems (banking, credit institutions) which are supported by external donors could significantly enhance the ability of the productive private sector to improve productivity, expand the industrial base, and develop competitive advantage through improved resource management.</p> | <p>1.1 The capacity of the credit institutions to manage loans to industries and enterprises should be studied. If capacity-building assistance is deemed necessary, donors should provide such support (through training, technical assistance and other support).</p> <p>1.2 Contingent upon the findings of the above-mentioned study, donors should continue or expand loan programs to Palestinian enterprises, utilizing mechanisms which can ensure an adequately planned and managed program of development assistance through credit.</p>  |
| <p>2. Palestinian industry, for the most part, lacks new (appropriate) technology for production and management, which technology is required to ensure competitive advantage.</p>   | <p>2.1 In addition to support through direct and indirect financing (see expanded financial systems), Palestinian industries could benefit from technical assistance and training, support for on-site visits to comparable industries, and enhancement of their research and development capacity through linkages between industry and local and regional universities and research institutions.</p> <p>2.2 A comprehensive industrial development plan should be prepared, as well as plans for regional industrial development (including support for plans and feasibility studies for industrial zones) within the Occupied Territories. Any plans should also take into account opportunities for cooperation with Israel, Jordan and other countries in the ME region.</p> |

3. The public and private support systems which exist in virtually all countries to support industrial and enterprise growth and development are severely lacking and in some cases non-existent in the Occupied Territories. This hampers the ability of Palestinian companies to compete effectively on the open domestic and foreign markets.

3.1 Donors should provide technical assistance, training and other support to institutions which support industry and enterprise in the Occupied Territories, including, for example, the various development organizations, Industrial Unions, and other entities, Chambers of Commerce, and universities which provide business and management training.

3.2 Support for information systems (including industry-based systems, on-line access to regional and international market and other financial information systems) and the establishment of clearinghouses could improve access to the requisite knowledge base in a relatively short period of time. This, coupled with direct and indirect financial support (see # 1, above) could contribute to Palestinian competitiveness.

3.3 Donors should support applied research studies conducted by Palestinian institutions; such studies could include, for example, production and quality control, environmental and occupational health, market analysis, personnel management and other managerial factors which relate to both productivity and short- and long-term return on industrial and social investment. These studies should include the provision of information and technical assistance to participating firms.

4. The existing bureaucratic and legal constraints to industrial development in the Occupied Territories severely limit the capacity of the productive private sector to contribute to economic growth. Of particular concern to industry are: a) the absence of a civil justice system through which contracts can be enforced; b) the current tax system and the way it is applied; c) restrictions on imports and exports; and d) curfews.

4. Donors need to engage in policy dialogue with both the Israelis and with those Arab countries which have bureaucratic policies that restrict economic growth in the Occupied Territories. Unless and until some of these restrictions are removed (or alleviated), economic growth will continue to be hampered. However, given the fact that some industries have thrived even in spite of these constraints, the donors could build on those factors which have been related to success among Palestinian industries.

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# **APPENDIX I**

## **CONTEXT OF DEVELOPMENT IN THE OCCUPIED TERRITORIES**

**Policy Research Incorporated  
5740 Trotter Road  
Clarksville, Maryland 21029**

## CONTEXT OF DEVELOPMENT IN THE OCCUPIED TERRITORIES

This appendix describes the overall context in which development opportunities exist in the Occupied Territories, including land size and population data, governance, recent economic trends and the role of donors in development activities. As necessary, these factors are discussed in more detail in each of the reports included in the full set of sector analyses for the Occupied Territories. For example, population data are discussed more fully in the companion report on Health, and economic trends are described in the separate reports on Finance and Credit and on Trade.

Several parameters of this report should be clarified. The term "Occupied Territories" is used to describe the geographic area of the West Bank and Gaza Strip as it is the accepted term for the U.S. government and U.N. agencies. It refers only to the West Bank and Gaza Strip, not to the Golan Heights or the Israeli security zone in Lebanon. The term Judea and Samaria is used when quoting Israeli statistics or other references, as this is the designation used by the GOI for the West Bank area. Unless otherwise stated, the West Bank statistics, information and recommendations presented in this report include East Jerusalem. Where necessary, East Jerusalem is referenced separately, for example in cases where data have clearly excluded East Jerusalem. It must be noted at the outset that the statistical data available from the GOI (i.e., those published in the Statistical Abstracts and other governmental sources) which can be used to numerically describe the sectors do not include East Jerusalem. This significantly skews the data and inhibits analysis of trend data which could be used for economic planning. Moreover, as Benvenisti has suggested,

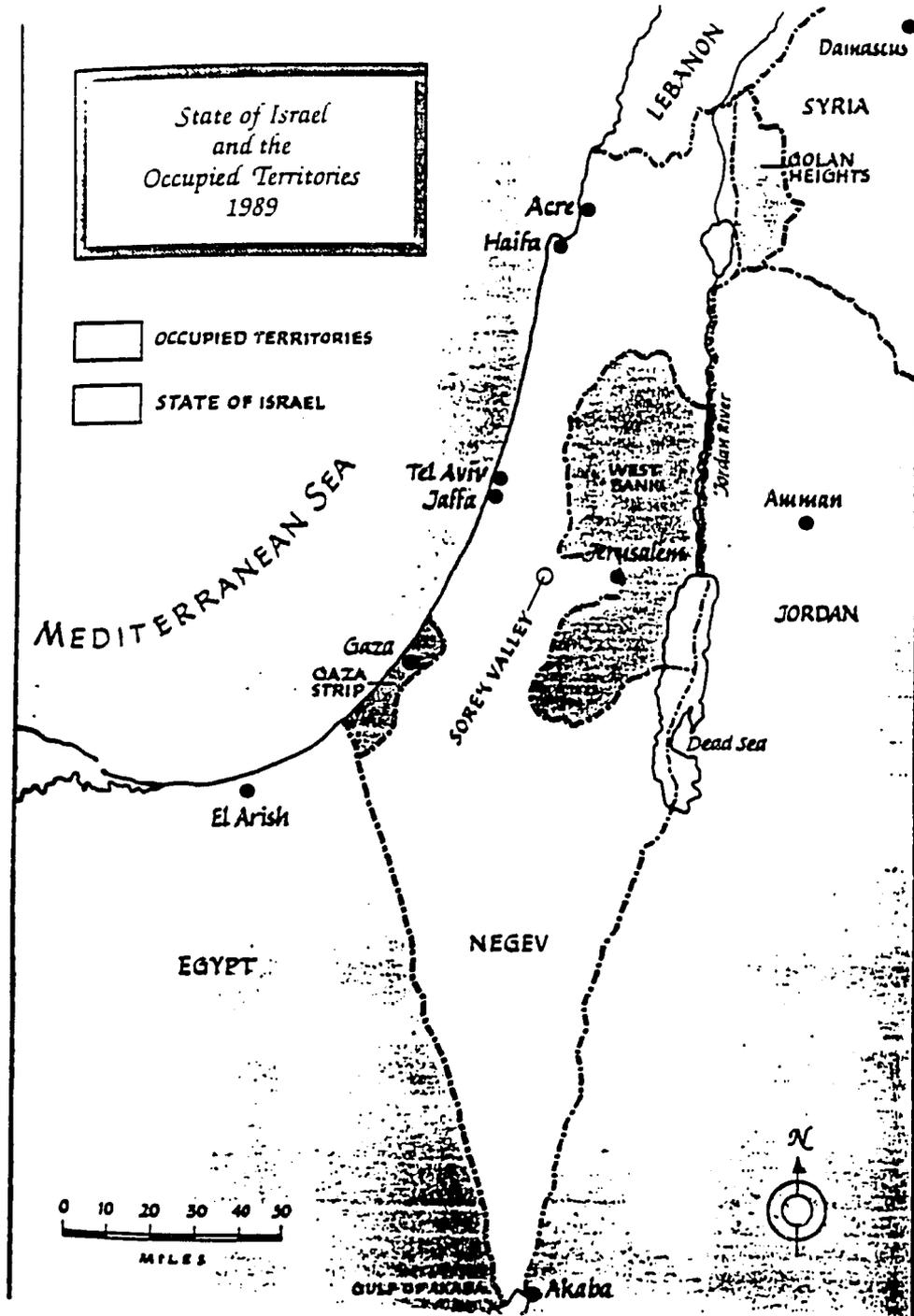
"For statistical purposes the West Bank and Gaza Strip are considered by Israel's Central Bureau of Statistics to be units independent of Israel. Economic activity there is investigated and reported as though it constitutes a 'national economy' united with Israel in a 'common market.' The official reporting of GDP, GNP, exports and imports and balance of payments of the territories is, however, inaccurate at best and misleading at worst. The daily, complex, economic interaction over the nonexistent 'green line', lacking any effective monitoring and control, calls the reliability of the statistics into question."<sup>1</sup>

Unfortunately, because of the serious impediments faced by Palestinians and others in conducting empirical studies in the West Bank and Gaza Strip, most studies of the Occupied Territories depend primarily--and necessarily--on GOI statistics, notwithstanding their limitations.

Finally, although Israeli settlements in the Occupied Territories have considerable impact on economic and social development in the area, only minimal data and information are available with respect to either plans for settlements or specific factors pertaining to individual sectors (e.g., infrastructure and industry).

## A. THE LAND AND THE PEOPLE

The West Bank and Gaza Strip are bordered by Israel, Jordan and Egypt as shown in Figure 1. The total land area of the Israeli-occupied West Bank and Gaza Strip (as defined by pre-1967 borders) is 5,939,000 million dunums (one dunum = .23 acres) of which 5,572,000 are in the West Bank and 367,000 are in the Gaza Strip.<sup>2</sup>



Source: M. Kunstel and J. Albright, *Their Promised Land*. Crown Publishers, Inc., New York; 1990.

According to the U.N., as of 1985, approximately 52% of this land was under Israeli control—that is, within the jurisdiction of the GOI or of Israeli citizens (settlers). Estimates of Israeli control of land as of early 1992 are shown below:<sup>3</sup>

| Source of Estimate | West Bank | Gaza Strip |
|--------------------|-----------|------------|
| Al Haq             | 65%       | 50%        |
| Land and Water     | 67%       | 50%        |
| PHRIC              | 70%       | 52%        |

Because the most recent census was conducted twenty-five years ago (in 1967),<sup>4</sup> accurate demographic data for the Occupied Territories are virtually impossible to obtain. Thus, all population data have been estimated for the period after the 1967 census. The three primary sources of information regarding population are the Central Bureau of Statistics (CBS), the Ministry of the Interior (MOI) and estimates prepared by the Jordanian Medical Association in 1986. In the summary of demographic and other data published by Benvenisti and Khayat in 1988, it was noted that the Palestinian population data presented by the CBS and by the MOI for the Occupied Territories differ. For example, the data for 1987 showed CBS estimates of a total Palestinian population of 858,000 for the West Bank, while the MOI estimated the population to be 1,252,000.<sup>5</sup> The CBS estimates exclude East Jerusalem, which has a Palestinian population generally considered to be approximately 150,000.

Using the Statistical Abstract of Israel for 1990 as a basis, and assuming a 3.5% annual growth rate in the West Bank and a 4.5% annual growth rate in Gaza, the following estimates were calculated for 1991:<sup>6</sup>

|   |                  |
|---|------------------|
| West Bank<br>(including East Jerusalem) | 1,104,799        |
| Gaza Strip                              | <u>1,010,640</u> |
| Total:                                  | 2,115,439        |

More than 35% of the Palestinian population is rural (see Figures 2-4), with 15% living in villages with populations of 2,500 or less. The Palestinian population is also a youthful one; nearly half (47.4%) of the Palestinian population in the West Bank is under the age of 15, as is 49.5% of the population of the Gaza Strip.<sup>7</sup> This age distribution and the high birth rates have important implications for social service needs as well as for labor force concerns.

Figure 2

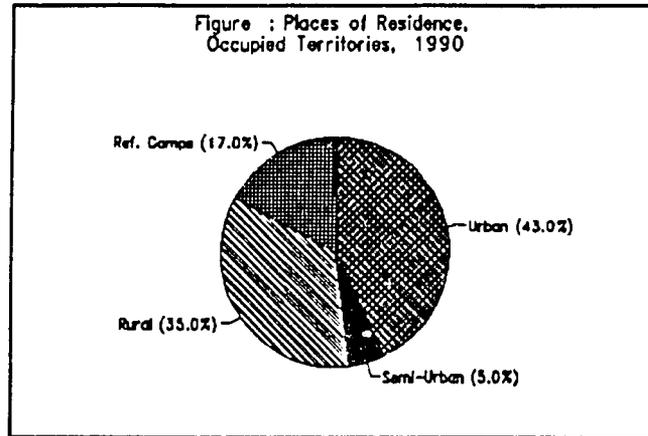


Figure 3

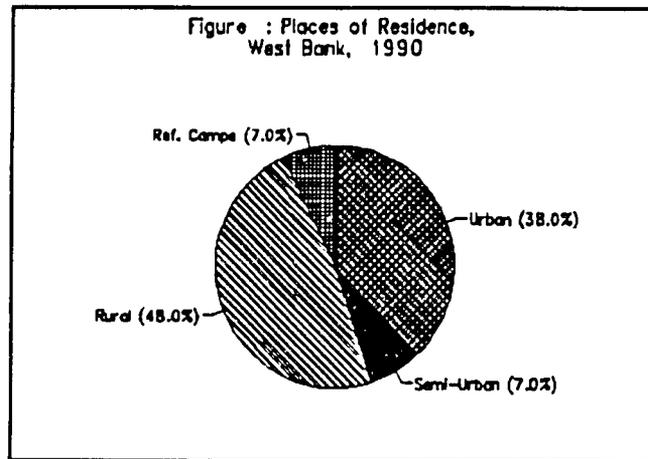
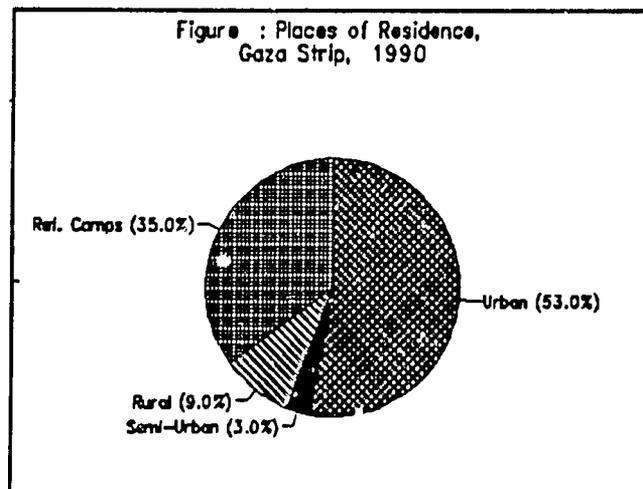


Figure 4



Source: Calculated from Statistical Abstract of Israel 1990. Central Bureau of Statistics: Jerusalem; 1990.

As of January, 1992, 451,695 individuals (or approximately 40% of the population) in the West Bank were registered as refugees. Of these, 119,172 (26%) lived in UNRWA camps. In the Gaza Strip, 549,675 Palestinians were registered refugees (approximately 80% of the population); of these, 302,977 (55%) lived in UNRWA camps.<sup>8</sup>

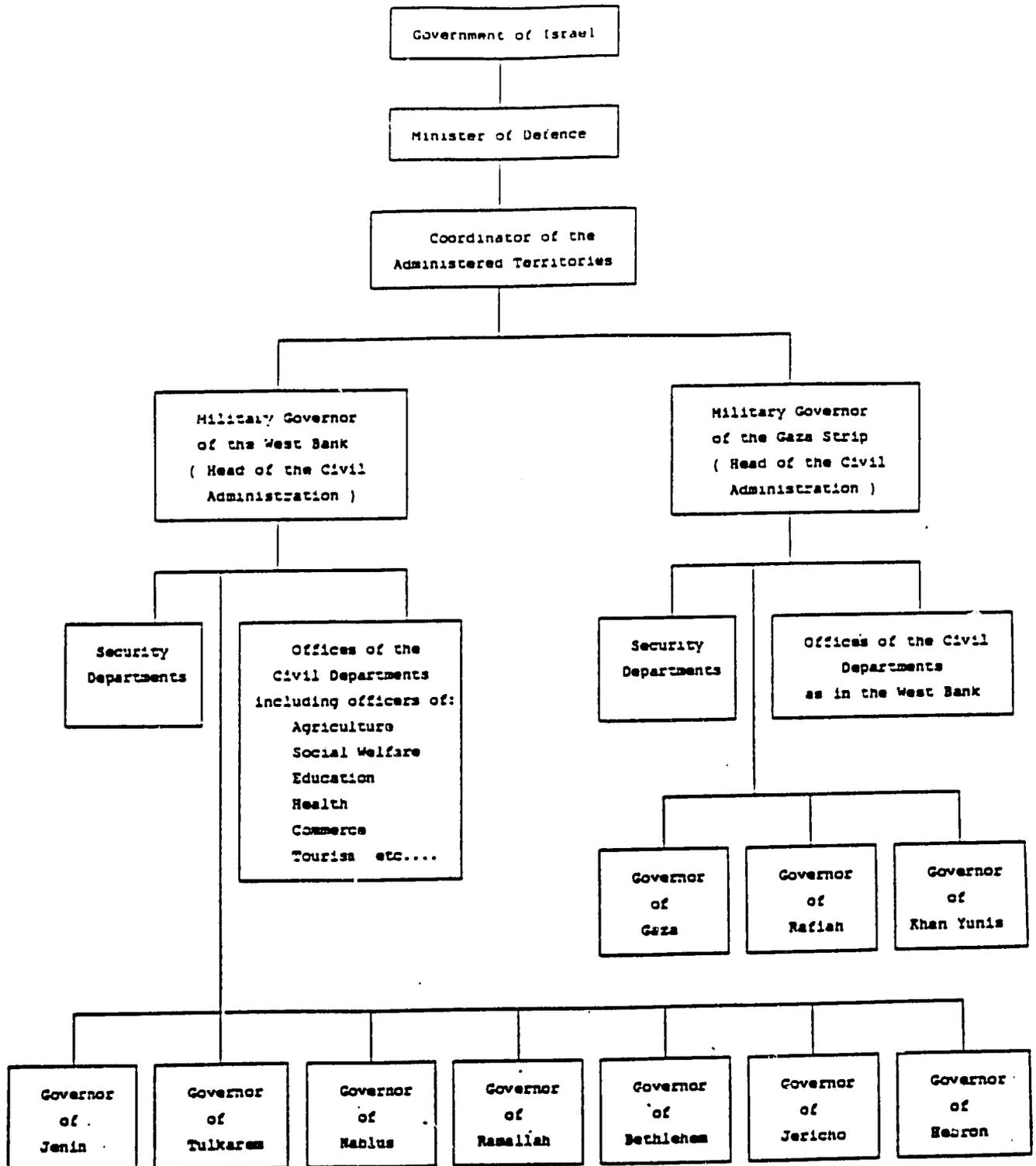
In spite of the high natural rate of increase, until 1991 the population had a relatively low rate of population growth. This resulted from emigration to Jordan, the Gulf States and outside the region, primarily for job opportunities. Even prior to the Gulf War and the influx of Palestinians from the Gulf States, an important population variable in the Occupied Territories, and particularly in Gaza, was the number of residents who returned from the Gulf States annually for summer vacation. It is reported that approximately 100,000 were doing so in the Gaza area for 2-3 months each year; no estimates of similar temporary residents were available for the West Bank. Since the Gulf War, an estimated 25,000 to 35,000 Palestinians have returned to the Occupied Territories from the Gulf States; an estimated 40% of them are currently residing in the Gaza Strip.<sup>9</sup> Most are university graduates but are unemployed or underemployed. However, those who are unemployed reportedly are not eligible for social benefits from the GOI. Some are eligible for services through UNRWA.

## **B. GOVERNANCE IN THE OCCUPIED TERRITORIES**

From 1950 to 1967, the West Bank was under the authority of the Jordanian government, which in 1955 devolved public administration authority to elected municipal governments. From 1948 to 1967, Gaza was under Egyptian control, with appointed municipal governments. Subsequent to the 1967 War, the Israeli military authorities assumed control of the Palestinian population in the occupied West Bank and Gaza Strip. Since 1967, no local elections have been held in Gaza; no municipal elections have been held in the West Bank since 1977.

In 1981, the Israeli government initiated a system of civil administration (CIVAD). Figure 5 on the following page shows the organizational structure of the CIVAD. The CIVAD's "jurisdiction includes all the civil powers of the military government but not the authority to enact primary legislation, which has remained in the hands of the Military Commander."<sup>10</sup> In virtually all CIVAD offices, a military officer directs the departments, but Palestinians comprise most of the technical and administrative staff. According to the Fourth Geneva Convention, the GOI is responsible for the provision of public services for the Occupied Territories, based on tax and other remittances from the Palestinians residing in the West Bank and Gaza Strip and from the GOI budget. These governmental functions are carried out by the CIVAD, with specific responsibility for sectoral programs being coordinated with the relevant Israeli ministry or regulatory body.

FIGURE 5: ORGANIZATIONAL STRUCTURE OF THE CIVIL ADMINISTRATION (CIVAD)



Source: "Food Security in the West Bank and Gaza Strip," Oct 1985, p.4  
 Arab Scientific Institute for Research and Transfer of Technology (ASIR);  
 El-Bireh, West Bank.

The CIVAD currently serves as the "authority" in most municipalities in both the West Bank and Gaza Strip--no municipal elections have been held since a military order suspended elections in December, 1977.<sup>11</sup> Some municipalities have Palestinian officials appointed by the CIVAD, but their authority is limited. Local municipalities carry out activities which in other circumstances would be either public or private sector responsibilities. These range from wholesale produce markets to operating slaughterhouses. In doing so, they liaise with both the CIVAD and Palestinian private sector organizations as appropriate and necessary. For all intents and purposes, both CIVAD and the municipalities therefore constitute "public" agencies in the Occupied Territories. Village councils, of which there are approximately 75 in the West Bank and eight in the Gaza Strip, have even less authority than municipal councils. As with the municipalities, no elections have been held for village councils since December, 1977.<sup>12</sup>

Chambers of Commerce also perform services which in other contexts would be within the purview of governmental or quasi-governmental bodies. For example, they are involved in expediting approval of exports to Jordan (see the companion Trade report for further discussion of their role in export). Elections for Chambers of Commerce were not held from December, 1977 until early 1992, when the GOI allowed such elections in six areas in the Occupied Territories.<sup>13</sup>

### C. RECENT TRENDS IN THE ECONOMY OF THE OCCUPIED TERRITORIES

According to some reports, the economies of the Occupied Territories began to decline in the early 1980s. This decline resulted from stagnation in the Israeli and Jordanian economies.<sup>14</sup> The economy further declined in the late 1980s, even prior to the Gulf War. UNCTAD reported in 1991 that their review of Israeli and Palestinian data indicated "a rapid deterioration in the performance of the economy of the Occupied Territories during 1988-1990."<sup>15</sup> According to that report, the gross domestic product (GDP) for the Occupied Territories decreased by 12%/annum during that period, to just over \$1.2 billion in 1990. Consistent with previous patterns, the decline in the Gaza Strip was more severe than in the West Bank: 17% versus 11%, respectively.<sup>16</sup> Gross national product (GNP) decreased by a comparable amount annually (11%), to approximately \$1.8 billion. Per capita GNP was estimated to be \$1,400 in the West Bank and \$780 in Gaza in 1990.<sup>17</sup> By comparison, the GNP in Jordan for 1989 was \$1,730.<sup>18</sup> In Israel it was \$10,920 in 1990.<sup>19</sup>

With the exception of agriculture, all sectors exhibited significant decline in the period 1988-1990; for example, according to the 1991 UNCTAD report, industrial output decreased by an annual average of 14%, and construction decreased by an annual average of 23%. Other sectors combined (public and personal services, trade, transport and communications) declined by 17%.<sup>20</sup> As a consequence, the contribution of the agricultural sector to the GDP increased from 25% to 31% from 1988-1990, while construction decreased from 17% to 14%; industry has remained at 9% of GDP (although output had decreased). The UNCTAD reports that the decline in the industrial sector "bodes ill for the future of the Palestinian economy."<sup>21</sup> It should be pointed out, however, that several researchers have suggested that traditional economic indicators (e.g., GNP, per capita GNP, GDP)

are not appropriate for the Occupied Territories as they have been devised to study productive economies. Given that the West Bank and Gaza Strip depend largely on transferred resources, the limitations of these indicators should be considered.<sup>22</sup>

The New Israeli Shekel (NIS) is the currency used predominantly in Occupied Territories, although the Jordanian dinar (JD) is still used by some in the West Bank. As of January, 1992, the rate of exchange was NIS 2.3/US \$1 for the Shekel and JD 1/US \$0.68 for the Jordanian dinar. Given the inextricable ties between the economies of the West Bank and Gaza and those of Israel and Jordan, pricing and inflation in these two countries have a significant and deleterious impact on the Occupied Territories. Several key examples of recent impacts are:

- \* increased prices for goods imported through Israel, which accounted for 91% of goods imported into the West Bank and 92% of goods imported into the Gaza Strip in 1986, the most recent year for which data are available;<sup>23</sup>
- \* decline in the wages of Palestinians working in Israel and a decline in real disposable income of most income groups in the Occupied Territories (an example of the deleterious impact of Palestinian wages' being tied to the Israeli economy); and
- \* the differential in the consumer price indices of the Occupied Territories and Israel, which has led to both 1) a decrease in value of sales of Palestinian goods to Israeli buyers, and 2) an increase in purchase by Palestinians of consumer and durable goods from Israel (until the economic boycott of the Intifada, when this practice decreased considerably).

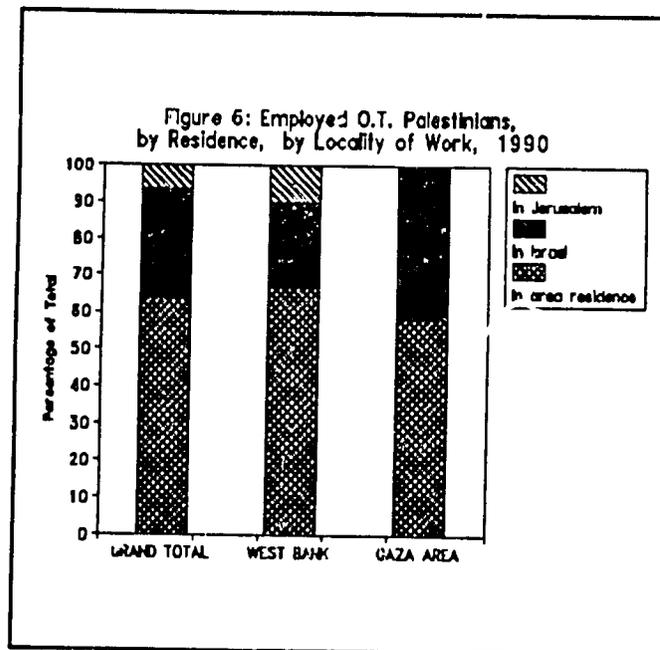
The economic impact of the Gulf Crisis on the Occupied Territories was—and continues to be—significant in all sectors. As the 1991 UNCTAD report noted, the economic impact resulted from both external and internal pressures; these are summarized below:<sup>24</sup>

- \* reduction in private remittances from Palestinians working in the Gulf states, estimated at \$120 million to \$340 million annually prior to the Gulf War;
- \* involuntary return of Palestinians working in the Gulf states to the Occupied Territories resulting in increased pressure on an already distressed job market;
- \* decreases in both public and private financial support from the region for Palestinian private sector development in both social services and productive enterprises (this support was estimated to be \$150 million in 1989); and
- \* disruptions in traditional export and import markets (note: the market share in Jordan had begun to decline prior to 1991<sup>25</sup>).

The total estimated economic impact of the Gulf War (based primarily on lost remittances, transfers and exports) was between \$250 and \$750 million in 1990 alone (55% to 80% of the total generated by these three sources in 1989), or approximately 10% of gross national disposal income.<sup>26</sup> Few knowledgeable individuals believe that there have been substantial moves toward an improvement in the economy of the Occupied Territories since the end of the Gulf War.

Estimates of current unemployment rates vary considerably. Israeli statistics for 1990 show a 13%-15% unemployment rate (including both those officially registered at the CIVAD labor exchanges and those defined by the Central Bureau of Statistics as "employed person", temporarily absent from work"). Other estimates of unemployment in both the West Bank and Gaza Strip range between 30% and 40% of the work force.<sup>27</sup> While Palestinians now have regained minimal access to the Gulf States as a source of employment (and remittances), they are still dependent on employment in Israel (see Figure 6 below), although this alternative for export of labor capital is also highly volatile. As a result of reduced personal income, there has been a concomitant reduction in consumer demand (estimated 20-30% reduction)<sup>28</sup> and reduced funding available for investment.

Figure 6



Source: Israeli Statistical Abstract, 1991. Central Bureau of Statistics: Jerusalem; 1991.

Reductions in local funding available for investment are particularly critical for economic development in the Occupied Territories because between 70% and 95% of capital investment in industry in the Occupied Territories is provided by the individual owners or their families. Importantly for economic development, the period 1988-1990 saw a 4% annual decrease in private investment.<sup>29</sup> Moreover, the external trade sector has not yet shown signs of improvement since the end of the Gulf War, in spite of efforts to re-establish economic relations with traditional trading partners in the region. Exports of both goods and services decreased an average of 30% per annum during 1988-1990, with the decrease far more dramatic in the Gaza Strip (50%) than in the West Bank (16%).<sup>30</sup> Imports of goods and services also declined during this period: 16% in the West Bank and 19% in the Gaza Strip.<sup>31</sup> As of the beginning of 1992, markets outside of Israel remained largely closed to Palestinian products, and the decreased purchasing power of Palestinian consumers continues to result in decreased imports available for Palestinians and decreased internal markets for Palestinian products as well.

#### D. DONOR ASSISTANCE

In addition to remittances from Palestinians working abroad, the economies of the West Bank and Gaza Strip depend to a large extent on donor countries and organizations, each of which has its own particular interest in the Occupied Territories and therefore directs the aid in a particular way. In 1991 alone, \$69 million in funding was allocated by donors for projects in the Occupied Territories.<sup>32</sup> This figure does not include funds provided by Arab states, as these data are difficult to obtain. A large proportion of donor funds are allocated through international private voluntary organizations (PVOs). Therefore, while the amount of donor funds allocated to the Occupied Territories appears large in proportion to the GNP (in 1991, the UNRWA budget alone accounted for 5% of GNP), a relatively large percentage of the funds do not directly enter the economy of the Occupied Territories. Much of the bilateral and multilateral funding remains in the country of origin to purchase goods and supplies which are donated to beneficiary groups in the Occupied Territories, or to pay for training and technical assistance. Similarly, while the "overhead" rate of the international agencies (e.g., UNRWA) and the international PVOs is relatively low (usually representing 20% - 45% of the total project budget), this does represent funds which are not part of the economy of the Occupied Territories. It should be emphasized that, in this respect, the West Bank and Gaza Strip do not differ from most other recipients of donor funds. However, in view of the fact that such funding is crucial for operation of basic human services and support of infrastructure in the Occupied Territories, it becomes a more critical issue. Moreover, there is little flexibility in the allocation of funds within the Occupied Territories: donor funding and other types of development assistance by international and bilateral agencies such as the World Health Organization (WHO), the UNDP and A.I.D., must be carried out by the donors and agencies with the approval of the GOI.

The importance of the economic role of UNRWA cannot be overlooked. In 1990, its annual budget for the West Bank and Gaza Strip was \$98.6 million. In 1991, the UNRWA budget was \$98.3 million; the approved 1992/1993 budget is \$217.8 million (roughly \$109 million per year).<sup>33</sup> In addition, from 1988 to 1991, approximately \$949.1 million has been contributed to UNRWA, primarily by the

U.S. and European governments, to operate refugee camps and to provide services to the refugees under its aegis. Approximately 40% of these funds are utilized for the West Bank and Gaza Strip.<sup>34</sup> Until recently, UNRWA has expended only minimal funds for economic development projects. However, the agency plans to raise \$20 million over the next five years for income-generating projects in the Near East.

It is important to distinguish between the ultimate source of external funds (e.g., governments and private donors to non-profit organizations) and the vehicles through which such funds are disbursed. The most important sources of external aid have been:

individual Palestinians in the diaspora, who contribute to a variety of organizations and institutions (as distinct from the remittances sent by individuals to their families in the Occupied Territories);

Arab governments and individual Arabs, contributing to:

- individual Palestinian organizations and institutions, including municipalities;
- the Joint Jordanian-Palestinian Committee for the Steadfastness of the Palestinian People in the Occupied Homeland;
- the Palestinian Liberation Organization (PLO); and
- various U.N. agencies operating in the Territories, including the UNRWA and UNDP.

the U.S. Government, which disburses funds through:

- various U.N. agencies operating in the Territories, including the UNRWA and UNDP;
- the Agency for International Development (A.I.D.) Jordanian Development Program (until 1989); and
- U.S. private voluntary organizations (PVOs) operating in the West Bank and Gaza Strip and one Palestinian PVO.

private U.S. individual donors and foundations, providing funds to:

- individual Palestinian organizations and institutions; and
- U.S. private voluntary organizations operating in the West Bank and Gaza Strip.

- \* European, Canadian, Japanese and other governments, which provide contributions to:
  - individual Palestinian organizations and institutions;
  - the European Community (EC); and
  - various U.N. agencies operating in the Occupied Territories, including the UNRWA and UNDP.
- \* European individual donors and foundations, which provide contributions primarily to individual Palestinian organizations and institutions.

Understanding the nature of the sources of external funds is important to an understanding of the dependency of the Palestinian economy on the vagaries of external conditions. Ultimately, the U.S. and European governments and Arab states (and, increasingly Japan) are the major sources of funding. The major funding vehicles, including the several U.N. agencies and the U.S. PVOs, derive their funds from the same sources, governments and a few foundations and individuals.

For the most part, external funds have been provided for:

- \* construction of health and social service infrastructure projects and some housing,
- \* operating costs for health and social service programs (and lately for rehabilitation services, more popular during the height of the Intifada),
- \* agricultural cooperatives,
- \* municipalities (for construction and operating costs),
- \* human resources development and training, including local and overseas long-term and short-term education, and
- \* infrastructure and public works.

With the exception of agriculture, minimal donor funds have been provided for the productive private sector.

It is hoped that this sector analyses, and the others which comprise the cross-sectoral assessment of development opportunities in the Occupied Territories, will contribute to the efforts of Palestinians to be more proactively involved in planning for and implementing donor-funded projects. The reports may also contribute to donors' plans for more appropriate—as well as more effective and efficient—use of the resources they allocate for the Occupied Territories.

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# **APPENDIX II**

## **VISIONS OF A SUSTAINABLE FUTURE**

**Policy Research Incorporated  
5740 Trotter Road  
Clarksville, Maryland 21029**

## APPENDIX II: VISIONS OF A SUSTAINABLE FUTURE

This appendix to the sectoral analysis presents a summary assessment of the overall potential for development opportunities in the Occupied Territories. The analysis was conducted within sectors, and, insofar as possible, across sectors. This assessment is based on the analyses and conclusions presented in each of the individual sector reports prepared by Policy Research Incorporated (PRI). The eight individual sector reports include agriculture, education, finance and credit, health, industry and enterprise, infrastructure, trade, and water and sanitation.

Appendix II includes 1) a discussion of alternative assumptions under which economic and social planning will likely occur in the Occupied Territories; 2) a summary of the factors which constrain development across the sectors; 3) a summary of recommendations within and across the sectors; and 4) a list of issues that warrant discussion in the process of considering development alternatives for the Occupied Territories. Brief summaries of the findings of each of the sector reports are included as Executive Summaries with those reports.

### A. DEVELOPMENT IN THE CONTEXT OF ALTERNATIVE SCENARIOS

The move toward Palestinian economic self-reliance expanded considerably with the advent of the Intifada in 1987. Generally, the intent of this movement has been to promote a more productive allocation of investments, both internally (Palestinian) and externally (from donors). Specifically, Palestinians involved in development planning have sought to "enhance self-reliance in production, lessen dependence on external financial sources, diversify, rationalize and integrate domestic production branches, [and] reorient consumption patterns towards less conspicuous modes." To this end, Palestinians have begun to 1) develop sectoral and regional plans; 2) design and implement experimental projects and new institutional forms and entrepreneurial initiatives; and 3) initiate a range of popular 'participatory development' efforts involving families, communities, regions, cooperatives, enterprises and professional associations.

In order to ensure that these sectoral analyses are as useful as possible for development planning, the recommendations summary recommendations presented in this appendix are listed assuming one of two alternative political scenarios:

- 1) no change in the current political status (with perhaps some relaxation of constraints), including programs and activities that could have short-, medium- and long-term impact without respect to a change in governance; and
- 2) a change in governance (e.g., interim self-government or autonomy).

There are, of course, many shades within this spectrum, but it is hoped that presenting the recommendations in this way will provide an option for discussion of development in the Occupied Territories. The development recommendations that assume the status quo are intended to meet immediate needs identified in the conclusions to which they are linked as well as to provide a foundation for

development under whatever political solutions are realized. They are thus building blocks toward a sustainable future under alternative political scenarios. It should be emphasized that the recommendations listed under "assuming political change" could also be carried out within a status quo scenario, but would likely necessitate elimination or significant amelioration of existing bureaucratic and other constraints.

Under the present circumstances, it is all too easy to assume that little can be accomplished other than minimal support for existing projects; this approach defeats the intention to promote sustainable development. On the other hand, to assume independence (statehood) as the only basis for planning economic and social development negates the reality of the present political situation (that is, of the Occupation) as well as the possibility of an interim self-government. It also does not take into account that, even in the event of autonomy, it will be necessary to design phased implementation of policies and programs. For example, it will be necessary to ensure that:

- \* a Palestinian tax system as well as an organized health system are in place before assumption of responsibility for financially burdensome public hospitals;
- \* economic support structures are in place prior to significant expansion of industrial capacity;
- \* cross-regional planning is in process, including the consideration of issues such as the trade-offs necessary between agricultural and industrial development in the water-poor Gaza Strip; and
- \* Palestinian planners and donors develop effective plans for physical infrastructure and other projects, ensuring that they will be used by their intended beneficiaries (i.e., Palestinians) given the possibility that such projects could be established within settlement areas in the future.

In any case, donors should accept the possibility that their medium-term and long-term (and even many short-term) development expectations could be considerably diminished under the present circumstances, even in the event of autonomy. In this most abnormal political situation, the traditional indicators of change--difficult to obtain, verify and attribute to donor programs under any circumstances--are of questionable validity and utility.

## **B. CONSTRAINTS TO DEVELOPMENT IN THE OCCUPIED TERRITORIES**

Sustainable economic development is proving to be an elusive goal even under "normal" circumstances in developing countries, and increasingly so for countries of all income levels. As this and the companion sectoral analysis reports demonstrate, the socioeconomic situation in the Occupied Territories do not approximate normal circumstances. Given the status of the various sectors of Palestinian economy and society, and in particular given bureaucratic and other impediments, what are the opportunities for economic and social growth and

development in the West Bank and Gaza Strip? The technical and managerial issues are myriad and complex, both within and across sectors.

While this is true in any country or jurisdiction; however in the Occupied Territories these issues are complicated by the volatile and fluid political realities and by the significant dependence on external donors for support for any type of development. Donor investment and support are, in turn, complicated by the fact that the traditional role and involvement of donors in developing countries has been severely limited in the Occupied Territories. The normal mechanisms for rational allocation of donor assistance (e.g., donor negotiations with a ministerial level planning agency or external donors' department within a Ministry of Finance) do not exist, while constraints to planning effective use of donor funds are apparent.

It is important that those involved in planning for development in the Occupied Territories be aware of the constraints under which the various sectors operate and within which development occurs. The constraints which pertain to each of the sectors are described in the corresponding section of each sectoral analysis, with a discussion of the manner in which the constraints impact on development in that specific sector. However, several types of constraints have especially broad impacts on development; these are summarized below.

#### **B.1 Bureaucratic constraints**

*Bureaucratic constraints* include GOI regulations which discriminate against Palestinians and their public (municipal) and private sector institutions and organizations. These regulations are subject to change (sometimes without notice) and to enforcement by individual members of CIVAD without approval (or knowledge) of their superiors. Examples include:

- curfews (sometimes imposed for extended periods of time),
- barriers to physical mobility constituted by pass requirements and other factors,
- onerous procedures for obtaining building and other permits and arbitrary application of such procedures,
- taxation policies and enforcement which have been perceived by the International Jurists Commission and others as inappropriate and a violation of Geneva Conventions,
- restrictive labelling and export requirements on Palestinian products, and
- control of and restrictive policies with respect to basic physical infrastructure including electrification, communications and transportation, water use, and land use.

An important impediment to effective planning and implementation of development programs and projects is the fact that all those involved in development planning, including Palestinians and donors, lack access to critical fiscal, economic and technical information which is collected, processed and maintained by the CIVAD (or the GOI). While some information is available to Palestinians and others through the Central Bureau of Statistics (and other sources), other critical information is not. This includes, for example, revenue and expenditure information which is critical for an understanding of operating costs and cost recovery possibilities within the health and education sectors. Palestinians (and donors supporting projects in the Occupied Territories) also have no information with respect to plans for settlement areas, including plans for physical infrastructures to support the settlements.

The complex mixture of residual laws (in force at the time of the Occupation), Israeli civil laws and regulations and military regulation, vastly complicate development planning and implementation of specific projects and general sectoral programs. Virtually all court cases involving Palestinians are adjudicated in the military courts, including all civil cases (e.g., with respect to contracts and taxes). The effective absence of a civil court system makes it all but impossible to formulate and enforce contractual arrangements.

Palestinians have no adequate mechanism to generate revenues and provide public services. As a result, Palestinian NGOs and municipalities operating health and social programs or public infrastructure systems (e.g., water and sanitation, road networks, electrification) face unusual obstacles in attempting to cover their operating costs and adequately maintain physical plants and equipment.

There have been some positive indicators that GOI constraints have relaxed since 1991. In late 1991 the GOI initiated relaxation of restrictive policies which impede economic development, including: approval of licenses for a number of new small- and medium- scale manufacturing, agricultural and commercial projects and relaxation of restrictions on the inflow of external financial resources by raising the limits on such inflow per person entering the Occupied Territories--from \$400 to \$3,000.<sup>2</sup>

It may well be that international organizations (e.g., the U.N.) and bilateral and other donors can convince the GOI that relaxation of other bureaucratic constraints is beneficial to the economies and social structures of both Israel and the Occupied Territories. Simultaneously and independently, the international organizations and donors should work with the Palestinians (and Arab states) to ensure that, insofar as possible, constraints that result from Palestinian practices and the policies of Arab states are ameliorated or eliminated. Finally, the U.S., and other countries should remove constraints imposed by their governments or apply policies which would encourage development (e.g., labelling and most favored nation status). These governments should also ensure that their investment policies and programs are consistent both internally--that is, within the bilateral program--and externally--that is, between and among the various donor agencies and organizations. Donor investment policies should also be consistent, insofar as possible, with available development plans generated within the Occupied Territories.

## B.2 Economic and other constraints

Given the inextricable linkage with the Israeli economy, from which the Occupied Territories derive questionable benefit, there is, effectively, no free external market, and a severely limited free internal market. Moreover, the public (GOI) and private (Israeli and Palestinian) environment is not, to say the least, conducive to sustained economic development. The economic and physical infrastructures and systems on which development normally depends range from grossly inadequate to nonexistent. In addition, the Occupied Territories have few natural resources, a shortage of water and an increasingly diminishing land area.

The local work force, which in the past served as an important source of income (through export of labor to the Gulf States and other countries) is unbalanced with respect to education and training. That is, a large (though not specifically defined) proportion of Palestinians are highly educated but underemployed professionals or skilled and semi-skilled workers who have only minimal access to training that would enable them to become updated on technological advances.

Since the onset of the Gulf crisis, the "safety-valve" of Palestinian emigration to the Arab Gulf has been closed, and Palestinians have returned to the Occupied Territories or to Jordan. As a consequence, remittances from the Arab Gulf, on which the Palestinian economy was heavily dependent, have been significantly reduced. As a result of the extremely limited opportunity to engage in external trade and the virtual absence of support structures for economic and social development (e.g., marketing systems for agricultural and industrial trade), Palestinians have little competitive advantage, with the exception of their low-scale wages, which have some negative socioeconomic consequences as well.

Development and implementation of potentially effective national and regional level plans require a governmental base through which to link sectors and public/private sector initiatives and programs. It also requires data and information as well as experience in the selection and application of planning techniques. However, neither the CIVAD nor the municipalities (which together constitute the de facto public systems in the Occupied Territories) plan and implement programs and projects across sectors. Nor do most Palestinians working in these entities have substantial experience in such cross-sectoral planning and program and project management. Not only have they been minimally involved in the design, use and application of data and information systems, they have also had little access to data and information required for planning and managing public and private sector organizational structures and functions.

*Physical infrastructure* (communications, electrification, and transportation networks) and water and sanitation systems are in poor repair and wholly inadequate. This severely impedes operation and expansion of the public and social service sectors and the productive private sector. Moreover, political and economic factors impede the efficient linkage of critical physical infrastructure such as electrical, communications, and road networks.

Unfortunately, as discussed in the individual sector reports, the political situation in the Occupied Territories militates against investment in private sector economic activities which may have the greatest potential for economic impact, as well as in social or physical infrastructure projects which take into consideration economies of scale. With respect to the latter (which include, for example, telecommunications, electrification and health services), this limitation has fostered wasteful and costly duplication. It has also hindered the ability of Palestinian institutions and donors to provide adequate basic services for the population as a whole and for the industrial sector in particular. For example, Palestinians are prohibited (for security reasons) from using much of the extensive road network which serves settlers, although access to these roads would facilitate access to markets. Similarly, electrification projects (largely funded by donors) have focused on electrification of the smaller villages, rather than on ensuring that industries have access to services adequate to meet their production needs.

*The present economic outlook.* The worsening economic situation in the Occupied Territories bodes ill for development opportunities. Extensive development is difficult for projects that rely on private sector initiative, as well as those that rely on public (municipal) initiative. At the same time, the relatively young, disaffected (and unemployed) youth can potentially both participate in social unrest and contribute to social and economic change.

### C. DEVELOPMENT OPPORTUNITIES

Even given these constraints, however, substantial improvement can and should be made in economic and social development in the Occupied Territories. It is critical that Palestinians and donor agencies rationalize the existing scattered projects within and across sectors. This rationalization must include identifying linkages across sectors that can improve the likelihood of development under both the status quo and potentially changed political and administrative circumstances.

Table 1 presents a summary of recommended programs by sector for both the status quo and political change scenarios. The recommendations for the political change option are in addition to those for the status quo, which are intended as building blocks for development, whether or not positive political change is achieved. The recommendations were devised based on the needs identified in each of the sectors independently. It should be noted that because detailed recommendations are included in each sector analysis report (e.g., education, health, industry), the recommendations in Table 1 are abbreviated in order to present them in a tabular format. Also, the term "public" or "quasi-public", as used in Tables 1 and 2 and in the following discussion, refers to municipalities and to other entities that undertake activities that under normal circumstances would fall within the purview of public (or quasi-public) entities (e.g., local water authorities). The recommendations are not presented in priority order.

An assumption supporting all recommendations is that donors would utilize local (Palestinian) resources wherever possible, as well as appropriate and cost-effective resources from the region (including Israel and Jordan, for example) and from donor countries (e.g., the U.S., Japan and Europe). Donors are encouraged to include a wide range of community-based and other organizations in order to

provide them with the opportunity to participate in comprehensive development across sectors and to promote broad-based support for such development among these groups.

To prepare for specific plans within and across sectors, to derive maximum benefits from available resources, in the Occupied Territories, and to promote sustainable development, Palestinians and donors involved in supporting development in the Occupied Territories should: 1) identify overall development goals and specific objectives, 2) assess the relative utility of alternative development approaches, 3) consider the cross-impacts of the development goals and specific programmatic foci and projects within and across sectors, and 4) set priorities for projects within and across sectors. Whenever possible and appropriate, donors should assist Palestinian organizations in this planning process.

To provide an example of how the interrelationships among project proposals and objectives can be considered, Table 2 presents each specific sector recommendation identified in Table 1 and indicates the specific objectives for development to which the project or activity would contribute. These general and generic development objectives were identified from two sources: the most recent World Bank reports.<sup>3</sup>

A review of the recommendations presented in Table 2 makes it clear that there is a consistent pattern across the sectors and across the objectives. Review of this pattern might be useful for those involved in considering a rationalized development approach for the Occupied Territories. The principal foci of recommendations across sectors are:

strengthen the capacity of Palestinian quasi-public and private sector institutions and organizations to plan, manage and evaluate policies, programs and projects at the national, regional and local level through:

- selecting and improving access to and use of information resources both internally (within the Occupied Territories) and externally;
- providing technical assistance, training (for managerial and technical staff) and other support for the enhancement or development of quasi-public and private sector institutions and organizations that are responsible for or are involved in economic and social infrastructure support systems (e.g., water and sanitation, quality control, marketing systems, civil courts, tax collection and social welfare. This would include, for example, assisting in the definition and adaptation of standardized procedures; and
- improving education and training at the primary through university levels, including vocational/technical training, and literacy, self-instruction and distance (remote) learning programs.

improve the development, diffusion, use and assessment of technology in the quasi-public and private service and productive sectors through:

- providing technical assistance and training to enhance the selection and use of equipment and of new procedures (technologies) in agriculture, industry, health and education and physical infrastructure, including assessment of the economic, social and environmental impacts of new technologies and procedures;
- providing grants and loans (as appropriate) for the purchase of equipment which has been demonstrated to be useful and appropriate for enhancing productivity or effectiveness in the sector to which it applies (e.g., new technologies in crop production, cardiovascular disease prevention and treatment or alternative energy sources); and
- providing grants and loans (as appropriate) to enhance the capacity of Palestinian universities and research institutions to develop and/or adapt appropriate technologies for use in the West Bank and Gaza Strip and for export (including, for example, computer software).

improve management of, access to and use of credit and financial resources, through:

- training of existing personnel in banks and credit institutions;
- technical assistance and other support to improve management of bank and credit institutions;
- facilitating loans through international and regional development banks and private sector financial institutions; and
- supporting the development of credit circles and other locally based organizations which foster savings and loan arrangements for local development.

improve the collection, analysis and distribution of data and information for use in quasi-public and private sector programs and projects, through:

- training in data and information management;
- technical assistance and other support for the development of clearinghouses and information systems in each primary economic and social sector (e.g., agriculture, industry, water and sanitation); and

- encouraging the provision of relevant data sets from the GOI to Palestinian public and private institutions.

improving the physical infrastructure which supports both quasi-public and private sector services and productive enterprises, including, for example, communications, electrification and transportation networks;

strengthen health and social welfare services which are critical for human growth, development, welfare and performance and are linked to a society's economic development; and

encourage effective and efficient use of energy resources and prospective protection of the environment in the process of economic, and particularly industrial expansion.

#### D. DEVELOPMENT ISSUES IN THE OCCUPIED TERRITORIES

A number of complex issues must be faced by those involved in development planning for the Occupied Territories. This section of the appendix briefly summarizes several of those issues.

*Linkages Across Sectors.* While it is true that devising plans for economic and social development in the Occupied Territories is difficult under the present circumstances, the opportunity nonetheless exists for the design and enhancement of public and private sector systems which avoid the problems of entrenched bureaucracies and make the most effective use of Palestinian entrepreneurship and community and support networks. All too often it is necessary to prepare development plans in the context of bureaucratic structures which are not disposed to interact with one another (e.g., the Ministry of Health with the Ministry of Agriculture) or with the private sector (e.g., industry with public environmental agencies). In the virtual absence of such bureaucratic structures at the regional (i.e., West Bank or Gaza Strip) level, the potential exists to plan for the most effective and appropriate use of limited resources for Palestinian development. Moreover, donors and Palestinians have a unique opportunity to establish incremental programs and projects on which broader or more extensive development can be based both within and across sectors. For example:

- educational and training programs can be devised in light of short-, medium-, and long-term economic development plans in general and industrial expansion and agricultural trade specifically;
- innovative approaches to expansion of health services and to health promotion and disease prevention can be devised in recognition of and in cooperation with the productive private sector (e.g., workplace-based PHC and prevention activities); and
- support for industrial expansion and infrastructure development can be linked to appropriate and efficient use of natural resources and designed to promote protection of the environment.

*Benefiting from Israeli Experience.* The factors of development in the Occupied Territories place them at a significant disadvantage with their primary trading partners—Israel and Jordan—and this has been seen primarily as negative with regard to development. However, opportunities exist for the Occupied Territories to learn from the experience of their most successful trading partner, Israel, as well as to learn from their specific economic interaction with that country. For example, educational and training opportunities in the Occupied Territories stand in stark contrast to those available in Israel. As the Israeli economist Aharoni has noted, human resource development in Israel has been a foundation of economic development. He states that "The long-term competitive advantage of Israeli firms is largely a function of their ability to exploit unique human capital capabilities."<sup>4</sup> Israeli investment in the educating and training its population is exemplary. Palestinians and donor organizations which support development in the Occupied Territories should consider adaptation of applicable Israeli educational and training policies and programs to their development plans.

*Addressing development policy questions.* The current situation in the Occupied Territories also provides the opportunity for consideration of broad-based policy issues which entrenched bureaucracies often avoid facing. The policy questions that should be considered by Palestinians, donors and other involved in planning for development in the Occupied Territories include, for example:

1. Given that there no mechanism exists to ensure coordinated planning across sectors, what are the opportunities to ensure (insofar as possible) intra- and inter-sectoral linkages and decision-making for sustainable development? Such linkages include, for example, investment in productive industries which are not environmentally hazardous and in crop and livestock production which places minimum burden on land and water resources. A related consideration is that given the importance of integrated planning and the inherent difficulties in achieving it under the current circumstances, what should be the priority projects for the immediate (1-3 years), medium (3-5 years) and long-term (5-8 years)?
2. What will/should be the relative priority of public social and economic infrastructure systems (e.g., unemployment insurance, welfare, public health, social security/pensions as well as quality control and testing of medicines, protection of the environment, etc.) vis-a-vis investments in the productive private sector (e.g., tax benefits for private investment, public support for physical infrastructure for industrial zones)?
3. What contributions should donor agencies (bilateral, multilateral and private) make to improve the capacity of public services (e.g., health, education, physical infrastructure), pending a political resolution? Should such contribution include, for example, training the existing or an emerging cadre of municipally-based physical infrastructure employees (communications, electrification, transportation and water and sanitation) and/or investment in physical infrastructure projects themselves? What should be the relative priorities of investment in education and investment in improvements in technologies in the public and private sectors? While human resources development (education and training) is necessary (and a traditional investment role by itself), it is simply insufficient and could

lead to problems of social and/or economic instability if the economy does not soon rebound. Moreover, focusing exclusively on human resource development (in particular on degree training) has the disadvantage of requiring a long lead time before impact on economic development is realized.

4. What is the most appropriate and feasible degree of centralization/decentralization of public and quasi-public services, given cultural/geographical realities and practical economic and administrative considerations? What role could/should donors play in planning and preparing for centralization or decentralization of such services?
5. What is the most appropriate role for donors with respect to investment in the productive private sector? Given that the mechanisms used in both market and mixed economies to encourage investment and jobs creation are minimal (at best) in the Occupied Territories, what should donors do to assist in "jump starting" the economy in the Occupied Territories? What investments should be made in the cooperatives, which have (for all intents and purposes) assumed the role of quasi-shareholding for-profit companies, competing with privately held companies? Donors have supported the cooperatives extensively but have provided little support to the private sector. Should donors now provide financial support to privately-held, productive private sector companies comparable to such support provided to private companies in the U.S., Europe and the Pacific Rim (e.g., the U.S. government's Small Business Innovation Program)? Should donors work with the international banking community to facilitate loan guarantees to the private sector in the Occupied Territories for industrial development? To what degree should donors encourage or discourage small-scale enterprise in lieu of investments in medium- and large-scale industrial enterprises?
6. What should be the role of donors in preparing for assumption of certain public services (e.g., health, education, tax, regulatory and court systems)? On the one hand, there is considerable pressure for the Palestinians to assume responsibility for the social systems (e.g., health and education) in spite of the fact that they are not now responsible for the governmental systems with which those social service systems are inextricably linked (e.g., tax and regulatory systems). On the other hand, creating the basic (non-physical) infrastructure required for assumption of these responsibilities could consume a large proportion of the current donor allocation for the Occupied Territories.
7. Given that current policies of many donors, including the European Community and A.I.D. (as well as the World Bank, which has had representatives at the multilateral economic discussions), encourage privatization of services which are currently owned or managed by the public sector in some countries (e.g., electrification, transportation, communications, health), what investment should be made in municipal control of such services in the Occupied Territories? What rationale is there for such investment versus investment in encouraging private sector ownership/management of such services? Donors should be consistent in

their policies—if they support private sector development in the Occupied Territories, they should be prepared to invest in, or facilitate such development.

8. Given the current deteriorating economic situation what is the realistic potential for donors to consider immediate support for a large-scale public works program? Such a program—which could be comparable to that of the Civilian Conservation Corps (CCC) in the U.S. in the 1930s (and presently under consideration for adaptation by the incoming U.S. administration) focus on small- and medium-scale physical infrastructure projects (e.g., farm to market roads and environmental clean-up or protection). Moreover, the economic crisis would seem to call to developing a formalized social safety net—the absence of which helps to foster social disequilibrium in the Occupied Territories. Such a safety net could be comparable to those being designed by the World Bank for several developing countries; however, such programs require large infusions of financing—are donors prepared to provide such financing?

## E. TOWARD SUSTAINABLE DEVELOPMENT

The small population base of the Occupied Territories and other factors suggest that economic growth depends on export-oriented industry and domestic service enterprises (e.g., tourism); this builds on the historical mercantile tradition of Palestinians. In any case, such development must be as diversified as possible (and as practical), in order to lessen the dependence on one or another source of financing for economic development. It must also be based on improvements in the capacity of Palestinians to compete in the increasingly competitive and dramatically changing global economy and to manage their domestic quasi-public and private institutions.

Development planning in the Occupied Territories is taking place in the context of a dynamic and shifting political environment. When the preparation of these sectoral analyses was initiated in December, 1991, the Peace Talks had only just begun, and a different political party was in office in Israel. Since then, several sessions of the Peace Talks have taken place (with some progress, at least at the technical level), and elections in Israel and the United States (a co-sponsor of the Peace Talks) have resulted in changes in government in both countries.

In order to ensure that they are contributing most positively to the process of economic and social development in the Occupied Territories, donors should increasingly turn their attention to support of policies, programs and projects which are linked across sectors in ways which most effectively make use of the resources available. Moreover, in the event of political change, it will be necessary for donors and international private voluntary organizations (PVOs) currently operating projects in the West Bank and Gaza Strip (and most importantly for UNRWA) to recognize that they most likely will have different roles in the process of planning and implementing economic development and social programs in the area.

In the long run donors will need to recognize that the eventual fulfillment of great expectations of economic growth in the Occupied Territories will require infusion of sufficient funds for operating costs and capital investment, as well as technical assistance and training help create jobs and develop a healthy, competitive economy. If donors cannot provide a sufficient quantity of such funds directly, then facilitating access to funds from other appropriate sources should become a priority. Donors should also encourage cooperation—economic and otherwise—within the Middle East region, and in particular between Israel and the Occupied Territories. Such cooperation would strengthen the capacity of the countries in the region (and of the Occupied Territories) to compete in the changing global marketplace. It may also contribute to political and social stability in the area and in the Occupied Territories specifically.

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Table 1

## Summary of Recommendations by Sector

| Agriculture   | Education & Training   | Finance & Credit   | Health   | Industry & Enterprise   | Infrastructure (Communications, Electrification, Transportation)   | Trade   | Water & Sanitation  |
|---|--|--|--|---|--|---|---|
| <b>ASSUMES STATUS QUO</b>   |  |  |  |   |  |   |   |
| Short-term relief program including agricultural feeder roads, land reclamation   | Improve computer, laboratory & library facilities at public & private K-12 level & post-secondary educational & training institutions  | Expand community-based savings & credit institutions (e.g., credit circles)  | Strengthen health systems' planning & management at all levels of the health care system   | (See finance & credit for related recommendations)  | (See education for related recommendations)  | (See agriculture & industry for related recommendations)  | Design & implement small-scale water & sanitation projects, in the West Bank & Gaza Strip, using the most appropriate technologies  |
| Improve capacity of Palestinian institutions to plan, manage & evaluate programs & projects   | Expand & improve private sector initiatives in literacy & distance learning  | Improve capacity of banks, credit institutions & insurance companies to plan, manage & evaluate their activities   | Improve financial management capacity & potential for cost recovery at all levels & types of facilities  | Enhance capacity of industry & enterprise in terms of productivity, quality control, management (financial, personnel, etc.)  | Improve managerial & planning of Palestinians currently or potentially responsible for infrastructure projects   | Conduct marketing studies & surveys to generate require trade-related data  | Immediate design & implementation of wastewater recycling, large-scale water-catchment & other related projects in the Gaza Strip   |
| Improve & expand marketing information & support systems, coordinate with other sectors, (e.g., industry for food processing)                   | Physically rehabilitate existing K-12 schools & construct new schools as necessary. Include facilities for recreation & community-based education in rehabilitated & new schools | Develop finance & credit data and information clearinghouse  | Expand facility, regional and inter-regional health planning & needs assessment activities   | Develop & expand linkages between Palestinian industry & enterprise foreign universities & research institutions  | Upgrade capacity of skilled and semi-skilled workers in infrastructure (focusing on skills in new technologies)  | Expand & improve linkages between Palestinian firms and trade fairs & foreign business & trade and related institutions   | Design & implement small- and medium-scale sanitation projects  |
| Expand use of improved irrigation systems making better use of scarce water resources   | Revise K-12 and post-secondary curriculum, including ensuring linkage of curriculum to development needs and employment opportunities  | Expand credit for the productive private sector (e.g., loan guarantees)  | Expand & improve capacity of institutions to collect, analyze & disseminate data & information for expanded health educational programs  | Conduct comprehensive industry/enterprise inter- and intra-regional planning (including for feasibility/appropriateness of industrial zones)  | Develop computer-based information systems for planning & management of infrastructure projects  | Expand & improve economic infrastructure which improve domestic & import markets (e.g., capital projects & systems for monitoring quality control of products)                  | Upgrade capacity of Palestinian institutions to conduct water quality & other environmental studies   |
| Expand and improve crop varieties & livestock production (to enhance marketing potential, improve land & water use)                             | Expand & improve teacher training in educational theory & practice & in grade levels & subject areas for which they are responsible  | Conduct study of capacity of existing inst. to manage larger loans to the productive sector  | Conduct an assessment of existing health research studies & data bases, disseminate results  | Strengthen institutions which support industry & enterprise (e.g., Industrial Union(s), Chambers of Commerce, economic development institutions)  | Upgrade & expand road networks, particularly key market access roads & roads in villages with little or no access to areas having basic services   | Expand Palestinian trade missions & related short-term visits to foreign countries  | Conduct water, air and other environmental studies, focusing initially on high risk areas   |
| Develop industrial sector in Gaza, in lieu of expansion of agricultural sector, in view of water shortage                                       | Expand availability of new educational technologies at K-12 & post-secondary levels & train teachers in use of same  | Conduct study of & plan for broad-based insurance needs  | Develop & implement facility and cross-facility health management & information systems  | Develop/expand industry/enterprise data & information systems & clearinghouses (e.g., marketing information systems)  | Develop regional infrastructure plans, by subsector (e.g., electrification), focusing on most cost-effective systems, & expand community involvement in infrastructure planning                      | Develop trade-related data & information systems & clearinghouses (linked to regional & international information systems)  | Improve capacity of municipal & private companies to plan, manage & evaluate water & sanitation services & systems, including improving their capacity to recover costs of services |
| Expand capacity of Palestinian research & extension services  | Improve management of educational & training institutions at all levels  | Improve capacity of Palestinian institutions to carry out planning & devise policies & programs at the macroeconomic and microeconomic levels                  | Expand continuing education for health care providers to help ensure quality of care   | Expand capacity for and conduct applied research studies of productivity & quality control, including directly & indirectly related factors (e.g., labor/management relations, occupational & environmental health practices, quality control mechanisms) | Conduct demonstration projects on alternative energy sources   | Upgrade capacity of Palestinian firms to have competitive advantages (e.g., in new product development, quality control requirements of trading partners, marketing techniques) | Improve capacity of skilled & semi-skilled employees, focusing on new technologies & processes  |
| Expand & improve linkages between Palestinian institutions and foreign public & private sector agricultural research & development institutions | Expand capacity of post-secondary institutions to provide short-term training in marketable skill areas  |  | Develop/adapt practice guidelines for all provider categories & levels of care   |   | Improve capacity of public, quasi-public & private organizations to design/adapt & manage infrastructure financial systems & to recover costs of related services                                    | The U.S. should explore relaxation of any trade barriers on Palestinian products & implementation of favorable trade regulations  | Conduct study of water pricing & utilization  |
| Develop/expand an agricultural data & information clearinghouse   | Expand capacity of post-secondary institutions to conduct applied research & development projects for the private sector (including expanding facilities & training of faculty)  |  | Expand primary & secondary level care, community-based rehabilitation services, & mental health services to underserved areas  |   | Expand electrification to villages without services & upgrade existing equipment   |   | Develop/improve water & sanitation information systems  |
|   | Develop/expand an education & training data and information clearinghouse  |  | Plan and implement regional systems care, to make the most effective and efficient use of scarce resources & improve care delivery   |   | Develop/adapt certification & standards for physical infrastructure personnel (e.g., electrification), for use in initial and on-going assessment of skills among municipal & quasi-public employees |   | Develop a water and sanitation data & information clearinghouse   |
|   | Develop & improve the design & use of educational assessment materials for use with teachers and students  |  | Improve existing health data & clearinghouses  |   | Improve ergonomics and productive capacity of existing and selected new industries/enterprise  |   |   |
|   | Conduct an assessment of university programs to identify potential areas for regional coordination and resource sharing  |  | Develop capacity of Palestinian facilities & health care providers to provide services which are not available in the O.T., if doing so would improve effectiveness & efficiency |   |  |   |   |
| <b>ASSUMES POLITICAL CHANGE</b>   |  |  |  |   |  |   |   |
| Expand support for graduate training  | Expand construction of new public schools, as necessary  | Expand credit for productive private sector through loan guarantees, etc. through donor agencies, international, regional and national banking institutions    | Support integrated health systems  | Design & develop industrial zones, determined to be appropriate (see above)   | Expand communications systems, using appropriate, low-cost technologies  | Develop multi-national trade data & information systems   | Plan & implement large-scale water & sanitation projects, as necessary  |
| Expand support for improved buildings & laboratories for educational institutions   | Expand research & development related to the productive private sector   | Expand banking & credit services (branches of existing banks or institutions or new banks or institutions) to geographic areas in which no such services exist | Support public & private health financing mechanisms   | Adapt/develop new products through loans or small grants  | Expand integrated electrification system, using low-cost appropriate technologies  | Develop/expand free trade zones   | Expand support for multi-national water & sanitation projects in Middle East  |
|   |  |  |  |   | Expand road network & link with Israel & Jordanian road networks   |   |   |

NOTE: This table does not include recommendations concerning donor coordination, nor those related to removal of bureaucratic or other constraints to development.

Table 2.  
Linkage Between Sectoral Recommendations & Development Goals & Objectives

| Recommended Sectoral Activities  | GOAL  | Objectives  | Strengthened capacity of both public & private sector institutions to plan & manage on-going & development policies, programs & projects | Improved educational attainment, health, and participation in the workforce on the part of the population | Improved use of renewable resources |
|--|---|---|--|---|-------------------------------------|
|  | Improved economic & social well-being of the population | Increased productivity & marketing of agricultural & manufactured goods |  |   |                                     |
| <b>Across Sectors</b>  |   |   |  |   |                                     |
| Elimination or alleviation of bureaucratic and other constraints   | X   | X   | X  | X   | X                                   |
| Strengthening the capacity of Palestinian public and private sector institutions to plan, manage & evaluate policies, programs & projects at the national, regional and local level                | X   | X   | X  | X   | X                                   |
| Improving the development, diffusion, use access to, evaluation & acquisition of technology in the public and private sectors  | X   | X   | X  | X   | X                                   |
| Improving management of and access to use of credit and financial services.  | X   | X   | X  |   | X                                   |
| Improving the collection, analysis & distribution of data & information for use in public and private sector programs & projects, as well as access to relevant GOI and other data and information | X   | X   | X  | X   | X                                   |
| Improving physical infrastructure & water & sanitation systems which support the public & private sectors & meet basic human needs   | X   | X   | X  |   | X                                   |
| <b>Agriculture</b>   |   |   |  |   |                                     |
| Short-term relief program, including agricultural feeder roads and land reclamation  | X   | X   |  | X   | X                                   |
| Improve capacity of Palestinian institutions to plan, manage & evaluate programs & projects  | X   | X   | X  | X   |                                     |
| Improve & expand marketing information & support systems   | X   | X   | X  | X   | X                                   |
| Expand use of improved irrigation systems, better use of scarce water resources  | X   | X   | X  | X   | X                                   |
| Expand and improve crop varieties & livestock production (to enhance marketing potential, improve land and water use)  | X   | X   |  | X   | X                                   |
| Develop industrial sector in Gaza, in lieu of expansion of agricultural sector, in view of water shortage  | X   | X   |  | X   | X                                   |
| Expand capacity of Palestinian research & extension services   | X   | X   | X  | X   |                                     |
| Expand & improve linkages between Palestinian institutions and foreign public & private sector agricultural research & development institutions  | X   | X   | X  | X   | X                                   |
| Develop/expand an agricultural data & information clearinghouse  | X   | X   | X  | X   | X                                   |
| Expand support for improved buildings & laboratories for agricultural training   | X   | X   |  | X   |                                     |
| Expand support for graduate training   | X   | X   | X  | X   | X                                   |

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Table 2, continued  
 Linkage Between Sectoral Recommendations & Development Goals & Objectives

| Recommended Sectoral Activities  | GOAL  |   | Objectives  |   |                                     |
|--|---|---|---|---|-------------------------------------|
|  | Improved economic & social well-being of the population | Increased productivity & marketing of agricultural & manufactured goods | Strengthen the capacity of public & private sector institutions to plan & manage on-going & development policies, programs & projects | Improved educational attainment, health, and participation in the workforce on the part of the population | Improved use of renewable resources |
| <b>Education</b>   |   |   |   |   |                                     |
| Improve computer, laboratory & library facilities at public & private K-12 level & post-secondary education & training institutions  | X   | X   | X   | X   |                                     |
| Expand & improve private sector initiatives in literacy & distance learning  | X   | X   | X   | X   |                                     |
| Physically rehabilitate existing K-12 schools & construct new schools as necessary; include facilities for recreation & community-based education in rehabilitated & new schools | X   | X   | X   | X   |                                     |
| Revise K-12 and post-secondary curriculum, including ensuring linkage of curriculum to development needs & employment opportunities  | X   | X   | X   | X   |                                     |
| Expand & improve teacher training in educational theory & practice & in grade levels & subject areas for which they are responsible  | X   | X   | X   | X   |                                     |
| Expand availability of new educational technologies at K-12 & post-secondary levels & train teachers in use of same  | X   | X   | X   | X   |                                     |
| Improve management of educational & training institutions at all levels  | X   | X   | X   | X   |                                     |
| Expand capacity of post-secondary institutions to provide short-term training in marketable skill areas  | X   | X   | X   | X   |                                     |
| Expand capacity of post-secondary institutions to conduct applied research & development projects for the private sector (including expanding facilities & training of faculty)  | X   | X   | X   | X   |                                     |
| Develop/expand an education & training data and information clearinghouse  | X   | X   | X   | X   |                                     |
| Develop & improve the design & use of educational assessment materials for use with teachers and students  | X   | X   | X   | X   |                                     |
| Conduct an assessment of university programs to identify potential areas for regional coordination and resource sharing  | X   | X   | X   | X   |                                     |
| Expand construction of new public schools, as necessary  | X   |   |   | X   |                                     |
| Expand research & development related to the productive private sector   | X   | X   | X   | X   |                                     |

Table 2, continued

## Linkage Between Sectoral Recommendations &amp; Development Objectives

| Recommended Sectoral Activities  | GOAL  | Objectives  |  |   |
|--|---|---|--|---|
|  | Improved economic & social well-being of the population | Increased productivity & marketing of agricultural & manufactured goods | Strengthened capacity of both public & private sector institutions to plan & manage on-going & development policies, programs & projects | Improved educational attainment, health, and participation in the workforce on the part of the population |
| <b>Finance &amp; Credit</b>  |   |   |  |   |
| Expand community-based savings & credit institutions (e.g., credit circles)  | X   | X   |  | X   |
| Improve capacity of banks, credit institutions & insurance companies to plan, manage & evaluate their activities   | X   | X   |  |   |
| Develop finance & credit data and information clearinghouse  | X   | X   | X  | X   |
| Expand credit for the productive private sector (e.g., loan guarantees)  | X   | X   | X  | X   |
| Develop the management infrastructure for the finance & credit sector (e.g., policy instruments for financial regulation & standardized credit applications)           | X   | X   | X  | X   |
| Conduct study of capacity of existing institutions to manage larger loans to the productive sector   | X   | X   | X  | X   |
| Conduct study of & plan for broad-based insurance needs  | X   | X   | X  | X   |
| Improve capacity of Palestinian institutions to carry out planning & devise policies & programs at the macroeconomic & microeconomic levels                            | X   | X   | X  | X   |
| Expand credit for productive private sector through loan guarantees, etc., through donor agencies, and international, regional and national banking institutions       | X   | X   | X  | X   |
| Expand banking & credit services (branches of existing banks or credit unions or new banks or credit institutions) to geographic areas in which no such services exist | X   | X   | X  | X   |

Table 2, continued  
 Linkage Between Sectoral Recommendations & Development Objectives

| Recommended Sectoral Activities   | GOAL  |   | Strengthened capacity of both public & private sector institutions to plan & manage on-going & development policies, programs & projects | Improved educational attainment, health, & participation in the workforce on the part of the population | Improved use of renewable resources |
|---|---|---|--|---|-------------------------------------|
|   | Improved economic & social well-being of the population | Increased productivity & marketing of agricultural & manufactured goods |  |   |                                     |
| <b>Health</b>   |   |   |  |   |                                     |
| Strengthen health systems' planning & management at all levels of the health care system  | X   |   | X  | X   | X                                   |
| Improve financial management capacity & potential for cost recovery at all facility levels  | X   |   | X  | X   |                                     |
| Expand facility, regional and inter-regional health planning & needs assessment activities  | X   |   | X  | X   |                                     |
| Expand & improve capacity of institutions to collect, analyze & disseminate data & information for expanded health education programs (incl. disease prevention & occupational and environmental health, for example) | X   |   | X  | X   |                                     |
| Conduct an assessment of existing health research studies & databases; disseminate results  | X   |   | X  | X   | X                                   |
| Develop & implement facility & cross-facility health management & information systems   | X   |   | X  | X   |                                     |
| Expand continuing education for health care providers to help ensure quality of care  | X   |   | X  | X   | X                                   |
| Develop/adapt practice guidelines for all provider categories & levels of care  | X   |   | X  | X   | X                                   |
| Expand primary & secondary level care, community-based rehabilitation & mental health services to underserved areas   | X   |   | X  | X   | X                                   |
| Plan and implement regional systems care, to make the most effective & efficient use of scarce resources & improve care delivery  | X   |   | X  | X   | X                                   |
| Improve existing health data & clearinghouse  | X   |   | X  | X   | X                                   |
| Develop capacity of Palestinian health facilities & to offer diagnostic & treatment services not available in the O.T., IF doing so would improve effectiveness/efficiency of the system                              | X   |   | X  | X   |                                     |
| Support integrated health systems   | X   |   | X  | X   |                                     |
| Support public & private health financing mechanisms  | X   |   | X  | X   |                                     |

Table 2, continued

## Linkage Between Sectoral Recommendations &amp; Development Objectives

| Recommended Sectoral Activities  | GOAL  | Objectives  |  |   |                                     |
|--|---|---|--|---|-------------------------------------|
|  | Improved economic & social well-being of the population | Increased productivity & marketing of agricultural & manufactured goods | public & private sector institutions to plan & manage on-going & development policies, programs & projects | Improved educational attainment, health, and participation in the workforce on the part of the population | Improved use of renewable resources |
| <b>Industry &amp; Enterprise</b>   |   |   |  |   |                                     |
| Enhance capacity of industry & enterprise in terms of productivity, quality control, management (financial, personnel, etc.) & research  | x   | x   | x  | x   |                                     |
| Develop & expand linkages between Palestinian industry & enterprise & foreign universities research institutions   | x   | x   | x  | x   | x                                   |
| Conduct comprehensive industry/enterprise inter- and intra-regional planning (including for feasibility/appropriateness of industrial zones)   | x   | x   | x  | x   | x                                   |
| Strengthen institutions which support industry & enterprise (e.g., Industrial Unions, Chambers of Commerce, & economic development institutions)   | x   | x   | x  | x   |                                     |
| Develop/expand industry/enterprise data & information systems & clearinghouses (e.g., marketing information systems)   | x   | x   | x  | x   | x                                   |
| Expand capacity for and conduct productivity & quality control, including directly & indirectly related factors (e.g., labor/management relations, occupational & environmental health practices & quality control mechanisms) | x   | x   | x  | x   |                                     |
| Design & expand support systems for industry/enterprise (e.g., quality control, product testing, consultation for occupational health, trade)  | x   | x   | x  | x   | x                                   |
| Improve ergonomics and productive capacity of existing and selected new industries/enterprises   | x   | x   | x  | x   |                                     |
| Design & develop industrial zones, if determined to be appropriate (see above)   | x   | x   | x  | x   | x                                   |
| Adept/develop new products through loans or small grants   | x   | x   | x  | x   | x                                   |

Table 2, continued  
 Linkage Between Sectoral Recommendations & Development Objectives

| Recommended Sectoral Activities   | GOAL  | Objectives  |  |   |                                     |
|---|---|---|--|---|-------------------------------------|
|   | Improved economic & social well-being of the population | Increased productivity & marketing of agricultural & manufactured goods | public & private sector institutions to plan & manage on-going & development policies, programs & projects | Improved educational attainment, health, and participation in the workforce on the part of the population | Improved use of renewable resources |
| <b>Infrastructure (Communications, Electrification, Transportation)</b>   |   |   |  |   |                                     |
| Improve managerial & planning capacity of Palestinians currently or potentially responsible for infrastructure projects   | x   |   | x  | x   | x                                   |
| Upgrade capacity of skilled and semi-skilled workers in infrastructure  | x   |   | x  | x   | x                                   |
| Develop computer-based information systems for planning & management of infrastructure projects   | x   |   | x  | x   | x                                   |
| Upgrade & expand road networks, particularly key market access roads & roads in villages with little or no access to areas having basic services  | x   |   | x  | x   | x                                   |
| Develop regional infrastructure plans, by subsector, focusing on most cost-effective systems, and expand community involvement in infrastructure planning                                 | x   |   | x  | x   | x                                   |
| Conduct demonstration projects on alternative energy sources  | x   |   | x  | x   | x                                   |
| Improve capacity of public, quasi-public & private organizations to design/adapt & manage infrastructure financial systems & to recover costs of related services                         | x   |   | x  | x   | x                                   |
| Expand electrification to villages without services & upgrade existing equipment  | x   |   | x  | x   | x                                   |
| Develop/adapt certification & standards for standards for physical infrastructure personnel for use in initial and on-going assessment of skills among municipal & quasi-public employees | x   |   | x  | x   | x                                   |
| Expand communications systems, using appropriate, low-cost technologies   | x   |   | x  | x   | x                                   |
| Expand integrated electrification system, using low-cost, appropriate technologies  | x   |   | x  | x   | x                                   |
| Expand road network & link with Israeli & Jordanian road networks   | x   |   | x  | x   | x                                   |

Table 2, continued

## Linkage Between Sectoral Recommendations &amp; Development Objectives

| Recommended Sectoral Activities   | GOAL  | Objectives  |  | Improved educational attainment, health, and participation in the workforce on the part of the population | Improved use of renewable resources |
|---|---|---|--|---|-------------------------------------|
|   | Improved economic & social well-being of the population | Increased productivity & marketing of agricultural & manufactured goods | public & private sector institutions to plan & manage on-going & development policies, programs & projects |   |                                     |
| <b>Trade</b>  |   |   |  |   |                                     |
| Conduct marketing studies & surveys to generate require trade-related data  | X   | X   | X  | X   |                                     |
| Expand & improve linkages between Palestinian firms and trade institutions & foreign institutions, firms, & business & trade institutions   | X   | X   | X  | X   |                                     |
| Expand & improve economic infrastructures which improve domestic & import markets (e.g., capital projects & systems for monitoring quality control)                                 | X   | X   | X  | X   |                                     |
| Expand Palestinian trade missions & related short-term visits to foreign countries  | X   | X   | X  | X   |                                     |
| Develop trade-related data & information systems & clearinghouses (linked to regional & international information systems)  | X   | X   | X  | X   |                                     |
| Upgrade capacity of Palestinian firms to have competitive advantages (e.g., in new product development, quality control requirements of trading partners, marketing techniques)     | X   | X   | X  | X   |                                     |
| Develop multi-national trade data & information systems   | X   | X   | X  | X   |                                     |
| Develop/expand free trade zones   | X   | X   | X  | X   |                                     |
| <b>Water &amp; Sanitation</b>   |   |   |  |   |                                     |
| Design & implement small-scale water & sanitation projects in the West Bank & Gaza Strip, using the most appropriate technologies   | X   | X   | X  | X   | X                                   |
| Immediate design & implementation of wastewater recycling, large-scale water-catchment & other related projects in the Gaza Strip   | X   | X   | X  | X   | X                                   |
| Design & implement small- and medium-scale sanitation projects  | X   | X   | X  | X   | X                                   |
| Upgrade capacity of Palestinian institutions to conduct water quality & other environmental studies   | X   | X   | X  | X   | X                                   |
| Conduct water, air and other environmental studies, focusing initially on high risk areas   | X   | X   | X  | X   | X                                   |
| Improve capacity of municipal & private companies to plan, manage & evaluate water & sanitation services & systems, including improving their capacity to recover costs of services | X   |   | X  | X   | X                                   |
| Improve capacity of skilled & semi-skilled employees, focusing on technologies & processes  | X   |   | X  | X   | X                                   |
| Conduct study of water pricing & utilization  | X   |   | X  | X   | X                                   |
| Develop/improve water & sanitation information systems  | X   |   | X  | X   | X                                   |
| Develop a water and sanitation data & information clearinghouses  | X   |   | X  | X   | X                                   |
| Plan & implement large-scale water & sanitation projects, as necessary  | X   |   | X  | X   | X                                   |
| Expand support for multi-national water & sanitation projects in Middle East  | X   |   | X  | X   | X                                   |