

PALESTINIAN ECONOMIC BULLETIN

Bulletin 177
June 2021

Main reports

In this issue, we cover the economic implications of the latest military confrontation in the Gaza Strip

On 2 June, the Palestine Economic Policy Research Institute (MAS) held a meeting on the Jerusalem housing cluster as part of a series of consultative meetings on “Policies and Mechanisms to activate the Jerusalem Development Cluster”

Al-Quds Index increased by 11.2% in May compared to the previous month, following the loosening of COVID-19 preventive measures and rollout of the vaccination programme

New Shocks to Gaza’s Devastated Economy

The recent escalation of military confrontation between Israel and Hamas, the fourth of its kind since 2009, left over 270 Palestinians dead and more than 2,000 injured.¹ In Israel, 12 casualties in total have been reported.²

Between 10-21 May, intensive Israeli airstrikes and shelling destroyed the homes and livelihoods of many Palestinians, causing long-lasting physical and psychological injuries and exacerbating the prolonged humanitarian crisis in the besieged coastal enclave where 65% of the population is living in poverty according to the World Bank Group.³ Over 113,000 people were internally displaced for the duration of the hostilities and around 8,500 people were still displaced with host families as at 3 June.⁴ Prospects for the recovery of Gaza’s economy, already devastated due to the Coronavirus Pandemic on top of a 16-year blockade imposed by Israel and Egypt, have now been set back yet again.

Economic Crisis

First reports point to severe or complete damage of more than 525 establishments, including fifty factories.⁵ The destruction of factories and economic establishments has impeded production and pushed thousands into unemployment in the Gaza Strip, already at a staggering 49%.⁶ The Ministry of Information in Gaza estimated total losses, both direct and indirect, at up to \$322 million, of which direct losses are estimated at around \$247 million (detailed in the table on page 2).⁷ International agencies are currently conducting field assessment of damages and reconstruction requirements.⁸

According to a recent UN report, the cumulative economic cost of prolonged closure and military operations in Gaza during the 2007–2018 period is estimated at \$16.7bn, six times Gaza’s GDP in 2018 or 107% of the total Palestinian GDP.⁹ The report projects that without the closure and military operations, Gaza’s poverty rate in 2017 could have been 15%, just under a quarter of the current 56%. The poverty gap could have been 4.2%, around one-fifth of the current 20%.

Between 2007 and 2018, the Gazan economy grew by less than 5%, and its share in the Palestinian economy decreased from 31% to 18% in 2018.¹⁰ As a result, GDP per capita shrank by 27% and unemployment increased by 49%. Because of the GDP collapse, between 2007 and 2017, the poverty rate in Gaza jumped from 40% to 56% in 2017. The poverty gap¹¹ increased from 14% to 20% and the annual minimum cost of lifting people out of poverty quadrupled from \$209 million to \$838 million (in constant 2015 US\$).

1 <https://bit.ly/2RRP38M>

2 <https://bit.ly/3iWALPk>

3 www.aliqtisadi.ps/article/81484/

4 <https://bit.ly/3xeod9V> and <https://bit.ly/3xBcK4j>

5 www.al-ayyam.ps/ar_page.php?id=1499a7f2y345614322Y1499a7f2; <https://bit.ly/3gkGehi>

6 Ibid

7 www.palestineconomy.ps/ar/Article/18077/

8 <https://bit.ly/3vE7sDO>

9 <https://unctad.org/news/israeli-occupation-cost-gaza-167-billion-past-decade-unctad-estimates>

10 Ibid

11 A ratio showing the average shortfall of the total population from the poverty line.

Table 1: Breakdown of Estimated Direct and Indirect losses in USD

Type of loss	Magnitude of loss	Cost (million USD)
Residential property:	<ul style="list-style-type: none"> 15,130 housing structures suffered different degrees of damage; with 258 buildings, comprising of 1,148 destroyed residential and commercial buildings.¹² 1,800 housing units have become unfit for living.¹³ More than 113,000 citizens were displaced from their homes due to the bombing. At least 8,500 people are still displaced, of whom 235 are sheltering in two UNRWA schools while others are staying with host families 	92
Economic and commercial establishments	<ul style="list-style-type: none"> Damage to more than 525 economic, industrial, and commercial facilities, in addition to more than 60 tourist facilities 7 factories demolished 33 media offices were destroyed 	40
Public service facility destruction:	<ul style="list-style-type: none"> Over 100 education facilities suffered damage, disrupting the education of 600,000 students Damage to 75 government headquarters and public facilities and service centres¹⁴ 33 health facilities were destroyed¹⁵ 	23
Agriculture:	<ul style="list-style-type: none"> 490 agricultural facilities, including animal farms, agricultural baths, wells and irrigation networks were damaged or destroyed Hundreds of dunums of agricultural land and dozens of agricultural facilities were bombarded, as well as warehouses of agricultural inputs and equipment Large numbers of poultry died due to direct bombing of farms and the inability of farmers to access them Cow breeders dumped more than 30 thousand liters of milk, due to the inability to market these quantities or use them in manufacturing processes Daily losses of more than half a million dollars in vegetable and fish products that were not exported on a daily basis due to the closure of crossings 	24 (another estimate available below)
Critical infrastructure:	<ul style="list-style-type: none"> Several thousand kilometers of roads damaged Damage to water and sewage networks resulted in a 50% decrease in the amounts of water supplied to homes More than 100 Water and Sanitation facilities sustained heavy damage – e.g. wastewater networks, pipelines, wells, a wastewater pumping station, sewer pressure pipelines, desalination plants among the others 	27
Energy sector:	<ul style="list-style-type: none"> 31 power transformers in Gaza were damaged, and 9 main lines were cut 	22
Telecommunication infrastructure:	<ul style="list-style-type: none"> The networks of 16 telecommunications and internet companies were damaged 	6.5
Transportation:	<ul style="list-style-type: none"> 454 cars and means of transport were completely damaged, or severely damaged 	5.5
Religious sites:	<ul style="list-style-type: none"> 3 mosques were completely demolished, 40 mosques and one church were severely damaged 	5

Poverty and food security

In another estimate, the Ministry of Agriculture in Gaza calculated that the total losses, direct and indirect, suffered by the sector due to the recent escalation amounts to \$204.7 million.¹⁶ Agriculture remains one of the three main sectors that contribute to employment in the Gaza Strip.¹⁷

Israeli airstrikes and shelling caused damage to thousands of acres of farmland and cattle, leaving Gazans more vulnerable to food insecurity. The destruction and on-going blockade caused a severe shortage of animal fodder, resulting in an increase in animal deaths and a cessation of many activities in the agriculture sector.¹⁸ In a statement issued on 21 May, the UN Office for the Coordination of Humanitarian Affairs (OCHA) in occupied Palestinian territories (oPt) warned of a “complete collapse” of the poultry and livestock sector due to the severe shortage of fodder as sheep and cattle breeders are coping by feeding the animals less, compromising production.¹⁹

Food shortages and disruption to emergency humanitarian aid amid destruction have further intensified levels of food vulnerability in Gaza, with the World Food Programme (WFP) warning that the crisis has already pushed an additional 160,000 Gazans into food insecurity.²⁰ According to the WFP, prior to the recent conflict, two out of three Gazans were lacking adequate access to food. Around 72% of people in the Gaza Strip were already suffering from food insecurity²¹ and the current situation intensified the need on the ground.²² Food insecurity is the result of high unemployment, low household incomes and a high cost of living, exacerbated by the protracted conflict, repeated shocks and continued restrictions on freedom of movement, constrained productive capacities

and a lack of economic opportunities. Although food is available, it is priced out of reach for many. Numerous households are food insecure even though they already receive food and other assistance.²³

Israeli airstrikes have also prevented farmers from reaching their croplands to irrigate the land and/or collect produce, causing large amounts of wasted harvest.²⁴ Israel has for years designated a strip, between 100 and 300 meters wide, along the outskirts of Gaza as off-limits to Palestinians. The policy has deprived local farmers of large areas of farmland, cut into livelihoods and reduced the space available to the densely populated area.²⁵ Israeli bombardments heavily targeted the two governorates with more than 98% of the available cultivated land, the Gaza and North Gaza governorates which resulted in a severe shortage of fruits and vegetables of all kinds throughout Gaza, further increasing the levels of food insecurity.²⁶ In addition to harvest waste, Israeli airstrikes have targeted warehouses where farmers store agricultural inputs and equipment necessary to restore production.²⁷

The fishing industry, a vital source of food security and income in Gaza, has also incurred losses due to Israel’s full closure of the fishing zone, forbidding Palestinians from sailing off the Gaza coast (\$1.5m in aquaculture farms losses).²⁸ Harbours were also attacked, and several boats were destroyed.²⁹

Weeks into the ceasefire, Israel continues to severely restrict travel to and from Gaza and prohibit all exit of goods for sale outside the Strip, as well as entry of fuel for Gaza’s power plant, construction materials, and other items. Israel also continues to limit access to the “fishing zone” it enforces in Gaza’s sea space to a maximal distance of just six nautical miles offshore compared to 15 nautical miles in late April. Gaza fishing unions have reported incidents

12 <https://bit.ly/3zFzL8b>

13 <https://reut.rs/3d1JpYY>

14 <https://bit.ly/3cXsuXn>

15 <https://bit.ly/35D65e7>

16 www.palestinechronicle.com/agriculture/

17 www.aliqtisadi.ps/article/81484/

18 <https://bit.ly/2TTpHb4>

19 <https://bit.ly/3ziBPC7>

20 <https://news.un.org/en/story/2021/05/1092172>

21 <https://docs.wfp.org/api/documents/WFP-0000127343/download/>

22 <https://news.cgtn.com/news/2021-05-19>

23 www.ochaopt.org/theme/food-security

24 www.al-ayyam.ps/ar_page.php?id=149558a3y345331875Y149558a3

25 www.reuters.com/article/us-israel-palestinians-farmers-idUSKBN1ZZ12R

26 *ibid*

27 www.al-ayyam.ps/ar_page.php?id=14989155y345542997Y14989155

28 <https://bit.ly/3xvZFCu> and <https://bit.ly/3vMQB1A>

29 <https://bit.ly/3vDYrdW>

of violent harassment by the Israeli navy, including use of live fire, against fishermen even within this restricted area.³⁰ Also, due to Israel's ongoing ban on exit of goods from Gaza, the local market has been flooded with surplus produce, causing heavy financial losses for farmers and suppliers, who are forced to sell at a loss, or destroy their crops.³¹

Devastated Vital Infrastructure

Israeli airstrikes damaged or destroyed Gaza's vital infrastructure, including health and educational facilities, water and sanitation networks and roads, many of which were already damaged by previous offensives.³² The bombardment severely damaged sewage plants, the electric grid, and the three main desalination plants in Gaza city.³³ In addition, around 33 health facilities were damaged, of which more than a dozen were destroyed, including the Ministry of Health building. Gaza's sole COVID-19 test processing lab was damaged.³⁴

Water, Sanitation, and Hygiene (WASH) infrastructure, especially critical during the Coronavirus pandemic, has been severely affected due to the airstrikes, including water networks, fifteen water wells, a landfill, and machinery.³⁵ In a statement on 20 May, the municipality of Gaza City explained that the Israeli strikes heavily damaged two water pipelines that resulted in the stopping of water supply to 10% of the city's population (nearly 200,000 people).³⁶ In addition, the shortage of fuel has compounded the crisis; the WASH Cluster³⁷ indicated that it urgently needed up to 200,000 litres of fuel to support vital WASH facilities.³⁸ The Israel authorities have also heightened Gaza's energy crisis by systematically targeting power lines, banning the entry of fuel needed to operate Gaza's sole power plant, and refusing to repair four of the main power lines damaged during the recent conflict.³⁹

According to Oxfam, more than 400,000 people in Gaza do not have access to a regular water supply after eleven days of heavy bombardment.⁴⁰ OCHA oPts also estimates that at least 800,000 people do not have access to piped water.⁴¹ Prior to the bombardment, 40% of water in Gaza was already lost on the way to consumers due to failing infrastructure, and water consumption per person in 2020 was at 88 litres per day, significantly below the World Health Organisation's minimum requirement of 100 litres.⁴²

As a result of destruction to the sanitation systems, hazardous pollution is on the rise. According to Damian Rance, UNICEF communications spokesman in Palestine, "greywater, which has been used for purposes other than drinking, and sewage water is flowing into low-lying areas creating a hazard for the people living there."⁴³ OCHA also reported accumulating sewage and solid waste in Beit Lahia due to damage of sewage plants.⁴⁴ The municipality

spokesmen, Hosni Mhanna, told Al-Monitor that, "nearly 70 streets were hit, which destroyed nearly 130,000 square kilometers of sidewalks and street tiles."⁴⁵ The destruction of road networks has hampered traffic and the collection of garbage, potentially fueling additional health crises.⁴⁶

According to a spokesperson for the Gaza Electricity Distribution Company, six of Gaza's ten electricity lines are not functional and the supply has been more than halved, causing complete blackouts in border areas.⁴⁷ Up until 30 May 2021, Palestinians in Gaza received only three to four hours of electricity per day compared to twelve hours before the hostilities.⁴⁸ The on-going electricity crisis forced municipalities to continue to pump wastewater through eight main and nine temporary marine pumps, collectively pumping 70,000 cubic meters of untreated sewage into the sea daily.⁴⁹ Sea pollution levels had already reached 63% in the total coastal area in August 2020; should the electricity crisis continue, contamination levels are likely to keep rising.⁵⁰

Reconstruction Pledges

Despite humanitarian organisations' calls to speed up the process of allowing necessary relief aid into the Gaza Strip, the international effort to rebuild the Gaza Strip has been slow to start.⁵¹ Both Qatar and Egypt have pledged \$500 million each for reconstruction and the Egyptian state-run press has reported that construction materials have already been sent.⁵² The United States has also indicated willingness to join in funding the needed reconstruction.⁵³

Restricted access into and out of Gaza, enforced by both Israeli and Egyptian authorities, further impedes reconstruction. The Israeli government must approve the entry of all goods and relief aid into the area. This includes the grants and relief aid recently pledged by the World Bank Group, United Nations, and USAID for reconstruction.⁵⁴

Despite the high level of enthusiasm expressed during the October 2014 Cairo Conference that followed the seven-week war in Gaza, many of the numerous pledges made at the time to rebuild Gaza remain unfulfilled.⁵⁵ Of the \$5.4bn pledged at the conference, \$3.5bn was committed to reconstruction projects in Gaza—but only \$1.9bn had been disbursed as of March 1, 2018.⁵⁶ The Arab states made some of the largest pledges during the conference; however, 78% of the Gulf's pledges remain unfulfilled.⁵⁷

Jerusalem's Development Needs

On 2 June, the Palestine Economic Policy Research Institute (MAS) held a meeting focusing on the Jerusalem housing cluster. The gathering was part of a series of consultative meetings on "Policies and Mechanisms to activate the Jerusalem Development Cluster", first held by MAS in cooperation with the Palestinian Ministry of Jerusalem Affairs on 21 April, with support from the Arab Fund for Economic and Social Development.⁵⁸

30 <https://bit.ly/3gRZ6D6>

31 <https://bit.ly/3gX37Gr>

32 www.msf.org/trauma-continues-long-after-bombing-stops-gaza-palestine

33 www.al-monitor.com/originals/2021/05/israeli-campaign-gaza-worsens-water-crisis

34 <https://bit.ly/3gkGehi> and <https://nyti.ms/3wLKiN5>

35 <https://bit.ly/2SGK6Ab>

36 www.al-monitor.com/originals/2021/05/israeli-campaign-gaza-worsens-water-crisis

37 A group of 51 national and international organizations that are responsible for the overall coordination of the WASH humanitarian planning and response in the West Bank and Gaza: <https://bit.ly/35EYQSR>

38 <https://bit.ly/3gFuINA>

39 <https://bit.ly/3gGLh1L>

40 <https://bit.ly/3vjAsR2>

41 <https://bit.ly/3cThdYc>

42 <https://reliefweb.int/report/occupied-palestinian-territory/water-gaza-scarce-polluted-and-mostly-unfit-use>

43 www.thenationalnews.com/mena/

44 <https://bit.ly/2UnVrWc>

45 <https://bit.ly/3cD9fIW>

46 *ibid*

47 <https://bit.ly/3zyaPPY>

48 <https://bit.ly/35KyqPx>

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51 <https://bit.ly/3vUtsu5>

52 <https://bit.ly/3wSh1jQ>

53 <https://reut.rs/2TUs6T8>

54 <https://bit.ly/3zpNn7t>

55 www.brookings.edu/research/reviving-the-stalled-reconstruction-of-gaza/

56 www.bbc.com/news/world-middle-east-29586636 and <https://bit.ly/3xtBJXk>

57 www.brookings.edu/research/reviving-the-stalled-reconstruction-of-gaza/

58 www.mas.ps/files/server/2021/PR%20JDPC.pdf

A Three-year Plan

The Jerusalem Development Cluster Plan (JDCP) is a new approach to development in the Governorate of Jerusalem, proposing the targeted support of critical clusters to develop economic competitiveness. The JDCP will focus on five broad development areas: housing and infrastructure, health, education, tourism and culture, and women and youth. The plan aims to complete the development activities within three years, with the government currently committing \$26 million to the JDCP's 2021 projects.⁵⁹

Unfulfilled demand for housing and infrastructure

The ongoing threat of evictions in the Sheikh Jarrah and Silwan neighborhoods have brought global attention to the housing crisis in East Jerusalem. The sector's economic contribution continues to decline from approximately 10% of East Jerusalem's GDP in 2000-2002⁶⁰ to just 2.6% in 2019.⁶¹ During 2020 and 2021, 222 Palestinian-owned structures have been demolished and 458 people displaced.⁶² This only emphasizes the importance of a cohesive housing strategy for the immediate future.

The JDCP currently aims to support housing and infrastructure through 26 prospective projects estimated at approximately \$118m.⁶³ The objectives of the plan include the construction of new housing and infrastructure and the rehabilitation of existing buildings, legal assistance to residents at risk of displacement, the expansion of access to housing through improved lending mechanisms for building permit seekers and increasing the stock of land available for new construction. However, these objectives crucially exclude improved communications infrastructure.

The cluster plan includes creating lending mechanisms for Jerusalem citizens to obtain building licenses, utilising Christian and Islamic endowment lands for investment and construction, increasing land allocated for construction, restoring old city buildings, and reaffirming Jerusalemite youth steadfastness as well as providing housing for young couples. There are so far 29 proposed projects, costing approximately \$94m, over 2021-2023. Funding has been pledged at about \$118m for 26 projects. Nonetheless, the cluster plan does not fully address the lack of housing units supply in Jerusalem.⁶⁴

The Recovery of the Tourism Sector

In 2018, Jerusalem's GDP amounted to \$1,321.6m, 51% of which was from the services sector (mainly centred around tourism), followed by trade at 28%. The productive sector's contribution was less than a third of the governorate's GDP, reflecting the same economic patterns experienced across Palestine as a whole.

While almost 3,000 Jerusalem residents are employed in the tourism sector, it has long struggled to survive amidst Israel's policies and competing tourism services, the seasonal nature of tourism, and a lack of diversity in the Palestinian tourism offering. Jerusalem's nineteen Palestinian-owned hotels are a significant part of the governorate's Palestinian tourism sector and today employ approximately 652 Jerusalemites,⁶⁵ but accommodate just one fifth of Jerusalem tourists.⁶⁶ The Covid-19 pandemic and recession, through its global impact on travel and consumption, has also increased the pressure on the tourism sector in East Jerusalem and the relative Palestinian share of Jerusalem's tourism.⁶⁷

While the projected \$170 million in JDCP development projects in the sector could provide critical support, only a small fraction of the spending has been deployed thus far.⁶⁸ The JDCP's budget emphasises the construction of new hotels, but other objectives include the promotion of the sector's Palestinian identity and capacity building in tourism institutions.

May Trading

Al-Quds Index increased by 11.2% in May compared to the previous month, following the loosening of COVID-19 preventive measures and rollout of the vaccination programme.⁶⁹ A total of 13.3m shares worth \$18.5m were traded during the month, marking a 62.9% increase in the number and 8.8% increase in the value of traded shares compared to April 2021.⁷⁰ The services sector witnessed the highest increase (13.5% to 42.2 points), followed by the banking and financial services sector (9.0% to 140.8 points).

59 www.wafa.ps/Pages/Details/20030

60 www.mas.ps/files/server/20191703143807-1.pdf

61 www.alhaya.ps/ar_page.php?id=68e8ed6y110005974Y68e8ed6

62 www.ochaopt.org/data/demolition

63 Jerusalem Development Cluster Plan – Housing Cluster Implementation challenges, priorities, and mechanisms in light of intensified Judaization (not published on MAS website yet)

64 *Ibid*

65 The Arab Chamber of Commerce and Industry Discussion Paper: "Strengthening the Jerusalem Economy to Support the Steadfastness and Empowerment of Jerusalemites"

66 www.mas.ps/files/server/20191703143807-1.pdf

67 www.alhaya.ps/ar_page.php?id=68e8ed6y110005974Y68e8ed6

68 www.mas.ps/files/server/2021/JDCP%20paper%2011%20Ar.pdf

69 <https://bit.ly/3vKoqQQ> and <https://bit.ly/3zJtAQk> and <https://bit.ly/3zI0cbl>

70 <https://bit.ly/3gU6r5f>

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The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org

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