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Prolonged Crisis in the Occupied Palestinian Territory:
Recent Socio-Economic Developments

United Nations Relief and Works Agency for Palestine Refugees in the
Near East

Prolonged Crisis in the Occupied Palestinian Territory: Recent Socio-Economic Developments

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Foreword

This report is the second in a series of UNRWA studies examining economic conditions facing Palestinians in the occupied Palestinian territory (oPt). It gives a detailed presentation of Palestinian living conditions during 2006 - a year of unprecedented economic and fiscal crisis in the oPt – through analysis of special data on employment, poverty levels and domestic economic activity prepared by the Palestinian Central Bureau of Statistics.

The report focuses on the differential impact of the latest phase of the crisis on Palestine refugees, whose humanitarian and human development needs are central to UNRWA's mandate. The findings demonstrate that in 2006 refugees continued to be more adversely affected by the crisis than non-refugee Palestinians, in terms of both household poverty and unemployment levels.

By placing Palestinian economic performance in a regional context, the report also sheds further light on the impact of continued restrictions on movement, repeated destruction of physical assets and, in particular, the de facto sanctions regime. It presents a bleak picture of current Palestinian economic conditions and prospects for future growth under conditions of closure and restricted movement, which have been tightened further since the period under review.

The report also highlights the immediate and longer term damage being wrought by the continued lack of investment spending in the private and public sectors in the oPt. Whilst 2006 may have been the year of unpaid public employees, the deficit in public and private investment caused by the de facto sanctions regime will have negative consequences for economic growth and societal development in the oPt for years to come. Such investment is essential for the development of a decent society and a healthy and viable economy.

UNRWA remains extremely concerned about the continued deterioration of living conditions in the oPt. Despite the hopes offered by an emerging international momentum for peace, developments on the ground since the end of 2006 point to a worsening of conditions. These have placed Palestinian society, particularly in Gaza, under further and often unbearable strain. Alongside the almost complete isolation of Gaza, the continued construction of the separation barrier and settlement activity in the West Bank place further hurdles on the path to economic recovery and growth.

This study reflects UNRWA's commitment to producing high-quality, relevant and timely research on the socio-economic and humanitarian conditions of Palestine refugees. It will enrich collective understanding of the impact of the protracted crisis in the oPt and inform the Agency's long-term strategic and programmatic planning.

Karen Koning AbuZayd
Commissioner-General of UNRWA

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Research for this report also benefited from various publications of the World Bank, the UN Office for the Coordination of Humanitarian Affairs, the Graduate Institute of Development Studies, the University of Geneva (IUED), the International Monetary Fund and the Palestine Economic Policy Research Institute (MAS). UNRWA hereby acknowledges its debt to the fine work of all those organizations.

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Executive Summary

The occupied Palestinian territory (oPt) suffered sharp economic regression in 2006, the worst performance since 2002, reversing the growth trend of the previous three years. Real GDP in 2006 remained about 9 percent below its 1999 level while per capita GDP—a widely used measure of average income—was about 30 percent below its 1999 level. In the sub-regional neighbourhood consisting of Egypt, Jordan, Syria, Lebanon and Israel, the oPt has had the weakest performing economy for most of the past decade. Per capita GDP in Egypt, Jordan and Syria registered double-digit growth and nearly 10 percent growth in Israel in the past seven years. In Lebanon, per capita GDP in 2006 was about 2.6 percent below its 1999 level, almost entirely due to the effects of the 2006 war. Since 2002, the oPt has replaced Egypt as the country with the lowest per capita GDP in the sub-region.

In 2006, the oPt was one of only 10 countries in the world to have an unemployment rate in excess of 20 percent. For most of the past seven years, the oPt has had the highest rates of unemployment in the Middle East and North Africa (MENA)—a region that for more than a decade has had the highest unemployment rates in the world. In 2005, the average unemployment rate in the MENA region was about 12 percent as compared to 23.4 percent in the oPt, a rate that was unchanged in 2006. Unemployment rates in Gaza have been above 30 percent in the past two years, comparable to only seven countries in the world. The combination of falling income and high unemployment produced a rapid increase in the number of poor, whose numbers grew by twice the rate of population in 2006.

More troubling for the medium- and long-run has been the dearth of investment spending in both the public and private sectors. Figures for 2006 indicate that PA expenditures for capital spending were only USD 8 million—less than one-third the amount spent in the previous three years—despite the fact that it received some USD 747 million in external budgetary support during the year—more than twice the amount received in 2005. The World Bank estimates that, in addition to the PA's own capital spending, development projects—mainly public in nature and financed by external support—totalled about USD 183 million in 2006, a drop of some 47 percent relative to 2005, and the smallest amount since 1999. Moreover, the World Bank estimates private investment in the oPt in 2006 at about USD 665 million, 11.3 percent below its 2005 level and less than half its level in 1999.

Main Findings

1. Domestic Output and Income

Overall, the estimated GDP in the oPt declined some 7.8 percent in 2006 relative to 2005—a reduction of nearly USD 350 million in real terms. Excluding customs and import VAT revenues (formal accounting items), public sector GDP is estimated to have fallen by an estimated 10.6 percent.

In the private sector, there were detectable reductions in construction (12.9 percent), manufacturing (6.8 percent) and hotels and restaurants (1.6 percent). The weakness in construction and manufacturing is likely related to intensified movement restrictions that prevailed during 2006. These were especially pronounced in Gaza and the northern West Bank where manufacturing activities are concentrated. All other private sector activities were either stagnant or registered small increases. Agriculture, mainly due to the bumper olive harvest in the West Bank, advanced an estimated 6.8 percent. **Overall, private sector GDP declined by about USD 14.6 million or 0.5 percent.**

The public sector accounted for some 95 percent of the overall drop in GDP in 2006, mainly due to the public employee strike which affected the last four months of the year. **The decline in public sector GDP was approximately USD 403.7 million or about 36 percent relative to 2005.**

a. Longer Term Trends and Implications

With regard to the private sector, of most concern was retrogression in manufacturing, an activity with strategic long-term significance for the oPt economy. In addition to Israeli-imposed movement restrictions, the destruction of physical assets from military activities and other obstacles, the decline in manufacturing is partly related to that in construction, as about half the manufacturing enterprises in the oPt produce metallic, wood and plastic products used in building construction.

The depth and duration of the socio-economic crisis in the oPt is highlighted by the fact that, while the population has grown by nearly 30 percent since 1999, real GDP in 2006 was about 9 percent below its 1999 level. Real Gross National Income (GNI) in 2006, was an estimated 15.5 percent below its 1999 level. As population growth has outpaced economic growth over the past seven years, real per capita income—whether measured by GDP or GNI—in 2006 was about one-third below its 1999 level. In 2006 alone, real per capita GDP fell by about 11 percent relative to 2005 with real per capita GNI declining about 8.6 percent.

These disturbing trends are directly attributable to movement restrictions on people and goods imposed by the GOI on and within the oPt in the years since 2000. The most immediate and damaging fallout of such policies has been unprecedented levels of unemployment and poverty and steep decline in average incomes. Less dramatic, but equally pernicious, has been the decline in public and private investment necessary to sufficiently expand future employment and incomes for a young and growing population. While 2006 may have been the year of unpaid public employees, the deficit in public and private investment will have negative consequences for Palestinian economic and social development for years to come.

2. The Labour Market

a. Broad Labour Force, Employment and Unemployment

The broad labour force, defined as those working, those seeking work and "discouraged workers"—those who have given up searching—grew by 6.2 percent in 2006, outpacing oPt population growth of 3.3 percent. Labour force growth included an additional 33,620 employed persons and about 21,800 more unemployed persons in 2006 relative to 2005. The absolute number of those employed grew by 5.3 percent while broadly defined unemployment rose by 8.4 percent. Of the newly unemployed, some 47 percent were "discouraged workers."

The refugee labour force, employment and unemployment grew more slowly than for non-refugees in 2006. In absolute terms, refugees in the labour market marginally lost ground. While they were about 39 percent of the oPt labour force in 2005, refugees accounted for only about 36 percent of employment growth but for about 41.5 percent of the newly unemployed in 2006, including newly discouraged workers. The slower growth of the refugee labour force participation rate in 2006 explains the discrepancy. A declining refugee labour force participation rate in Gaza contributed to this overall result.

b. Public and Private Sector Employment

The public sector added some 12,600 jobs or about 37.5 percent of all new employment opportunities in 2006, though it only accounted for 23 percent of all employment in 2005. Employment growth in the public sector (8.7 percent) far outpaced that of the private sector (4.7 percent), despite the inability of the PA to pay full salaries. While the private sector accounted for 67 percent of all employment in 2005, job growth in that sector increased by an average of some 19,900 jobs or only 59 percent of new employment in 2006. Nearly 59 percent of new hires in the public sector were refugees in 2006, well above their 39 percent proportional representation in the broad labour force.

Private employment growth was concentrated in agriculture and private services (business, social, and personal) with more modest gains in transport and communications and commerce (wholesale and retail trade). These four activities generated an average of 26,440 new jobs. Declines in construction and manufacturing employment resulted in a loss of some 6,530 jobs. On a net basis, new employment in the private sector averaged about 19,900 positions. More than half of new private sector employment in 2006 was in agriculture, the result of a bumper olive harvest, one not likely to recur in 2007, highlighting the general weakness the private sector.

Only about 30 percent of new private sector jobs in 2006 were filled by refugees, below their 39 percent representation in the labour force. These were concentrated in commerce (4,385 jobs), private services (2,100 jobs) and agriculture (1,380 jobs). Refugees also accounted for about 39 percent of all employment losses in the private sector, nearly all of them in construction (2,520 jobs). Refugees accounted for only 26.6 percent of net employment growth (gains minus losses) in the private sector but for about 58.6 percent in the public sector.

All oPt employment growth in 2006–some 40,335 jobs—was in the West Bank. In Gaza there was net a decline of 6,715 jobs—a loss of 3.7 percent of the employment base relative to 2005. An estimated increase of 3,500 public sector jobs in Gaza were more than offset by a loss of some 9,700 jobs in the private sector. The extent of the economic crisis facing Gaza—and more specifically the Gaza private sector—in 2006 is evident in the net loss of jobs.

c. Unemployment

Under both ILO and broad definitions of unemployment, there were growing rates and rising numbers in 2006. The narrow ILO unemployment rate rose marginally, about 0.5 percent in relative terms to 23.5 percent as between 2005 and 2006 while the broader rate rose about 2.1 percent to 29.5 percent. In absolute terms, there were an average of 11,550 more unemployed in 2006 than in 2005 under the ILO definition (a 6 percent increase) and 21,800 more unemployed under the broad definition (8.4 percent growth). More significantly, the gap between refugee and non-refugee unemployment rates remained about 6.5 percentage points in favour of non-refugees.

Gaza unemployment rates were 9-10 percentage points higher than West Bank rates in 2005 with the gap growing to 15-16 percentage points in 2006 both as a result of declines in West Bank unemployment rates and increases in those of Gaza. While population and labour force growth differentials partly explain the widening gap, the impact of sanctions on the newly-elected PA government in 2006 were disproportionately felt in Gaza.

d. Wage Incomes

The average real monthly wage of a Palestinian worker rose about 2.7 percent to approximately NIS 1,925 in in 2006. Average refugee real monthly wages grew 3.7 percent rate largely on the basis of expanded public sector employment combined with salary increases in that sector. As public sector wages are calculated on an *accrual* basis, i.e. under the assumption that all wages and salaries due to workers are paid, actual wage incomes in the oPt are below official estimates. The boycott and sanctions imposed on the PA resulted in public employees receiving only part of their salaries.

On a cash basis (i.e. actual payments), public sector employees received an estimated USD 1 billion in 2005 but only USD 656 million in wage income in 2006—a drop of 34.4 percent. Thus, in the aggregate, working people received at least USD 344 million less in income than in 2005. To this must be added a decline of some USD 170 million in PA recurrent and capital expenditures in 2006 which would have generated additional income to private sector businesses. On a net basis, the fiscal crisis resulted in a decline of more than USD 500 million in first-round incomes to employees and private sector vendors.

The most direct and immediate effect of the non-payment of salaries was the loss by one-fourth of the working population of almost one-half of its income. With average households of about 6.4 persons, the loss of income has directly affected more than one million persons—more than one-quarter of the oPt population. The loss of income has more severely impacted specific segments of the Palestinian population. For example, the Gaza Strip, where 41.5 percent of employment was in the public sector, has been more severely affected than the West Bank where only 17.3 percent of the employed relied on public sector jobs. For the same reason, the impact has been greater on refugee workers—32 percent of whom were employed in the public sector in 2006—relative to non-refugees, whose public sector share of employment was only 18.8 percent.

3. Living Levels, Poverty and Humanitarian Assistance

The 2006 PECS survey, due to resource constraints, underrepresented the refugee population. While the survey provides statistically sound evidence on living and poverty levels in general, results on refugee conditions based on the 2006 data set should be interpreted with caution.

a. Poverty on a Pre-Assistance Basis

On a pre-assistance basis, there were across-the-board increases in individual and household poverty rates in 2006. As a result, the number of Palestinians in poverty grew more than twice as fast as the overall population. Those below the official poverty line climbed 8.3 percent to some 1.6 million while the number of official poor households increased by an estimated 10 percent to some 217,000. The ranks of the deep poor grew nearly 6.1 percent to 1.1 million persons while household poverty grew 7.5 percent to nearly 145,800 households. Approximately two-thirds of the official poor were in deep poverty in 2006.

Pre-assistance poverty among refugees was significantly higher than for non-refugees. In 2005, refugee poverty rates were 10-12 percentage points above those for non-refugees. Somewhat smaller disparities in 2006 were due to more rapid growth of poverty among non-refugees. In absolute terms, official refugee poverty grew 4.1 percent to about 760,000 persons while the estimated number of official non-refugee poor rose 12.3 percent to an estimated 834,300 in 2006. The number of deep poor refugees declined marginally to 533,370 while the non-refugee deep poor grew by 13.1 percent to an estimated 563,130. At another level, refugee households below the official poverty line increased about 6 percent to almost 103,000, while those in deep poverty rose about 2 percent to 71,200. The number of non-refugee households below the official poverty line grew by an estimated 14 percent to about 114,000, while those below the deep poverty line increased by 13.3 percent to 74,600. Nonetheless, refugees—who constitute about 42 percent of the population—remained disproportionately poor, accounting for 47.6 percent of the official poor and 48.6 percent of the deep poor on a pre-assistance basis in 2006.

b. External Assistance and Poverty Reduction

External assistance to households from all sources—official and private—resulted in poverty mitigation but was insufficient to alter the trend toward growing poverty in the oPt. It is noteworthy that *post-assistance* poverty rates in 2006 were above those in 2005. In relative terms, the rates increased between 1.8 and 4.4 percent. Likewise, the total number of poor persons and households expanded between 5.2 and 10 percent in 2006 on a post-assistance basis.

Refugee post-assistance rates of poverty remained significantly higher than for non-refugees. In 2005, refugee poverty rates were 5.7--9.2 percentage points above those of non-refugees. Post-assistance disparities narrowed in 2006 to 3.6--5.3 percentage points. While overall refugee poverty rates remained higher, they declined in 2006 on a post-assistance basis. At the same time post-assistance poverty rates of non-refugees increased. In absolute terms, the number of post-assistance official poor refugees increased 1 percent to 630,000 while the number of deep poor refugees declined 3.8 percent to 390,400. Non-refugee official poor grew 13.1 percent to an estimated 774,000 while the non-refugee deep poor increased 14.2 percent to an estimated 472,800 persons. The slower growth of poverty among refugees suggests more effective poverty alleviation interventions in comparison to non-refugees.

c. Gauging the Effectiveness of External Assistance on Poverty Reduction

External assistance resulted in poverty alleviation among a larger number of poor in 2006, relative to 2005 but the proportional declines in the numbers of individuals and households in poverty due to the external assistance were not significantly different. In both 2005 and 2006, external assistance from all sources was responsible for reducing the absolute number of persons in official poverty by about 11 percent and for reducing deep poverty by about 20 percent. At the same time, the evidence suggests that, in the aggregate, external assistance was relatively well-targeted: rates of deep poverty reduction were significantly higher than those for official poverty reduction. In general, rates of deep poverty reduction were stronger in 2005 than in 2006. This is consistent with the findings of the PA Ministry of Planning which indicate a 15.8 percent decline in official emergency and humanitarian assistance in 2006 relative to 2005.

In both 2005 and 2006, for both types of poverty and at the individual and household levels, external assistance was considerably more effective in reducing poverty among refugees than among non-refugees. The evidence suggests that the proportional reductions in poverty among refugees, on a post-assistance basis, were 2-3 times greater than among non-refugees. Moreover, the effectiveness of poverty interventions for refugees—relative to non-refugees—was greater in 2006 relative to 2005.

Research suggests that more effective poverty reduction among refugees is due partly to better targeting of assistance and, therefore, less "leakage" of such assistance to the non-poor. Better poverty reduction results for refugees are, in large part, attributable to the relatively well-developed institutional capacity of UNRWA vis-à-vis the refugees it serves, in addition to the resources provided to UNRWA by donors. UNRWA, due to increases in donor contributions, was able to distribute about 39.3 percent more assistance to refugees in 2006 than in 2005. Of USD 95.9 million in total assistance in 2006, UNRWA provided some USD 34.2 million in food assistance, USD 34.4 million in wages paid to participants in the Job Creation Programme and about USD 27.3 million in cash distributions to needy refugees.

d. External Assistance and Poverty Gaps

Poverty gaps are defined as the amount of consumption required—on a post-assistance basis—to elevate poor individuals or households out of poverty. For the average official poor household, the adjusted monthly consumption poverty line was approximately USD 938 in 2005 and USD 998 in 2006. For deep poor households, the adjusted poverty line was approximately USD 507 in monthly consumption in 2005 and USD 527 in 2006.

The poverty gap for households consuming below the adjusted official monthly poverty line in 2005 was USD 480. The corresponding gap for the average deep poor household was an estimated USD 114. Thus, on a monthly basis, an estimated USD 81.6 million in additional assistance, if perfectly targeted, would have eliminated poverty for an average of 170,000 households (some 1.3 million persons) in the oPt in 2005. On an annual basis, this would have amounted to USD 979.7 million. To eliminate deep poverty would have required about USD 11.9 million per month or about USD 142.7 million on an annual basis in 2005. The official poverty gap for 2006 grew to approximately USD 93.4 million per month or about USD 1.1 billion on an annual basis. The monthly deep poverty gap declined from about USD 11.9 million in 2005 to USD 11.5 million in 2006 or from USD 142.7 million to USD 138 million on an annual basis.

Average monthly refugee official and deep poverty gaps at the household level in 2005 were, respectively, about USD 475 and USD 105. The estimated monthly additional resources required to eliminate refugee household poverty at the official level was therefore an average of about USD 38.6 million or USD 463.2 million on an annual basis in 2005. For deep poor refugee households, the aggregate monthly gap is estimated at USD 5.4 million or USD 64.8 million for 2005. The number of official and deep poor refugee households, like the poor generally, grew in 2006. At the same time, the official and deep poor household poverty gaps grew, respectively, to about USD 485 and USD 112, suggesting small increases in the severity of post-assistance poverty. In the case of official refugee household poverty, a monthly average of USD 40.3 million would have been required to raise refugee households out of official poverty while for deep refugee household poverty a monthly average of USD 5.8 million would have sufficed. On an annual basis the respective sums were estimated at USD 483.6 million and USD 69.6 million in 2006.

e. Poverty by Region

In 2005, poverty rates in Gaza were about twice that in the West Bank. Data for 2006 suggest poverty rates in Gaza accelerated more quickly than in the West Bank. While the official household poverty rates in both Gaza and the West Bank increased, the differential in these rates remained about 2 to 1 (50.7 percent in Gaza and 24 percent in the West Bank). At the household deep poverty level, the Gaza rate increased from about 28 percent in 2005 to 34.8

percent in 2006 while that in the West Bank remained at about 13 percent. Thus the differential in deep household poverty rose to about 3 to 1.

4. Looking Ahead

Preliminary data on domestic output suggests continued stagnancy in first-half 2007 with estimated GDP essentially unchanged relative to second-half 2006. Significantly, the end of the public employee strike in first-quarter 2007 led to a strong increase in public sector activities, as evinced by a 31 percent increase in the combined contributions of health, education and public administration activities. This was offset by an estimated 1.9 percent drop in private sector activities with declines of 14 percent in agriculture, 12 percent in manufacturing and 30 percent in real estate and business services.

Population growth in the oPt in 2007 is estimated at 3.3 percent. Broad labour force growth in first-half 2007 is estimated at 1 percent, employment growth at 4.7 percent and the number of unemployed, broadly defined, is estimated to have decreased by 7.7 percent. Public sector employment growth remained constrained by the fiscal crisis caused by the confiscation of PA revenues by the GOI. At the same time, Palestinian employment in Israel fell by about 4.3 percent in the first half of 2007. Thus employment growth was primarily a private sector phenomenon.

Preliminary evidence suggests that the end of the public sector strike and increased donor activity elevated employment somewhat, especially in Gaza which accounted for the bulk of net job growth in first-half 2007. Presumably, this reflects the impact of donor-financed infrastructure projects, job creation programmes and seasonal factors. The rapid growth of unpaid family labour in Gaza is suggestive of growth in the informal economy, particularly in commerce. In the West Bank there were large seasonal declines in agricultural employment in the first quarter followed by large increases in the second quarter, with only minor employment growth.

The above suggests that the Palestinian private sector as a whole remained stagnant while the public sector was unable to augment employment as it has in the past. It is therefore likely, in the absence of expanded external assistance to households, that the ranks of the poor in the oPt will once again increase this year. The events in Gaza at mid-year, the deepening isolation imposed on that region by the GOI, as well as expanded donor assistance to the West Bank, suggest that Gaza, as in the past, will bear the brunt of this unnecessary and avoidable socio-economic crisis. Data for the third quarter of the year will begin to reveal the differential impacts of the asymmetric policies being pursued by the GOI and donor states vis-à-vis the oPt in 2007.

I. Introduction

UNRWA has three main objectives in producing the present series of reports. The first is to monitor and assess general economic and social conditions in two of UNRWA's five fields of operation—the West Bank and Gaza Strip—which together account for a major portion of UNRWA activities. Second, these reports provide important data, information and analysis on the socio-economic conditions of the estimated 1.6 million refugees in the oPt. These refugees are clients of the Agency and regularly monitoring their conditions allows UNRWA to better assess existing and emerging needs in an environment characterized by instability and conflict. Thirdly, the research involved in producing the reports allows UNRWA to better evaluate the effects of its interventions on the social and economic conditions of refugees in the oPt. In short, the reports enhance the knowledge and information base used in planning, monitoring and evaluation of the Agency's programmes and activities.

This is UNRWA's second report on recent economic and social developments in the occupied Palestinian territory (oPt). The first report, which appeared in autumn 2006[1], aimed at assessing the impact on socio-economic conditions occasioned by the impounding of Palestinian Authority (PA) customs and tax revenues by the Government of Israel and the boycott of the PA by the main donor states. The emerging crisis in the first half of 2006, distinguished by an acute fiscal crisis, the non-payment of public sector employee wages and the weakening of PA government operations, was assessed and contextualized within the prolonged socio-economic crisis that has gripped the oPt since the beginning of the second *Intifada* in the autumn of 2000. Special emphasis was placed on the impacts of the crisis on refugees in the oPt.

The present report is an update covering the whole of 2006 relative to conditions which prevailed in 2005. The report is divided into three sections. The first addresses developments in domestic output and income through an assessment of national income accounts. This section focuses on levels of, and changes in, the domestic product of the Palestinian public and private sectors. The second section covers oPt population and labour force growth and changes in employment, unemployment and wage incomes. Data and analysis are presented by refugee status and, to a lesser extent, by Palestinian region. Living levels and poverty at the individual and household levels—and for refugees and non-refugees—are examined in the third section. The magnitude and effects of assistance to the poor—both refugee and non-refugee—are also assessed. Like its predecessor, this report relies on special data series produced by the Palestinian Central Bureau of Statistics (PCBS) at the request of UNRWA.

[1] UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006).

II. Domestic Output and Income

A. Gross Domestic Product: Private and Public Sectors

The Gross Domestic Product (GDP) is calculated as the market value of all goods and services produced **minus** the market value of resources (e.g. raw materials, labour power) used up in producing the goods and services. Thus, GDP is a measure of the **value-added** generated as well as the extent and efficiency of use of the country's natural, human and capital resources. Table 1 presents the annual GDP in the occupied Palestinian territory (oPt) for 2006, estimated at about USD 4.1 billion.

Table 1

GDP by Economic Activity and Activity Shares for the OPT, Annual 2006[2]

(in USD millions at 1997 market prices)

Annual

		2006	
	Economic Activity	**GDP**	**Share**
A.	Agriculture and Fishing	334.0	8.13%
B.	Mining, Manufacturing, Electricity and Water	531.1	12.93%
1	*--mining and quarrying*	*18.0*	*0.44%*
2	*--manufacturing*	*444.0*	*10.81%*
3	*--electricity and water supply*	*69.1*	*1.68%*
C.	Construction	104.0	2.53%
D.	Wholesale and Retail Trade	382.7	9.32%
E.	Transport, Storage and Communications	466.0	11.35%
F.	Financial Intermediation	186.7	4.55%
G.	Other Services	940.2	22.89%
1	*--real estate, renting and business services*	*447.8*	*10.90%*
2	*--community, social and personal services*	*43.6*	*1.06%*
3	*--hotels and restaurants*	*67.0*	*1.63%*
4	*--education*	*255.3*	*6.22%*
5	*--health and social work*	*126.5*	*3.08%*
H.	Public Administration and Defence	552.7	13.46%
I.	Households with Employed Persons	8.7	0.21%
	Minus: FISIM	-138.3	-3.37%
	Plus: Customs Duties	284.9	6.94%
	Plus: VAT on Imports (net)	454.3	11.06%
	Gross Domestic Product	**4,107.0**	**100.00%**

Economic activity was distributed as indicated in the last column of the table with productive activities (items A, B and C) accounting for about 23.5 percent of domestic value-added, commerce (item D) for 9.3 percent and private and public services (items E, F, G, H and I) for about 53 percent. The items "below the line" reflect the national accounting convention of subtracting "FISIM," a measure of profitability of financial institutions and adding the central governments' revenues from customs and value-added taxes (VAT) on imports.

[2] PCBS estimates (second revision) for the oPt excluding East Jerusalem. For purposes of comparing real growth over time—rather than the illusion of growth imparted by rising prices—GDP is estimated at market prices prevailing in 1997, the base year. GDP would be significantly—roughly 50 percent—greater in nominal terms, i.e. using market USD prices prevailing in 2006.

Value-added produced in the **private sector** (including NGOs) is estimated at USD 2.68 billion or about 76.7 percent of the total, including items A-F, G.1-G.3, 10.4 percent of item G.4 (education), 72.4 percent of G.5 (health) and item I. **UNRWA** education and health activities are estimated to have generated about USD 98.4 million in GDP or about 2.8 percent of the total.[3]

Public sector GDP is the market value of services provided by Palestinian Authority (PA) and local government employees.[4] In Table 1, this consists of about 60.3 percent of item G.4 (education), about 9 percent of item G.5 (health and social work) and 100 percent of item H (public administration and defence).[5] Applying these ratios suggests the public sector accounted for USD 718 million or about 20.5 percent of GDP in 2006.

In estimating the public and private sector shares in GDP, the items "below the line," i.e. FISIM,[6] customs duties and VAT on imports, are excluded. This is justified as the latter two items represent central government revenues that are used to fund government operations—mainly to pay public employees. As the GDP contribution of these employees is already estimated "above the line" (in items G.4, G.5 and H), including this portion of government revenues appears redundant. Furthermore, as already noted, "below the line" government revenues are calculated on an accrual basis, i.e. as if they were received, while in reality the PA was deprived of a major portion of these revenues in 2006. In assessing the impact of this development on the public sector's contribution to GDP, reference is made to the effects of lost revenues only to the extent that such losses resulted in declines in the actual provision of public services. To focus on these real effects, the distinction between "below the line" and "above the line" GDP is employed in the following analysis.[7]

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[3] This includes about 29.3 percent of basic education services and about 18.6 percent of health care services. As explained below, the private and UNRWA shares of 2006 education and health GDP are exagerarated due to the public employee strike in the oPt which significantly reduced the public sector's estimated share in these two activities. By comparison, the private sector's share (including NGOs) of 2005 education and health GDP are estimated, resepctively, at 7 percent and 46 percent. UNRWA's 2005 shares of the same are estimated at 21.8 percent and 11.8 percent respectively.

[4] Public sector GDP is estimated on the basis of the value of salaries paid to public employees on an accrual basis (i.e. the value of the salaries owed to employees whether or not salaries are actually paid), the value of other inputs such as rental payments for use of office space, fuel, electricity, furniture and equipment (so-called "intermediate consumption") and the depreciation on public capital assets (such as buildings and physical infrastructure). To the extent that public sector employment is bloated, i.e. where average productivity is low, such an accounting method tends to overestimate the real contributions of public employees to GDP.

[5] The value-added in public sector education (item G.4) is calculated as the average of the shares of students and teachers (basic and secondary only) accounted for by the public sector for the 2005/2006 academic year. Public sector share in health services (item G.5) is based on public health care expenditures as provided in PCBS *Health Care Providers and Beneficiaries Survey*, 2005. The public and UNRWA shares of education value-added are understated as vocational and post-secondary education are not included in these calculations. The public sector share of social work (combined with health in the national accounts) is probably less than its share in health service provision, overestimating somewhat the public sector share in GDP. Local government's share of GDP is included in public administration and defence activity (item H).

[6] FISIM refers to "financial intermediation services indirectly measured"—an estimate of financial service industry profits. Value-added of the financial services industry are already included "above the line."

[7] The impact of unpaid public sector employees is detailed in the sections on the labour market and on household living levels and poverty.

B. Inter-Temporal Comparisons of GDP, 2005-2006

Developments in the second-half of 2006—and those for 2006 as a whole—can best be understood by comparing GDP in these periods to their preceding and parallel periods. Using the *sequential* periods method, second-half 2006 GDP will be compared to first-half GDP. This highlights shorter-term changes but does not adjust for seasonality in economic activity. For example, value-added in agriculture, construction, internal trade and services such as education can fluctuate significantly from period to period due to seasonal, rather than "exogenous," factors such as movement restrictions and reduced incomes. Using the *parallel* periods method and comparing second-half 2006 with second-half 2005, largely resolves the problem. Finally, a comparison of 2006 and 2005 GDP as a whole provides a more general evaluation of overall economic developments.

1. Comparing First-Half 2006 with Second-Half 2006 GDP

Estimates for second-half 2006, presented in Table 2, suggest that the Palestinian GDP declined a 7.4 percent relative to the first half of the year. This erosion was mainly due to sharp declines in public sector activities as the PA public employee strike (beginning on 1 September) affected the final trimester of the year.[8] In violation of signed agreements, the impounding of PA customs and VAT on imports by the Government of Israel (GOI), as well as the donor-country boycott of the newly-elected PA government, made even partial payment of employee salaries difficult and served as the backdrop for the strike. Excluding customs and import VAT revenues, public sector GDP is estimated to have declined by some USD 178 million or about 38.6 percent as a result.[9]

Excluding customs and import VAT revenues, private sector GDP rose by about USD 84.2 million or 6.3 percent as between the first and second half of the year, led by rebounds in seasonal agriculture and manufacturing, as well as real estate and business services activities. Among private sector activities, only construction and hotels and restaurants registered significant declines in second-half 2006 relative to the first half of the year.

[8] As public sector salaries are calculated on an accrual basis, the public employee wage bill is not affected in the national accounts. Rather, the decline in public sector GDP is estimated on the basis of changes in intermediate consumption and depreciation of public capital assets. See footnote 3. With the assistance of PCBS.

In first-half 2006 PA, employees received only about 40 percent of their rightful salaries but, in the vast majority of cases, continued to report to work. Thus, there was no significant decline in estimated public sector GDP for that period. For more details on first-half 2006 in relation to second-half 2005 GDP refer to UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006).

[9] This includes declines in education (item G.4), health and social work (item G.5) and public administration and defence (item H). In calculating changes in the public sector share, the simplifying assumption used is that value-added by private providers, NGOs and UNRWA in education and health in second-half 2006 was equal to that in first-half 2006.

Table 2

GDP by Economic Activity for the OPT, Semi-Annual, First-Half 2006 and Second-Half 2006[10]

(in USD millions at 1997 market prices)

Sequential Periods, Semi-Annual

	Economic Activity	First-Half 2006 GDP	Second-Half 2006 GDP	Absolute Change	Relative Change
A.	Agriculture and Fishing	141.0	193.0	52.0	36.88%
B.	Mining, Manufacturing, Electricity and Water	250.1	281.0	30.9	12.36%
1	*--mining and quarrying*	*8.5*	*9.5*	*1.0*	*11.76%*
2	*--manufacturing*	*209.1*	*234.9*	*25.8*	*12.34%*
3	*--electricity and water supply*	*32.5*	*36.6*	*4.1*	*12.62%*
C.	Construction	55.3	48.7	-6.6	-11.93%
D.	Wholesale and Retail Trade	186.5	196.2	9.7	5.20%
E.	Transport, Storage and Communications	235.5	230.5	-5.0	-2.12%
F.	Financial Intermediation	93.1	93.6	0.5	0.54%
G.	Other Services	517.4	422.8	-94.6	-18.28%
1	*--real estate, renting and business services*	*216.6*	*231.2*	*14.6*	*6.74%*
2	*--community, social and personal services*	*21.5*	*22.1*	*0.6*	*2.79%*
3	*--hotels and restaurants*	*39.8*	*27.2*	*-12.6*	*-31.66%*
4	*--education*	*159.9*	*95.4*	*-64.5*	*-40.34%*
5	*--health and social work*	*79.6*	*46.9*	*-32.7*	*-41.08%*
H.	Public Administration and Defence	317.2	235.5	-81.7	-25.76%
I.	Households with Employed Persons	4.3	4.4	0.1	2.33%
	Minus: FISIM	-68.3	-70.0	-1.7	2.49%
	Plus: Customs Duties	131.6	153.3	21.7	16.49%
	Plus: VAT on Imports (net)	268.7	185.6	-83.1	-30.93%
	Gross Domestic Product	**2,132.4**	**1,974.6**	**-157.8**	**-7.40%**
	"Above the Line" GDP	*1,800.4*	*1,705.7*	*-187.9*	*-5.26%*

2. Comparing Second-Half 2005 with Second-Half 2006 GDP

Table 3 indicates that GDP in second-half 2006 was nearly 16 percent below that in its parallel period in 2005. In total, it is estimated that value-added produced in the Palestinian economy in the last half of 2006 was nearly USD 372 million below that produced in the same period in 2005. Except for construction and hotels and restaurants, every private sector activity held its ground or made small gains in value-added as between the two periods. Agricultural activity registered an increase of nearly 20 percent, largely on the basis of an exceptionally good olive harvest.[11]

[10] PCBS estimates for the oPt excluding East Jerusalem. Estimates for 2005 are the third revision; those for the first three quarters of 2006 are the second revision; those for fourth quarter 2006 are the first revision.

[11] Olive harvests are subject to wide two-year cycles with low harvest years followed by good ones. Data indicates that in 2006 olives pressed (159,000 metric tons) and olive oil extracted (34,000 metric tons) were the best yields in the past seven years (2000-2006). See PCBS website.

On the other hand, every public sector activity registered sizeable declines. Public sector GDP was about half its size in second-half 2006 relative to second-half 2005. As noted above, the public employee strike was the immediate cause of the contraction in public sector GDP. Excluding customs and import VAT revenues, public sector GDP is estimated to have fallen by some USD 328 million as between the two parallel periods—a loss of some 53.5 percent.[12]

Table 3

GDP by Economic Activity for the OPT, Semi-Annual, Second-Half 2005 and Second-Half 2006[13]

(in USD millions at 1997 market prices)

Parallel Periods, Semi-Annual

	Economic Activity	Second-Half 2005 GDP	Second-Half 2006 GDP	Absolute Change	Relative Change
A.	Agriculture and Fishing	161.4	193.0	31.6	19.58%
B.	Mining, Manufacturing, Electricity and Water	278.0	281.0	3.0	1.08%
1	*--mining and quarrying*	*9.5*	*9.5*	*0.0*	*0.00%*
2	*--manufacturing*	*234.1*	*234.9*	*0.8*	*0.34%*
3	*--electricity and water supply*	*34.4*	*36.6*	*2.2*	*6.40%*
C.	Construction	61.6	48.7	-12.9	-20.94%
D.	Wholesale and Retail Trade	196.3	196.2	-0.1	-0.05%
E.	Transport, Storage and Communications	229.0	230.5	1.5	0.66%
F.	Financial Intermediation	100.2	93.6	-6.6	-6.59%
G.	Other Services	571.3	422.8	-148.5	-25.99%
1	*--real estate, renting and business services*	*227.9*	*231.2*	*3.3*	*1.45%*
2	*--community, social and personal services*	*21.6*	*22.1*	*0.5*	*2.31%*
3	*--hotels and restaurants*	*34.4*	*27.2*	*-7.2*	*-20.93%*
4	*--education*	*181.6*	*95.4*	*-86.2*	*-47.47%*
5	*--health and social work*	*105.8*	*46.9*	*-58.9*	*-55.67%*
H.	Public Administration and Defence	439.9	235.5	-204.4	-46.47%
I.	Households with Employed Persons	4.2	4.4	0.2	4.76%
	Minus: FISIM	-71.9	-70.0	1.9	-2.64%
	Plus: Customs Duties	161.0	153.3	-7.7	-4.78%
	Plus: VAT on Imports (net)	215.3	185.6	-29.7	-13.79%
	Gross Domestic Product	**2,346.3**	**1,974.6**	**-371.7**	**-15.84%**
	"Above the Line" GDP	*2,041.9*	*1,705.7*	*-336.2*	*-16.47%*

[12] The estimated decline in public sector GDP is exaggerated due to the fact that, in addition to significant increases in base salaries, PA employees received one-off bonuses in second-half 2005. As public sector GDP is measured, in part, by reference to salaries, this temporarily raised public sector GDP in 2005 and overestimates the actual decline measured relative to 2006. For further discussion, see UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006).

[13] PCBS estimates for the oPt excluding East Jerusalem. Estimates for 2005 are third revision; those for the first three quarters of 2006 are second revision; those for fourth quarter 2006 are first revision.

3. Comparing 2005 and 2006 GDP

Overall, the estimated GDP in the oPt declined some 7.8 percent in 2006 relative to 2005—a reduction of nearly USD 350 million in real terms, as indicated in Table 4. If only "above the line" GDP items are considered (excluding the formal accounting items), the real decline was greater, an estimated 10.6 percent.

Table 4

GDP by Economic Activity for the OPT, Annual, 2005-2006[14]

(in USD millions at 1997 market prices)

Parallel Periods, Annual

	Economic Activity	Annual GDP 2005	Annual GDP 2006	Absolute Change	Relative Change
A.	Agriculture and Fishing	312.6	334.0	21.4	6.85%
B.	Mining, Manufacturing, Electricity and Water	564.8	531.1	-33.7	-5.97%
1	*--mining and quarrying*	*18.3*	*18.0*	*-0.3*	*-1.64%*
2	*--manufacturing*	*476.5*	*444.0*	*-32.5*	*-6.82%*
3	*--electricity and water supply*	*70.0*	*69.1*	*-0.9*	*-1.29%*
C.	Construction	119.4	104.0	-15.4	-12.90%
D.	Wholesale and Retail Trade	373.9	382.7	8.8	2.35%
E.	Transport, Storage and Communications	461.5	466.0	4.5	0.98%
F.	Financial Intermediation	187.4	186.7	-0.7	-0.37%
G.	Other Services	1,100.2	940.2	-160.0	-14.54%
1	*--real estate, renting and business services*	446.8	*447.8*	1.0	0.22%
2	*--community, social and personal services*	43.2	*43.6*	0.4	0.93%
3	*--hotels and restaurants*	68.1	*67.0*	-1.1	-1.62%
4	*--education*	342.5	*255.3*	-87.2	-25.46%
5	*--health and social work*	199.6	*126.5*	-73.1	-36.62%
H.	Public Administration and Defence	796.1	552.7	-243.4	-30.57%
I.	Households with Employed Persons	8.5	8.7	0.2	2.35%
	Minus: FISIM	-139.7	-138.3	1.4	-1.00%
	Plus: Customs Duties	291.9	284.9	-7.0	-2.40%
	Plus: VAT on Imports (net)	379.8	454.3	74.5	19.62%
	Gross Domestic Product	**4,456.4**	**4,107.0**	**-349.4**	**-7.84%**
	"Above the Line" GDP	*3,924.4*	*3,506.1*	*-418.3*	*-10.66%*

In the private sector, there were detectable reductions in construction (12.9 percent), manufacturing (6.8 percent) and hotels and restaurants (1.6 percent). The weakness in construction and manufacturing is likely related to intensified movement restrictions that prevailed during 2006. These were especially pronounced in Gaza and the northern West Bank where manufacturing activities are concentrated. All other private sector activities were either stagnant or registered small increases. Agriculture, mainly due to the bumper olive harvest in the West Bank during the fourth quarter, advanced an estimated 6.8 percent. **Overall, private sector GDP declined by about USD 14.6 million or 0.5 percent.**

[14] PCBS estimates for the oPt excluding East Jerusalem. Estimates for 2005 are third revision; those for the first three quarters of 2006 are second revision; those for fourth quarter 2006 are first revision.

The public sector accounted for some 95 percent of the overall drop in GDP in 2006, mainly due to the public employee strike which affected the last four months of the year. **Including the "above the line" items only, the decline in public sector GDP was approximately USD 403.7 million or about 36 percent relative to 2005.**[15]

Overall GDP performance in the oPt in 2006 was the worst since 2002 and reversed the trend of positive growth in the previous three years. Annual real GDP growth averaged 7.8 percent during 2003-2005. This was preceded by three years (2000-2002) of average annual real declines of 7.6 percent. Real GDP in 2006 was about 9 percent below its level in 1999 (see section 3.D below).

C. Credit and the Public and Private Sectors

Credit availability is an important determinant of general macroeconomic conditions, and those of the private sector in particular. In addition to financing needs of the PA, which have been significant in the years since 2001, bank credit has served to support business investment and household consumption spending and, therefore, economic growth. As noted elsewhere, bank intermediation (the channelling of customer deposits into customer loans) in the oPt consistently outpaced GDP growth after 1994, even during the past seven years of socio-economic crisis.[16]

PA demand for credit has been conditioned by continuous growth in public sector employment and service provision, increased social spending due to the socio-economic crisis and the intermittent impounding by the GOI of PA revenues. While the PA's domestic tax revenue collections improved significantly in the past decade, expenditures (especially in the years of crisis) grew more quickly, leading the PA to finance its deficits partly through borrowing from domestic banks. PA indebtedness to the banks grew to USD 565.2 million by end-2005 (more than six times its level at end-1999) accounting for almost one-third of total outstanding bank credit (see Table 5).

The newly-elected Palestinian government that assumed office in March 2006 faced with a sizeable public debt compounded by the impounding of its customs and import VAT revenues and the imposition a boycott by foreign donors. The boycott included the promulgation by the U.S. Treasury of a regulation prohibiting bank transactions with the PA. As a result, local banks, which feared their own USD accounts in New York banks would be frozen, suspended all transactions with the PA.[17] Thus, the PA was deprived of an important domestic source of financing for its operations.

Table 5

[15] The simplifying assumption here is that declines in education, health and social work and public administration and defence value-added occurred in the public sector strike, i.e. that there was no net decline in education and health services provided by private, NGO and UNRWA providers in 2006. As noted above, the contraction of the public sector is overstated due to the one-off bonuses received by PA employees in 2005.

[16] UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006). Except for 2001 and 2002, there was positive growth in both bank deposits and bank lending in every year since 1994 and credit growth exceeded GDP and per capita income growth rates. The rapid growth in bank deposits and lending has been due, in large part, to the almost complete absence of banks and a banking system in the oPt prior to 1994.

[17] See International Crisis Group *Palestinians, Israel and the Quartet: Pulling Back from the Brink*, 13 June 2006, p. 23.

Value of Outstanding Bank Credit to Resident Entities in the OPT, End-2005 and End-2006[18]
(nominal USD millions)

					Credit
Borrowing Entity		2005		2006	Growth
	End-2005	**Share**	**End-2006**	**Share**	**2005-2006**
Private Sector	1,196.4	66.89%	1,417.0	74.54%	18.44%
of which: businesses	*976.0*	*54.57%*	*1,044.9*	*54.97%*	*7.05%*
of which: households	*220.4*	*12.32%*	*372.1*	*19.58%*	*68.86%*
Public Sector	592.2	33.11%	483.9	25.46%	-18.29%
of which: Palestinian Authority	*565.2*	*31.60%*	*455.7*	*23.97%*	*-19.37%*
of which: oPt local authorities	*27.1*	*1.51%*	*28.2*	*1.48%*	*4.14%*
Total	1,788.6	100.00%	1,900.9	100.00%	6.28%

Domestic banks continued to collect PA revenues in the form of taxes and fees (such as income taxes, property taxes, education taxes, auto registration fees, etc.) normally paid by residents at private banks and deposited into PA accounts at these banks using the funds to pay down outstanding PA debt.[19] By end-2006, this resulted in a net decline of some USD 110 million (or 19.3 percent) in the value of outstanding PA debt to domestic banks, as indicated in Table 6. Thus, there was net credit contraction to the public sector in 2006, a factor that aggravated the fiscal crisis and served to dampen aggregate demand in the economy.

During the same period, banks expanded credit to the private sector (both businesses and households) by about USD 220 million, an increase of 18.4 percent. Growth in lending to households (consumer loans) accounted for the bulk of this growth, rising almost 69 percent. This was due to new consumer loan programs at several major banks and to the accumulation of interest on unpaid loans to PA employees.[20] The net result was a marked deceleration in the rate of credit growth in 2006 to 6.2 percent, the slowest growth rate since 2002 (credit grew by 12, 33 and 25 percent in 2003, 2004 and 2005 respectively). Nonetheless, the growth in private sector lending served to generate some amount of private sector growth—in the form of increased expenditures by households and businesses—and to mitigate downward pressures on production and incomes.

D. Longer Term Trends and Implications

Developments in the second half of 2006 changed the trajectory of overall economic activity in the oPt. Continued public sector expansion led to modest economic expansion in first-half 2006, despite stagnancy in the private sector. **While the private sector registered small gains in second half of the year, public sector contraction caused mainly by the public employee**

[18] Figures in this table are year-end values as provided by the Palestinian Monetary Authority (PMA), June 2007. "Businesses" refers to non-financial enterprises. Inter-bank lending is excluded.

[19] Banks also sold off assets (from the Palestinian Investment Fund) used as collateral by the PA against bank loans. IMF *West Bank and Gaza: Fiscal Performance in 2006*, March 2007.

[20] With the assistance of the PMA.

strike resulted in a net decline of 7.8 percent in overall GDP relative to 2005 (a decline of 10.6 percent in "above the line" GDP). Whereas unpaid public sector employees continued working for most of the year, the strike in the last trimester of 2006 was the single most important immediate cause of this deterioration.

With regard to the private sector, of most concern was retrogression in manufacturing, an activity with strategic long-term significance for the oPt economy.[21] In addition to Israeli-imposed movement restrictions, the destruction of physical assets from military activities and other obstacles, the decline in manufacturing is partly related to that in construction. As many as half the manufacturing enterprises in the oPt produce metallic, wood and plastic products used in building construction.[22] Thus a downturn in construction has an immediate and noticeable impact on demand for local manufactures. Construction activity—mainly residential in nature—is itself driven by population and income growth, as well as by actual and expected levels of political stability. That 2006 witnessed a significant decline in construction activity is suggestive of the political environment experienced by Palestinians, especially in Gaza and the northern West Bank.

More troubling for the medium- and long-run has been the paucity of investment spending in both the public and private sectors. Such investment is necessary for it also developing of better quality housing, education, health, social welfare and other services, as well as an enabling environment capable of encouraging private investment and regulating economic affairs. These require efficient public infrastructure and adept governing institutions.

Since 1994, donor countries have financed nearly all investment in public infrastructure and in institutional and governance capacity-building. Figures for 2006 indicate that the PA itself spent only USD 8 million on capital spending from its own budget—less than one-third the amount spent in the previous three years—despite the fact that it received some USD 747 million in external budgetary support during the year—more than twice the amount received in 2005.[23] The World Bank estimates that, in addition to the PA's own capital spending, development projects—mainly public in nature and financed by external support—totalled about USD 183 million in 2006, a drop of some 47 percent relative to 2005, and the smallest amount since 1999.[24]

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[21] See World Bank *Trade Policy and Labor Services; Final Status Options for the West Bank and Gaza*, Policy Research Working Paper 2824, April 2002; World Bank *Long-Term Policy Options for the Palestinian Economy*, July 2002.

[22] See manufacturing activity statistics for 2005 at PCBS website. For an earlier discussion of the relation between manufacturing and construction, see UNSCO *Special Report on the West Bank and Gaza Strip Private Economy: Conditions and Prospects,* February 1998.

[23] See IMF *West Bank and Gaza: Fiscal Performance in 2006*, March 2007, p. 9. Of a total estimated USD 747 million in external assistance in the form of budgetary support, some USD 456 million (61 perecnt) was provided by Arab countries, about USD 221 million (29.5 percent) by European donors (via the Temporary International Mechanism and EC Interim Emergency Relief Contribution) and approximately USD 26 million (3.4 percent) by other donor countries. Nearly all external resources received were used to pay salaries and other current operating costs (e.g. fuel and utilities). It is noteworthy that the IMF report does not even mention public investment, as the PA struggled in 2006 to cover salaries and operating costs.

[24] See IMF and World Bank *West Bank and Gaza: Economic Developments in 2006—A First Assessment*, March 2007, p. 8.

In recent years private investment—net additions to the productive capacity of business and farming enterprises—has also been compressed. This has been due to the decline in incomes and consumer demand, as well as producers' dampened expectations about the future. The World Bank estimates private investment in the oPt in 2006 at about USD 665 million, 11.3 percent below its 2005 level and less than half its level in 1999.[25]

The depth and duration of the socio-economic crisis in the oPt is highlighted by the fact that, while the population has grown by nearly 30 percent since 1999, real GDP in 2006 was about 9 percent below its 1999 level, as indicated in Table 6. Real Gross National Income (GNI) in 2006, was an estimated 15.5 percent below its 1999 level.[26] As population growth has outpaced economic growth over the past seven years, real per capita income in 2006 was about one-third below its 1999 level. In 2006 alone, real per capita GDP fell by about 11 percent relative to 2005 with real per capita GNI declining about 8.6 percent.

Table 6

Population and National Income Estimates for the oPt, Annual, 1999, 2005-2006[27]

(GDP and GNI in constant 1997 USD)

				1999-2006
	1999	**2005**	**2006**	**Change**
Mid-Year Population (oPt)	2,798,301	3,513,265	3,637,088	29.97%
GDP (USD millions)	4,511.70	4,502.60	4,107.00	-8.97%
GNI (USD millions)	5,325.80	4,754.80	4,495.80	-15.58%
Per Capita GDP (USD)	1,612.60	1,264.20	1,141.40	-29.22%
Per Capita GNI (USD)	1,888.90	1,353.60	1,236.80	-34.52%

Sharp regression in the oPt economy has stood in marked contrast to the performance of other sub-regional economies. Per capita GDP in Egypt, Jordan and Syria registered double-digit growth growth during the seven-year period; Israeli per capita GDP grew by nearly 10 percent; and Lebanon, mainly due to the effects of the 2006 war, lost an estimated 2.6 percent in per capita GDP. Egyptian per capita GDP surpassed that of the oPt in 2002, placing the oPt last in the sub-region.[28]

These disturbing trends are directly attributable to movement restrictions on people and goods imposed by the GOI on and within the oPt in the years since 2000. which produced unprecedented levels of unemployment and poverty and steep declines in average incomes and in the public and private investment necessary to sufficiently expand future employment and incomes for a young and growing population.

[25] Ibid.

[26] GNI equals GDP plus all income earned by resident Palestinians from outside the oPt. Such income includes wages earned from work in Israel and all rents, dividends and interest from property owned outside the oPt. As late as the late 1990s, wages from work in Israel accounted from as much as 25 percent of GNI.

[27] PCBS data for the Remaining West Bank and Gaza Strip, i.e. excluding East Jerusalem.

[28] Comparative data for Egypt, the oPt, Jordan, Syria, Lebanon and Israel is from UN Statistics Division website: www. unstats.un.org and is expressed in constant 1990 USD.

III. Labour Force and the Labour Market[29]

A. An Overview, 2006

The population of the oPt averaged 3.9 million in 2006 while the working-aged population (those 15 years of age and above) was an estimated 2.1 million persons, some 54.3 percent of the total (see Table 7), a measure of the potential size of the economically active population. The broad labour force—some 946,000 persons—is the sum of three groups of people: a) employed persons, including the underemployed; b) unemployed persons actively seeking employment; and c) discouraged workers, i.e. those able and willing to work but not seeking employment due to a conviction that no job will be found. While the sum of the first two groups is the official ILO definition of the labour force, adding the third yields a better picture of the number of people working and those willing and able to work.

Table 7

Estimates of Average Population, Working-Aged Population and Broad Labour Force, Employment and Unemployment in the OPT, Annual, 2006

Annual

Population and Labour Force	**2006**
Total Population	3,904,422
Working-Aged Population (15+)	2,121,385
Labour Force (Broad)	945,901
Employment	666,090
Unemployment (Broad)	279,526
Rates	
Working-Aged/ Total Population	54.33%
Labour Force Participation Rate (Broad)	44.59%
Employment Rate	70.42%
Unemployment Rate (Broad)	29.55%

There was an average of about 666,100 employed Palestinians in 2006, including the underemployed and approximately 279,500 unemployed, including discouraged workers. Thus, in broad terms, the labour force participation rate (labour force divided by the working-age population) averaged about 44.5 percent. The employment rate (total employed divided by the broad labour force) averaged about 70 percent while the unemployment rate (total unemployment divided by the broad labour force) was nearly 30 percent.

B. Inter-Temporal Comparisons of Labour Market, 2005-2006

Labour market developments are presented below with comparisons between the first and second halves of 2006, between second-half 2005 and second-half 2006 and, finally, between 2006 and 2005 as a whole. Special attention is given to the conditions of refugees in the oPt labour market.

[29] All population and labour force estimates in this report, unless otherwise noted, were provided by PCBS by special request, August 2007 and include East Jerusalem. Employment figures, unless otherwise noted, include Palestinians employed in Israel, settlements and Israeli industrial zones.

1. Comparing First-Half 2006 to Second-Half 2006

Table 8 indicates labour force growth in the oPt in the second half of 2006 (6.9 percent) was more than four times the population growth rate (1.6 percent) relative to the first half of the year. In absolute terms, the labour force grew by an average of about 63,300 persons while average population increased by about 63,800. Broad labour force growth also outpaced the growth of the working-aged population (1.9 percent or some 41,150 persons) as between the sequential semi-annual periods.

Table 8

Estimates of Average Population, Working-Aged Population and Broad Labour Force, Employment and Unemployment by Refugee Status, Semi-Annual, First-Half 2006 and Second-Half 2006[30]

Sequential Periods, Semi-Annual

Population and Labour Force	First-Half 2006	Second-Half 2006	Absolute Changes	Relative Changes
Total Population	3,872,506	3,936,339	63,832	1.65%
of which: refugees	*1,567,546*	*1,594,845*	*27,299*	*1.74%*
of which: non-refugees	*2,304,960*	*2,341,494*	*36,533*	*1.58%*
Working-Aged Population (15+)	2,100,807	2,141,964	41,158	1.96%
of which: refugees	*857,750*	*875,374*	*17,624*	*2.05%*
of which: non-refugees	*1,243,057*	*1,266,591*	*23,534*	*1.89%*
Labour Force (Broad Definition)	914,243	977,559	63,317	6.93%
of which: refugees	*361,703*	*375,080*	*13,377*	*3.70%*
of which: non-refugees	*552,540*	*602,479*	*49,940*	*9.04%*
Employment	641,618	691,134	49,517	7.72%
of which: refugees	*240,231*	*249,551*	*9,321*	*3.88%*
of which: non-refugees	*401,387*	*441,583*	*40,196*	*10.01%*
Unemployment (Broad Definition)	272,626	286,425	13,799	5.06%
of which: refugees	*121,473*	*125,528*	*4,056*	*3.34%*
of which: non-refugees	*151,154*	*160,897*	*9,743*	*6.45%*

Employment growth between the periods (7.7 percent) was somewhat faster than labour force growth. But, in absolute terms, an average of 49,500 additional jobs in second-half 2006 were insufficient to stem unemployment. Rather, the number of unemployed increased by 13,800 persons (5 percent) as between the two periods.

a. Refugees, First-Half 2006 and Second-Half 2006

Refugees are estimated to have experienced somewhat more rapid population and working-aged population growth relative to non-refugees in the oPt as between the first and second halves of 2006. At the same time, the refugee labour force grew far more slowly (3.7 percent) than that of

[30] Based on PCBS data. The size of the refugee working-age population—for which there is no separate estimate—is calculated by multiplying the share of refugees in the total population from the 1997 census by the total estimated oPt working-age population in 2005 and 2006.

non-refugees (9 percent). Employment and unemployment growth among refugees was also well below that of non-refugees. Of some 49,500 new jobs, refugees filled only about 9,300 or 18.8 percent, while they accounted for about 39 percent of the labour force. On the other hand, of some 13,800 newly unemployed persons, only 29.4 percent (4,000 persons) were refugees.

2. Comparing Second-Half 2005 to Second-Half 2006

Comparing data from parallel or the year-on-year periods confirms the general pattern of population and labour force developments. This seasonally-adjusted comparison, provided in Table 9, indicates labour force growth in the second half of 2006 (7.8 percent) was more than twice that of the population (3.3 percent) and about twice that of the working-aged population (3.9 percent) relative to its parallel period in 2005. In absolute terms, the labour force grew by an average of about 71,000 persons while total population increased by about 127,000 while. In the longer inter-temporal interval, the absolute growth of the working-aged population (some 81,000 persons) exceeded that of the labour force.

Table 9

Estimates of Average Population, Working-Aged Population and Broad Labour Force, Employment and Unemployment by Refugee Status in the OPT, Semi-Annual Second-Half 2005 and Second-Half 2006[31]

Parallel Periods, Semi-Annual

Population and Labour Force	Second-Half 2005	Second-Half 2006	Absolute Changes	Relative Changes
Total Population	3,809,363	3,936,339	126,976	3.33%
of which: refugees	*1,540,381*	*1,594,845*	*54,463*	*3.54%*
of which: non-refugees	*2,268,981*	*2,341,494*	*72,513*	*3.20%*
Working-Aged Population (15+)	2,060,829	2,141,964	81,136	3.94%
of which: refugees	*840,679*	*875,374*	*34,695*	*4.13%*
of which: non-refugees	*1,220,150*	*1,266,591*	*46,441*	*3.81%*
Labour Force (Broad Definition)	906,534	977,559	71,025	7.83%
of which: refugees	*354,171*	*375,080*	*20,909*	*5.90%*
of which: non-refugees	*552,364*	*602,479*	*50,116*	*9.07%*
Employment	644,738	691,134	46,396	7.20%
of which: refugees	*236,783*	*249,551*	*12,769*	*5.39%*
of which: non-refugees	*407,956*	*441,583*	*33,628*	*8.24%*
Unemployment (Broad Definition)	261,796	286,425	24,629	9.41%
of which: refugees	*117,388*	*125,528*	*8,140*	*6.93%*
of which: non-refugees	*144,408*	*160,897*	*16,489*	*11.42%*

Employment growth (7.2 percent) was in line with labour force growth (7.8 percent). But in absolute terms, the economy added an average of 46,400 jobs at the same time that the number of unemployed (broadly defined) increased by an average of some 24,600.

[31] Employment figures include Palestinians employed in Israel, settlements and Israel industrial zones.

a. Refugees, Second-Half 2005 and Second-Half 2006

The differences in labour market outcomes for refugees and non-refugees were narrower (as between) the two parallel periods. Nonetheless, in general, there was less active refugee participation in the labour market as refugee labour force participation, employment and unemployment grew more slowly than for non-refugees. While there were 46,400 new jobs, refugees accounted for only about 12,750 or 27.5 percent of the total. On the other hand, refugees were also underrepresented in unemployment growth, where they accounted for 8,100 of the 24,600 newly unemployed, less than one-third of the total.

3. Comparing 2005 and 2006

Comparing average annual for 2005 and 2006, a process which corrects for seasonal variations and reduces statistical error,[32] indicates broad labour force growth (6.2 percent) in the oPt was well above population growth (3.3 percent) and the growth of the working-aged population (3.9 percent) relative to 2005 (see Table 10). In absolute terms, the broad labour force grew by an average of about 55,250 persons while total population increased by about 126,500 and the working-aged population grew by some 125,000.

Table 10

Estimates of Average Population, Working-Aged Population and Broad Labour Force, Employment and Unemployment by Refugee Status in the oPt, Annual, 2005-2006

Parallel Periods, Annual	2005	2006	Absolute Changes	Relative Changes
Total Population	3,777,904	3,904,422	126,518	3.35%
of which: refugees	*1,540,447*	*1,594,912*	*54,465*	*3.54%*
of which: non-refugees	*2,237,457*	*2,309,510*	*72,053*	*3.22%*
Working-Aged Population (15+)	2,041,043	2,121,385	80,342	3.94%
of which: refugees	*832,036*	*866,341*	*34,305*	*4.12%*
of which: non-refugees	*1,209,007*	*1,255,044*	*46,037*	*3.81%*
Labour Force (Broad Definition)	890,666	945,901	55,235	6.20%
of which: refugees	*347,156*	*368,391*	*21,235*	*6.12%*
of which: non-refugees	*543,510*	*577,510*	*34,000*	*6.26%*
Employment	632,471	666,090	33,619	5.32%
of which: refugees	*232,712*	*244,891*	*12,179*	*5.23%*
of which: non-refugees	*399,759*	*421,199*	*21,440*	*5.36%*
Unemployment (Broad Definition)	257,728	279,526	21,798	8.46%
of which: refugees	*114,444*	*123,500*	*9,056*	*7.91%*
of which: non-refugees	*143,284*	*156,025*	*12,741*	*8.89%*

The rapid growth of the broad labour force was a product of the growth of the working-aged population and an increase in the broad labour force participation rate from 43.6 to 44.6 percent

[32] The annual estimates sum the four quarterly labour force surveys. The larger sample entailed in the annual calculation thereby reduces statistical error.

(as indicated in the first row of Table 11). The latter was driven by relatively rapid growth of the "discouraged worker" component of the broad labour force. Of average labour force growth of some 55,250 persons, there were some 33,620 additional jobs and about 21,800 more unemployed persons as between 2005 and 2006. The absolute number of those employed grew by 5.3 percent while the ranks of unemployed (broadly defined) rose by 8.4 percent between the two periods. Of the newly unemployed, some 10,250 or 47 percent were discouraged workers, those who have stopped looking for work due to a belief that none will be found.

a. Refugees in the Labour Market, 2005-2006

Estimated refugee population and working-aged population grew somewhat faster than for non-refugees on average. But the refugee labour force grew slightly slower than that of non-refugees as did refugee employment and unemployment. In absolute terms, refugees in the labour market marginally lost ground. While they were about 39 percent of the oPt labour force in 2005, refugees accounted for only about 36 percent of employment growth and about 41.5 percent of the newly unemployed in 2006, including newly discouraged workers. The slower rate of growth of the refugee labour force is due to the slower growth of their broad labour force participation rate (LFPR). As indicated in Table 5, while the overall broad LFPR increased 2.1 percent, that of non-refugees grew 2.3 percent while that of refugees increased only 1.9 percent in relative terms as between 2005 and 2006. The evidence suggests that that slower refugee LFPR growth was driven by conditions in Gaza where the rate actually declined marginally.

Table 11

Estimates of Broad Labour Force Participation Rates by Refugee Status and Region in the oPt, Annual, 2005-2006

Parallel Periods, Annual

LFPR (Broad)	2005	2006	Relative Change
OPT (All Persons)	43.64%	44.59%	2.18%
Non-Refugees	*44.96%*	*46.02%*	*2.36%*
Refugees	*41.72%*	*42.52%*	*1.91%*
West Bank	*46.22%*	*47.85%*	*3.53%*
Gaza Strip	*39.43%*	*39.17%*	*-0.65%*

C. Underlying Dynamics in Employment and Unemployment

1. Public Sector Employment

Delineating public and private sector employment growth in 2006 sheds light on the nature of the underlying trends in the oPt labour market. For example, to what extent did new hiring in the public sector absorb a growing labour force? This is especially important in light of the fiscal crisis faced by the PA in 2006. Such a comparison also allows for an assessment of conditions in the Palestinian private sector.

Using a parallel periods comparison for 2005 and 2006 as a whole, Table 12 indicates that the public sector added an average of 12,600 jobs or about 37.5 percent of all new employment opportunities, even though it only accounted for about 23 percent of all employment in 2005. Employment growth in the public sector (8.7 percent) far outpaced that of the private sector (4.7

percent), of employment growth in Israel (1.7 percent) and general employment growth (5.3 percent) as between the two periods.[33]

Table 12

Estimates of Average Employment in the oPt by Sector and Refugee Status, Annual, 2005-2006[34]

Parallel Periods, Annual

oPt Sector Employment	**2005**	**2006**	**Absolute Changes**	**Relative Changes**
Public Sector	145,093	157,705	12,613	8.69%
of which: refugees	*71,110*	*78,503*	*7,393*	*10.40%*
of which: non-refugees	*73,983*	*79,203*	*5,220*	*7.06%*
Private Sector	424,448	444,358	19,910	4.69%
of which: refugees	*146,664*	*151,957*	*5,293*	*3.61%*
of which: non-refugees	*277,784*	*292,401*	*14,617*	*5.26%*
Israel, Industrial Zones, Settlements	62,930	64,027	1,097	1.74%
of which: refugees	*14,809*	*14,372*	*-437*	*-2.95%*
of which: non-refugees	*48,121*	*49,655*	*1,534*	*3.19%*
Total Employment	632,471	666,090	33,619	5.32%
of which: refugees	*232,583*	*244,832*	*12,249*	*5.27%*
of which: non-refugees	*399,888*	*421,258*	*21,371*	*5.34%*

Continued hiring by the PA was evident even after the impounding of a good portion of its revenues by the GOI beginning in March 2006. Indeed, between end-2005 and mid-2006, the public sector was responsible for a majority of new jobs created.[35] That trend was mitigated somewhat in the second half of the year but domestic pressure to expand public employment remained after the installation of the new Hamas-led government in March 2006.[36] While the private sector accounted for 67 percent of all employment in 2005, job growth in that sector increased by an average of some 19,900 jobs or only 59 percent of new employment. **Private sector employment growth lagged behind that of the public sector, despite the severe crisis in fiscal finances.**

a. Refugees in the Public Sector, 2005-2006

On average, about 49 percent of public employees were refugees in 2005, well above their proportion of the broad labour force (39 percent). The growth of refugee employment in the PA

[33] PCBS labour force data presented here, in keeping with standard international practice, includes striking workers as employed, whether or not they are paid their salaries and wages.

[34] PCBS data by special request. Public employment here includes only central government employees, i.e. it excludes employment in Palestinian municipalities.

[35] See details in UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006).

[36] See IMF *West Bank and Gaza: Fiscal Performance in 2006*, March 2007.

in 2006 (about 7,400) exceeded that of non-refugees (5,220), raising the refugee share in public sector employment to about half.

2. Private Sector Employment

Detailed employment data at the level of private sector activity (see Table 13) indicates strong growth in agriculture and private services (business, social, and personal services) with more modest gains in transport, communications and commerce (wholesale and retail trade). In all, these four activities generated an average of 26,440 new jobs.

Table 13

Estimates of Average Employment in the oPt by Private Sector Activity and Refugee Status, Annual, 2005-2006[37]

Parallel Periods, Annual

OPT Private Sector Employment	2005	2006	Absolute Changes	Relative Changes
Agriculture, Fishing	87,806	101,517	13,711	15.62%
of which: refugees	*20,830*	*22,210*	*1,380*	*6.63%*
of which: non-refugees	*66,976*	*79,306*	*12,331*	*18.41%*
Manufacturing, Mining	70,074	69,908	*-166*	*-0.24%*
of which: refugees	*21,735*	*21,705*	*-30*	*-0.14%*
of which: non-refugees	*48,339*	*48,203*	*-135*	*-0.28%*
Construction	55,238	48,871	*-6,367*	*-11.53%*
of which: refugees	*17,409*	*14,889*	*-2,520*	*-14.47%*
of which: non-refugees	*37,829*	*33,982*	*-3,847*	*-10.17%*
Commerce, Hotels & Restaurants	110,243	114,497	4,254	3.86%
of which: refugees	*38,692*	*43,075*	*4,383*	*11.33%*
of which: non-refugees	*71,551*	*71,422*	*-129*	*-0.18%*
Transportation, Communication	34,484	36,823	*2,339*	*6.78%*
of which: refugees	*13,649*	*13,630*	*-19*	*-0.14%*
of which: non-refugees	*20,835*	*23,193*	*2,359*	*11.32%*
Other Private Services	66,603	72,742	*6,138*	*9.22%*
of which: refugees	*34,348*	*36,447*	*2,099*	*6.11%*
of which: non-refugees	*32,255*	*36,294*	*4,039*	*12.52%*
Total Private Sector Employment	424,448	444,358	*19,910*	*4.69%*
of which: refugees	*146,664*	*151,957*	*5,293*	*3.61%*
of which: non-refugees	*277,784*	*292,401*	*14,617*	*5.26%*

On the negative side, there was a significant decline in construction employment and a drop in manufacturing employment which, when combined, resulted in a loss of some 6,530 jobs. Thus, on a net basis, new employment in the private sector averaged about 19,900 positions.

[37] PCBS data by special request. Estimates exclude employment of Palestinians in Israel.

Of new private sector employment in 2006, agriculture accounted for about 52 percent, private services for about 23.2 percent, commerce for 16 percent and transport and communication for about 9 percent. That the boost in agriculture was due to a biennial bumper olive crop in the West Bank—not likely to recur in 2007—highlights the general weakness of private employment growth.

It should also be noted that underemployment was reported by about 8.5 percent of all employed Palestinians in 2005 and 10.3 percent of them in 2006. Underemployment is defined as either a situation in which employees involuntarily work fewer hours than desired (visible underemployment) or employees working at jobs that do not pay enough, do not fully utilize workers' skills or that entail unpleasant or hazardous conditions (invisible underemployment).[38] Underemployment affected approximately 7.2 and 9.4 percent of working refugees in 2005 and 2006 respectively.

a. Refugees in the Private Sector, 2005-2006

About 29.7 percent of new private sector jobs in 2006 were filled by refugees, well below their proportion in the broad labour force (about 39 percent). Employment gains for refugees came in commerce, private services and agriculture activities where they gained about 4,385, 2,100 and 1,380 positions respectively. On the other hand, refugees accounted for about 39 percent of all employment losses in the private sector, nearly all of them in construction, where they lost some 2,520 positions.

Of net employment growth (gains minus losses) refugees accounted for only 26.6 percent in the private sector, but about 58.6 percent of gains in the public sector and about 36.4 percent of overall employment growth in 2006 relative to 2005. As in all things pertaining to refugees in the oPt, developments in Gaza accounted disproportionately for these outcomes.

3. Public and Private Sector Employment by Region

As illustrated in Table 14, all employment gains in 2006–some 40,335 jobs—were made in the West Bank. In Gaza there was net a decline of 6,715 jobs—a loss of 3.7 percent of the employment base relative to 2005. An estimated increase of 3,500 public sector jobs in Gaza were more than offset by a loss of some 9,700 jobs in the private sector.

The extent of the economic crisis facing Gaza—and more specifically the Gaza private sector—in 2006 is evident in the net loss of jobs. Likewise, as Gaza accounts for the bulk of refugees in the oPt, the situation there accounts for the troubling labour market performance of refugees vis-à-vis non-refugees in 2006.

[38] See PCBS labour force surveys.

Table 14

Estimates of Average Employment in the OPT by Region and Sector, Annual, 2005-2006

Parallel Periods, Annual

Sector Employment by Region	2005	2006	Absolute Changes	Relative Changes
Public Sector	145,093	157,705	12,613	8.69%
West Bank	*76,389*	*85,468*	*9,080*	*11.89%*
Gaza Strip	*68,704*	*72,237*	*3,533*	*5.14%*
Private Sector	424,448	444,358	19,910	4.69%
West Bank	*313,389*	*342,987*	*29,598*	*9.44%*
Gaza Strip	*111,059*	*101,371*	*-9,688*	*-8.72%*
Israel, Industrial Zones, Settlements	62,930	64,027	1,097	1.74%
West Bank	*62,157*	*63,814*	*1,657*	*2.67%*
Gaza Strip	*773*	*213*	*-560*	*-72.47%*
Total Employment	632,471	666,090	33,619	5.32%
West Bank	*451,934*	*492,269*	*40,335*	*8.92%*
Gaza Strip	*180,537*	*173,821*	*-6,715*	*-3.72%*

4. Unemployment

A closer look at unemployment—both ILO and broader definitions—reveals both growing rates and rising numbers during the period under examination (see Table 15). The narrow ILO unemployment rate rose marginally, about 0.5 percent in relative terms to 23.5 percent as between 2005 and 2006 while the broader rate rose about 2.1 percent to 29.5 percent. In absolute terms, there were an average of 11,550 more unemployed in 2006 than in 2005 under the ILO definition (a 6 percent increase) and 21,800 more unemployed under the broad definition (8.4 percent growth). More significantly, the gap between refugee and non-refugee unemployment rates remained about 6.5 percentage points in favour of non-refugees.

Table 15

Estimates of Average Unemployment Rates and Unemployment in the OPT by Refugee Status, Annual, 2005-2006

Parallel Periods, Annual

			Relative
OPT Unemployment Rates	**2005**	**2006**	**Changes**
Unemployment Rates (ILO)	23.46%	23.58%	0.49%
of which: refugees	*27.42%*	*27.56%*	*0.50%*
of which: non-refugees	*20.95%*	*21.05%*	*0.48%*
Unemployment Rates (Broad)	28.94%	29.55%	2.12%
of which: refugees	*32.97%*	*33.52%*	*1.69%*
of which: non-refugees	*26.36%*	*27.02%*	*2.48%*
			Absolute
OPT Unemployed	**2005**	**2006**	**Changes**
Unemployed (ILO)	194,023	205,571	11,548
of which: refugees	*87,926*	*93,165*	*5,239*
of which: non-refugees	*106,097*	*112,406*	*6,309*
Unemployed (Broad)	257,727	279,526	21,799
of which: refugees	*114,443*	*123,500*	*9,057*
of which: non-refugees	*143,284*	*156,025*	*12,741*

Refugees in both years and under both definitions accounted for about 45 percent of the total number of unemployed, above their proportional representation in the labour force. As Table 16 indicates, Gaza unemployment rates were 9-10 percentage points higher than West Bank rates in 2005. The gap grew to 15-16 percentage points in 2006 both as a result of declines in West Bank unemployment rates and increases in those of Gaza. While population and labour force growth differentials partly explain the widening gap, the impact of the boycott of, and sanctions against, the newly elected Palestinian in 2006 were disproportionately felt in Gaza. Tightened movement restrictions, a drop in spending power caused by non-payment of public employee salaries, and the destruction of the main electric generating plant induced more private sector unemployment in Gaza.[39]

[39] For an assessment of the effects of sanctions and increased movement restrictions on the oPt, see OCHA *A Year of Decline: The Financial and Institutional Status of the Palestini*an Authority Report 1, April 2007. An average of 41.5 percent of the employed in Gaza worked in the public sector in 2006 compared to 17.3 percent in the West Bank. See UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006).

Table 16

Estimates of Average Unemployment Rates and Unemployment in the OPT by Region, Annual, 2005-2006

Parallel Periods, Annual

			Relative
OPT Unemployment Rates	**2005**	**2006**	**Changes**
Unemployment Rates (ILO)	23.46%	23.58%	0.49%
West Bank	*20.33%*	*18.63%*	*-8.37%*
Gaza Strip	*30.33%*	*34.81%*	*14.77%*
Unemployment Rates (Broad)	28.94%	29.55%	2.12%
West Bank	*26.07%*	*24.97%*	*-4.22%*
Gaza Strip	*35.22%*	*39.93%*	*13.38%*
			Absolute
OPT Unemployed			**Changes**
Unemployed (ILO)	194,023	205,571	11,548
West Bank	*115,417*	*112,734*	*-2,683*
Gaza Strip	*78,606*	*92,837*	*14,231*
Unemployed (Broad)	257,727	279,526	21,799
West Bank	*159,558*	*163,952*	*4,394*
Gaza Strip	*98,169*	*115,574*	*17,405*

In 2006, the oPt was one of only 10 countries in the world to have an unemployment rate in excess of 20 percent. For most of the past seven years, the oPt has had the highest rates of unemployment in the Middle East and North Africa (MENA)—a region that for more than a decade has had the highest unemployment rates in the world. In 2005, the average unemployment rate in the MENA region was about 12 percent as compared to 23.4 percent in the oPt, a rate that was unchanged in 2006. Unemployment rates in Gaza have been above 30 percent in the past two years, comparable to only seven countries in the world. [40]

5. Wage Rates and Wage Incomes

Employment alone is insufficient to assess the relative well-being of working people. Wage rates and wage incomes must be considered as well. Wage data for the period 2005-2006, presented in Table 17, indicates a nominal increase (i.e. not adjusted for inflation) in average daily wage rate in the oPt of about 6.6 percent, with public sector wages rising at almost three times the rate of the private sector. Palestinian public sector wages were about 17.5 percent greater than the average for the domestic private sector in 2006. Wage rates from employment in Israel were more than 62 percent greater than the public sector daily average and about 90 percent higher than the average domestic private sector wage that year.

[40] See ILO *Key Indicators of the Labour Market 4*, June 2007 and World Bank *Economic Developments and Prospects for the MENA Region*, 2007, August 2007..

a. Refugee and Non-Refugee Wage Rates, 2005-2006

The gap between refugee and non-refugee wage rates persisted in 2006 with refugees averaging NIS 78.3 (about USD 17.6) and non-refugees NIS 86.9 (about USD 19.5) in daily wages—a gap of about 11 percent (or USD 2) in favour of non-refugees.[41] The wage gap was less pronounced in the public sector and among workers employed in Israel. Given that the bulk of the work force is employed in the private sector, differentials in the conditions of the two groups in that sector largely explain the gap. Another factor is that about 75 percent of those employed in Israel in 2006 were non-refugees which would raise the differential in favour of that group. So too does the fact that the bulk of refugees live in Gaza where wage rates are lower. On the other hand, nearly half the employed in the public sector were refugees in 2006 (see above), a fact that would auger well for refugee incomes, if it were not for the fact that public sector employees received only about 55 percent of the wages due them in 2006 (see below).

Table 17

Nominal Average Daily Wages in the oPt by Refugee Status, Annual, 2005-2006[42]

(NIS)

Parallel Periods, Annual

Sector Average Daily Wages (NIS)	**2005**	**2006**	**Relative Changes**
Public Sector Employment	72.7	81.0	11.50%
--refugees	*70.9*	*80.2*	*13.08%*
--non-refugees	*74.4*	*81.9*	*10.05%*
Private Sector Employment	66.2	68.9	4.08%
--refugees	*63.9*	*65.9*	*3.00%*
--non-refugees	*67.8*	*71.1*	*4.75%*
Israel, Industrial Zones, Settlements	126.9	131.6	3.69%
--refugees	*126.0*	*134.0*	*6.34%*
--non-refugees	*127.2*	*130.9*	*2.91%*
Average Daily Wage (All Sectors)	78.1	83.3	6.67%
--refugees	*72.6*	*78.3*	*7.85%*
--non-refugees	*82.1*	*86.9*	*5.95%*

In inflation-adjusted terms, the average daily wage in the oPt rose by 3.8 percent largely on the basis of an 8.5 percent increase in the average public sector daily wage. Real daily wage rates in the private sector grew an average only 1.3 percent while those from employment in Israel grew 0.9 percent as between 2005 and 2006.

[41] For a review of wage trends in recent years, see UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006). Exchange rate data from the Palestinian Monetary Authority indicates an average NIS/USD exchange rate of 4.45 for 2006.
[42] Data are from PCBS by special request and include East Jerusalem.

b. Refugee and Non-Refugee Real Monthly Incomes, 2005-2006

Real monthly wage income is the product of the average real daily wage and the average number of monthly days worked. In 2006, the average monthly wage of a Palestinian worker was approximately NIS 1,925 in nominal terms (about USD 432.5) which is about NIS 1,266 in real 1996 purchasing power terms as shown in Table 18.

The statisitical evidence indicates that average real monthly income from work rose by about 2.7 percent in 2006 relative to 2005 (see Table 18). Refugee real monthly wages grew at a 3.7 percent rate as compared to 2.1 percent for non-refugees largely on the basis of expanded public sector employment combined with salary increases in that sector.

c. Public Sector Employment and Wages

The data in Tables 17 and 18 must be treated with caution since, like the national income accounts discussed above, wages are calculated on an *accrual* basis, i.e. the assumption that all wages and salaries due to surveyed workers have been paid. (Likewise, the employment and unemployment data presented above treats striking workers as employed.) To a large extent this was not true for public sector employees in 2006. The boycott and sanctions imposed on the PA—as well as the efforts of the PA and donors to mitigate the impact on the population—resulted in public employees receiving only part of their salaries.

Table 18

Nominal and Real Average Monthly Wages in the oPt by Refugee Status, Annual, 2005-2006[43]

(NIS)

Parallel Periods, Annual

Average Monthly Wages (Nominal)	**2005**	**2006**	**Relative Changes**
All Employed Persons	1,824	1,925	5.51%
Employed Refugees	1,738	1,853	6.58%
Employed Non-Refugees	1,882	1,974	4.86%
CPI Deflator (1996 = 1.0)	1.48	1.52	2.70%
Average Monthly Wages (Real)			
All Employed Persons	1,233	1,266	2.74%
Employed Refugees	1,175	1,219	3.78%
Employed Non-Refugees	1,272	1,298	2.10%

[43] Data are from PCBS by special request. Wages and CPI deflator (with 1996 base year) cover the oPt, including East Jerusalem. Real average monthly wages are derived by dividing the nominal average monthly wages by the CPI deflator and thus reflect relative purchasing power of NIS based on consumer prices in 1996.

On a cash basis (i.e. actual payments), public sector employees received an estimated USD 1 billion in 2005 but only USD 656 million in wage income in 2006—a drop USD 344 million or 34.4 percent. But as public sector hiring continued in 2006, so too did PA financial commitments to its employees. On a commitment basis (i.e. what is due to workers by virtue of their employed status), the PA should have paid some USD 1.18 billion in salaries and allowances. The difference between what public employees were owed and what they received in 2006 is therefore estimated at about USD 528 million.[44]

In effect, PA employees received only about 55 percent of what was due them. Thus, contrary to the growth in wage incomes on an accrual basis estimated in Table 18, on a cash basis and in the aggregate, working people received at least USD 344 million less in income than in 2005. To this must be added a decline of some USD 170 million in PA recurrent and capital expenditures as between 2005 and 2006, which would have generated additional income to private sector businesses. On a net basis, the fiscal crisis resulted in a decline of more than USD 500 million in first-round incomes to employees and private sector vendors.

The most direct and immediate effect of the non-payment of salaries was the loss by one-fourth of the working population of almost one-half of its income. With average households of about 6.4 persons, the loss of income has directly affected more than one million persons—more than one-quarter of the oPt population.

The loss of income has more severely impacted specific segments of the Palestinian population. For example, the Gaza Strip, where 41.5 percent of employment was in the public sector, has been more severely affected than the West Bank where only 17.3 percent of the employed relied on public sector jobs (refer to Table 14). For the same reason, the impact has been greater on refugees relative to non-refugees. Some 32 percent of the refugee labour force were employed in the public sector in 2006 as compared to only 18.8 percent for non-refugees (refer to Table 12).

[44]All data on PA fiscal conditions are from IMF *West Bank and Gaza: Fiscal Performance in 2006*, March 2007. The fiscal accounts in this document include estimates of all external budgetary support and financing, including bi-lateral and multi-lateral donations to the PA President's Office and the Temporary International Mechanism. Total foreign assistance in 2006 is estimated at about USD 747 million.

IV. Living Levels, Poverty and Humanitarian Assistance

A. Introduction

The first report in this series included an extended presentation on Palestinian poverty and poverty gaps and the effects of humanitarian assistance for the period 1998—mid-2006.[45] That presentation relied on data from the Palestinian Expendture and Consumption Survey (PECS), conducted by the PCBS in 1998, 2001, 2004, 2005 and the first half of 2006. Until the 2006 survey, the number of households actually surveyed was sufficiently large to allow for the disaggregation of data—with a reasonable level of statistical confidence—by region (West Bank and Gaza) and refugee status and by refugee status for each region on a semi-annual basis. The planned number of households to be surveyed in 2006, while lower than previous years due to resource constraints, was of sufficient size for these purposes (although statistical bias grows with the disaggregation of the entire sample). However, PCBS was unable to complete the intended number of surveys.[46]

The available data for 2006 as a whole allows for a comparison of living levels and poverty measures—with an acceptable level of confidence—on two levels: 1) the oPt in the aggregate; and; 2) the West Bank relative to the Gaza Strip. The statistical sample for 2006 underrepresented somewhat refugee households.[47] The problem of underrepresentation of refugees (and the overrepresentation of non-refugees) is compounded by the underrepresentation of Gaza (and the overrepresentation of the West Bank) in the sample.[48] Thus, comparisons of the conditions of refugees and non-refugees in 2006 should be treated with caution. In particular, the underrepresentation of Gaza—where the majority of refugees and a disproportionate share of the Palestinian poor live—suggests an underestimation of poverty in general and among refugees in particular in the 2006 sample. Moreover, given the small size of the sample, the following presentation will not present comparisons of refugees and non-refugees by region. To some extent, indirect evidence is employed to shed light on relative conditions of refugees and non-refugees in each region. Finally, the analysis is limited to parallel annual comparisons, given the small sample size and resulting statistical bias inherent in semi-annual comparisons.

[45] See UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006). Data in this report covered the period up to the first half of 2006.

[46] The number of completed household interviews in the statistically representative surveys in each of these years was as follows: 1998: 2,836; 2001: 3,022; 2004: 3,098; 2005: 2,152. The PCBS planned to survey 1,500 households in 2006 but were able to complete only 1,281. PCBS data by special request.

[47] The share of refugee households in the 2006 PECS sample was only 39.8 percent as compared to 43.7 percent, 43 percent and 41 percent in 2001, 2004 and 2005 respectively. The 1997 census in the oPt found refugee households were 41.1 percent of total households.

[48] Whereas Gaza households were about one-third of the sample in 2005, their proportion declined to only about one-quarter in the 2006 sample.

B. Poverty in the Palestinian Context

The definitions of poverty used here are based on **household or individual expenditures and consumption—and not income.** Such an approach is considered more accurate in measuring actual living levels and needs.[49] The two poverty lines used—official poverty and deep poverty—were developed in 1998 by the Palestinian National Commission for Poverty Alleviation on the basis of actual average **consumption expenditures** of Palestinian households.[50] The household was defined as a *representative household* including six persons—two adults and four children—based on the prevailing household size and composition.

The **official poverty line** was established taking into account nine categories of goods and services consumed by Palestinian households: food, clothing, housing, utensils and bedding, housekeeping supplies, health care, personal care, education and transportation. Adjusting for household size, households are then ranked from highest to lowest on the basis of monthly expenditures for these items. Those households whose consumption of these items is below the average household in the 30th percentile (from the lowest percentile) are defined as the **official poor**.

For 2006, PCBS estimates the official poverty line to be NIS 2,300 in monthly consumption expenditures for the representative six-person household.[51] At the prevailing average NIS/USD exchange rate of 4.45, the poverty line for such a household is estimated at USD 516.5. The *per capita* poverty line would therefore be USD 86.1 in monthly consumption or USD 2.8 in daily per capita consumption expenditures. **Households or individuals living below this consumption level are considered to lack some of the material requirements for a minimally dignified life.**

The **deep poverty line** is arrived at by calculating Palestinian household consumption of only three categories of goods and services: food, clothing and housing. Adjusting for household size, households are ranked from highest to lowest on the basis of monthly expenditures for these basic sets of items. Households whose consumption of the basics is below the average household in the 30th percentile (from the lowest percentile) are considered **deep poor**.

For 2006 PCBS estimates the deep poverty line for the representative household to be NIS 1,837 in monthly consumption expenditures or about USD 412.8. For the six-person representative household, the deep *per capita* poverty line is therefore estimated at about USD 68.8 per month or about USD 2.3 per day. **Households or individuals below this level of consumption are considered unable to meet basic needs.**

C. Palestinian Household Consumption

Estimates of household and individual poverty lines are based on PCBS household expenditure and consumption surveys (PECS). The surveys include detailed information on what households consume—whether or not consumption entails monetary expenditures. Table 19 below provides an overview of average monthly household consumption for 2006.

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[49] For a discussion on the relative merits of a consumption approach, refer to UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006).

[50] See PNA National Commission for Poverty Alleviation *Palestine Poverty Report*, 1998.

[51] Data provided by PCBS by special request.

Household consumption data is divided into food and non-food components. Half of the non-food consumption items consist mainly of services (items B2-B5, B7 and B9). Except for the "own-produced" items—A9 and B12—consumption is equal to monetary expenditures. These two items entail consumption without expenditures. A9 includes a range of goods from olive oil and vegetables produced from household-owned land and gardens to eggs, milk and cheese from household-owned livestock, etc. "Own-produced non-foods" (item B12) is almost entirely the imputed rental value of household-owned housing.[52] Item B11—"other non-food"—consists of expenditures on financial, legal, translation, copy and printing services, transportation costs for travel outside the country and purchases of jewellery.

Table 19

Estimates of Average Monthly Household Consumption in the oPt, Annual, 2006[53]

(nominal USD)

Annual

A. Food Consumption	**304.0**
1. Breads and Cereals	45.5
2. Meat, Poultry and Fish	80.5
3. Dairy Products and Eggs	25.9
4. Oils and Fats	11.8
5. Fruits, Vegetables and Nuts	63.1
6. Sugar, Confections, Salt, Spices	35.1
7. Beverages	12.6
8. Restaurant/Take Out Food	18.5
9. Own-Produced Foods	11.1
B. Non-Food Consumption	**611.5**
1. Clothing and Footwear	53.0
2. Housing	78.0
3. Medical Care	35.8
4. Education	32.7
5. Transport and Communications	113.5
6. Household Operations	13.3
7. Personal Care	21.0
8. Furniture and Utensils	37.1
9. Recreation	16.4
10. Tobacco	38.4
11. Other Non-Food	42.2
12. Own-Produced Non-Foods	130.1
C. Total Household Consumption	**915.5**
Average Household Size	*6.4*

[52] Based on standard international practice, the household consumption surveys estimate the value of "housing services" consumed by homeowners as being equal to what the dwelling would rent for in the local market. Rents paid by households who do not own their dwellings are included in item B2.

[53] Data are from PCBS expenditure and consumption survey for 2006 by special request. Original NIS values were rendered into USD values using average NIS/USD exchange rate of USD 1 = NIS 4.453 as provided by the Palestinian Monetary Authority, July 2007. Several categories of consumption expenditures have been consolidated for simplicity.

Using the average NIS/USD exchange rate, it is estimated that the average Palestinian household—consisting of 6.4 persons—consumed USD 915.5 in goods and services per month in 2006. Of this amount, food accounted for an average of some 33 percent of all consumption, housing for about 23 percent, clothing for 5.8 percent, education for 3.5 percent, health care for 3.9 percent each and transportation and communications for 12.4 percent of all consumption. In all, these six basic items accounted for an average of 82 percent of total consumption. With an average household of 6.4 persons, per capita monthly consumption was an average of USD 143—about USD 4.77 per person per day. **Average per capita daily consumption was, therefore, more than twice that of the deep poor.**

Table 20

Estimates of Inflation-Adjusted Average Monthly Household Consumption in the OPT, 2005-2006[54]

(NIS with 1997 base year)

Parallel Periods, Annual

	2005	2006	Change
A. Food Consumption	**1,006.5**	**993.8**	**-1.25%**
1. Breads and Cereals	149.9	149.4	-0.38%
2. Meat, Poultry and Fish	276.4	264.4	-4.35%
3. Dairy Products and Eggs	82.0	85.0	3.70%
4. Oils and Fats	33.6	38.7	15.17%
5. Fruits, Vegetables and Nuts	215.9	207.4	-3.92%
6. Sugar, Confections, Salt, Spices	112.8	115.4	2.24%
7. Beverages	38.4	36.6	-4.79%
8. Restaurant/Take Out Food	59.4	60.6	2.03%
9. Own-Produced Foods	38.0	36.4	-4.19%
B. Non-Food Consumption	**1,864.5**	**1,867.1**	**0.14%**
1. Clothing and Footwear	234.4	204.3	-12.86%
2. Housing	184.0	223.9	21.71%
3. Medical Care	101.2	116.8	15.43%
4. Education	95.9	110.9	15.61%
5. Transport and Communications	275.2	269.4	-2.10%
6. Household Operations	6.2	50.3	711.09%
7. Personal Care	63.6	60.3	-5.17%
8. Furniture and Utensils	153.3	139.8	-8.80%
9. Recreation	109.2	84.0	-23.13%
10. Tobacco	115.6	111.7	-3.38%
11. Other Non-Food	120.6	121.4	0.63%
12. Own-Produced Non-Foods	405.3	374.3	-7.64%
C. Total Household Consumption	**2,871.0**	**2,860.9**	**-0.35%**
Average Household Size	*6.5*	*6.4*	*-1.91%*

In nominal USD terms, a year-to-year comparison indicates that average household consumption in the oPt rose more than 4.5 percent in 2006 relative to 2005.[55] However,

[54] The indexes in this table are derived by deflating nominal NIS consumption by commodity group with the corresponding component of the consumer price index with 1997 as the base year.

using the USD to measure domestic consumption without adjusting for changes in its purchasing power in the local market distorts real trends. As the NIS is the main currency used in day-to-day transactions, and as the oPt remains inextricably linked to the dominant Israeli economy, real changes in household consumption levels are best detected using deflated NIS values.

Table 20 provides the real NIS values of average Palestinian household consumption for 2005 and 2006. This method yields a slight average *decline* of 0.35 percent in monthly consumption, with a 1.25 percent decline in food consumption and a 0.14 percent increase in non-food expenditures. Amongst food items, there were disproportionate declines in expenditures on meat, poultry and fish (main sources of protein) and fruits and vegetables (main sources of vitamins). These sets of commodities (items A.2 and A.5) are by far the two most prominent in average Palestinian household food baskets.

Amongst non-food items, there were significant declines in expenditures on clothing and footwear and recreation. Reflective of the decline in oPt economic activity was a 2.1 percent decline in average household transport and communications expenditures. After self-owned "housing services" (included in item B.12), that category of expenditures remained the most important item in non-food expenditures. Table 20 also indicates that the average Palestinian household size declined by 1.9 percent in 2006 relative to 2005. **Thus, on a per capita basis, consumption is estimated to have *increased* by about 1.6 percent, with per capita food consumption rising by 0.67 percent and non-food expenditures rising by about 2 percent.**

D. Counting the Palestinian Poor

The small changes in average real household and per capita consumption in 2006, in and of themselves, are insufficient as indicators of poverty trends. Actual changes in the number of poor households depend on the pre-existing distribution of consumption among households of various levels of means and the ways in which different households are affected by economic crisis. Thus, if the small decline in average *household* consumption reported in Table 20 was accounted for by declines in consumption among affluent households only, or by poor households only—assuming no increase in the total number of households—the number of poor households would remain unchanged. In the first case, affluent households would be worse off and the poor households would be no worse off; in the second case, already poor households would be poorer and affluent households would be no worse off.

Likewise, if the increases in *per capita* consumption noted above were the result of gains by the affluent only, or gains by the poor only—assuming no change in the number of households—there might be no change in the number of poor households. If the small per capita gains were concentrated among the poorest individuals, it is possible that all such individuals remain below the poverty line.

As indicated in Table 21 below, total oPt population grew by some 3.3 percent in 2006, while the number of households is estimated to have increased by 5.3 percent. At the same time, there were across-the-board increases in average *pre-assistance* individual and household poverty rates—between 2 and 4.7 percent in relative terms. **As a result, the number of Palestinians in poverty**

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[55] The average 2005 NIS/USD exchange rate of USD 1 = NIS 4.485 was used to determine nominal USD consumption and expenditures for 2005.

grew by more than twice as rapidly as the overall population on a pre-assistance basis. The number of official poor persons climbed 8.3 percent to some 1.6 million while the number of official poor households increased by an estimated 10 percent to some 217,000. The ranks of the deep poor grew to nearly 1.1 million persons in nearly 145,800 households. The respective growth rates were estimated at 6.1 and 7.5 percent, well above overall growth rates. Approximately two-thirds of official poor persons and households were in deep poverty in 2006.

1. Refugees in Poverty on a Pre-Assistance Basis, 2005-2006

Table 21 also indicates pre-assistance rates and levels of poverty among refugees to be significantly higher than for non-refugees. In 2005, refugee poverty rates were 10-12 percentage points above those for non-refugees. While the disparities were somewhat smaller in 2006, this was due to rapid growth in poverty rates among non-refugees. Refugee official poverty rates grew marginally while deep poverty rates declined by about 1 percentage point.

In absolute terms, and on a pre-assistance basis, the estimated number of official non-refugee poor rose to an estimated 834,300 in 2006, a growth rate of 12.3 percent as compared to a 4.1 percent growth in official refugee poor. The number of deep poor non-refugees grew by 13.1 percent to an estimated 563,130 while deep poor refugee numbers declined marginally to 533,370. On a pre-assistance basis, the number of non-refugee deep poor surpassed that of refugees in 2006, reversing the relationship witnessed in 2005.

At another level, the number of non-refugee households below the official poverty line grew by an estimated 14 percent to about 114,000, while those below the deep poverty line increased by 13.3 percent to 74,600. Refugee households below the official poverty line increased about 6 percent to almost 103,000, while those in deep poverty rose about 2 percent to 71,200. Nonetheless, refugees—who constitute about 42 percent of the population—remained disproportionately poor, accounting for 47.6 percent of the official poor and 48.6 percent of the deep poor in 2006 before assistance is factored into the estimates.

Table 21

Estimates of Population, Households and Pre-Assistance Poverty in the oPt by Refugee Status, Annual, 2005-2006[56]

Parallel Period, Annual	*Pre-Assistance*		
	2005	**2006**	**Changes**
Total Population	3,762,005	3,888,292	3.36%
of which: refugees	*1,554,355*	*1,606,534*	*3.36%*
of which: non-refugees	*2,207,650*	*2,281,758*	*3.36%*
Total Households	576,594	607,546	5.37%
of which: refugee households	*237,164*	*249,895*	*5.37%*
of which: non-refugee households	*339,430*	*357,651*	*5.37%*
Individual Poverty Rates			
Official Poverty	39.13%	41.00%	4.77%
-- refugees	*46.95%*	*47.30%*	*0.75%*
--non-refugees	*33.63%*	*36.56%*	*8.73%*
Deep Poverty	27.46%	28.20%	2.71%
--refugees	*34.43%*	*33.20%*	*-3.57%*
--non-refugees	*22.55%*	*24.68%*	*9.46%*
Household Poverty Rates			
Official Poverty	34.18%	35.70%	4.44%
--refugee households	*40.99%*	*41.20%*	*0.50%*
--non-refugee households	*29.42%*	*31.86%*	*8.27%*
Deep Poverty	23.52%	24.00%	2.04%
--refugee households	*29.42%*	*28.50%*	*-3.14%*
--non-refugee households	*19.39%*	*20.86%*	*7.53%*
Total Official Poor Persons	1,472,146	1,594,200	8.29%
of which: refugees	*729,719*	*759,890*	*4.13%*
of which: non-refugees	*742,427*	*834,309*	*12.38%*
Total Deep Poor Persons	1,032,862	1,096,498	6.16%
of which: refugees	*535,127*	*533,369*	*-0.33%*
of which: non-refugees	*497,734*	*563,129*	*13.14%*
Total Official Poor Households	197,092	216,894	10.05%
of which: refugee households	*97,223*	*102,957*	*5.90%*
of which: non-refugee households	*99,869*	*113,937*	*14.09%*
Total Deep Poor Households	135,617	145,811	7.52%
of which: refugee households	*69,785*	*71,220*	*2.06%*
of which: non-refugee households	*65,832*	*74,591*	*13.31%*

[56] Estimates of total population and total households are from PCBS, August 2007. Data presented assume the share of refugees and refugee-households in the general population to be as indicated by the 1997 census—41.3 and 41.1 percent respectively. Poverty rates are based on PCBS household consumption surveys on a *pre-assistance* basis. Given the underrepresentation of refugees in the PECS 2006 survery, results in this table should be treated with caution.

E. External Assistance and Poverty Reduction

The PECS survey of households includes questions regarding the amounts and types of external assistance received from all sources. Official emergency and humanitarian assistance to the oPt—the bulk of external assistance to Palestinian households in the past six years—has served to mitigate household and individual poverty.[57] Table 22 provides post-assistance estimates of poverty rates and the numbers of poor at the two poverty lines for 2005 and 2006.

It is noteworthy that post-assistance average poverty rates in 2006 were above those in 2005, as indicated in Table 22. In relative terms, the rates increased between 1.8 and 4.4 percent. Likewise, the average number of poor persons and poor households expanded between 5.2 and 10 percent in 2006 relative to 2005 on a post-assistance basis. **Thus, external assistance was insufficient to alter the trend toward growing poverty in the oPt, although it mitigated that growth.**[58] That official poverty grew more rapidly than deep poverty may suggest that the large number of households just above the official poverty line may have been particularly affected by declines in household consumption[59] and/or that external assistance to the deep poor was better targeted.

1. Refugees in Poverty on a Post-Assistance Basis, 2005-2006

As suggested by Table 22, refugee post-assistance rates of poverty remained significantly higher than for non-refugees. In 2005, refugee poverty rates were 5.7--9.2 percentage points above those of non-refugees. Post-assistance disparities narrowed in 2006 to 3.6--5.3 percentage points. **While overall refugee poverty rates remained higher, they declined in 2006 on a post-assistance basis. At the same time post-assistance poverty rates of non-refugees increased.**

In absolute terms, the estimated number of official non-refugee poor rose to an estimated 774,000 in 2006 on a post-assistance basis, a growth rate of 13.1 percent as compared to 1 percent growth in the numbers of official refugee poor which reached almost 630,000. The number of deep poor non-refugees grew by 14.2 percent to an estimated 472,800 while deep poor refugee numbers declined 3.8 percent to 390,400.

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[57] The World Bank, based on PA Ministry of Planning data, estimates official donor-funded emergency and humanitarian assistance to the OPT (inclusive of the UNRWA Emergency Appeal) in 2005 at USD 491 million and in 2006 at about USD 413 million. See World Bank *Two Years After London: Restarting Palestinian Economic Recovery* September 2007, p. 29. Official aid is only one part of external assistance as defined by PCBS. Other components include martyr's compensation and special hardship support that commenced after the beginning of the second *Intifada*. It also includes all assistance provided by NGOs, charitable associations and family members whether resident or non-resident in whatever form.

[58] For estimates of the growth of poverty since the beginning of the second *Intifada,* see UNRWA *Prolonged Crisis in the Occupied Palestinian Territory; Recent Socio-Economic Impacts* (November 2006).

[59] Research indicates a large concentration of Palestinian households with consumption levels just above the official household poverty line. Thus small declines in average household consumption may cause relatively large increases in household poverty. See PCBS and World Bank *Deep Palestinian Poverty in the Midst of Economic Crisis* (Ramallah and Jerusalem: October 2004).

Table 22

Estimates of Post-Assistance Poverty in the oPt by Refugee Status, Annual, 2005-2006[60]

Parallel Periods, Annual

	Post-Assistance		
Individual Poverty Rates	**2005**	**2006**	**Changes**
Official Poverty	34.75%	36.10%	3.88%
--*refugees*	*40.10%*	*39.20%*	*-2.23%*
--*non-refugees*	*30.99%*	*33.92%*	*9.45%*
Deep Poverty	21.80%	22.20%	1.85%
--*refugees*	*26.13%*	*24.30%*	*-6.99%*
--*non-refugees*	*18.75%*	*20.72%*	*10.53%*
Household Poverty Rates			
Official Poverty	29.49%	30.80%	4.43%
--*refugee households*	*34.30%*	*33.30%*	*-2.93%*
--*non-refugee households*	*26.13%*	*29.05%*	*11.18%*
Deep Poverty	18.06%	18.50%	2.42%
--*refugee households*	*21.73%*	*20.90%*	*-3.82%*
--*non-refugee households*	*15.50%*	*16.82%*	*8.54%*
Total Official Poor Persons	1,307,355	1,403,673	7.37%
of which: refugees	*623,222*	*629,761*	*1.05%*
of which: non-refugees	*684,133*	*773,912*	*13.12%*
Total Deep Poor Persons	820,008	863,201	5.27%
of which: refugees	*406,115*	*390,388*	*-3.87%*
of which: non-refugees	*413,893*	*472,813*	*14.24%*
Total Official Poor Households	170,053	187,124	10.04%
of which: refugee households	*81,358*	*83,215*	*2.28%*
of which: non-refugee households	*88,695*	*103,909*	*17.15%*
Total Deep Poor Households	104,148	112,396	7.92%
of which: refugee households	*51,536*	*52,228*	*1.34%*
of which: non-refugee households	*52,612*	*60,168*	*14.36%*

The number of non-refugee households below the official poverty line grew by an estimated 17.1 percent to about 104,000, while those below the deep poverty line increased by 14.3 percent to about 60,000. Meanwhile, refugee households below the official poverty line increased about 2.2 percent to about 83,200 while those in deep poverty rose about 1.3 percent to 52,200. The refugee share of the post-assistance poor was 44.8 percent in 2006 and of the deep poor 45.2 percent, somewhat above their share of the total population. **Yet the slower growth of poverty**

[60] Data provided by PCBS by special request, August 2007. Poverty rates and absolute numbers of poor are based on PCBS household consumption surveys and are *post-assistance* estimates. Data on refugees and refugee households, due to their underrepresentation in the PECS 2006 survery, should be treated with caution.

among refugees suggests more effective poverty alleviation interventions in comparison to non-refugees.

F. Gauging the Effectiveness of External Assistance on Poverty Reduction

Table 23 indicates that external assistance resulted in alleviating poverty among a larger number of poor in 2006 relative to 2005. Some 190,500 persons were raised out of official poverty in 2006 relative to 164,800 in 2005. Likewise, 233,300 persons were lifted out of deep poverty, though not necessarily out of official poverty. In absolute terms, this was true for households as well. An estimated 29,800 households were raised out of official poverty in 2006 relative to 27,000 in 2005 and the number of deep poor households was reduced by approximately 2,000 more in 2006 relative to 2005. But the proportional declines in the numbers of individuals and households in poverty due to the external assistance were not significantly different.

External assistance from all sources was responsible for reducing the absolute number of persons in official poverty by an estimated 11.1 percent in 2005 and by 11.9 percent in 2006. The numbers of deep poor persons were reduced by 20.6 percent in 2005 and 21.2 percent in 2006. At the household level, external assistance reduced the number of the official poor by about 13.7 percent in 2006, a rate virtually unchanged from 2005. Similarly, the rate of reduction of household deep poverty in 2006 was not significantly different than that in 2005.

Table 23

Estimates of Poverty Reduction for Individuals and Households in the oPt by Refugee Status, Annual, 2005-2006

Parallel Periods, Annual

	Absolute Reductions		*Rates of Reduction*	
Individuals	**2005**	**2006**	**2005**	**2006**
Official Poor Persons	164,791	190,526	11.19%	11.95%
of which: refugees	*106,497*	*130,129*	*14.59%*	*17.12%*
of which: non-refugees	*58,294*	*60,397*	*7.85%*	*7.24%*
Deep Poor Persons	212,853	233,298	20.61%	21.28%
of which: refugees	*129,012*	*142,982*	*24.11%*	*26.81%*
of which: non-refugees	*83,841*	*90,316*	*16.84%*	*16.04%*
Households				
Official Poor Households	27,039	29,770	13.72%	13.73%
of which: refugee households	*15,865*	*19,742*	*16.32%*	*19.17%*
of which: non-refugee households	*11,174*	*10,028*	*11.19%*	*8.80%*
Deep Poor Households	31,469	33,415	23.20%	22.92%
of which: refugee households	*18,249*	*18,992*	*26.15%*	*26.67%*
of which: non-refugee households	*13,220*	*14,423*	*20.08%*	*19.34%*

The data indicates deep poverty reduction rates were significantly higher than those for official poverty in both years—one indication of efficiency in targeting. In 2005, at the individual level, deep poverty reduction was, in relative terms, 84.2 percent greater than official poverty reduction. At the household level, the rate of deep poverty reduction was 69.1 percent higher. In 2006, deep poverty reduction was 78.1 percent greater than official poverty reduction at the individual level and 67 percent higher at the household level in relative terms. By this measure, overall assistance to the poor seems to have been greater and/or better targeted in 2005. This is consistent with reporting from the PA Ministry of Planning indicating that official donor-funded emergency and humanitarian assistance to the OPT (inclusive of the UNRWA Emergency Appeal) in 2005 was about USD 491 million compared to about USD 413 million in 2006, a decline of 15.8 percent.[61]

1. External Assistance and Refugee Poverty Reduction

As indicated in Table 23, in both years, for both types of poverty and at the individual and household levels, external assistance was considerably more effective in reducing poverty among refugees relative to non-refugees. Moreover, the effectiveness of poverty interventions for refugees was greater in 2006 relative to 2005.

Thus, the proportional reduction in official poverty among refugees in 2005 was 185.8 percent greater than for non-refugees; that for official poor refugee households was 145.8 percent higher than for non-refugees. In 2006, the respective advantages were 236.4 percent and 217.8 percent. Among deep poor refugees, the proportional reduction was 143.1 percent greater in 2005 and 130.2 percent more for deep poor refugee households. These advantages grew to 167.1 percent and 137.9 percent respectively in 2006. Thus, **poverty reduction due to external assistance was between two and three times greater in proportional terms for refugees as compared to non-refugees.**

Research suggests that more effective poverty reduction among refugees is due partly to better targeting of assistance and, therefore, less “leakage” of such assistance to the non-poor. Such “leakage” was found to be the least among residents of refugee camps—the localities with the highest poverty rates in the oPt[62]—but the place of residence for less than half of all refugees. **Better poverty reduction results for refugees are, in large part, attributable to the relatively well-developed institutional capacity of UNRWA vis-à-vis the refugees it serves, in addition to the resources provided to UNRWA by donors.**

UNRWA assistance to poor refugees, as indicated in Table 24, consists of the Special Hardship Case Programme (SHC) and the Emergency Appeal (EA). SHC consists of food, cash and in-kind asssistance to needy families due to their specific circumstances. Most SHC families are headed by elderly, disabled or women. In all cases, there is no healthy male adult aged 19-60 in the family and family income is less than two-thirds of the lowest paid UNRWA area staff member in the field of operation.[63] EA assistance stems from the particularly adverse conditions created by the last seven years of conflict in the oPt. The social safety net component of the EA consists of food distributions, a job creation programme and cash distributions.[64]

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[61] See World Bank *Two Years After London: Restarting Palestinian Economic Recovery* September 2007, p. 29.

[62] PCBS and World Bank *Deep Palestinian Poverty in the Midst of Economic Crisis* (Ramallah and Jerusalem: October 2004), p. 30. Deep poverty rates in urban, rural and camp areas in 2006 were, respectively, 18.3 percent, 15.4 percent and 25.6 percent. See PCBS *Poverty in the Palestinian Territory, 2006, Main Findings Report, August* 2007, p. 29.

[63] See UNRWA *A Socio-Economic Analysis of Special Hardship Case Families in the Five Fields of UNRWA Operations*, October 2006.

[64] Other components of the EA include the reconstruction of homes destroyed by Israeli military operations, support to municipalities, etc. UNRWA also provides food assistance to refugee pregnant and nursing mothers but this is not tied to hardship or poverty criteria. Likewise, the UNRWA Micro-Finance and

Table 24

UNRWA Assistance to Poor Refugees in the oPt, 2005-2006[65]
(current USD)

Parallel Periods, Annual

Assistance (USD)	**2005**	**2006**	**Changes**
Special Hardship Case	7,088,689	6,754,831	-4.71%
West Bank	2,130,738	1,732,716	*-18.68%*
Gaza Strip	4,957,952	5,022,114	*1.29%*
Emergency Appeal	61,821,691	89,243,436	44.36%
West Bank	19,310,035	31,213,459	*61.64%*
Gaza Strip	42,511,656	58,029,977	*36.50%*
Total Assistance (USD)	**68,910,381**	**95,998,267**	**39.31%**
Beneficiaries			
Special Hardship Case	114,285	118,497	3.69%
West Bank	30,301	31,794	*4.93%*
Gaza Strip	83,984	86,703	*3.24%*
Emergency Appeal	1,031,619	1,169,813	13.40%
West Bank	394,400	426,528	*8.15%*
Gaza Strip	637,219	743,285	*16.65%*
Total Beneficiaries	**1,145,903**	**1,288,310**	**12.43%**
Average Assistance (USD)	**60.1**	**74.5**	**23.91%**
West Bank	*50.48*	*71.88*	*42.39%*
Gaza Strip	*65.82*	*75.97*	*15.42%*

Total UNRWA aid disbursements to refugees in the oPt in 2005 was USD 68.9 million of which USD 7 million (10.2 percent) was SHC assistance and USD 61.8 million (89.8 percent) was disbursed under the EA. UNRWA humanitarian and emergency assistance was received by a total of some 1.14 million refugees. Per capita assistance to recipients was about USD 60.1 in 2005. About USD 31.4 million (45.5 percent) of total UNRWA assistance in 2005 was in the form of in-kind food distributions; USD 24 million (34.9 percent) was the wages paid to participants in job creation projects and USD 13.4 million (19.5 percent) was in cash assistance. Of total assistance rendered under the SHC and EA programmes, USD 21.4 million (31.1 percent) was distributed to West Bank refugees with USD 47.4 million (68.9 percent) distributed to those in Gaza.

In 2006, total UNRWA assistance to poor refugees in the oPt rose to USD 95.9 million, an increase of 39.3 percent as compared to 2005. UNRWA assistance was received by a total of

Micro-Enterprise Programme offers loans to small refugee businesses but is not contingent on poverty criteria.

[65] Figures in this table reflect actual disbursements. The value of assistance to refugees excludes UNRWA administrative costs. Food assistance is calculated as the cost of procuring the commodities (e.g. flour, rice, cooking oil, etc.) distributed by the Agency in its SHC and EA programmes. Data for the Job Creation Programme include only wages paid to those participating and excludes the costs of materials used in projects and administrative costs.

some 1.28 million refugees,[66] an increase of about 12.4 percent over 2005 and, on a per capita basis, an increase of about 24 percent. Of this amount USD 6.7 million (7 percent) was through the SHC programme while USD 89.2 million (93 percent) was EA assistance. Food distributions accounted for USD 34.1 million (35.6 percent) of total assistance; USD 34.4 million (35.8 percent) was paid in wages to participants in job creation projects and USD 27.3 million (28.5 percent) was distributed as cash assistance. The West Bank's share of total assistance received rose to USD 32.9 million (34.3 percent of total) while Gaza's increased to USD 63 million (65.7 percent of total).

Lower post-assistance refugee poverty rates, slower growth in total number of refugee poor (refer to Table 22) and better refugee poverty reduction rates (refer to Table 23) are all attributable in great part to the more robust UNRWA interventions in 2006, especially through the Emergency Appeal programme. Notably, cash assistance and job creation projects were more prominent in providing a broader safety net for oPt refugees in 2006 relative to 2005 with food assistance accounting for a smaller share of total assistance.

G. External Assistance and Poverty Gaps

Poverty gaps are defined here as the amount of consumption required—on a post-assistance basis—to elevate poor individuals or households out of poverty. Alternatively, such gaps can be defined as the amount of *additional assistance* required to eliminate consumption poverty. Estimating poverty gaps entails calculating the difference between the average levels of consumption in poor households in relation to the designated poverty lines.

The estimates of per capita and household monthly official and deep poverty lines presented above are based on six-person households, a size of household somewhat smaller than average poor households. Thus, in estimating poverty gaps, it is necessary to adjust the poverty line to reflect the larger average size of poor households. Multiplying the per capita official and deep poverty lines by the average number of persons in official and deep poor households yields the **adjusted official** and **deep household poverty lines** as indicated in Table 25.[67]

For the average official poor household, the adjusted monthly consumption poverty line was approximately USD 938 in 2005 and USD 998 in 2006. For deep poor households, the adjusted poverty line was approximately USD 507 in monthly consumption in 2005 and USD 527 in 2006. The difference between the **adjusted poverty lines** and **actual average monthly consumption** levels of poor households and persons is defined here as the **poverty gap**, i.e. the amount of expenditures required to raise the consumption level of the average poor person or household to the relevant poverty line.

As indicated in Table 25, the poverty gap for households consuming below the adjusted official monthly poverty line in 2005 was USD 480. That is, on average, USD 480 in consumption expenditures—over and above assistance received—would have lifted the average poor household in the oPt out of poverty. In the same year, an estimated USD 114 would have

[66] In the case of the Emergency Appeal the number of beneficiaries is expressed as the number of persons who received emergency assistance from UNRWA at least once for each of 2005 and 2006. For Gaza, this figure does not include pupils (approximately 196,000 children) at UNRWA schools who received cash assistance as part of a special back to school programme in autumn 2006.

[67] Poverty lines are presented in nominal NIS and USD prices and thus reflect increases in the market prices of commodities and services consumed by households.

elevated the average deep poor household out of deep poverty, although not out of official poverty.

Table 25

Adjusted Monthly Poverty Lines, Post-Assistance Consumption Levels and Poverty Gaps for All Official and Deep Poor in the oPt, 2005-2006[68]

(current NIS and USD)

Parallel Periods, Annual

	NIS		*USD*	
Adjusted Official Poverty Lines	**2005**	**2006**	**2005**	**2006**
Individual	547	593	122.0	133.1
Household (2005: 7.7 persons; 2006: 7.5 persons)	4,206	4,444	937.8	998.0
Adjusted Deep Poverty Lines				
Individual	289	306	64.4	68.8
Household (2005: 7.9 persons; 2006: 7.7 persons)	2,273	2,349	506.8	527.4
Monthly Official Poor Consumption				
Individuals	267	296	59.5	66.5
Households (2005: 7.7 persons; 2006: 7.5 persons)	2,053	2,220	457.7	498.5
Monthly Deep Poor Consumption				
Individuals	224	246	49.9	55.3
Households (2005: 7.9 persons; 2006: 7.7 persons)	1,761	1,890	392.5	424.5
Monthly Official Poverty Gap				
Individuals	280	297	62.4	66.6
Households	2,153	2,224	480.1	499.5
Monthly Deep Poverty Gap				
Individuals	65	60	14.5	13.4
Households	512	458	114.2	102.9
Post-Assistance Official Poor				
Individuals	1,307,355	1,403,673	1,307,355	1,403,673
Households	170,053	187,124	170,053	187,124
Post-Assistance Deep Poor				
Individuals	820,008	863,201	820,008	863,201
Households	104,148	112,396	104,148	112,396
Required Resources (Official)				
Individuals	366,158,091	416,272,545	81,641,188	93,481,371
Households	366,158,091	416,200,475	81,641,188	93,465,186
Required Resources (Deep)				
Individuals	53,356,705	51,567,368	11,896,787	11,580,366
Households	53,356,705	51,500,223	11,896,787	11,565,287
Average NIS/USD Exchange Rates			4.485	4.453

[68] Based on PCBS data by special request, August 2007.

Multiplying these gaps by estimates of the average number of households below the adjusted official and deep poverty lines yields the amount of resources required to eliminate the two types of poverty on a monthly basis. By this method, USD 81.6 million in additional monthly assistance in 2005, perfectly targeted, would have eliminated poverty for an average of 170,000 households (some 1.3 million persons) in the oPt. On an annual basis, this would have amounted to USD 979.7 million. To eliminate only the most severe manifestations of poverty, e.g. deep poverty, would have required about USD 11.9 million per month or about USD 142.7 million on an annual basis.

The adjusted poverty lines and household consumption levels in 2006 reflect changes in consumer prices, in the average number and size of poor households and changes in the distribution of consumption across households. The official poverty gaps for 2006 grew to approximately USD 93.4 million per month or about USD 1.1 billion on an annual basis. **Thus, external assistance was insufficient to reduce the overall extent and depth of poverty in the oPt in 2006.**

At the same time, the deep poverty gaps declined somewhat in 2006, suggesting either more assistance or better targeting of assistance to the deep poor, or some portion of the deep poor. On a monthly basis, the deep poverty gap decreased from about USD 11.9 million to USD 11.5 million, or from USD 142.7 million to USD 138 million on an annual basis. Such an amount of assistance, if perfectly targeted, would have raised the consumption levels of 863,200 deep poor Palestinians to basic needs sufficiency in 2006. The decline of the deep poverty gap is additional evidence that aid to the deep poor was more effective than aid to the poor in general. But the number of post-assistance deep poor households increased as the deep poverty gap declined. This suggests assistance to the most severely poor was rather thinly disbursed in 2006, reducing the severity of deep poverty but not its incidence.[69]

1. External Assistance and Refugee Poverty Gaps[70]

Table 26 reproduces the adjusted individual and household poverty lines found in Table 25. The average monthly refugee official and deep poverty gaps at the household level in 2005 were, respectively, about USD 475 and USD 105, somewhat below those for the poor households in general. **This suggests that, while refugees were disproportionately represented among the poor, their poverty severity in 2005 was less pronounced than that of the population at large.** This may be due in part to the fact that refugees are disproportionately represented in public sector employment and both hiring and salaries rose substantially in 2005 (see labour market section of this report).

The estimated monthly additional resources required to eliminate refugee household poverty at the official level was therefore an average of about USD 38.6 million or USD 463.2 million on an annual basis in 2005. For deep poor refugee households, the aggregate monthly gap is estimated at USD 5.4 million or USD 64.8 million for the year.

[69] It is important to note that not all external assistance is intended for the deep poor and, due to imperfect targeting, a portion of assistance intended for the deep poor "leaks" to others.

[70] The underrepresentation of refugees in the 2006 PECS survey suggests that results in this section should be treated with caution.

Table 26

Adjusted Monthly Poverty Lines, Post-Assistance Consumption Levels and Poverty Gaps for Refugee Official and Deep Poor in the oPt, 2005-2006[71]

(current NIS and USD)

Parallel Periods, Annual

	NIS		*USD*	
Adjusted Official Poverty Lines	**2005**	**2006**	**2005**	**2006**
Individual	547	593	122.0	133.1
Household (2005: 7.7 persons; 2006: 7.5 persons)	4,206	4,444	937.8	998.0
Adjusted Deep Poverty Lines				
Individual	289	306	64.4	68.8
Household (2005: 7.9 persons; 2006: 7.7 persons)	2,273	2,349	506.8	527.4
Monthly Official Poor Consumption				
Refugees	262	293	58.4	65.3
Refugee Households (2005: 7.9 persons; 2006: 7.8 persons)	2,075	2,285	462.7	513.2
Monthly Deep Poor Consumption				
Refugees	221	240	49.3	53.6
Refugee Households (2005: 8.1 persons; 2006: 7.7 persons)	1,803	1,850	402.1	415.5
Monthly Poverty Gap (Official)				
Refugees	285	300	63.6	67.3
Refugee Households	2,131	2,159	475.2	484.8
Monthly Poverty Gap (Deep)				
Refugees	67	66	15.0	14.8
Refugee Households	469	498	104.7	111.9
Post-Assistance Poor (Official)				
Refugees	623,222	629,761	623,222	629,761
Refugee Households	81,358	83,215	81,358	83,215
Post-Assistance Poor (Deep)				
Refugees	406,115	390,388	406,115	390,388
Refugee Households	51,536	52,228	51,536	52,228
Required Resources (Official)				
Refugees	177,697,378	188,640,554	39,620,659	42,362,577
Refugee Households	173,380,804	179,634,438	38,658,206	40,340,094
Required Resources (Deep)				
Refugees	27,348,019	25,731,881	6,097,707	5,778,549
Refugee Households	24,193,042	26,027,793	5,394,251	5,845,002
Average NIS/USD Exchange Rates			4.485	4.453

[71] Based on PCBS data by special request, August 2007.

The number of official and deep poor refugee households, like the poor generally, grew in 2006. At the same time, the official and deep poor household poverty gaps grew, respectively, to about USD 485 and USD 112, suggesting small increases in the severity of post-assistance poverty. On the other hand, at the level of refugee individuals there was a slight decline in the deep poverty gap, suggesting reduced severity of deep poverty. This apparent contradiction is explained by the fact that the size of deep poor refugee households declined from 8.1 to 7.7 persons. Thus the increase in average deep poor household consumption in 2006 coincided with a decline in the average size of the deep poor households, raising per capita deep poor consumption and reducing the individual poverty gap. Thus, it appears that assistance to deep poor refugee households in 2006 reduced per capita deep poverty.

With the growth in the number of poor households and in the severity of poverty in 2006, the additional resources required to eliminate poverty also increased. In the case of official refugee household poverty, a monthly average of USD 40.3 million would have been required to raise refugee households out of official poverty while for deep refugee household poverty a monthly average of USD 5.8 million would have sufficed. On an annual basis the respective sums were estimated at USD 483.6 million and USD 69.6 million. Despite the growth of assistance for alleviating poverty targeted toward refugees, the deterioration of socio-economic conditions yielded a small increase in official poverty, and official poverty severity, among refugees.

H. A Note on Income Poverty Rates

Income poverty rates, while less accurate as measures of poverty, are nonetheless widely used to describe conditions in the oPt. PCBS has produced estimated income poverty rates on a post-assistance basis for all households in the oPt, for refugee and non-refugee households and for households in the West Bank and Gaza Strip. Table 27 provides additional evidence of the severity of the poverty crisis in the oPt, confirms the trend toward greater poverty in 2006, as well as the higher incidence of poverty among refugee-headed households relative to non-refugee headed households. It also indicates that poverty in Gaza is substantially greater than in the West Bank and that the disparities have grown in 2006.

Table 27

**Household Income Poverty Rates in the oPt,
by Refugee Status and by Region, Annual, 2005-2006**[72]

Parallel Periods, Annual	2005	2006	Relative Changes
Official Household Income Poverty Rates (OPT)	51.50%	56.80%	10.29%
Refugee Households	56.00%	62.20%	11.07%
Non-Refugee Households	48.50%	53.10%	9.48%
Deep Household Income Poverty Rates (OPT)	40.20%	44.10%	9.70%
Refugee Households	45.00%	50.60%	12.44%
Non-Refugee Households	36.90%	39.70%	7.59%
West Bank			
Official Household Income Poverty Rates	45.70%	49.10%	7.44%
Deep Household Income Poverty Rates	34.50%	36.40%	5.51%
Gaza Strip			
Official Household Income Poverty Rates	63.10%	79.30%	25.67%
Deep Household Income Poverty Rates	51.60%	66.70%	29.26%

I. Poverty by Region, 2005-2006

On a regional basis, data from all previous PECS surveys indicates that living levels in the Gaza Strip were substantially below those in the West Bank. Table 28 presents post-assistance household official and deep poverty rates for the two regions. In 2005, poverty rates in Gaza were about twice that in the West Bank. Data for 2006 suggest that Gaza households have born the brunt of the crisis as poverty rates there grew much faster than in the West Bank, resulting in even greater disparities. This was especially true in the case of household deep poverty, the rate for which in Gaza grew 24.6% in relative terms while that rate for the West Bank declined slightly. The rate of deep household poverty in Gaza rose from about twice the West Bank rate in 2005 to nearly three times the rate in 2006.

More severe socio-economic conditions in Gaza in 2006 are also indicated by the decline in absolute employment levels there, compared to some 40,000 net new positions in the West Bank (see labour market section of this report). This is compounded by the fact that public sector employment in Gaza accounted for about 40 percent of all employment as compared to about 17 percent in the West Bank. Thus the non-payment of public employee salaries had a greater impact on Gaza household incomes and consumption.

[72] PCBS *Poverty in the Palestinian Territory, 2005; Main Findings Report* June 2006; *Poverty in the Palestinian Territory, 2006; Main Findings Report* August 2007. Data on refugees and refugee households, due to their underrepresentation in the PECS 2006 survery should be treated with caution.

Table 28

Estimates of Post-Assistance Household Consumption Poverty in the West Bank and Gaza Strip, Annual, 2005-2006[73]

Parallel Periods, Annual	2005	2006	Relative Changes
West Bank			
Official Household Poverty Rates	22.27%	24.00%	7.77%
Deep Household Poverty Rates	13.06%	13.00%	-0.45%
Gaza Strip			
Official Household Poverty Rates	43.71%	50.70%	15.98%
Deep Household Poverty Rates	27.92%	34.80%	24.66%

Evidence presented in Table 22 suggests that external assistance was able to stem the growth of refugee poverty to a large extent in 2006. On the other hand, poverty among non-refugees grew rapidly. This implies that non-refugees, both in the West Bank and Gaza, who account for about 58 percent of the oPt population, sustained the biggest proportional losses in income and consumption. **Both the incidence and severity of poverty among non-refugee households moved closer to that of refugee households in 2006.** However, while household consumption levels of refugees and non-refugees in each of the regions, on average, are quite similar, household consumption in the West Bank, on average, remains considerably higher than that in Gaza.

J. Main Trends in Poverty in the oPt, 2006

Despite the smaller than anticipated PECS sample, data on poverty in 2006 reveals several important general trends. First, the total number of poor individuals and households continued to grow more rapidly than the population at large. This troubling trend emerged in 2001 and continued through 2006. Thus, while the total population is esimated to have increased by some 34.2 percent as between 1998 (the last PECS survey before the second *Intifada*) and 2006, on a post-assistance basis, the total number of official poor is estimated to have grown by 108.3 percent and the deep poor by 105.4 percent in the same interval. Household formation is estimated to have increased 47.6 percent since 1998, while the number of poor households is estimated to have grown about 124 percent and deep poor households by about 118 percent.

Second, while the total amount of humanitarian assistance provided by official donors, according to PA Ministry of Planning estimates, declined by more than 15 percent (from USD 491 million in 2005 to USD 413 million in 2006), the PECS data indicates that, in absolute terms, more poor Palestinians received assistance in 2006 than in 2005. This suggests that official assistance was more thinly distributed and/or that other components of external assistance, formal and informal, domestic and foreign, may have increased and played an important role in relieving poverty in the oPt in 2006. Likewise, official assistance distributed by UNRWA to refugees (included in the MOP estimates) increased in 2006, resulting in declines in deep refugee poverty and in significantly limiting growth in official refugee poverty.

[73] PCBS *Poverty in the Palestinian Territory, 2005; Main Findings Report* June 2006; *Poverty in the Palestinian Territory, 2006; Main Findings Report* August 2007.

Third, external assistance to the oPt was, in general, no more effective in 2006 than in 2005 with regard to its proportional impact on poverty reduction, whether at the official or deep levels. While humanitarian assistance was significant,[74] it was unable to stem the absolute growth in the numbers of poor—whether official or deep—the product of robust population growth combined with deep socio-economic crisis. More poor persons and households seem to have received assistance but assistance did not keep pace with the growth in the ranks of the poor.

Fourth, in general, assistance to the poor was fairly well targeted to the most needy in 2005 and 2006. Rates of deep poverty reduction were 9-10 percentage points higher than those for official poverty reduction in both years. Poverty reduction rates of refugees, in general, were considerably better than that for non-refugees in both years with the differentials rising in favor of refugees in 2006. This is strongly suggestive of the effects of UNRWA operations on its refugee constituency, as well as increased distributions in 2006. Moreover, the targeting of assistance to deep poor refugees was as at least as efficient as that to non-refugees.

Fifth, despite the underrepresentation of refugees in the PECS 2006 survey, there is convincing evidence that non-refugee poverty rates grew more rapidly than that of refugees in the oPt in 2006. The result was a trend toward convergence of non-refugee poverty rates with those of refugees. While refugee poverty rates at the individual and household levels remained well above those of non-refugees on both pre-assistance and post-assistance bases, the trend in 2006 suggests a relative stabilization of refugee poverty rates combined with growing non-refugee poverty rates.

Finally, the causes of the unprecedented growth of poverty in the oPt are essentially the same as those responsible for the decline in average incomes reported above. Both are caused directly by the stifling system of mobility restrictions imposed on the oPt. More than any other factor, the large decline in Palestinian labour flows to jobs in Israel since 2000 has been most devastating for average household incomes. To seriously address the poverty crisis in the oPt, unimpeded access by Palestinians to all parts of the oPt, and to the outside world, is the fundamental requirement. This would allow the Palestinian private sector to recover, extend and develop external export and import markets and generate sufficient employment to absorb a young and growing population. Humanitarian assistance, while important in addressing pressing needs, cannot substitute for an economy with the capacity to produce an acceptable level of living for the population.

[74] Using the PA Ministry Planning estimate of USD 419 million in official donor humanitarian assistance results in per capita aid of more than USD 100 for the oPt. This excludes other components of external assistance, e.g. aid from relatives, zakat committees, charitable societies, etc.

V. Looking Ahead

As noted above, after a three-year period of partial recovery the Palestinian economy experienced retrenchment in 2006. This entailed declining domestic production and income and a growing number of unemployed and poor. Developments in first-half 2007 indicate a lacklustre performance.

Preliminary data on domestic output suggests continued stagnancy in first-half 2007 with estimated GDP essentially unchanged relative to second-half 2006. Significantly, the end of the public employee strike in first-quarter 2007 led to a strong increase in public sector GDP in first-half 2007 relative to second-half 2006, as evinced by a 31 percent increase in the combined contributions of health, education and public administration activities. This was offset by an estimated 1.9 percent decline in private sector activities with declines of 14 percent in agriculture, 12 percent in manufacturing and a 30 percent decline in real estate and business services, all relative to second-half 2006.[75]

The overall population growth estimate for the oPt in 2007 is about 3.3 percent. Broad labour force growth in first-half 2007 is estimated at 1 percent relative to second-half 2006. Employment in first-half 2007 is estimated to have risen by some 4.7 percent while the number of unemployed, broadly defined, fell an estimated 7.7 percent relative to second-half 2006. Employment growth in the public sector remained constrained by large budget deficits, while Palestinian employment in Israel fell by about 4.3 percent in the first half of 2007.

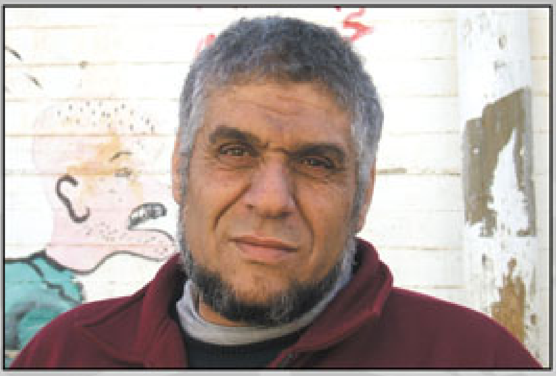
Thus preliminary evidence suggests that the end of the public sector strike and increased donor activity boosted employment somewhat. However, the bulk of net job growth in first-half 2007 was in Gaza. Presumably, this reflects the impact of donor-financed infrastructure projects and job creation programmes. The rapid growth of unpaid family members among the employed in Gaza is suggestive of growth in the informal economy. In the West Bank there were large seasonal declines in agricultural employment in the first quarter followed by large increases in the second quarter, but overall employment growth there was small in first-half 2007.[76]

The above suggests that the Palestinian private sector remained stagnant while the public sector was unable to augment employment as it has in the past. It is therefore likely, in the absence of expanded external assistance to households, that the ranks of the poor in the oPt will again rise this year.

The events in Gaza at mid-year, the deepening isolation imposed on that region by the GOI, as well as the expanded donor assistance to the West Bank, suggest that Gaza, as in the past, will bear the brunt of this unnecessary and avoidable socio-economic crisis. Data for the third quarter of the year will begin to reveal the differential impacts of the asymmetric policies being pursued by the GOI and donor states vis-à-vis the oPt in 2007.

[75] Preliminary data for the first and second quarters of 2007 in comparison with revised estimates for 2006. See PCBS website.

[76] Data and information on the labour forcea and employment are from PCBS *Press Conference on the Labour Force Survey Results*, QI and QII 2007.



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