PN-ABP-311

ISN 82773

Development Opportunities in the Occupied Territories

(West Bank and Gaza Strip)

Finance and Credit

October 1992

Policy Research Incorporated
5740 Trotter Road
Clarksville, Maryland 21029

The research and publication of this report were funded by the United States Agency for International Development. The analysis and conclusions, however, are entirely those of Policy Research Incorporated and its associates and do not necessarily reflect those of the Agency for International Development or the United States Government.

TABLE OF CONTENTS

List of Figures

Page

PREFACE

This analysis of the finance and credit 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 finance and credit in the Occupied Territories would not have been possible without the contributions of many individuals. Dr. Alan Richards, then Professor of Economics at the University of California, Santa Cruz, contributed the initial draft of the finance sector report, which served as a basis for several sections of the report prepared by Dr. Jillson-Boostrom. 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. Fawwaz Abu Sitteh and Dr. Kamal Hijjeh each prepared a report on finance and credit 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 financial sector in the Occupied Territories is weak and largely fails to provide traditional functions of banking institutions. Although weak financial systems are common in low-income countries, regulations peculiar to the Occupied Territories have combined with politically generated public mistrust of the banking system to create a small, debilitated formal banking sector. Moreover, sources of investment in the Occupied Territories are extremely risky. For example, savings rates are reasonable (some banks offer highly positive real rates of interest to depositors, even under highly inflationary conditions); unfortunately, they are largely earned or otherwise generated abroad, a fact which makes them highly unpredictable.

Banks are few, small, heavily restricted and confronted with a highly uncertain economic climate. They pursue extremely conservative loan policies, even with the very small total volume of deposits at their disposal. Informal sector mechanisms are numerous, but are far too small, fragmented and ephemeral to fill the gap. In the absence of Palestinian banks, the function of providing liquidity through checking services--providing a mechanism for saving and investing and facilitating trade--is carried out by three types of local non-governmental institutions: "credit" institutions, cooperatives, and money changers. Although these do fill certain critical needs, they are far too small, too weak and (in the case of moneylenders) too subject to regulatory shifts to mediate between savers and investors. These groups can assist certain sections of the population, but they cannot be expected to substitute for formal banking institutions.

In the Occupied Territories there is no mechanism for macroeconomic planning within which a financial management system can rationally exist and which could devise comprehensive responses to the numerous and severe external shocks to which the economy of the Occupied Territories has been subjected. Fiscal policy plays no stabilizing role whatsoever; decisions concerning monetary policy are divided between two central banks--the Bank of Israel and the Central Bank of Jordan--both of which are concerned primarily (and understandably) with financial and economic issues in their respective countries. The economy of the Occupied Territories is neither so integrated into the Israeli economy that it can simply be regarded as a section of that system, nor sufficiently independent of the Israeli economy that Palestinians are insulated from the difficulties there. Palestinians have, in an important sense, the worst of both worlds.

In spite of the unstable political and economic situation, there appears to be no dearth of demand for credit. Indeed, excess demand for credit seems to be the norm. This situation does not seem to result from a common cause of excess shortage--low interest rates (which result in a shortage of credit because the financial institutions cannot meet demand for low-cost investment). In fact, interest rates are relatively high at the formal banking institutions. Rather, the central problem is that the institutional arrangements of the banking system do not effectively mediate between savers and potential investors.

Table 1, found on page 23 of this report, presents a summary of conclusions and recommendations for finance and credit.

II. INTRODUCTION

IMPORTANCE OF FINANCE AND CREDIT FOR DEVELOPMENT IN THE OCCUPIED TERRITORIES

Financial intermediation--the function of providing liquidity through checking services, providing a mechanism for savings and investing and facilitating trade--is an essential component of any economic development strategy. It is essential that savings be safeguarded and even more critical that they be channeled to investors. Without investment in an economy, there can be no growth. But unless domestic sources provide the majority of investment, any economy becomes increasingly indebted to foreign governments, private institutions or individuals--an untenable situation for any country. Macroeconomic management is equally crucial for development: small, open economies are subject to numerous external shocks over which they have little if any control. Macroeconomic policy can play a major role in partially mitigating the adverse effects of such shocks on production, trade and investment.

However, in the Occupied Territories there is no mechanism for macroeconomic planning within which a financial management system can rationally exist and which could devise comprehensive responses to the numerous and severe external shocks to which the economy of the Occupied Territories has been subjected. Fiscal policy plays no stabilizing role whatsoever; decisions concerning monetary policy are divided between two central banks--the Bank of Israel and the Central Bank of Jordan--both of which are concerned primarily (and understandably) with financial and economic issues in their respective countries. The economy of the Occupied Territories is neither so integrated into the Israeli economy that it can simply be regarded as a section of that system, nor sufficiently independent of the Israeli economy that Palestinians are insulated from the difficulties there. Palestinians have, in an important sense, the worst of both worlds.

The financial sector in the Occupied Territories is weak and largely fails to provide traditional functions of banking institutions. Although the weak financial systems are common in low-income countries, regulations peculiar to the Occupied Territories have combined with politically generated public mistrust of the banking system to create a small, debilitated formal banking sector. Moreover, sources of investment in the Occupied Territories are extremely risky. For example, savings rates are reasonable (some banks offer highly positive real rates of interest to depositors, even under highly inflationary conditions); unfortunately, they are largely generated abroad, a fact which makes them highly unpredictable.

In spite of the unstable political and economic situation, there appears to be no dearth of demand for credit. Indeed, excess demand for credit seems to be the norm. This situation does not seem to result from a common cause of excess shortage--or low interest rates (which result in a shortage of credit because the financial institutions cannot meet demand for low-cost investment); in fact, interest rates are relatively high at the formal banking institutions. Rather, the central problem is the institutional arrangements of the banking system which do not effectively mediate between savers and potential investors.

With such a weak formal financial sector, it is hardly surprising that there exists a fairly extensive "informal financial sector," composed of moneylenders, credit circles and (more nearly formal) cooperative societies and credit institutions. Although these do fill certain critical needs, they are far too small, too weak and (in the case of moneylenders) too subject to regulatory shifts to mediate between savers and investors. These groups can assist certain sections of the population, but they cannot be expected to substitute for formal banking institutions.

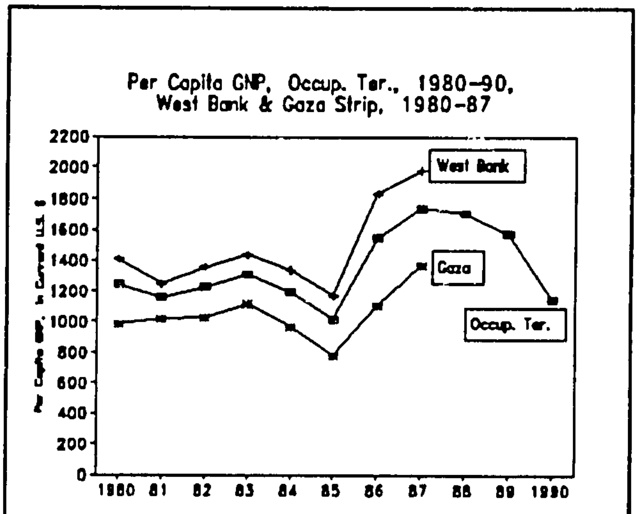
III. SECTORAL STATUS AND TRENDS

This section describes recent trends in economic growth, instability of the economy, fluctuations in prices, sources of savings and the demand for credit in the Occupied Territories.

A. GROWTH

Estimates for gross national product (GNP) and gross domestic product (GDP) for the Occupied Territories, and separately for the West Bank and Gaza Strip for 1970-1987 are shown in Table 2. Per capita GNP for the Occupied Territories in total and for the West Bank and Gaza Strip are shown in Figure 1. Data for the Occupied Territories as a whole are shown for 1970-1990. Data for the West Bank and Gaza Strip were available only through 1987. As can be seen from Figure 1, GNP for the Occupied Territories peaked in 1987 (at $1,738 per capita), then decreased substantially between 1988 and 1990--falling by 49% during that two-year period.

Figure 1



Note: GNP per capita: Nominal deflated by U.S. GNP deflator.

Source: Nominal GNP per capita 1980-87: Hamed and Shaban.
Economic Integration and Israeli Occupation of the West Bank and Gaza; 1991. (Using Central Bureau of Statistics, Statistical Abstract of Israel Shekel figures converted at annual average exchange rates, from IMF's International Financial Statistics.) For 1988-90: UNCTAD, Recent Economic Developments in the Occupied Palestinian Territory. Report by UNCTAD Secretariat, NY: 1991.

Table 2
Total and Per Capita GDP and GNP for the Occupied Territories and for the West Bank and Gaza Strip, for 1970-1987 (in million current U.S. dollars)

Year	West Bank				Gaza Strip				Occupied Territories (total)			
	Population (000's)	GDP	GNP	Per Capita GNP	Population (000's)	GDP	GNP	Per Capita GNP	Population (000's)	GDP	GNP	Per Capita GNP
1970	608	123	137	225	370	52	59	160	978	175	196	200
1971	623	155	188	302	379	71	81	214	1002	226	269	268
1972	634	206	262	413	387	87	115	297	1021	293	377	369
1973	652	248	311	477	402	114	160	398	1054	362	471	447
1974	670	415	502	749	414	157	217	524	1084	572	719	663
1975	675	394	512	759	426	166	230	540	1101	560	742	674
1976	683	472	593	868	437	199	273	625	1120	671	866	773
1977	696	477	601	864	451	219	295	654	1147	696	896	781
1978	708	522	650	918	463	204	288	622	1171	726	938	801
1979	719	595	772	1074	445	263	395	888	1164	858	1167	1003
1980	724	826	1020	1409	457	300	449	983	1181	1126	1409	1244
1981	732	682	914	1249	469	297	478	1019	1201	979	1392	1159
1982	749	749	1016	1357	477	296	491	1029	1226	1045	1507	1229
1983	772	800	1110	1438	495	309	553	1117	1267	1109	1063	1313
1984	793	807	1061	1338	510	278	493	967	1303	1085	1554	1193
1985	816	747	958	1174	527	256	411	780	1343	1003	1369	1019
1986	838	1241	1534	1831	545	366	602	1105	1383	1607	2136	1545
1987	868	1313	1718	1979	565	459	773	1368	1433	1772	2491	1738
1988												1708
1989												1570
1990												1147

Note: Real GNP and GDP: Nominal deflated by U.S. GNP deflator.

Source: Derived from: Hamed, O. and Shaban, R., Economic Integration and Israeli Occupation of the West Bank and Gaza; 1991; Table 1. The data in that table used Central Bureau of Statistics, Statistical Abstract of Israel Shekel figures converted at annual average exchange rates, from IMF's International Financial Statistics. Per capita GNP for the Occupied Territories for 1988 - 1990 from: United Nations Conference on Trade and Development (UNCTAD). Assistance to the Palestinian People: Recent Economic Developments in the Occupied Territories, Geneva: United Nations; August, 1991, p. iv.

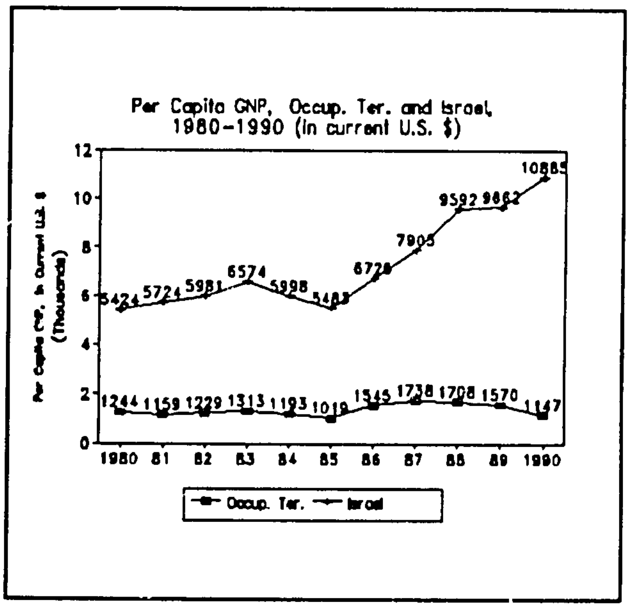
Over the twenty-year period 1970-1990, the nominal growth rate was 11.2% for GNP and 10.2% for GDP. However, when the nominal dollar figures are converted using the U.S. GNP deflator, the estimated growth rate is 4.7% for real GNP and 3.8% for real GDP over the same period. If only the years 1970 to 1987 are considered (in recognition of the distortion of the years following the Intifada), then nominal GNP grew at 13.3% per year, real GNP at 6% per year. Assuming an estimated population growth rate of 3.4% per year,[1] per capita annual growth of real GNP between 1970 and 1990 was 0.7%. Between 1970 and 1987 (before the Intifada) it was 2.6%. Per capita real GDP growth rate was 0.4% between 1970 and 1990 and 1.6% during the period 1970-1987.

According to the World Bank, from 1965 to 1989 the average per capita GNP growth rate of all middle income countries was 2.3%, and of lower-middle income countries (which would include the Occupied Territories) 2.0%.[2] Thus, while the growth rate in the Occupied Territories was slightly higher than comparable areas from 1970 to 1987, it compares unfavorably for the entire period 1970-1990 reflecting the serious deterioration of the economy of the West Bank and Gaza Strip.

It is notable that GNP considerably exceeds GDP (by 44% in 1990, for example) and grew more rapidly than did GDP. GNP is treated in these accounts as GDP plus net factor income; the latter consists overwhelmingly of remittances by workers employed in Israel and elsewhere. These numbers indicate the high degree of dependence of the Palestinian economy on external sources of income; importantly, figures for net factor income underestimate the degree of external dependence.

Figure 2 below shows comparative GNP per capita figures for Israel and the Occupied Territories for the years 1980 - 1990. Rates for Israel have steadily risen during this period, particularly since 1985, while those for the Occupied Territories have rose slightly between 1985 and 1987, but have decreased since then. The per capita GNP for Israel is significantly higher than that of the Occupied Territories, reflecting their relative position in comparison with other economies. In 1990, Israel's GNP per capita was nearly ten times that of the Occupied Territories.

Figure 2

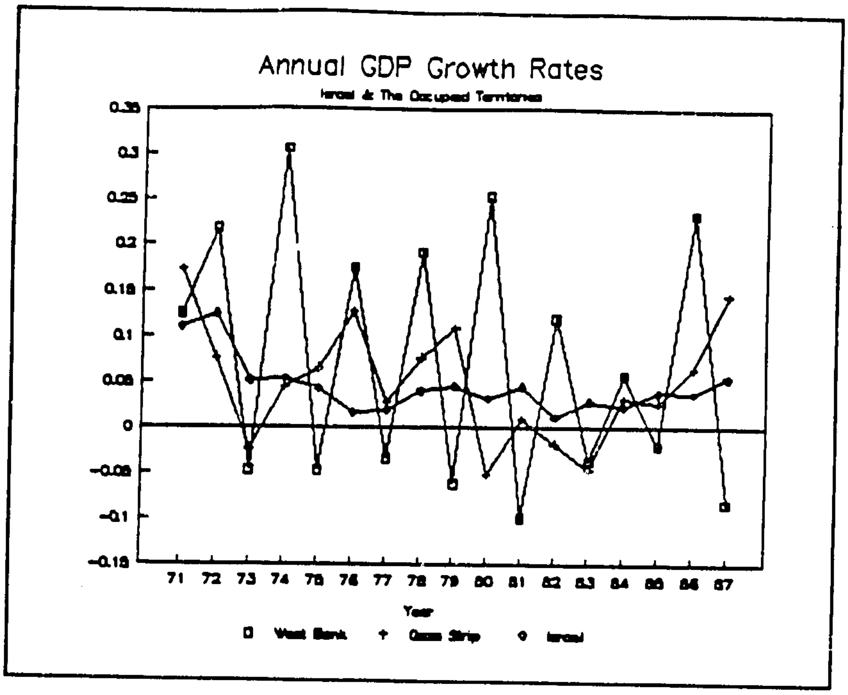


Source: For Occupied Territories, 1980-87, Hamed and Shaban, Economic Integration and Israeli Occupation of the West Bank and Gaza; 1991; for 1988-90, UNCTAD. Recent Developments in the Occupied Palestinian Territory, Report by the UNCTAD Secretariat, New York; 1991. For Israel: Data provided courtesy of the Embassy of Israel, Office of Economic Affairs; October, 1992

B. INSTABILITY

Productive output has fluctuated considerably in the Occupied Territories, more so than in Israel (see Figure 3 on the following page).

Figure 3



Source: Hamed and Shaban, Economic Integration and Israeli Occupation; 1991.

There are several sources of instability:

- the usual forces of weather (affecting agricultural goods), changing international prices and shifts in demand in the economy of primary trading partners (although in the case of the Occupied Territories, the dependence on Israel as a trading partner exacerbates this factor considerably);

- shocks due to shifts in the demand for Palestinian labor in the Gulf on which remittances (and savings and private investment) largely depend; and

- strikes and curfews.

The Occupied Territories have no public mechanism by which to stabilize economic shocks, being dependent on automatic stabilizers devised in Israel and Jordan. This effectively catches the Occupied Territories in a vice. These economic shocks have significant impact on the economy of the Occupied Territories, which is a very open economy: imports averaged 27% of GNP for the 1980-87 period.[3] However, there are essentially no policy offsets to these shocks. Moreover, the fact that Israeli entrepreneurs (in all sectors) have access to public and private insurance and other types of public mechanisms to absorb economic shocks places them at a significant competitive advantage over their Palestinian counterparts.

Instability in the job market, with a minimal social safety net, results in both economic and social shocks to families and communities. There are minimal unemployment benefits that cover only a small proportion of the work force and a minimal welfare system. Trade unions in the Occupied Territories have tried to ensure that companies pay one-half to three-fourths of wages until the worker, who has been made redundant, locates employment, but the Palestinian firms are reportedly unable to do so in most cases. The Government of Israel (GOI) does provide food and a small stipend to severe social cases, and the local Zakat Committees (local Islamic welfare committees) provide some support for extremely poor individuals and families, but this support is sporadic and meets the needs of only a small proportion of the population. In the Occupied Territories, as is true throughout the Middle East, the extended family serves as the primary social safety net.

There is no evidence of public spending to offset the shocks in the Occupied Territories; in fact, government spending is a small and declining proportion of GNP. It declined from 14.4% in 1970 to 6.9% in 1987. While it has been argued that the population in the Occupied Territories pays more in taxes than the occupying authorities spend there,[4] the data were not available to support this assertion. This reported net loss to the Occupied Territories is based on estimates of income (from taxes and other fees) and expenditures (on health, social and other services). No published data are available by which to verify this critical assertion.

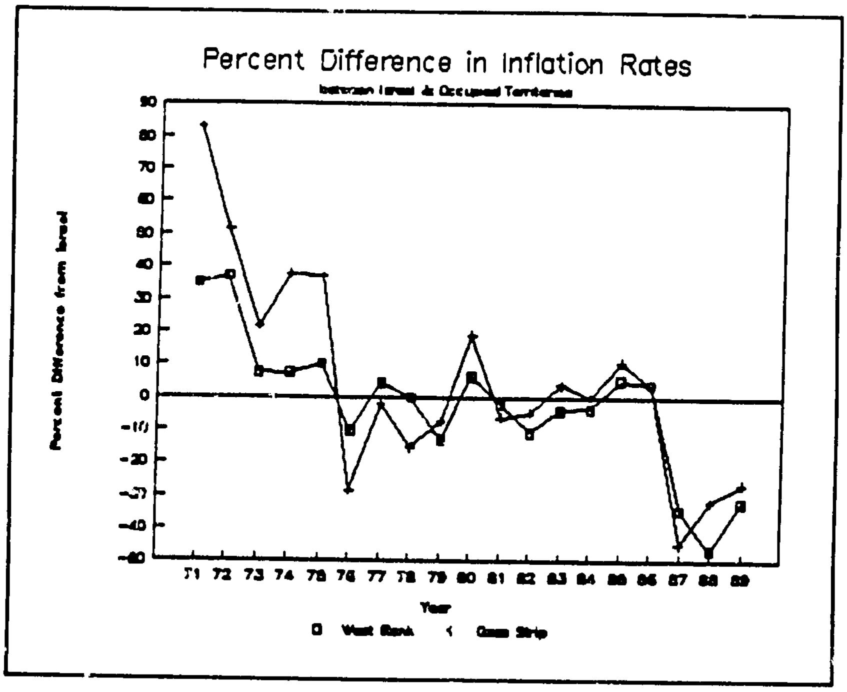
The Occupied Territories have neither their own currency nor a Central Bank. Instead, two currencies--the New Israeli Shekel (NIS) and the Jordanian Dinar (JD)--are legal tender, while the dollar circulates widely, as it does in Israel, as a relatively more secure store of value. Accordingly, the money supply in the Occupied Territories has three sources: 1) foreign trade, 2) net factor income and 3) net transfers. Since the first is largely in deficit, the main sources of money in the West Bank and Gaza are net factor income and net transfers. In effect, the supply of money, foreign exchange and savings are all heavily dependent on the remittances of Palestinians working either in Israel, in other Arab countries or farther afield, and bilateral and multilateral governmental transfers, all of which are highly unstable.

There is essentially no foreign direct investment in the economies of the West Bank and Gaza Strip in the traditional sense. Some would suggest that the private "investment" in construction of houses and Arab "investment" in health and social infrastructures and (less substantially) in physical infrastructure represents a political investment in the Occupied Territories, but it has certainly not contributed to economic growth. As is seen in other sectors--most importantly industry and agriculture--this lack of investment has severely hampered the growth and development of a Palestinian capacity to compete in an "open" market.

C. PRICES

The economies of the Occupied Territories have suffered from "imported inflation" from Israel. Although the two economies are closely integrated, they are not perfectly so. As Figure 4 shows, although the rate of inflation in the Occupied Territories closely tracked that in Israel for most of the past 20 years, more recently the price level in the West Bank and Gaza appears to have fallen more rapidly than that in Israel. This is probably because the Intifada tended to reduce the articulation of the two economies, and the money supply in the Occupied Territories fell sharply as a result of the decline in workers' remittances.

Figure 4



Source: Hamed and Shaban, Economic Integration and Israeli Occupation; 1991.

It has been argued recently[5] that there has been a transfer of real financial resources from the Occupied Territories to Israel. Because NIS circulates as legal tender, Palestinians hold real NIS balances which are transferred to the Bank of Israel. This seigniorage (in this case, a form of transfer of wealth resulting from the relationship between an occupying authority and a subject population) is 6.6% of the GNP of the Occupied Territories.[6] This may be compared with Selowsky's estimates for several Latin American countries for 1982-1988: Argentina, 3.7%, Bolivia, 3.5% and Peru, 4.7%.[7] Although one can question the size of the estimate, it nevertheless illustrates the substantial difficulty which current monetary arrangements create for sustained development.

D. THE SUPPLY OF SAVINGS

The large majority of savings available in the Occupied Territories are private; the government is a very small contributor to savings, if indeed, it contributes at all. For the period 1977-1984, average savings were some 21.4% of GNP. This is a respectable rate of savings in the international perspective, particularly since it is almost exclusively composed of private savings. The average rate of Gross Domestic Savings in all lower-middle income countries in 1989 was 23%,[8] and this figure, of course, included public as well as private savings.

It is not possible to determine the precise sources of saved income. However, it is likely that foreign earnings, including those derived from work in Israel and the Gulf States, provide a large component of savings. From 1978 through 1990, about one-third of national disposable income originated either from net factor income or from net transfers, ranging from a low of 31% in 1980 and 1987 to 36% in 1983 and 1990. This external dependence ratio for 1990 is significant because in that year work in Israel and in the Gulf and transfers from the Arab Gulf governments were curtailed as a result of the Gulf War.[9] It should be noted that, while GOI Central Bureau of Statistics (CBS) data show net factor income plus net transfer as 32% of net national disposable income in 1989, Palestinian economists estimate that figure to be 43%.

It is worth noting that there is a discrepancy between the way in which this data is presented and the conceptual distinctions which an analyst would wish to see. Conceptually, one would want to distinguish between income earned by Palestinians abroad on the one hand, and official public (bilateral and multilateral) transfers on the other. Unfortunately, the national income accounts do not show this. Instead, data are available for "net factor income," which is for "residents" (a holder of valid West Bank or Gaza identity papers). It is essentially a political definition. The second source, net transfers, combines government transfers and private remittances. The latter figures (private transfers) averaged one-fourth to one-sixth of net factor payments. This has sometimes been interpreted to show that earnings in Israel are much larger than those earned in the Gulf and elsewhere. Governmental transfers can, of course, be identified and netted out. When this is done, it still appears that "net factor income" greatly exceeds "(private) remittances."

One must, however, be cautious in making such an inference. It can be argued, for example, that the figures for net factor income overestimate money earned by Palestinians working in Israel which is remitted to the Occupied Territories. This is because the Israeli Central Bureau of Statistics reports as net factor income its estimate of the gross earnings of such workers. Palestinian analysts have objected that this neglects social security and other taxes which are levied on Palestinian workers in Israel.[10]

It is also likely that for the Occupied Territories, as for other jurisdictions, the officially reported "remittances" are only the "tip of the iceberg". There are several reasons for underreporting. For example, if a migrant has to convert a hard currency into NIS, then he/she would have every incentive to eschew official channels in order to take advantage of the higher rate of exchange obtainable on the parallel market. This is less of a problem for JDs, however, since that currency has been both more stable and less undervalued at official exchange rates. Most of the activities of the formal moneychangers involve exchanging the foreign currencies of Palestinian workers for NIS or JDs. Such activities, are ostensibly regulated but are not regularly monitored. Foreign currency exchange carried out by "informal" (illegal) money changers is necessarily unrecorded.

These considerations make it difficult to estimate the relative weight of the Israeli and the Gulf labor markets as sources of Palestinian incomes and savings. Current estimates of the number of Palestinians working in Israel range from 20,000 to 75,000, a substantial decrease from 1990, when the estimates ranged from 40,000-150,000.[11] These external labor markets served as a Janus-like influence on the economy of the Occupied Territories: while more than one-third of Palestinian national income has derived from outside of the Occupied Territories, this dependence on Israel and the Gulf States resulted in an unstable situation that has been disruptive at worst and at best has not contributed to the development of a sustainable and openly productive economy. Essentially, the Gulf States have provided funds to institutions in the Occupied Territories but have not invested in economic development, nor have they channelled funds through Palestinian economic development institutions such as the Economic Development Group or the Technical Development Corporation.

These external sources of income and savings have declined markedly since the onset of the Gulf Crisis and War. While it has been reported that employment of Palestinians in Israel increased during the summer and fall of 1991, unemployment still is reported as ranging between 30%-45%, largely as a result of decreased employment in Israel. Moreover, prohibitions against employment of Gazans in Israel are often imposed by the Israeli government for extended periods of time for security reasons. In May/June, 1992, for example, Israel was closed to Gazan workers for two weeks in response to the murder of an Israeli by a Gazan. Employment of Palestinians in Israel is therefore a highly volatile option.

Although there had been concern that the recent surge of European immigrants would result in job losses for Palestinians, the rate of immigration from Russia and other Commonwealth of Independent States (CIS) states has in fact declined considerably in the last year.[12] Moreover, the high skill levels of most of these immigrants certainly implies that they will not want the kind of unskilled farm, construction and service jobs which Palestinians have filled in Israel. These immigrants are often unemployed for up to one ear after arriving in Israel, and although it reportedly requires two to three years for them to find a job in their area of expertise, it is unlikely that they are engaged in heavy manual labor.[13] It appears that Palestinian employment opportunities in Israel will grow less rapidly than in the period before the Intifada, and could diminish if the economic situation in Israel results in absorption of immigrants into the labor pool normally filled by Palestinians.

The decrease in Palestinian labor in the Gulf is also of great concern. It has been estimated that in the mid-1980s, approximately 750,000 Palestinians lived and worked abroad (excluding refugees living in camps)[14] of whom more than 40,000 resided in Kuwait.[15] As has been discussed previously in this report, the Palestinian economy is very dependent on the remittances from the Gulf States. However, it is estimated that between 25,000 and 35,000 Palestinians have returned to the Occupied Territories since the beginning of the Gulf Crisis.[16] There is essentially no prospect that they will be allowed to re-enter the Gulf States in the near future to resume their employment. Also, the revival of aid from the Gulf states does not appear to be imminent.

The overall picture is poor. Incomes are falling, particularly that component which might be thought of as transitory income (and therefore more likely to be saved). By some estimates, per capita GNP has fallen to 40% since 1987.[17] As a result of the harsh economic situation, many households have been depleting their savings for some time, and the resumption of the accustomed sources of savings does not seem very likely.

E. THE DEMAND FOR CREDIT

It has been consistently reported[18] that one of the most serious impediments to economic growth in the Occupied Territories is the "shortage of credit." This appears to be a genuine shortage, not simply a complaint about high interest rates. The difficulties, described in the next section, are largely institutional. Despite high, real rates of interest (e.g., 12-13% at Cairo Amman Bank, 25% at Israeli Banks, 2% per week or per month at moneychangers and 4-5% at credit institutions),[19] many entrepreneurs have indicated that they would borrow funds if they could. However, even at these rates, lenders were unwilling to provide loans of sufficient size to allow productive private enterprises to retrofit or expand, or were not willing to provide loans at all. While one bank official reported that there is a surplus of funds available at his bank and that there is a large volume of overdue loans, this has not been confirmed.

While there are many pressing investment needs, the banks and credit institutions provide relatively small loans, too small, in the view of many industrialists and economists, to encourage expansion. The predominant source of capital investment in industry is, by far, the owner or his family, although the investment is comparatively small. Under the present circumstances, it is understandable that lending institutions (in the Occupied Territories and elsewhere) would be risk-aversive to providing substantial loans for economic development.

IV. FINANCIAL INSTITUTIONS

There are two types of formal banks: Israeli and Arab (including one Palestinian bank) and a variety of formal and informal sector financial institutions, ranging from cooperative societies and credit institutions to moneychangers. None performs the necessary function of financial intermediation on the scale which is required in the Occupied Territories or which would be expected in any area.

A. ISRAELI BANKS

As of the end of 1984, six Israeli banks operated 30 branches in the Occupied Territories. These banks have not served as a mechanism for investment in the economy of the Occupied Territories although, until 1987 they played an important role as a source of overdraft funds for trading transactions. Reportedly, in 1984 only 8% of credit was lent by Israeli banks to Palestinians;[20] the remainder was lent to settlers in the Occupied Territories.[21] More recent data are not available, nor was it possible to obtain data with respect to comparative deposits by Palestinians and settlers in these banks. Israeli banks charge 25%-28% interest on loans made to Palestinians. The banks do maintain deposits and pay relatively high, real rates of interest (8%-9%), which makes them economically attractive. However, the Palestinian public tends not to use these banks except to hold short-term, cash balances because:

1) the high rate of inflation increases the perceived risk of holding NIS accounts;

2) the accounts are perceived by Palestinians as being subject to scrutiny and hence arbitrary taxation or even confiscation by the authorities; this perception is sufficient to deter use of Israeli banks; and

3) many Palestinians dislike using Israeli institutions, while others may feel considerable social pressure not to use such banks, in spite of the fact that the banks have also been a source of letters of credit for some Palestinian importers.

A recent (mid-1991) but undocumented GOI policy offered residency to Palestinians returning to the Occupied Territories if they brought with them a minimum of $100,000. This policy, known as a "family reunion" incentive, may be a mechanism to ensure that financial investment in the Occupied Territories is available without the need to use existing deposits in Israeli banks. This is a complicated but potentially critical issue (and policy) and should be explored further by those involved in development planning for the Occupied Territories.

B. PALESTINIAN AND ARAB BANKS

Prior to 1967, eight banks, with a total of 32 branches, operated in the West Bank, and three banks operated in the Gaza Strip (only one of which was a local bank with two branches). The total assets of the banks in the West Bank have been estimated at JD 15 million as of June, 1967, with JD 10 million in credit and a credit to deposit ratio of 70%. In June, 1967 all banks operating in the Occupied Territories were closed by military order, and all records and assets were transferred to the Bank of Israel and considered deposits of branches of the Bank of Israel.[22]

In addition to the Israeli banks, two other banks operate in the Occupied Territories: the Bank of Palestine in Gaza (which is not allowed to operate in the West Bank) and the Cairo-Amman Bank in the West Bank (which is not allowed to operate in the Gaza Strip). As with Israeli banks, these institutions largely serve as holders of short-term cash balances. They do make loans to Palestinians other than their depositors, but they follow (of necessity, according to them) very conservative lending policies.

B.1 The Bank of Palestine

The Bank of Palestine was established in 1960 under the Egyptian administration. It was closed after June, 1967 and was permitted to reopen in 1981 but was not allowed to deal in foreign exchange. In September, 1991 the Bank was permitted to open a branch in Jabaliyya, Gaza, but its requests to open branches in Nablus and Hebron are still being appealed through the Israeli courts. After long legal actions and negotiations, the bank has recently been permitted to deal in foreign exchange and foreign currencies. It can also now grant letters of credit for importers.[23]

At the end of 1990, the total assets of the Bank of Palestine were approximately $13 million.[24] The Bank's portfolio is managed very conservatively: in 1990, its total loans (loans + "other sundry debtors") were approximately $2 million, far below the need.[25] The Bank's liquidity ratio was 73%, up from 48% in 1984 (liquidity ratio = ratio of cash to total assets);[26] this is three times the legal limit in Israel. The ratio of loans to deposits was roughly 21%, which, although twice as high as that of Israeli banks operating in the Occupied Territories before the Intifada (see below), remains very low by international standards.

In addition to the constraints faced by other Palestinian financial institutions (including, for example the volatile political and economic climate and GOI restrictions), the Bank of Palestine faces two problems:

1) a closely held, "family style" management approach which results in conservative credit practices; and

2) reports that Palestinian employees of Civil Administration (CIVAD) are encouraged by their GOI managers to boycott the bank.

The constraints faced by the Bank of Palestine certainly affect the degree to which it has been able to intermediate effectively in the financial market of the Gaza Strip and to contribute to economic development in the area. According to a report by the United Nations Conference on Trade and Development (UNCTAD), as of 1989 the Bank of Palestine had "not yet succeeded in mobilizing available resources, however small, and allocating them to needy and priority areas, and it [had] thus not contributed to an increase in output and income."[27]

B.2 The Cairo Amman Bank

The Cairo Amman Bank, headquartered in Amman, initiated operations in 1986; the bank has four branches in the West Bank. As of the end of 1991, the Cairo-Amman Bank reportedly had a $40 million credit line, with $16 million in loans outstanding. Twenty-five percent of its loans were in default (that is, behind one to three payments); the average for U.S. commercial banks is 1%-2%.[28] The bank charges an interest fee of 9% on loans, plus an additional fee of 3%. Total assets of the Bank were not available as of the preparation of this report.

The Cairo-Amman Bank is not allowed to deal in foreign exchange and is permitted to have demand deposits only in JDs on which it can charge 3%-5% interest. However, as of mid-1992 the Bank had reached its ceiling on allowed deposits and was therefore no longer accepting new deposits. Although the JD's value has been considerably more stable than the Israeli currency (not least because from 1980-88 the inflation rate was only 2.2%), it has lost roughly 40% of its value against the dollar over the past several years. Because the bank is not permitted to deal in foreign exchange, it cannot hedge or otherwise protect its customers against exchange-rate depreciation. Nor are the negative, real rates of interest on JD accounts liable to attract large deposits. In any case, even before 1992, new accounts could be opened only in Amman where the bank suffers the fate of dual regulation by both the Central Bank of Jordan and the Bank of Israel, whose regulations may conflict. In this case, bank management must engage in complex, time-consuming negotiations.

In addition, the Cairo-Amman Bank is not allowed by the GOI to deal directly with non-Israeli banks. This restriction places them at a competitive disadvantage with Israeli banks in offering letters of credit: if, for example, Bank Leumi charges 0.5% commission on a letter of credit and, if the Cairo-Amman Bank must go through Bank Leumi, Cairo-Amman must charge 1.0% in order to make the same rate as Bank Leumi. Therefore, despite social pressures, some Palestinians avoid the more expensive Palestinian bank and use the Israeli banks.

B.3 Development Banks

Since 1967, a number of Arab development banks have invested in the Occupied Territories. Rather than serving as financial intermediaries in the traditional sense, these banks have been a conduit of development funds, primarily from Arab states. For example, the Housing Bank of Jordan managed more than 2,000 loans totaling JD 13.8 million from 1981-1985 for the repair and construction of houses in the Occupied Territories. The Industrial Development Bank of Jordan currently manages loans--primarily for small-scale enterprises--under a JD 1 million grant from the European Community (EC). A third Jordanian-based bank, the Bank for the Development of Municipalities and Villages, had granted just over JD 600,000 in loans to 18 localities by the end of 1984.[29]

In early 1992, American Near East Refugee Aid (ANERA) developed a proposal for the formation of a Cooperative Finance Bank. The proposal for funding for the bank calls for $15 million of equity during the first five years and $35 million in international loans, primarily from the International Finance Corporation (IFC).[30] As of the preparation of this report, no funding agency had assured ANERA of funding for the bank.

C. COOPERATIVE SOCIETIES AND CREDIT INSTITUTIONS

In the absence of a fully functioning banking system, cooperative societies and institutions which manage credit have taken on added importance in the Occupied Territories.

C.1 Cooperative Societies

Cooperatives--local membership organizations--have been seen by development specialists as having potential for enhanced productivity at the local level. However, the history of cooperatives in developing countries has not been laudable in this respect with some exceptions. Uphoff has identified four types of cooperatives:[31]

1) credit unions and savings and loan associations, important as sources of finance where other financial institutions are not available, as is the case in the Occupied Territories;

2) labor cooperatives;

3) consumer cooperatives or buying clubs, including input supply cooperatives (important for agricultural producers in particular) and marketing cooperatives (which encourage the use of new technology and can lead to increased production because of reduced cost resulting from shared labor and infrastructure); and

4) producer cooperatives, which is a "unit of production parallel to the household, private company or state enterprise".[32]

Many of the cooperatives which exist in the Occupied Territories fall within the latter two categories.

Cooperative societies in the Occupied Territories have been an important source of credit since the time of the British Mandate. In 1966, just prior to the Occupation, 238 cooperative societies with more than 14,000 members, a share capital of $683,000 and a total volume of loans of $1.6 million operated in the West Bank. In the Gaza Strip, only 17 cooperatives with just over 2,000 members were operating in the same year.[33] Between the Occupation of 1967 and 1978, the cooperatives carried out minimal activities. However, since that time their role has been supported extensively by donors, particularly the U.S.

The Union of Cooperative Societies (based in Nablus) is essentially a coordinating mechanism for the estimated 110-300 individual cooperatives which operate in the Occupied Territories.[34] Although approximately 30% of the cooperative societies relate to the agricultural sector, they, and the housing cooperatives, seem to have been the primary focus of donor interest and funding. Others, including women's cooperative societies, have received substantially less funding but have played an important role in promoting small scale enterprise. Loans have been provided by the cooperative societies for housing, purchase of equipment and machinery (e.g., tractors, olive oil presses) and physical infrastructure, including irrigation canals and agricultural roads.[35] In addition, cash loans have been provided by cooperative societies, primarily to "regional marketing societies."[36] The cooperative also provides services such as assistance in export of goods and management of small scale development projects.

The level of support from A.I.D. has changed substantially in recent years. For example, while ANERA had provided more than $22 million in aid to cooperatives by 1983, in the period 1984-1991 this A.I.D.-funded private volunteer organization (PVO) had provided just $500,000 in aid to cooperatives. Of concern to donors has been the relatively low proportion of equity to the total resources available to cooperatives. It has been estimated that the average cooperative society has only 10-20% of its resources in equity capital.[37] This may be one result of the fact that cooperatives, wholly dependent upon infusions of donor aid, have little incentive to be self-sustaining. This reality, together with the fact that little seems to have been done by donors to strengthen the managerial capacity of the cooperatives, may also explain the low repayment rates for credit received through cooperatives, which was estimated at 30%-50% in 1986.[38]

In a recent book on cooperatives, Shehadeh suggested that the success of the cooperatives has been hampered by the cumbersome and politicized registration requirements on the part of the CIVAD. This is caused by the complex (and often delayed) process for review and approval of projects (many of which may not be approved) and the absence of training for cooperative board members, administrative staff and members.[39] However, he also pointed to a number of internal factors which diminish the ability of cooperatives to contribute substantially to economic development. These factors included: excessive intrusion of politics into the management and implementation of cooperative projects, inadequate organizational structures and poor management practices, control by and competitiveness among large, influential families (which also leads to duplication of projects) and inattention to the need to adhere to laws and regulations established by the cooperatives themselves. Finally, he suggests that the cooperatives do not adequately plan for general development programs nor (adequately) for specific projects.[40] One could ask how cooperatives, which have been the beneficiaries of such a large proportion of donor financing over the years since 1978, could have internal problems which might well have been addressed by donors or their conduits of funds.

A more detailed discussion of agricultural cooperatives is included in the companion sector analysis report, Agriculture in the Occupied Territories.

C.2 Credit Institutions

In the Occupied Territories, credit institutions have served an important role as a mechanism for disbursal of credit funds received from donors. These institutions have no other formal financial intermediary role (e.g., check cashing and investment of savings). Four local institutions have provided loans to industries and enterprises over the past four years. These are:[41]

1) Arab Development and Credit Company (ADCC), which was founded in 1987, provides loans for agricultural projects, has a loan capital of $3 million and has 30% of its loans overdue by more than 90 days;

2) Cooperation for Development (CD), which was founded in 1987, provides loans for agricultural and industrial projects, has a loan capital of $2 million and has 8% of its loans overdue;

3) the Economic Development Group (EDG), which was founded in 1988, provides loans for both agricultural and industrial projects, has a loan capital of $2 million and has 40% of its loans overdue; and

4) the Technical Development Company (TDG), which was founded in 1990, provides loans for industrial and agricultural projects, and has a loan capital of $3.2 million (data are not available on outstanding loans).

The impact of these institutions on economic development in the Occupied Territories has thus far been minimal. From their founding (the earliest in 1987) to late 1991, the total amount of loans provided was $6.8 million.[42] The loans are relatively small ($5,000-$60,000, most average $8,000) and loans to small and medium-size enterprises predominate.[43] The interest rate for all but the Cooperation for Development (CD) is 4% to 4.5%; the CD charges 8% interest.[44]

The primary source of funding for these credit institutions is the EC, which currently provides 70% of all liquid assets of these institutions. The Welfare Association, a Palestinian non-governmental organization based in Geneva, is the second most important source of funds in terms of volume and provided initial start-up costs for most of the institutions.[45] The EC plans to pass an estimated $19.8 million of its grants for credit expansion through these institutions over the next few years. Just over $17 million (87%) of these funds will be allocated to agriculture, industry and services (including tourism) with the remainder to be used for export credits.[46]

Given their comparatively small loan portfolios, concern has arisen among some donors with respect to the capacity of these institutions to manage loan portfolios of this magnitude. Importantly, these credit institutions have initiated efforts to substantially improve their capacity to manage loan portfolios. For example, in both the West Bank and Gaza Strip the four credit institutions have recently joined together to develop a computer-based information system to which they will each have access; this will allow them to determine, for example, whether a prospective borrower has submitted multiple applications to the cooperating institutions. Moreover, the EC plans to provide extensive technical assistance to these institutions in credit management and to monitor their progress with respect to management of the loan portfolios.

D. INFORMAL CREDIT MARKETS

Given the weakness of the formal financial system, it is not surprising that a variety of informal financial networks exist. The most prominent of these are the "moneychangers," or dealers in foreign exchange in the parallel market. Moneychangers have, in fact, operated in the West Bank and Gaza Strip since before 1967 (when there were approximately 40), but their numbers and levels of activity have increased sharply since then. As of the end of 1986, an estimated 200 moneychangers have operated in the West Bank. Most of these were not licensed. Although the GOI does not permit licenses for moneychangers in that area, an unknown number of individuals carryout the same functions.[47]

The principle activity of the moneychangers has been to change foreign currencies, and, to a very limited extent, to hold short term deposits. Operating on the margins of legality, they are entirely dependent on their reputation and on the tolerance of the authorities. The importance of reputation for such dealers reduces the risk of fraudulent activity, but does not, of course, eliminate it altogether. The authorities have recently been increasing their regulation and taxation of these dealers. Since these dealers typically do not maintain written records, there are frequent disputes between them and the fiscal authorities concerning their tax liability. Increased surveillance and taxation and declining remittances have reportedly jeopardized the viability of many dealers.

Although the moneychangers fulfill an important function, they do not and cannot fill the need for financial intermediation in the Occupied Territories. The current severe underdevelopment of financial intermediation ultimately means that the main way in which credit is obtained is through "wasta" or family connections. There are at least three disadvantages of this system:

1) it is necessarily small and fragmented, thus leading to only a limited degree of financial intermediation;

2) it is ultimately dependent upon family wealth, which in turn is often a function of remittances; and

3) it reinforces traditional business practices and habits that impair successful economic development in the Occupied Territories.

This last point has been emphasized recently by Palestinian economists and industrialists, including members of the Palestinian delegation.

Aside from cooperatives (discussed in a previous section), there are few credit institutions comparable to community-based or employee credit unions in the U.S. or to credit circles in developing countries. Two exceptions are the Bethlehem Committee for Rehabilitation's Development Center and the Union of Charitable Societies. No detailed information was available with respect to these institutions at the time this report was prepared.

E. INSURANCE COMPANIES

As of 1991, only one Palestinian insurance company, the Arab Insurance Establishment (AIE), operated in the Occupied Territories. AIE operates in the West Bank (including East Jerusalem, in which it has been allowed to operate since the mid-1970s) and Gaza Strip.[48] All other insurance companies were agents for Israeli firms. Notably, automobile insurance comprised more than 80% of the total volume of insurance in the Occupied Territories.[49]

In most countries, insurance premiums are an important source of investment in the local economy. In the Occupied Territories, none of the more than $27 million in premiums paid to Israeli insurance companies was invested in the West Bank or Gaza Strip, nor were any of the AIE deposits in Israeli banks invested in these areas.[50] However, the Arab Insurance Establishment (AIE) has invested--albeit minimally--in local projects by contributing to local shareholding firms and providing loans for construction and commercial ventures; 9% of its $1.25 million in assets in 1984 were in loans and discounted bills.[51]

F. DONORS

The role of donors in the financial sector of the Occupied Territories has been almost exclusively limited to expanding access to credit. However, this involvement has been largely limited to a few cooperative societies and small scale loans to individuals operating enterprises with four or fewer employees. According to a recent report on donor financing for development in the Occupied Territories, the total amount of funds provided for the expansion of credit between 1979 and 1991 has been $18,696,526, of which U.S. private voluntary organizations (PVOs) have provided only $700,000.[52] The EC is planning to provide nearly $20 million of credit for the productive, private sector and $50 million in credit for housing construction over the next few years.[53]

In addition, American Mideast Education and Training Services (AMIDEAST) has supported local, short courses in credit management and participation in U.S.-based study tours and short courses.

V. CONSTRAINTS TO DEVELOPMENT

The principle impediments to the finance and credit sector in the Occupied Territories are:

1) bureaucratic restrictions, including:

   a) the absence of legal remedies to ensure repayment of loans,

   b) prohibitions against Palestinian banks dealing in foreign currency and with non-Israeli banks and the exceptionally high requirement for reserves,

c) restrictions against opening additional banks or additional branches of existing banks, and

d) the fact that, although a bank's liquid assets must be placed on deposit with the Bank of Israel, that bank will not guarantee deposits;

2) the exceptionally volatile and risky political and economic climate in the Occupied Territories, which serves as a barrier to both domestic and foreign investment;

3) the "family-style" management structures and procedures which pertain to both banks and cooperatives, if not the credit institutions, which contribute to conservative management practices;

4) the absence of any mechanism for macroeconomic planning within which Palestinian financial institutions can operate and which could devise comprehensive responses to the numerous and severe external shocks to which the economy of the Occupied Territories has been subjected;

5) the domination of Palestinian financial institutions by two central banks--the Bank of Israel and the Central Bank of Jordan--which are concerned primarily (and understandably) with financial and economic issues in their respective countries;

6) the fact that the economy of the Occupied Territories is neither so integrated into the Israeli economy that it can simply be regarded as a section of that system, nor sufficiently independent of the Israeli economy that Palestinians are insulated from the difficulties there;

7) the dependence on foreign labor markets and external donors for savings and investment, both of which are volatile and risky.

These constraints render the finance and credit "system" of the Occupied Territories weak and call into question the appropriateness of substantial sums of donor assistance in the absence of policy dialogue with respect to changes in GOI restrictions on open financial markets in the Occupied Territories.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. DEVELOPMENT OPPORTUNITIES

The weaknesses of the financial sector are numerous. Banks are few, small, heavily restricted and confronted with a highly uncertain economic climate. They pursue extremely conservative loan policies, even with the very small, total volume of deposits at their disposal. Informal sector mechanisms are numerous, but they are far too small, fragmented and ephemeral to fill the gap. Credit institutions and cooperatives have little capacity to manage larger supplies of funds but are initiating efforts to improve their management of current loans. Under the current circumstances, strengthening such cooperative programs may be appropriate on a case-by-case basis.

Although the supply of savings may be declining and, therefore, the cost of credit rising, there remains significant excess demand for credit. This strongly suggests that the current institutional framework of financial intermediation is very weak, a surmise that is certainly borne out by direct inspection of the situation. However, despite the magnitude of the need for an effective financial system, under the present political circumstances the opportunities for investment may be limited.

Donors could play an important role in improving the capacity of existing institutions to serve as financial intermediaries, with particular attention to the management of loan portfolios. Credit expansion should proceed only if donors can be assured that those organizations through which it allocates credit funds (presently limited to four private, voluntary organizations) have the capacity to adequately plan for and monitor credit programs. Planning for credit programs must be carried out in conjunction with the EC and other donors and with relevant Palestinian economic planning entities to limit duplication insofar as possible and to help ensure that credit is directed toward productive enterprises which have the greatest likelihood of sustainability and linkage with other development projects.

Some limited assistance can be given to cooperatives and to "credit circles," which, in the manner of the Grameen Bank in Bangladesh, can assist certain disadvantaged groups. While the U.S. has already encouraged the Israeli authorities to permit the opening of the Cairo-Amman Bank in the West Bank, further intervention to relax the restrictions on credit and finance is urgently required.

Finally, the donors could assist the Palestinians in developing policy instruments with respect to the financial sector, including, for example, regulations governing savings and loan institutions. Such instruments would be useful whatever the outcome of the current political discussions and would certainly improve the current weak system, even if the GOI does not alter its restrictive policies.

The EC is planning to provide nearly $20 million of credit for the productive private sector and $50 million in credit for housing construction. Given the deplorable state of the Palestinian economy, this is urgently necessary but woefully insufficient. As is described in the companion sector report, Industry and

Enterprise in the Occupied Territories, limited credit has served to encourage the expansion of only small-scale enterprises, and that only minimally. The level of credit that would be required to significantly expand Palestinian industry has not been forthcoming. Loans averaging $2,000 to $5,000 per firm do not greatly facilitate the movement of Palestinian enterprise into the global economy.

In the long run, donors will need to recognize that great expectations with regard to economic growth in the Occupied Territories will require infusion of sufficient funds as well as technical assistance and training, in order to stimulate jobs' creation and the development of a healthy, competitive economy.

B. RECOMMENDATIONS

Table 1 summarizes conclusions with respect to finance and credit 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

SUMMARY CONCLUSIONS AND RECOMMENDATIONS: FINANCE AND CREDIT RECOMMENDATIONS

Conclusions	Recommendations
1. The financial sector in the Occupied Territories--including banks, cooperatives and credit institutions--is weak, unable to meet credit demands and to adequately manage the limited financial resources which are available to the banking and credit institutions. These weaknesses are largely attributable to the bureaucratic and other limitations imposed by the GOI, but also result from inadequate Palestinian management structures and practices.	1.1 Donors should provide technical assistance, short-term training and other support for expansion of community-based savings and credit institutions (e.g., credit circles).
	1.2 Technical assistance, short-term training and other support for banks, credit institutions and cooperative societies is also required in order to strengthen their capacity to plan, manage and evaluate their activities.
	1.3 Technical assistance, short-term training, and commodities (e.g., microcomputers and related software and published and unpublished documents) are important for the development of finance and credit data and of information clearinghouses.
2. The severe economic situation since 1990 has resulted in a decline in savings and in the availability of financial resources for private sector Palestinian investment in development projects and opportunities.	2.1 Credit for the productive private sector must be expanded, either directly by donors (through loan guarantees) or through international or regional development or private banking institutions. Such arrangements should follow donor countries' programs for expansion of their own private sector industrial bases, as well as those of developing countries whose private sector development they are supporting.
3. Policy instruments which could be used by the private sector (and by quasi-public institutions) to improve the management of financial resources in general and of credit management in particular, are inadequate or non-existent.	3.1 Technical assistance, short-term training and direct support would contribute to the development of management infrastructure (e.g., policy instruments for financial regulation, and standardized credit applications).

4. Only recently have donors begun to coordinate their information with respect to funding credit projects; significantly more coordination is required within and among donor agencies if Palestinian institutions are to adequately plan for and implement credit projects (e.g., housing or agricultural credit projects) and those related to such projects (e.g., physical infrastructure related to housing construction).

4.1 Donors should continue to coordinate the planning of credit and related projects, including identifying the financial (and economic) implications of credit projects vis-a-vis related sectors (e.g., housing credit related to the cost of physical infrastructure required for such housing).

5. Private insurance, a critical component of the financial sector and an important source of investment in local economies in most countries, is weak even in the areas in which it works and non-existent in others (e.g., crop insurance). Public insurance mechanisms are also extremely weak in some areas and non-existent in others.

5.1 The management capacity of private sector insurance companies should be enhanced through technical assistance and short-term training.

5.2 The Palestinian public, quasi-public and private sector agencies should engage in planning for broadbased insurance needs, with technical assistance and training as necessary.

6. No formal mechanism exists for macroeconomic planning of the Palestinian economy. This hinders the ability of Palestinian financial and other institutions to devise comprehensive plans and responses to the numerous and severe external shocks to the economy of the Occupied Territories.

6.1 In order to improve the capacity of Palestinian economic and other related institutions to undertake macroeconomic planning and to conduct single- and multi-sectoral economic studies, they would benefit from technical assistance, short-term training and other support. Such support could also include, for example, the conduct of short-term studies and the preparation of reports.

7. The Palestinian economy is essentially dependent on foreign labor markets and external donors for savings and investments in operating costs and capital expenditures, as well as, for social welfare programs. The economy is also neither sufficiently integrated with the Israeli economy as to derive the full benefits of that system, nor sufficiently independent to adequately design and implement economic development programs relatively free from the difficulties of the Israeli economy.

7.1 Donors should engage in policy dialogue with the GOI to determine what specific measures can be taken to alleviate unnecessary bureaucratic requirements and to facilitate the development of economic policy structures which can ease the transition to a more sustainable Palestinian economy.

REFERENCES

1. Benvenisti, M and Khayat, S. West Bank and Gaza Atlas. Jerusalem: The Jerusalem Post for the West Bank and Gaza Data Project; 1987.

2. World Bank. World Development Report, 1991. New York: Oxford University Press for the World Bank; 1991.

3. Calculated from data included in: Statistical Abstract of Israel; 1991, Table 27.11, UNCTAD, 1991, and Hamad and Shaban, 1992

4. See, for example, Benvenisti, M; 1987.

5. Hamed, O and Shaban, RA. Economic Integration and Israeli Occupation of the West Bank and Gaza. Paper presented at the Conference on Economic Units of the Institute for Social and Economic Policy in the Middle East of the J.F. Kennedy School of Government, Harvard University; November 14-16, 1991.

6. Hamed, O and Shaban, RA; 1991.

7. Selowsky, M. Preconditions Necessary for the Recovery of Latin America's Growth. Washington, DC: The World Bank. In: Rudiger Dornbusch and Stanley Fischer, Macroeconomics, Fifth Edition. NY: McGraw Hill; 1990, p. 658.

8. World Bank; 1991.

9. Calculated from data in UNCTAD, The Palestinian Financial Sector Under Israeli Occupation. New York: United Nations; 1989 and UNCTAD, Recent Economic Developments in the Occupied Palestinian Territory, Report by the UNCTAD Secretariat, New York; 1991.

10. United Nations Conference on Trade and Development (UNCTAD). Recent Economic Developments in the Occupied Palestinian Territory, Report by the UNCTAD Secretariat, New York; 1991.

11. The 150,000 estimate of Palestinians working in Israel as of 1990 includes 75,000 working without formal contracts and permits and 50,000 who had permits. (UNCTAD; August, 1991, p. 11).

12. Government Accounting Office (GAO). Israel: U.S. Loan Guarantees for Immigrant Absorption. Report to the Chairman, Committee on Appropriates, U.S. Senate. GAO/NSIAD-92-119. Washington, DC: Government Printing Office; 1992.

13. GAO; 1992.

14. UNCTAD; 1991, p. 3.

15. UNCTAD. The Palestinian Financial Sector Under Israeli Occupation. New York: United Nations; 1989a.

16. UNCTAD; 1991, p. 4 and interviews conducted in May/June, 1992.

17. UNCTAD; 1991 and Hamed and Shaban; 1991.

18. See, for example: UNCTAD; 1989a and UNCTAD. Palestinian External Trade Under Israeli Occupation. New York: United Nations; 1989b. In addition, numerous individuals interviewed during the course of this project identified credit shortages as a key problem.

19. Data collected during site visit of May/June, 1992.

20. UNCTAD; 1989a, p. 40.

21. Jabr, H. The Banking Sector. Draft paper prepared for UNDP; 1991.

22. Jabr, H; 1991, pp. 3-4.

23. UNCTAD, 1989a and interview with the Bank's Director, Mr. Ata Shawa, 12/19/91.

24. Bank of Palestine. Annual Report of the Board of Directors. Gaza; 1991.

25. Bank of Palestine; 1991.

26. UNCTAD, 1989a and Bank of Palestine; 1991.

27. UNCTAD; 1989a, p. 55.

28. Informal report made in May/June, 1992.

29. Jabr, H; 1992.

30. Gubser, P. Preliminary Business Plan: Cooperative Finance Bank. Washington, D.C.: ANERA; 1992, pp. i-ii.

31. Uphoff, N. Local Institutional Development: An Analytical Sourcebook with Cases. Connecticut: Kumarian Press; 1986, pp. 5-6.

32. Uphoff, N; 1986, p. 127-128.

33. UNCTAD; 1989a, p. 56.

34. The low estimate is based on the UNCTAD report of 1989, referenced previously (p. 57); the higher estimate is based on interviews conducted in May/June, 1992.

35. UNCTAD; 1989a, p. 57.

36. UNCTAD; 1989a, p. 58.

37. UNCTAD; 1989a, p. 57.

38. UNCTAD; 1989a, p. 58.

39. Shehadeh, O. Cooperatives in the Occupied Territories. Ramallah; 1991.

40. Shehadeh, O; 1991.

41. These data were derived from a table presented in: Gubser, P; 1992.

42. Gubser, P; 1992.

43. Ma'an Development Center. The Role of Credit Institutions in the Local Development. Jerusalem: Ma'an Development Center; 1991, various pages.

44. Gubser, P; 1992.

45. Halayka, M. Finance and Credit: A Report Prepared for Policy Research Incorporated. Clarksville, MD; 1992, p. 1.

46. Unclassified communication from the European Community to A.I.D.; 19 November, 1991.

47. UNCTAD; 1989a, p. 62 and Jabr, H; 1991.

48. UNCTAD; 1989a, p. 56.

49. UNCTAD; 1989a, p. 48.

50. UNCTAD; 1989a, p. 48.

51. UNCTAD; 1989a, p. 56.

52. UNDP; 1992.

53. Unclassified EC communication.

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,

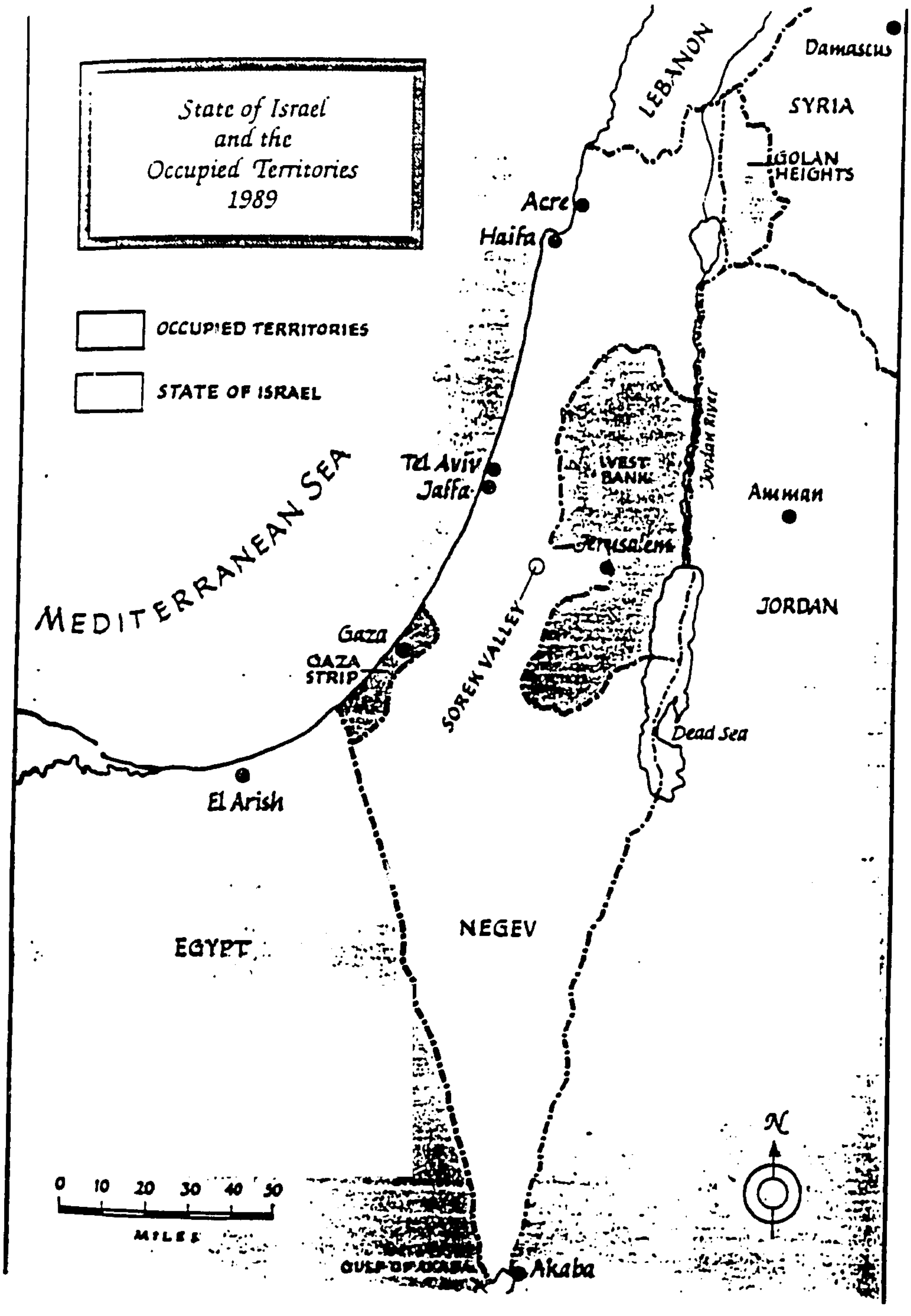
> "For statistical purposes the West Bank and Gaza Strip are considered by Israel's Central Bureau of Statistics to be units independent of Israel. Economic activity there is investigated and reported as though it constitutes a 'national economy' united with Israel in a 'common market.' The official 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."[1]

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.[2]



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

30

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:[3]

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),[4] 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.[5] 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:[6]

West Bank (including East Jerusalem)	1,104,799
Gaza Strip	1,010,640
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.[7] This age distribution and the high birth rates have important implications for social service needs as well as for labor force concerns.

Figure 2

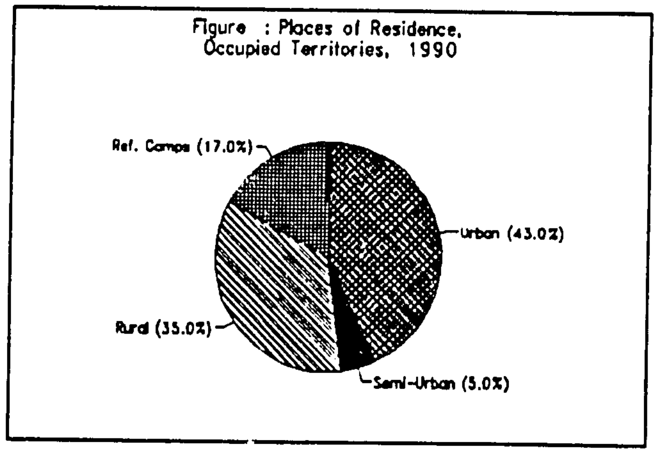


Figure 3

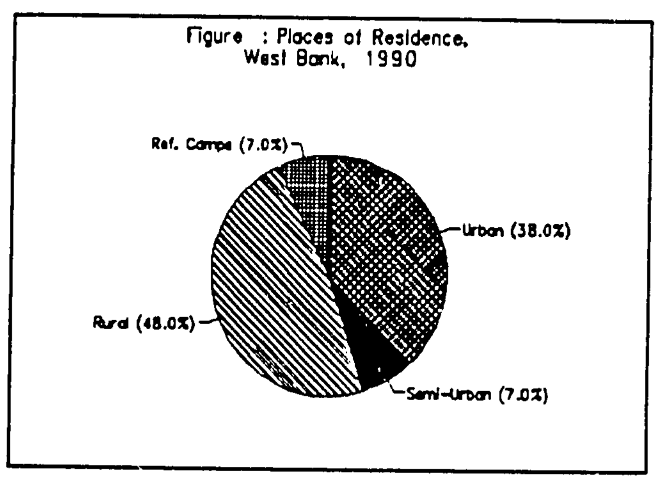
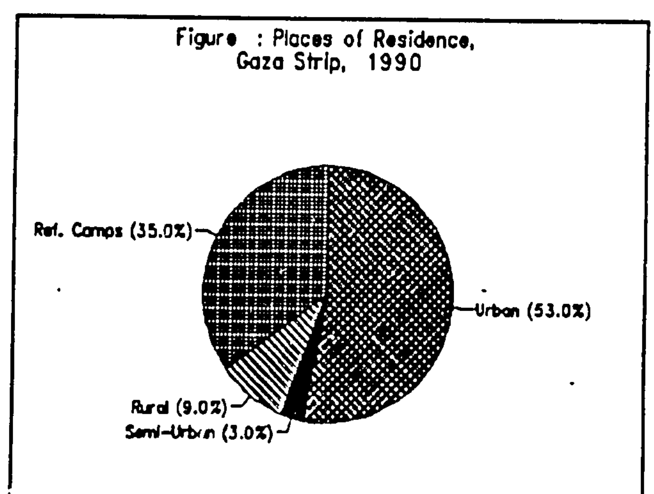


Figure 4



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

32

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.[8]

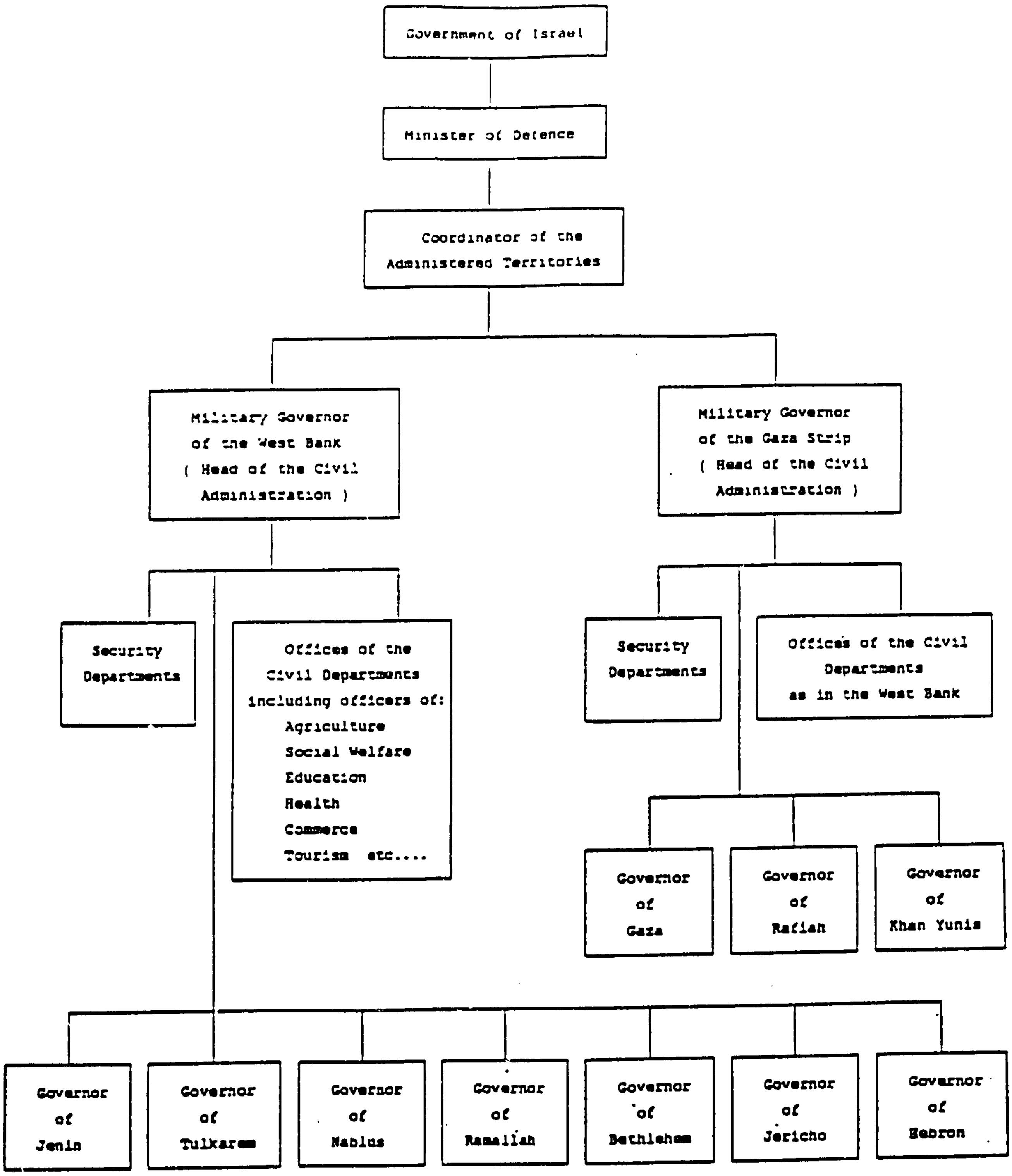
In spite of the high natural rate of increase, until 1991 the population had a relatively low rate of population growth. This resulted from emigration to Jordan, the Gulf States and outside the region, primarily for job opportunities. Even prior to the Gulf War and the influx of Palestinians from the 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.[9] 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."[10] 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.[11] 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.[12]

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.[13]

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.[14] 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."[15] 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.[16] 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.[17] By comparison, the GNP in Jordan for 1989 was $1,730.[18] In Israel it was $10,920 in 1990.[19]

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%.[20] 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."[21] It should be pointed out, however, that several researchers have suggested that traditional economic indicators (e.g., GNP, per capita GNP, GDP)

35

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.[22]

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;[23]

* 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 lead 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:[24]

* 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;

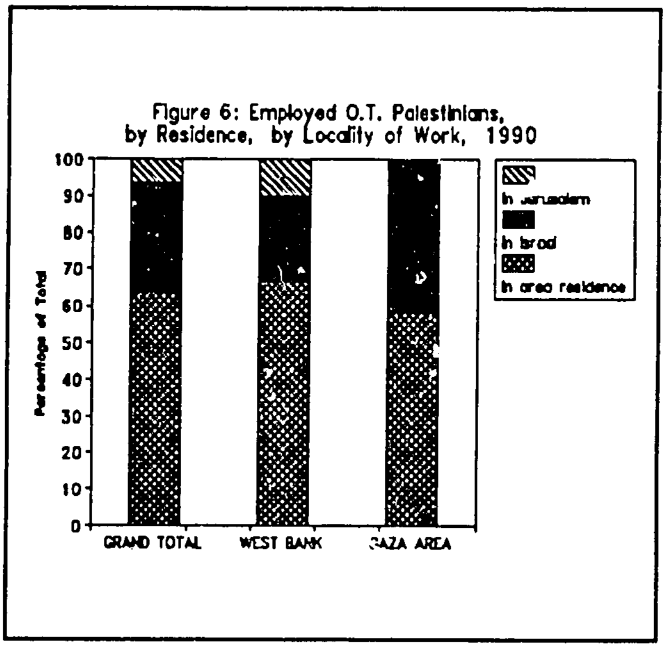
* decreases in both public and private financial support from the region for Palestinian private sector development in both social services and productive enterprises (this support was estimated to be $150 million in 1989); and

* disruptions in traditional export and import markets (note: the market share in Jordan had begun to decline prior to 1991[25]).

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.[26] 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 persons, 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.[27] 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)[28] 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.[29] 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%).[30] Imports of goods and services also declined during this period: 16% in the West Bank and 19% in the Gaza Strip.[31] 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 economics 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.[32] 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 donors funds allocated to the Occupied Territories appears large in proportion to the GNP (in 1991, the UNRWA budget alone accounted for 6% 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).[33] In addition, from 1988 to 1991, approximately $949.9 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.[34] 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.

251

* 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.

40

REFERENCES

1. Benvenisti, M. Demographic, Legal, Social and Political Development in the West Bank. Jerusalem: The West Bank Data Project; 1986, p. 5.

2. United Nations Conference on Trade and Development (UNCTAD). The Palestinian Financial Sector Under Israeli Occupation. New York: United Nations; 1989, p. 1.

3. Obtained in March, 1992, through author's personal contact with these sources.

4. Benvenisti, M. and Khayat, S. The West Bank and Gaza Atlas. Jerusalem: The Jerusalem Post, 1988, p. 27.

5. Benvenisti and Khayat, 1988, p. 27.

6. Statistical Abstract of Israel 1990; 1991, p. 708 (for West Bank and Gaza) and p. 49 (for non-Jewish population in Jerusalem, in order to approximate the population of East Jerusalem). The growth rates are based on recent estimations developed by UNRWA and by private sector health planners.

7. Calculated from: Statistical Abstract of Israel 1990; 1991, p. 709.

8. Personal communication with Dr. A. Hidmi, Director, UNRWA West Bank Health Services; May, 1992.

9. Al-Quds Newspaper; May 6, 1992.

10. UNCTAD; 1989, p. 6.

11. Lesch, AM Transition to Palestinian Self-Government: Practical Steps Toward Israeli-Palestinian Peace. Cambridge: American Academy of Arts and Sciences; 1992, p. 30

12. Lesch, AM; 1992, p. 31

13. Lesch, AM; 1992, p. 31

14. Golding, P. The Economies of the West Bank and Gaza Strip. Washington, D.C.: Agency for International Development. (ANE/DP); March, 1987, p. 3

15. United Nations Conference on Trade and Development (UNCTAD). Assistance to the Palestinian People: Recent Economic Developments in the Occupied Palestinian Territories, Geneva: United Nations; August, 1991, p. iv.

16. UNCTAD; 1991, p. 18.

17. UNCTAD; 1991, p. iv.

18. The World Bank. Trends in Developing Economies 1991. Washington, D.C.: The World Bank; 1991, p. 293.

41

19. World Bank. World Development Report 1992, p. 219.

20. UNCTAD; 1991, p. 18.

21. UNCTAD; 1991, p. 21.

22. See, for example: Mansour, A. The West Bank Economy: 1948-1984. In: Abed, G., Ed. The Palestinian Economy. London: Routledge; 1988, p. 77.

23. Statistical Abstract of Israel; 1991, Table 27.11

24. UNCTAD; 1991, p. 3.

25. UNCTAD; 1991, p. 26.

26. UNCTAD; 1991, p. 5.

27. Interviews with Palestinians, representatives of donor agencies and others.

28. UNCTAD; 1991, p. 26.

29. UNCTAD; 1991, p. iv.

30. UNCTAD; 1991, p. 22.

31. UNCTAD; 1991, p. 22.

32. United Nations Development Program. 1992 Compendium of Ongoing and Planned Projects. Jerusalem: UNDP; 1992, various pages

33. United Nations. Report of the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East. Addendum. New York: United Nations; 11 October, 1991, p. 30.

34. Calculated from: United Nations. Report of the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East 1 July 1989 - 30 June 1990. New York: United Nations; 1990, p. 49, and: United Nations. Report of the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East. Addendum. New York: United Nations; 11 October, 1991, p. 30.

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."[1] 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

44

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

45

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.

46

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 regulations 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.[2]

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 Territorie 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.

47

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 <u>in addition to</u> 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 <u>not</u> 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.[3]

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

51

- 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.

62

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."[4] 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 <u>municipal</u> 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

54

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.

55

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.

56

REFERENCES

1. United Nations Conference on Trade and Development (UNCTAD). Assistance to the Palestinian People: Recent Economic Developments in the Occupied Palestinian Territory. Geneva: United Nations; August, 1991, p. 13.

2. UNCTAD; 1991, p. 15.

3. World Bank. World Development Report 1992: Development and the Environment. Washington, D.C.: World Bank; 1992; and: The World Bank. Sub-Saharan Africa: From Crisis to Sustainable Growth. Washington, D.C.: The World Bank; 1989

4. Aharoni, Y. The Israeli Economy: Dreams and Realities. New York: Routledge; 1991, p. 97.

Table 1

Summary of Recommendations, by Sector

Agriculture	Education & Training	Finance & Credit	Health	Industry & Enterprise	Infrastructure (Communications, Electrification, Transportation)	Trade	Water & Sanitation
ASSUMES STATUS QUO							
Short-term relief program including agricultural feeder roads, land reclamation Improve capacity of Palestinian institutions to plan, manage & evaluate programs & projects Improve & expand marketing information & support systems, coordinate with other sectors, (e.g., Industry for food processing) Expand use of improved irrigation systems making better use of scarce water resources Expand and improve crop varieties & livestock production (to enhance marketing poten., improv land & water use) Develop industrial sector in Gaza, in lieu of expansion of agricultural sector, in view of water shortage Expand capacity of Palestinian research & extension services Expand & improve linkages between Palestinian institutions and foreign public & private sector agricultural research & development institutions Develop/expand an agricultural data & information clearinghouse	Improve computer, laboratory & library facilities at public & private K-12 level & post-secondary educational & training institutions Expand & improve private sector initiatives in literacy & distance learning Physically rehabilitate existing K-12 schools & construct new schools as necessary; include facilities for recreation & community-based education in rehabilitated & new schools Revise K-12 and post-secondary curriculum, including ensuring linkage of curriculum to development needs and employment opportunities Expand & improve teacher training in educational theory & practice & in grade levels & subject areas for which they are responsible Expand availability of new educational technologies at K-12 & post-secondary levels & train teachers in use of same Improve management of educational & training institutions at all levels Expand capacity of post secondary institutions to provide short-term training in marketable skill areas Expand capacity of post-secondary institutions to conduct applied research & development projects for the private sector (including expanding facilities & training of faculty) Develop/expand an education & training data and information clearinghouse Develop & improve the design & use of educational assessment materials for use with teachers and students Conduct an assessment of university programs to identify potential areas for regional coordination and resource sharing	Expand community-based savings & credit institutions (e.g., credit circles) Improve capacity of banks, credit institutions & insurance companies to plan, manage & evaluate their activities Develop finance & credit data and Information Clearinghouse Expand credit for the productive private sector (e.g., loan guarantees) Develop the management infrastructure for the finance & credit sector (e.g., policy instruments for financial regulation & standardized credit applications) Conduct study of capacity of existing inst. to manage larger loans to the productive sector Conduct study of & plan for broadbased insurance needs Improve capacity of Palestinian institutions to carry out planning & devise policies & programs at the macroeconomic and microeconomic levels	Strengthen health systems' planning & management at all levels of the health care system Improve financial management capacity & potential for cost recovery at all levels & types of facilities Expand facility, regional and inter-regional health planning & needs assessment activities Expand & improve capacity of institutions to collect, analyze & disseminate data & information for expanded health educational programs Conduct an assessment of existing health research studies & data bases; disseminate results Develop & implement facility and cross-facility health management & information systems Expand continuing education for health care providers to help ensure quality of care Develop/adapt practice guidelines for all provider categories & levels of care Expand primary & secondary level care, community-based rehabilitation services, & mental health services to underserved areas Plan and implement regional systems care, to make the most effective and efficient use of scarce resources & improve care delivery Improve existing health data & clearinghouses 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	(See finance & credit for related recommendations) Enhance capacity of industry & enterprise in terms of productivity, quality control, management (financial, personnel, etc.) Develop & expand linkages between Palestinian industry & enterprise foreign universities & research institutions Conduct comprehensive industry/enterprise inter- and intra-regional planning (including for feasibility/appropriateness of industrial zones) Strengthen institutions which support industry & enterprise (e.g., Industrial Union(s), Chambers of Commerce, economic development institutions Develop/expand industry/enterprise data & information systems & clearinghouses (e.g., marketing information systems) 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) Design & expand support systems for industry/enterprise (e.g., quality control, product testing, consultation for environmental & occupational health & safety, trade) Improve ergonomics and productive capacity of existing and selected new industries/enterprises	(See education for related recommendations) Improve managerial & planning of Palestinians currently or potentially responsible for infrastructure projects Upgrade capacity of skilled and semi-skilled workers in infrastructure (focusing on skills in new technologies) Develop computer-based information systems for planning & management of infrastructure projects Upgrade & expand road networks, particularly key market access roads & roads in villages with little or no access to areas having basic services Develop regional infrastructure plans, by subsector (e.g., electrification), focusing on most cost-effective systems, & expand community involvement in infrastructure planning Conduct demonstration projects on alternative energy sources Improve capacity of public, quasi-public & private organizations to design/adapt & manage infrastructure financial systems & to recover costs of related services Expand electrification to villages without services & upgrade existing equipment 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	(See agriculture & industry for related recommendations) Conduct marketing studies & surveys to generate require trade-related data Expand & improve linkages between Palestinian firms and trade inst. & foreign business & trade and related institutions Expand & improve economic infrastructures which improve domestic & import markets (e.g., capital projects & systems for monitoring quality control of products) Expand Palestinian trade missions & related short-term visits to foreign countries Develop trade-related data & information systems & clearinghouses (linked to regional & international information systems) Upgrade capacity of Palestinian firms to have competitive advantages (e.g., in new product development, quality control requirements of trading partners, marketing techniques) The U.S. should explore relaxation of any trade barriers on Palestinian products & implementation of favorable trade regulations	Design & implement small-scale water & sanitation projects, in the West Bank & Gaza Strip, using the most appropriate technologies Immediate design & implementation of wastewater recycling, large-scale water-catchment & other related projects in the Gaza Strip Design & implement small- and medium-scale sanitation projects Upgrade capacity of Palestinian institutions to conduct water quality & other environmental studies Conduct water, air and other environmental studies, focusing initially on high risk areas Improve capacity of municipal & private companies to plan, manage & evaluate water & sanitation services & systems, including improving their capacity to recover costs of services Improve capacity of skilled & semi-skilled employees, focusing on new technologies & processes Conduct study of water pricing & utilization Develop/improve water & sanitation information systems Develop a water and sanitation data & information clearinghouses
ASSUMES POLITICAL CHANGE							
Expand support for graduate training Expand support for improved buildings & laboratories for educational institutions	Expand construction of new public schools, as necessary Expand research & development related to the productive private sector	Expand credit for productive private sector through loan guarantees, etc through donor agencies, international, regional and national banking institutions 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 integrated health systems Support public & private health financing mechanisms	Design & develop industrial zones, determined to be appropriate (see above) Adapt/develop new products through loans or small grants	Expand communications systems, using appropriate, low-cost technologies Expand integrated electrification system, using low-cost appropriate technologies Expand road network & link with Israeli & Jordanian road networks	Develop multi-national trade data & information systems Develop/expand free trade zones	Plan & implement large-scale water & sanitation projects, as necessary Expand support for multi-national water & sanitation projects in Middle East

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

	GOAL	Objectives			
Recommended Sectoral Activities	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	Improved use of renewable resources
Across Sectors					
Elimination or aleviation 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
Agriculture					
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

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

Recommended Sectoral Activities	GOAL Improved economic & social well-being of the population	Objectives 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
Education					
Improve computer, laboratory & library facilities 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 opportunitiess	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 programs to identify potential areas for 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 & Development Objectives

Recommended Sectoral Activities	GOAL Improved economic & social well-being of the population	Objectives 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	Improved use of renewable resources
Finance & Credit					
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 broadbased 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 Improved economic & social well-being of the population	Objectives 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	Improved use of renewable resources
Health					
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 assessement 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 & data bases; 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 & clearinghouses	x		x	x	x
Develop capacity of Palestinian health facilities & to offer diagnostic & treatment services not availlable 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 & Development Objectives

Recommended Sectoral Activities	GOAL Improved economic & social well-being of the population	Objectives 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
Industry & Enterprise					
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 insitutions	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
Adapt/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 Improved economic & social well-being of the population	Objectives 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
Infrastructure (Communications, Electrification, Transportation)					
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 plng.	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 & Development Objectives

Recommended Sectoral Activities	GOAL Improved economic & social well-being of the population	Objectives 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
Trade					
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	
Water & Sanitation					
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