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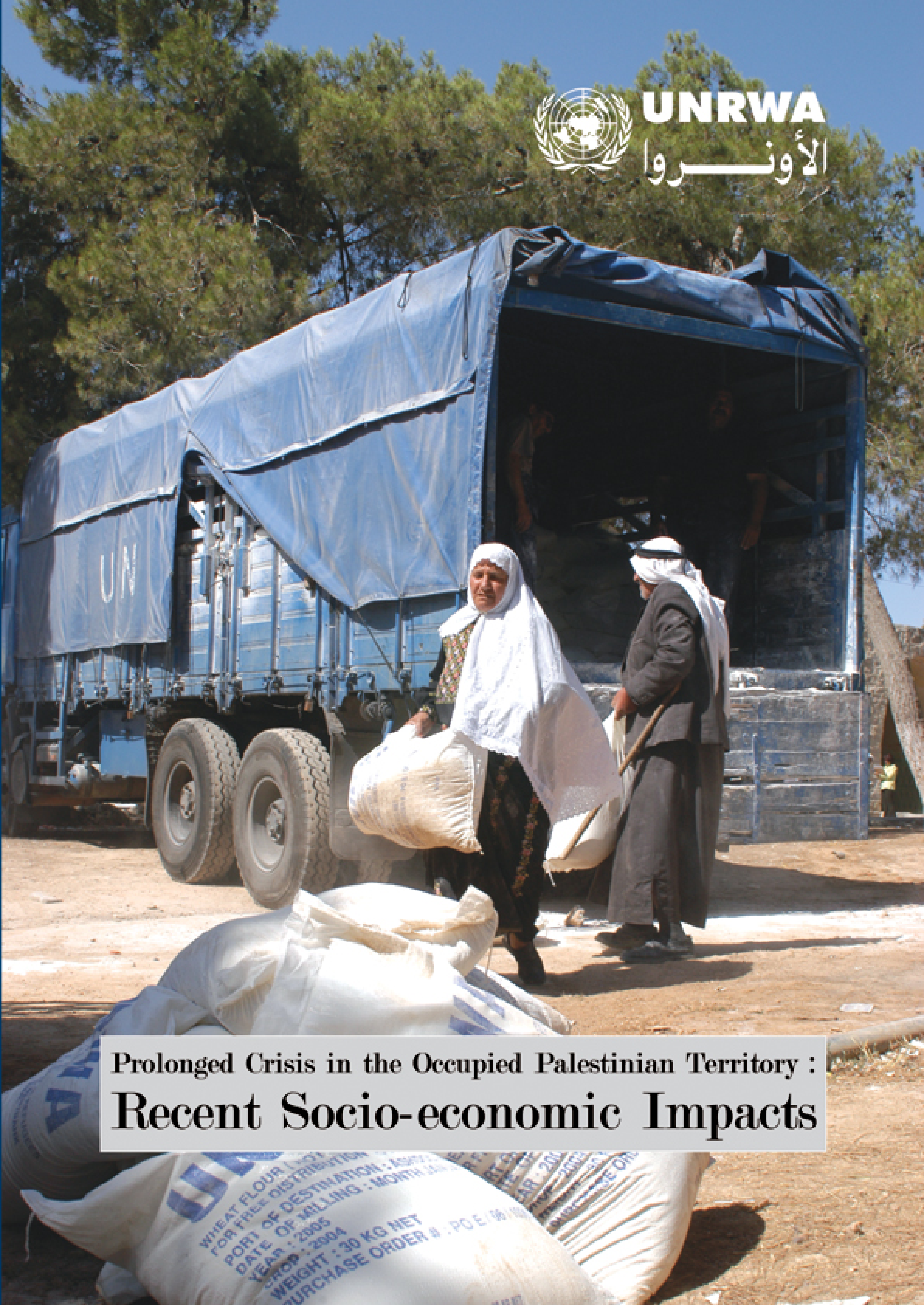

Prolonged Crisis in the Occupied Palestinian Territory :

Recent Socio-economic Impacts

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

Prolonged Crisis in the Occupied Palestinian Territory: Recent Socio-Economic Impacts on Refugees and Non-Refugees

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Foreword

UNRWA's vision is for every Palestine refugee to enjoy the highest possible standards of human development. The Agency faces formidable challenges as it pursues this vision through its programmes of humanitarian and development services to Palestine refugees in its areas of operation.

Palestine refugees constitute almost half the population of the West Bank and Gaza. While the Agency's extensive field presence allows it to be closely in touch with refugee needs, rapid changes in the operational environment often make it difficult for the Agency to plan and communicate with its stakeholders on the basis of empirical information. The present study was undertaken to provide a more precise understanding of the living conditions and needs of Palestine refugees in the occupied Palestinian territory (oPt) for planning purposes, to develop a consistent set of longitudinal indicators that will allow for the effective monitoring of socio-economic conditions, and to measure the socio-economic consequences of the *de facto* sanctions regime in place since the election of the Hamas-led Palestinian Authority.

This study brings together for the first time comparative data sets in three main areas that affect living conditions in the oPt: demography, labour force and household poverty. The study clearly delineates the differential impact of the deterioration in living conditions on refugees and demonstrates that refugees have been more adversely affected by the current crisis than other Palestinians: they are less likely to find work, more dependent on public sector employment and more likely to live in deep poverty than non-refugees.

UNRWA is very concerned about the extreme deterioration in living and socio-economic conditions in the West Bank and Gaza since the beginning of 2006. It is especially frightening to see the impact of prolonged crises on every aspect of the Palestinian body politic: the deterioration of law and order; the unravelling of community cohesion; the rise in crime and internal violence; and the increasing radicalisation of youth in an environment of economic and political hopelessness.

This study offers a detailed macroeconomic backdrop that will help the international community and our colleagues in the humanitarian, development and academic community more fully understand how the current crisis is affecting the lives of Palestinian refugees in the occupied Palestinian territory.

Karen Koning AbuZayd
Commissioner-General of UNRWA

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Executive Summary

Context

The period since late-2000 has been characterized by unprecedented macroeconomic compression, declining incomes and high rates of unemployment and poverty in the Occupied Palestinian Territory (oPt). By 2005, after five years of crisis, the real value of output produced (GDP) was estimated to be about 9 per cent below its 1999 level; per capita income was about 33 per cent below its 1999 level; unemployment averaged 24 per cent of the labour force—twice its pre-crisis rate—and deep poverty affected 22 per cent of Palestinian households—about twice its 1999 rate. By social scientific and historic measures, such conditions constitute prolonged socio-economic crisis.

Peculiarities of the Present Phase of Crisis

The economic, social and humanitarian conditions in the oPt have deteriorated at a more rapid pace since the Israeli withdrawal from Gaza and the northern West Bank in August 2005. The present phase of the crisis is distinguished by the Government of Israel's (GOI) impounding of PA customs and VAT revenues and the boycott of the PA by major donor countries. The political isolation of the PA is not a new phenomenon as the GOI has had limited contacts since 2001 while the Quartet shunned contacts with the PA presidency during 2002—2004. Likewise, in violation of signed agreements, the GOI has previously impounded PA customs and VAT revenues during 2000-2001 and again in 2002 but this was offset by significant amounts of budget support mainly from Arab Gulf states and the European Union.

The present crisis is characterized by three unique phenomena:

- a fiscal crisis resulting from the lack of offsetting budgetary assistance to bridge the gap caused by the GOI impounding of PA customs and VAT revenues:
- the non-payment of regular salaries to some 165,000 employees as well as arrears to private sector vendors and lenders due to fiscal crisis; and
- the almost total absence of external assistance to the PA, reversing the standing of the oPt as one of the highest per capita recipients of aid in the world.

Thus, the present situation is characterized fundamentally by a public sector starved of revenues, putting at risk the gains made in Palestinian public institution-building and state formation since 1994.

Objectives of the Report

The aim of this report is to assess the socio-economic and humanitarian effects of the GOI and donor country boycott of the PA in three dimensions. First, the effects of on the Gross Domestic Product (GDP), a measure of economic activity and, in particular, the relative effects on private and public sector output. Second, the report will consider labour market developments—e.g. employment and unemployment—in the private and public sectors. Third, the effects of the fiscal crisis on household living levels and poverty will be assessed. In all cases, special attention will be focused on the differential socio-economic impacts on refugees.

While the time frame of the report is first-half 2006 (a period for which socio-economic data has recently been released), this period will be analysed in the context of persistent socio-economic retrenchment in the oPt since the end of 2000. To this end, UNRWA has acquired specific sets of time series data by special request from the Palestinian Central Bureau of Statistics (PCBS). This report relies mainly on these data bases.

Main Findings

1. Economic Growth

The oPt real gross domestic product (GDP), a measure of general output and productivity, declined by about 9 percent in the first half of 2006 (implying a per capita GDP decline of more than 10 percent). This six-monthly downturn is of the same order of magnitude as the decline in GDP between 2000 and 2005. This is especially worrisome as early third quarter indicators indicate that the downward trend is deepening.

The sharp decline was largely driven by the GOI impounding of PA VAT and customs revenues. However, on the face of it, the data suggests that the pace of economic activity at the macroeconomic level had not appreciably changed by mid-2006, some three months after the imposition of the boycott of the PA. By discounting such revenues from the analysis, there was underlying cumulative GDP growth of 1.6 percent in first-half 2006, where the private sector's share of GDP (about 75 percent) declined by 0.16 percent while that of the public sector (about 25 percent of GDP) grew 4.4 percent in real terms.

Thus, underlying growth in real economic activity in first-half 2006 was mainly attributable to expansion in public sector hiring and the effects of the wage hikes for public sector workers instituted in second-half 2005. In the national income accounts public employee wages are calculated on an accrual basis, i.e. under the assumption that wages have been paid to employees, and that public services of equivalent value have been produced. Thus, expanded public employment and higher wages translate into higher estimates of public sector GDP—even though some 165,000 public sector employees went unpaid for much of this period. As the bulk of PA employees remained on the job throughout first-half 2006—despite the non-payment of wages—the GDP accounts largely capture the value of the services they provided.

But the national income accounts overestimate the public sector contribution to GDP growth because some on the PA payroll do not in fact produce services or produce services with a value below what they are paid. Thus the apparent growth in the public sector's contribution to GDP in first-half 2006 must be discounted. Moreover, public sector employment as a motor force for economic growth must be assessed in light of the fiscally unsustainable nature of public sector expansion.

Of greater consequence is the underlying weakness of the private sector indicated by the most recent GDP data. This trend is particularly problematic as the private sector is the source for most sustainable job and income generation in the oPt. Of critical concern is the steep drop in manufacturing GDP over the past year, a trend that bodes ill for future private sector employment creation and overall economic growth in a country with a young and rapidly growing labour force. The importance of strengthening the domestic private sector is underscored by declining job opportunities in Israel and the fiscally unsustainable character of public sector employment.

2. The Labour Market

Employment in the oPt grew more rapidly than the labour force in first-half 2006—there were 30,000 more people employed in QII-2006 relative to QIV-2005—a growth rate of 4.8 percent. This resulted in a slight decline in the broad unemployment rate from 29.4 percent in QIV-2005 to about 28.6 percent in QII-2006. Seasonal agriculture and the public sector accounted for the bulk of employment gains in first-half 2006 while manufacturing and construction shed jobs. On an accrual basis, average monthly wages grew about 2 percent in real terms for all workers in first-half 2006, largely driven by employment growth in the relatively high-wage (but unpaid) public sector and the decline in employment in relatively low-wage manufacturing.

In real terms, the fiscal crisis of PA resulted in severe income losses for about one-fourth of the work force and their dependents—about 25 percent of the oPt population. The estimated shortfall in income to public employee households in first-half 2006 is about USD 330 million. In addition, reduced PA expenditures on social welfare and purchases from private sector vendors resulted in a further USD 180 million decline in household incomes. Thus, excluding the knock-on or multiplier effects, the crisis has directly reduced the public sector's contribution to household income and business sales by more than USD 500 million in first-half 2006, equal to more than one-tenth of GDP for the period. The loss of income has more severely impacted the Gaza Strip where almost 41 percent of employment was in the public sector, compared to 18.5 percent in the West Bank, with measurable effects on the number of persons living in poverty.

3. Household Living Levels, Poverty and Humanitarian Assistance

Estimates of poverty in the oPt are based on levels of household and per capita **consumption** as ascertained by PCBS household surveys. **Deep consumption poverty** is defined as inability to meet basic human consumption needs. Since 2000, about two-thirds of all poor persons in the oPt had consumption levels below the **deep consumption poverty line**. In 2005, the last full year of the household surveys, there were an average of 820,000 deep poor Palestinians in the oPt.

In that same year, PCBS estimated that average monthly consumption of deep poor individuals (including consumption supported by external assistance) was about USD 50, about USD 1.66 per day. The individual monthly deep poverty line—a level of consumption reflective of basic needs—was estimated for 2005 at USD 64, about USD 2.10 per day. Therefore, the monthly **per capita deep poverty gap** in 2005 was estimated at about USD 14, about USD 0.50 per person per day. With an average of 820,000 deep poor individuals, the estimated monthly **total deep poverty gap** is estimated at approximately USD 11.9 million—the monthly amount of *additional resources* that, if perfectly targeted, would have raised the consumption levels of deep poor Palestinians to basic needs sufficiency. On an annual basis, the required additional resources would have been USD 142.8 million.

The PA fiscal crisis resulted in an estimated decline of more than USD 500 million in oPt household income in first-half 2006. As a result, real per capita consumption levels (including external assistance) declined by about 12 percent, with food consumption down by 8 percent and non-food consumption down 13 percent relative to second-half 2005. **This increased the number of deep poor from an average of 650,800 in second-half 2005 to an average of 1,069,200 in first-half 2006—a 64.3 percent increase.** The individual deep poverty rate climbed from 17.3 to 27.5 percent as between these two periods.

Disaggregated household consumption data by region is not yet available but PCBS has produced **deep income poverty** estimates for first-half 2006 which indicate that an average of 40.2 percent of oPt households were under the **deep income poverty line** in 2005, rising to 55.6 percent in QII-2006—a 38.3 percent relative growth rate. At the same time, deep income poverty in Gaza increased from 51.6 percent to 79.8 percent—54.6 percent in relative terms. The disproportionate concentrations of refugees and PA employees in Gaza—two groups especially vulnerable to the PA fiscal crisis and donor boycott—explains the much more rapid rise in **deep income poverty** estimates there.

In a large PCBS field survey in March-May 2006, 29.4 percent of households—181,450 in all—reported one or more members in receipt of humanitarian assistance with a far larger portion of Gaza households (56.9 percent) and a far lower proportion (15.3 percent) in the

West Bank. Of recipient households, 45.6 percent reported UNRWA as the main source of humanitarian assistance, far above all other sources. In Gaza, 61.7 percent of recipient households cited UNRWA as the main source compared to 17.1 percent of West Bank recipient households (reflective of the proportional representation of refugees in the two territories and the disproportional representation of refugees among the poor). As sources of assistance, UNRWA was followed by the PA Ministry of Social Affairs, relatives and international organizations, in that order, but these sources were generally more important for West Bank households.

PCBS has estimated the effects of humanitarian assistance in reducing consumption poverty in 2004 and 2005. In 2004, humanitarian assistance reduced the total **deep consumption poor count** by 13.5 percent while in 2005 such assistance was responsible for reducing the number of deep poor by 20.6 percent. Despite increased levels of assistance in 2005, the total number of deep consumption poor persons in the oPt increased by an estimated 82,000.

4. Socio-Economic Impacts on Refugees

The impact of the current phase of the economic crisis has hit refugees in the oPt harder than the population at large with respect to employment and poverty. Refugees are less likely to find work than non-refugees, they are more dependent on public sector employment than non-refugees, they are more likely to be unemployed than non-refugees and they account for a higher ratio of those living in deep poverty.

a. Labour Market

Refugees experienced job growth of 2.7 percent in first-half 2006, compared to non-refugee employment growth of 6.2 percent. The broad refugee unemployment rate in QII-2006 stood at 32.7 percent relative to 28.5 percent for non-refugees. Of 265,000 unemployed persons in QII-2006, refugees accounted for 118,250 or 44.6 percent.

In the past year, the public sector accounted for two-thirds of net refugee employment growth while commerce accounted for the remainder. Non-refugee employment growth was also dominated by the public sector and commerce and both groups experienced net losses in construction and manufacturing employment as these sectors shrank. In first-half 2006, refugee job gains were confined to seasonal agriculture with modest growth in manufacturing and transport and losses in construction and private services. Non-refugee employment gains were more robust and more diffuse with growth in public and private sector services and construction. Different outcomes in the labour market for refugees are conditioned by the changes in the Gaza economy where refugees are concentrated and account for the vast bulk of the employed labour force.

In first-half 2006, average monthly wages grew about 2 percent in real terms for all workers while for refugees they grew by 2.7 percent. For refugees and non-refugees alike the growth in real monthly wages was driven by growth in relatively high-wage public sector employment (on an accrual basis only) and reductions in relatively low-wage employment in manufacturing.

The shortfall in income to public employee households in first-half 2006 caused by the PA fiscal crisis was felt disproportionately by refugees. While 20 percent of employed non-refugees worked for the PA, 31.7 percent of refugees were so employed**. Thus refugees were 50 percent more vulnerable to the effects of the non-payment of PA salaries relative to non-refugees.**

b. Household Living Levels, Poverty and Humanitarian Assistance

When the larger size of refugee households are considered, per capita refugee consumption levels during the *Intifada* years were about 7.5 percent below that of non-refugees with even larger refugee consumption deficits in protein-rich foods and in health and education services. This discrepancy resulted in disproportionately high **consumption poverty** among refugees. While refugees were about 42 percent of the oPt population during the *Intifada* years, they accounted for about 50 percent of the deep poor.

Humanitarian assistance and relative improvements in economic conditions were responsible for reducing the numbers of deep poor refugees from about 424,750 in 2001 to about 326,350 in 2004. However, in 2005, despite continued improvements in general economic conditions in the oPt and sustained humanitarian assistance, the number of deep poor refugees rose to an estimated 406,000.

The post-assistance monthly **deep consumption poverty gap** for refugees in 2005 was estimated at USD 15 per person—about USD 1 more than for non-refugees. Thus the monthly *additional resources* required to eliminate deep poverty among refugees was estimated at USD 6.09 million or about USD 73.1 million in perfectly targeted assistance on an annual basis.

While disaggregated household consumption data for refugees for first-half 2006 is not yet available, indirect evidence suggests greater refugee hardship. First, the disproportionately high number of refugees employed by the public sector suggests the PA fiscal crisis has had a greater negative impact on this population segment. Second, evidence from Gaza—where refugees are concentrated and where estimated **deep income poverty** increased by 54.6 percent in relative terms—suggests disproportionate poverty impacts on refugees. Third, the much higher ratio of households reporting receipt of humanitarian assistance in Gaza in the PCBS field survey of March-May 2006 (56.9 percent versus 15.3 percent in the West Bank) provides further indirect evidence of differential impacts on refugees. Finally, of Gaza households reporting receipt of humanitarian assistance in first-half 2006, 61.7 percent cited UNRWA as the source (compared to 17.1 percent of recipient households in the West Bank). This suggests disproportional representation of refugees among the poor.

Humanitarian assistance was more effective in reducing **deep consumption poverty** among refugees in the oPt, relative to non-refugees, in both 2004 and 2005. In 2004, humanitarian assistance reduced the total deep poor count of non-refugees by 10.6 percent versus 16.8 percent among refugees. In 2005, assistance reduced the number of deep poor non-refugees by 16.8 percent versus 24.1 percent for refugees. On the face of it, humanitarian assistance was 50 percent more effective in alleviating deep consumption poverty among refugees as compared to non-refugees. **However, despite increased levels of assistance in 2005, the total number of deep poor persons in the oPt increased by an estimated 82,000 persons, nearly all of them refugees, suggesting worsened conditions in Gaza where refugees are concentrated.**

Research suggests that assistance to refugees is better targeted and, therefore, less likely to "leak" 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. While less than half of refugees in the oPt reside in refugee camps, **better poverty reduction results for refugees in general is directly attributable to the relatively well-developed physical and institutional capacity of UNRWA vis-à-vis its refugee constituency, as well as the resources provided to UNRWA by donors.**

I. Introduction

Any assessment of existing economic, social and humanitarian conditions in the Occupied Palestinian Territory (oPt) requires reference to recent history. In particular, the extent and intensity of the crisis facing Palestinians in 2006 must be evaluated in the context of more than five years of unprecedented macroeconomic turmoil and socio-economic adversity. In the lived reality of the oPt, the latter are enmeshed with political and security developments since late-2000; for analytical purposes, however, it is possible to detach these considerations from the humanitarian reality on the ground.

Humanitarian crises strike close to home: they are manifested in high rates of unemployment, in reduced income and expenditures, in increased poverty and in attempts to cope with reduced resources at the household level. Such social impacts are usually accompanied by macroeconomic dislocations, most importantly reduced output and employment in the private sector.

In general, the period since late-2000 has been characterized by unprecedented macroeconomic compression, declining incomes and high rates of unemployment and poverty in the oPt.[1] By 2005, after five years of crisis, the real value of output produced (GDP) was estimated to be about 9 per cent below its 1999 level; per capita income was about 33 per cent below its 1999 level; unemployment averaged 24 per cent of the labour force—twice its pre-crisis rate—and deep poverty affected 22 per cent of Palestinian households—about twice its 1999 rate.[2] This general picture conceals pre-existing socio-economic disparities as between the West Bank and Gaza, as well as intensified bouts of crisis in each territory (e.g. 2002 in the West Bank and 2004 and 2006 in Gaza) during which conditions worsened significantly. By social scientific and historic measures, such conditions constitute prolonged socio-economic crisis.

II. Peculiarities of the Present Phase of Crisis

This study seeks to measure the relative scope and intensity of the humanitarian crisis in the oPt produced by the impounding of PA customs and VAT revenues by the Government of Israel (GOI) and the withholding of official assistance by donor countries.[3] These external constraints were imposed after the successful Palestinian Legislative Council campaign of Hamas, culminating in that party's election victory on 26 January 2006 and the installation of the newly-elected government on 29 March 2006.

The political isolation of the PA is not a new phenomenon as the GOI has had limited contacts since 2001 while the Quartet (UN, US, EU and Russia) shunned contacts with the PA presidency during 2002—2004. Likewise, in violation of signed agreements, the GOI has previously impounded PA customs and VAT revenues during 2000-2001 and again in 2002 but this was offset by significant amounts of budget support mainly from Arab Gulf states and

[1] Numerous organizations have documented and reported on the Palestinian socio-economic crisis. At the level of multilateral orgnanizations, see World Bank *Four Years–Intifada, Closures and Palestinian Economic Crisis: An Assessment* (October 2004) and the Bank's quarterly series *West Bank and Gaza Update*; UNSCO *The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closures* series (2000-2002); UNCTAD *The Palestinian War-Torn Economy: Aid, Development and State Formation* (2006).

[2] See PCBS national income account, labour force and household consumption and expenditures series for the 1999-2005 period.

[3] In the interest of non-duplication of effort, this study will not address the effects of tighter movement restrictions imposed by the GOI. See UNOCHA *Humanitarian Monitor*, 2006.

the European Union.[4] Nor are movement restrictions new—they have been a constant feature of life in the oPt since 1989 with pronounced effect during 2001-2003.[5]

The present crisis is characterized by three unique phenomena:

a. the GOI impounding of PA customs and VAT revenues without offsetting budgetary assistance;

b. a resulting severe fiscal crisis and the inability of the PA government to pay regular salaries to some 165,000 employees, to pay arrears to private sector vendors and to repay loans from private banks (as well as cover municipal authorities' unpaid utility bills);

c. a near complete absence of official assistance to or through the PA whether for budgetary support, development assistance or humanitarian aid.

Thus the present situation is characterized mainly by a public sector starved of revenues, a fiscal crisis that emerged at the end of the first quarter of 2006 and continues as this study is being released.

III. Objectives of the Study

This study aims to gauge the effects of the GOI and donor country boycott of the PA in three dimensions. First, to estimate the effects of this external shock on the Gross Domestic Product (GDP), a measure of output and productivity in the oPt. In particular, the study will attempt to estimate the crisis' effects on private sector and public sector output. Second, the study will examine developments in the labour market, e.g. employment, unemployment and wage incomes in the private and public sectors. Third, the study estimates the effects of reduced public revenues and expenditures on household living levels and poverty. In all cases, special attention will be focused on the differential impacts of the present crisis on refugees so as to contribute to a consistent socio-economic profile of refugees in the oPt.[6]

While the time frame of this study is first-half 2006 (a period for which socio-economic data has recently been released), this post-election period will be treated in the context of persistent socio-economic retrenchment in the oPt since the end of 2000. Thus, data, information and analysis will be longitudinal in character. To this end, UNRWA has acquired, through a special request to the Palestinian Central Bureau of Statistics, various sets of time series data on national income accounts, population, labour force and household living levels for the oPt population in general as well as for refugees.

[4] See World Bank *Two Years of Intifada, Closures and Palestinian Economic Crisis: An Assessment*, 5 March 2003 (summary of the main report).

[5] The extent and effects of GOI-imposed movement restrictions have been regularly documented over the past decade by UNSCO, the World Bank, OCHA and UNRWA.

[6] Throughout this report, refugees are defined as those persons who identify themselves as such in PCBS field surveys and are not neccesarily registered with UNRWA. A by-product of this study will be a suggested macroeconomic and socio-economic framework for on-going assessment of refugee conditions in the oPt.

IV. Gross Domestic Product

A. Gross Domestic Product: Private and Public Sectors

One of the most important indicators of well-being and socio-economic conditions is Gross Domestic Product (GDP) which measures the market value of goods and services produced in the country in a given period using its natural, human and capital resources. Production of goods and services constitutes the foundation of employment and income generation and, therefore, the basis for the living level of the population.

More precisely, GDP is calculated as the market value of the total output of goods and services produced (private and public) **minus** the market value of resources used up in producing the goods and services. Thus GDP measures **value-added**, an estimate of the magnitude and efficiency of production in the country.

Table 1
GDP by Economic Activity and Activity Share of GDP
for the oPt, Annual 2005[7]
(in USD millions at 1997 market prices)

	Economic Activity	Value-Added	Share
A	Agriculture and Fishing	312.6	7.01%
B	Mining, Manufacturing, Electricity and Water	564.8	12.67%
1	*of which: mining and quarrying*	*18.3*	*0.41%*
2	*of which: manufacturing*	*476.5*	*10.69%*
3	*of which: electricity and water supply*	*70.0*	*1.57%*
C	Construction	119.4	2.68%
D	Wholesale and Retail Trade	373.9	8.39%
E	Transport, Storage and Communications	461.5	10.36%
F	Financial Intermediation	187.4	4.21%
G	Other Services	1,100.2	24.69%
1	*of which: real estate, renting and business services*	*446.8*	*10.03%*
2	*of which: community, social and personal services*	*43.2*	*0.97%*
3	*of which: hotels and restaurants*	*68.1*	*1.53%*
4	*of which: education*	*342.5*	*7.69%*
5	*of which: health and social work*	*199.6*	*4.48%*
H	Public Administration and Defense	796.1	17.86%
I	Households with Employed Persons	8.5	0.19%
	Minus: FISIM	-139.7	-3.13%
	Plus: Customs Duties	291.9	6.55%
	Plus: VAT on Imports (net)	379.8	8.52%
	Gross Domestic Product (GDP)	**4,456.4**	**100.00%**

National income accounting seeks to determine the value-added produced in each major economic activity as illustrated in Table 1. In 2005, the oPt economy is estimated to have produced USD 4.45 billion in value-added of which 7 percent was produced in agriculture, 10.7 percent in manufacturing activities, 2.7 percent in construction, 8.4 percent in wholesale and retail trade and so on.

[7] PCBS estimates (third revision) for the oPt excluding East Jerualem. For purposes of comparing real growth in value-added over time—rather than the illusion of growth imparted by rising prices—quarterly GDP data are evaluated at market prices prevailing in 1997, the base year. Thus, 2005 GDP is significantly greater when evaluated using market prices prevailing in 2005.

In the context of the oPt, **public sector** GDP is the market value of services (e.g. health, education, social, administrative and security) provided by its employees.[8] In Table 1, this consists of about 71 percent of education (activity G.4), about 47 percent of health and social work (activity G.5) and 100 percent of public administration and defense (activity H).[9] Applying these ratios suggests the public sector accounted for USD 1.1 billion or about 29 percent of GDP in 2005.[10] Value-added produced in the **private sector** is estimated at USD 2.6 billion or about 68 percent of the total, including activities A-F, G.1-G.3, 6 percent of G.4 (education), 21 percent of G.5 (health) and activity I.[11] **UNRWA** education and health activities are estimated to have generated about USD 120.5 million in GDP or about 3 percent of the total.[12]

i. Evolution of GDP

There are at least two ways to evaluate inter-temporal changes in GDP in first-half 2006. The first is to compare real quarterly GDP relative to the previous quarter, e.g. first quarter 2006 (QI 2006) relative to fourth quarter 2005 (QIV 2005) and second quarter 2006 (QII 2006) relative to QI 2006. This *sequential* periods approach uncovers short-term changes in economic activity, but has at least two short-comings. First, new quarterly data are "flash estimates" based on the most recent information available and is subject to revision when more and better data is obtained. Second, the sequential approach 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 quarter to quarter due to seasonal, rather than "exogenous" factors, such as movement restrictions and reduced incomes. The second method is to compare data in one quarter (or one half year) with its parallel quarter (or half year) in the previous year. This method resolves the seasonality problem for the most part, e.g. comparing QI 2006 with QI 2005 (or first-half 2006 with first-half 2005) but yields changes over a longer period of time.

[8]Given the complexity of estimating the market value of such services (especially security and defense services), national income accountants conventionally estimate public sector GDP on the basis of the value of salaries paid to public employees. The logic here is that the value-added of the services are roughly equal to the value of the costs (mainly salaries) incurred in producing them. In the context of a bloated public sector, where average productivity tends to be low, such an accounting method overestimates the contributions of public employees.

[9] The public sector share in education is derived from the proportion of basic education pupils enrolled in government schools (PCBS 2004/2005 education statistics, website). This overlooks public technical and post-secodary educational institutions, underestimating somewhat the public sector share of GDP. Public sector share in health services is based on PCBS *Health Services Survey*, 2005. 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 captured by "public administration and defense" activity.

[10] In estimating the public and private sector shares in 2005 GDP, the items "below the line," i.e. FISIM and customs duties and VAT revenues, were excluded. FISIM refers to "financial intermediation services indirectly measured"—an estimate of financial service industry profits—while customs and VAT on imports represent central government revenues from the importation of goods and services. These revenues are used by the PA mainly to pay public employee salaries.

[11] The private sector share includes the share of GDP produced by NGOs.

[12] This includes about 23 percent of education services and 21 percent of health care services. UNRWA's share of education GDP is understated since the calculation includes basic education only, while UNRWA also operates technical and training institutions in the oPt.

The anomalous nature of present conditions—in which the Palestinian government is deprived of the bulk of its revenues—poses another methodological problem. Conventional national income accounting combines customs revenues and VAT on imports revenues to value-added generated in productive activities to arrive at GDP estimates (see Table 1). By this convention, the impounding of PA revenues by the Government of Israel reduces Palestinian GDP by the value of the impounded revenues. This is true whatever the real effect on the production of public or private goods and services. In order to correct for this anomaly, Table 2 and Table 3 below provide GDP growth rates using the conventional method *and* for items "above the line," i.e. excluding FISIM, and PA customs and VAT revenues from imports.

ii. Comparing GDP for QIV-2005 and QI-2006

Using the sequential approach, data in Table 2 suggests overall economic retrenchment in QI-2006 relative to QIV-2005—a decline of about 7.2 percent in GDP. Drastic reductions in PA revenues explain this decline. If we exclude the effects of the PA's impounded VAT and customs revenues (i.e. the "below-the-line" conventional national income accounting items), the decline in GDP amounts to only 0.7 percent as between the two quarters.

Table 2
GDP by Economic Activity for the oPt,
QIV-2005, QI-2006 and QII 2006[13]
(in USD millions at 1997 market prices)

				Change	**Change**
	QIV	**QI**	**QII**	**QIV-2005-**	**QI-2006-**
Economic Activity	**2005**	**2006**	**2006**	**QI-2006**	**QII-2006**
Agriculture and Fishing	**77.0**	**67.3**	**84.4**	**-12.60%**	**25.41%**
Mining, Manufacturing, Electricity and Water	**134.1**	**120.5**	**118.3**	**-10.14%**	**-1.83%**
--mining and quarrying	4.8	4.0	4.6	-16.67%	15.00%
--manufacturing	112.7	101.6	99.1	-9.85%	-2.46%
--electricity and water supply	16.6	14.9	14.6	-10.24%	-2.01%
Construction	**28.7**	**27.5**	**27.2**	**-4.18%**	**-1.09%**
Wholesale and Retail Trade	**94.1**	**92.3**	**93.9**	**-1.91%**	**1.73%**
Transport, Storage and Communications	**115.1**	**123.9**	**116.6**	**7.65%**	**-5.89%**
Financial Intermediation	**51.1**	**48.1**	**47.3**	**-5.87%**	**-1.66%**
Other Services	**286.9**	**293.8**	**306.4**	**2.41%**	**4.29%**
--real estate, renting and business services	108.1	113.1	113.5	4.63%	0.35%
--community, social and personal services	10.6	10.8	10.7	1.89%	-0.93%
--hotels and restaurants	17.9	17.2	23.5	-3.91%	36.63%
--education	91.2	98.5	95.9	8.00%	-2.64%
--health and social work	59.1	54.2	62.8	-8.29%	15.87%
Public Administration and Defense	**231.2**	**237.9**	**240.1**	**2.90%**	**0.92%**
Households with Employed Persons	**2.0**	**2.1**	**2.1**	5.00%	0.00%
Minus: FISIM	-36.0	-35.0	-34.5	-2.78%	-1.43%
Plus: Customs Duties	84.8	55.1	41.6	-35.02%	-24.50%
Plus: VAT on Imports (net)	117.3	67.6	39.3	-42.37%	-41.86%
Gross Domestic Product	**1,186.3**	**1,101.1**	**1,082.7**	**-7.18%**	**-1.67%**
GDP "Above the Line"	**1,020.2**	**1,013.4**	**1,036.3**	**-0.67%**	**2.26%**

[13] PCBS estimates for the oPt excluding East Jerualem. Estimates for QIV-2005 have been revised twice, those for QI-2006 have been revised once and those for QII-2006 are "flash estimates," i.e. preliminary estimates.

With regard to the private sector, there were declines in value-added in every activity except transport and communications and real estate and business services in QI-2006 relative to the previous quarter. Seasonality was likely behind the declines in agriculture, construction and hotel and restaurant activity. The decline in financial intermediation value-added was probably the result of reduced banking activity due to the drastic reduction in PA-related transactions caused by the impounding of revenues and the donor country boycott in the last month of QI-2006. On the other hand, the public, UNRWA and NGO sectors' value-added—as a whole—continued to grow in QI-2006 relative to the previous quarter (i.e. community and social services, education, public administration and defence).[14] **On a net basis, there was private sector retrenchment and continued growth in the public and not-for-profit sectors in QI-2006 relative to QII-2005.**

iii. Comparing GDP for QI-2006 and QII-2006

Overall, QII-2006 witnessed another, albeit smaller, decline in GDP of about 1.7 percent. Excluding the effects of impounded PA revenues, however, there was an increase in real GDP of about 2.2 percent relative to the previous quarter. Unlike QI-2006, there was net growth in private sector activity in QII-2006, led by a seasonal increase in agricultural and hotel and restaurant activities, combined with small rebounds in mining and wholesale and retail trading activities. The GDP contribution of nearly every other private sector activity was negative in QII-2006. **On a net basis, the public and not-for-profit sectors contributed only very modestly to growth in real GDP, particularly in health and social work activities.**

But what seems clear is that the public sector—despite the loss of revenues and external support—continued to provide services to the population, most importantly education, health and administrative services. Government employees continued to work even though they were not paid for most of this period.

iv. Comparing GDP for First-Half 2006 and First-Half 2005

Comparing economic developments in first-half 2006 (combining GDP estimates for QI and QII-2006) with its parallel period in 2005 largely eliminates the problem of seasonality and provides a longer-term view of economic developments. Using this method, and as indicated in Table 3 below, overall GDP is estimated to have grown by about 3.5 percent in real terms as between these two periods. If we exclude FISIM and the loss of PA revenue items, the rate of growth is estimated at about 8.9 percent, a seemingly healthy rate of growth.

But such a conclusion would be misleading. Despite small to moderate gains in several activities (e.g. wholesale and retail trade, transport, financial intermediation, real estate) and a healthy rebound in hotel and restaurant activity, **on a net basis private sector value-added contracted in first-half 2006 by about USD 4.5 million relative to first-half 2005. This was mainly due to a steep decline in manufacturing value-added (about USD 41.7 million), an activity with strategic long-term significance for the oPt economy.**[15] The

[14] The decline in health value-added is explained by the fact that public sector health workers in QIV-2005 received a one-off retroactive lump-sum payment which boosted their total wage bill for the quarter. Resumption of normal salary levels in QI-2006 results in the decline. Public sector education employees received a similar lump-sum payment in QII-2005. Information provided by PCBS, August 2006.

[15] With a net loss of more than 100,000 jobs in Israel since 2000, manufacturing has been touted as an activity with the potential to absorb many of the disemployed—especially if combined with increased exports to Israel and external markets. 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.

decline in manufacturing reflects particularly bad conditions for manufacturers in Gaza since the "disengagement" last year and in the Nablus area. Both areas are important centres of manufacturing activity where Israeli military activity and movement restrictions were pronounced in first-half 2006.

Table 3
GDP by Economic Activity for the oPt,
First-Half 2005 and First-Half 2006[16]
(in USD millions at 1997 market prices)

	QI/QII	**QI/QII**	
Economic Activity	**2005**	**2006**	**Change**
Agriculture and Fishing	**151.2**	**151.7**	**0.33%**
Mining, Manufacturing, Electricity and Water	**286.8**	**238.8**	**-16.74%**
--mining and quarrying	8.8	8.6	-2.27%
--manufacturing	242.4	200.7	-17.20%
--electricity and water supply	35.6	29.5	-17.13%
Construction	**57.8**	**54.7**	**-5.36%**
Wholesale and Retail Trade	**177.6**	**186.2**	**4.84%**
Transport, Storage and Communications	**232.5**	**240.5**	**3.44%**
Financial Intermediation	**87.2**	**95.4**	**9.40%**
Other Services	**528.9**	**600.2**	**13.48%**
--real estate, renting and business services	218.9	226.6	3.52%
--community, social and personal services	21.6	21.5	-0.46%
--hotels and restaurants	33.7	40.7	20.77%
--education	160.9	194.4	20.82%
--health and social work	93.8	117.0	24.73%
Public Administration and Defense	**356.2**	**478.0**	**34.19%**
Households with Employed Persons	**4.3**	**4.2**	**-2.33%**
Minus: FISIM	-67.8	-69.5	2.51%
Plus: Customs Duties	130.9	96.7	-26.13%
Plus: VAT on Imports (net)	164.5	106.9	-35.02%
Gross Domestic Product	**2,110.1**	**2,183.8**	**3.49%**
GDP "Above the Line"	**1,882.5**	**2,049.7**	**8.88%**

The stagnancy in the private sector was overwhelmed by rapid growth in value-added generated by the public and not-for-profit sectors (about USD 171.8 million). This growth stems from expanded PA hiring. Such growth should be treated cautiously, as indicated above, because conventional national income accounting uses salaries and wages of public employees as a proxy for the value-added of government services. By definition, higher salaries result in greater value-added estimates for such services and PA employees received average salary increases of more than 15 percent in second-half 2005. This is reflected in the higher value-added in the public sector in first-half 2006, but not in first-half 2005. Thus the effective growth in GDP attributed to public service growth is overstated.[17] As noted by the IMF, World Bank and others, PA hiring practices and the salary increases

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[16] PCBS estimates for the oPt excluding East Jerualem. Estimates for 2005 have been revised twice, those for QI-2006 have been revised once and those for QII-2006 are "flash estimates."

[17] PCBS has measured public employee salaries on an "accrual basis," i.e. as though these salaries were received. This is quite reasonable given the fact that public sector employees in first-half 2006 continued to work and provide services although they received less than half their salaries.

instituted in the second half of 2005, have created an unsustainable fiscal situation.[18] By implication, the growth and employment generated by a larger public sector is similarly unsustainable. This underscores the severity of crisis in the *private sector* which remains the main source of employment and income generation in the oPt.

B. Credit and the Private Sector

Another important determinant of general macroeconomic conditions—and those of the private sector in particular—is the amount of credit made available to businesses and households that, in turn, facilitates investment and consumption spending. Bank credit has also served to cover various portions of the fiscal deficits generated by the PA over the years. Credit has thus contributed to economic growth and, to some extent, softened the impact of socio-economic crises.

The emergence of a banking system after 1994 served as the catalyst for rapid *intermediation* in the oPt, i.e. the increasing use of formal channels (i.e. banks) for saving and borrowing. Even the socio-economic crisis since 2000 has not diminished the trend. The nominal USD value of bank deposits by domestic private and public entities in the oPt grew from about USD 2,830 million at end-1999 to USD 4,105 million at end-2005 (45 percent or an average of 7.5 percent per year). As indicated in Table 4, during the same period the nominal USD value of outstanding bank credit to domestic entities grew from USD 992 million at end-1999 to USD 1,726 million at end-2005 (74 percent, an average of 12.3 percent per year).[19] Thus the growth of banking intermediation far outpaced GDP and per capita income growth.

Table 4
Value of Outstanding Bank Credit to Resident Entities in the oPt, Annual 1999-2005[20]
(nominal USD millions)

Entity	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Palestinian Authority	92.03	328.87	296.87	133.83	224.95	383.30	565.19
Public Institutions and Local Authorities	5.99	87.80	66.78	5.72	23.67	30.79	27.05
Other Resident Customers	855.54	845.29	799.10	784.80	782.75	964.04	1,130.45
Of which: Businesses	*645.91*	*813.20*	*748.37*	*686.54*	*676.52*	*779.66*	*916.22*
Bankers Acceptances	38.34	66.04	35.14	12.40	9.82	5.67	3.91
Total Bank Credit	**991.90**	**1,328.00**	**1,197.89**	**936.76**	**1,041.18**	**1,383.80**	**1,726.60**

It is noteworthy that private sector businesses accounted for an average of about 62 percent of the amount lent during the period covered. Likewise, it is significant that the absolute value of outstanding bank credit to businesses has been on an upward trajectory even during the difficult years after 1999. By end-2005, total outstanding credit to the private non-financial

[18] See IMF *Macroeconomic Developments and Outlook in the West Bank and Gaza*, AHLC Meeting, London, December 2005; World Bank *The Impending Palestinian Fiscal Crisis,Potential Remedies*, May 2006; World Bank *West Bank and Gaza: Fiscal Developments in 2006*, July 2006.

[19] All data in this section, unless otherwise indicated, are from the Palestinian Monetary Authority Department of Research and Monetary Policies, Ramallah, July 2006. Except for 2001 and 2002, there was positive growth in both bank deposits and bank lending in every year since 1994.

[20] All figures in this table are year-end values as provided by the Palestinian Monetary Authority, July 2006. "Other resident customers" refers to businesses and consumers. "Businesses" refers to non-financial enterprises. "Bankers acceptances" are inter-bank loans.

businesses was about USD 916 million, about 42 percent greater than at end-1999, the last year before the onset of the crisis. Thus liquidity provided by the banking system served to generate some amount of private sector growth and mitigate some of the negative effects of the macroeconomic crisis.

After the private sector, the largest borrower from the banking system has been the Palestinian Authority (PA), accounting for an average of 22 percent of the value of loans since 1999. The PA demand for credit has been shaped by continuous growth in public sector employment, increased social spending due to the socio-economic crisis and the intermittent impounding by the GOI of PA VAT and customs revenues. Significantly improved domestic tax revenue collections notwithstanding, these factors served to increase PA debt to banks to USD 565 million by end-2005—more than six times its level at end-1999. Such lending allowed the PA to continue to pay public employee salaries, maintain operations and to cover the unpaid utility bills of municipalities.

Between end-2004 and end-2005, the total value of bank credit increased by about 25 percent, that to businesses by 17.5 percent and that to the PA by 47.5 percent as indicated in Table 5. **But 2005 also witnessed a deceleration in credit growth as the rate in second-half declined to 7 percent, relative to 16.5 percent in the first half of the year.**

Table 5
Value and Rates of Growth of Outstanding Bank Credit to Resident Entities in the oPt, Semi-Annual 2004-2006[21]
(nominal USD millions)

	December	**June**	**December**	**June**
Value of Outstanding Credit by Entity	**2004**	**2005**	**2005**	**2006**
Palestinian Authority	383.30	538.18	565.19	461.35
Public Institutions and Local Authorities	30.79	30.61	27.05	45.38
Other Resident Customers	964.04	1,039.38	1,130.45	1,281.57
of which: Businesses	*779.66*	*839.46*	*916.22*	*973.64*
Bankers Acceptances	5.67	4.60	3.91	0.07
Total Bank Credit	**1,383.80**	**1,612.77**	**1,726.60**	**1,788.37**
	December	**June**	**December**	**June**
Growth Rates of Credit by Entity	**2004**	**2005**	**2005**	**2006**
Palestinian Authority	--	40.41%	5.02%	-18.37%
Public Institutions and Local Authorities	--	-0.58%	-11.63%	67.76%
Other Resident Customers	--	7.82%	8.76%	13.37%
of which: Businesses	--	*7.67%*	*9.14%*	*6.27%*
Total Bank Credit	--	**16.55%**	**7.06%**	**3.58%**

The trend toward decelerated growth has persisted in 2006 with total credit increasing by only 3.5 percent in the first half of the year. This was mainly accounted for a sharp contraction in outstanding PA indebtedness (by some USD 104 million) that has been paid down using domestically-collected public revenues. Credit extended to private businesses grew more rapidly than credit extended in general (6.3 percent versus 3.6 percent).

[21] All credit figures are end-of-period values as provided by the Palestinian Monetary Authority, July 2006. Growth rates are calculated at six-month intervals.

The quality of the banking system's loan portfolio declined somewhat in the first half of 2006. According to the Palestinian Monetary Authority, the value of non-performing loans, i.e. loans for which repayment was more than 90 days past due, increased by about 15 percent between December 2005 and June 2006 to USD 157.6 million. In addition, "classified" loans, those for which payment was past due for more than 30 days, increased by about 18 percent in the same period with an outstanding value of USD 166.7 million. **Thus, problem loans (non-performing plus classified loans) constituted approximately 17.4 percent of the banking system's outstanding loan portfolio in June 2006, up from 15.5 percent in December 2005.**

The overall deceleration in credit growth—accounted for by reduced public sector debt—portends a reduction in underlying economic growth. A resource-starved public sector can no longer serve to boost employment, household incomes and demand for goods and services from the private sector. On the other hand, despite the increase in problem loans, the banking system continued to provide credit to the private sector which seems to have contributed to economic growth during QI and QII-2006 relative to QI-2005.

C. Summarizing the Evolution of GDP in the Present Phase of Crisis

The oPt witnessed a real GDP decline of about 7.2 percent QI-2006 followed by further retrenchment of 1.7 percent in QII-2006 relative to QIV-2005. **Using standard national income accounting practices, the loss of PA revenues was responsible for a 9 percent cumulative real decline in GDP in QII-2006 relative to QIV-2005.** This sharp decline was largely due to the GOI impounding of PA VAT and customs revenues.

However, on the face of it, the data and evidence suggests that the pace of economic activity at the macroeconomic level had not appreciably changed by mid-2006, some 3 months after the imposition of the boycott of the PA. If PA revenues are excluded from the national income accounts analysis, the underlying real GDP in QI-2006 declined by 0.7 percent relative to QIV-2005 followed by an increase of 2.2 percent in QII-2006. **By QII-2006, when the effects of the fiscal crisis began to be felt, quarterly net real GDP—excluding PA revenues—was 1.6 percent greater than QIV-2005. Net private sector GDP (about three-quarters of the total) was 0.16 percent lower while the public and not-for-profit sector (about one-quarter of the total) was 4.4 percent greater.**

Excluding the loss of PA revenues from the national accounts, the underlying real GDP growth in first-half 2006 is almost completely attributable to continued public sector hiring and the effects of the wage hikes for public sector workers instituted in second-half 2005. In the national income accounts, where public sector wages are calculated on an accrual basis, more employees with higher wages translate into higher estimates of the value of services produced by the public sector. **Thus, expanded public employment and higher wages translate into higher estimates of public sector GDP—even though some 165,000 public sector employees went unpaid for much of this period.** As the bulk of PA employees remained on the job throughout first-half 2006— despite the non-payment of wages—the GDP accounts largely capture the value of the services they provided.

But the national income accounts overestimate the public sector contribution to GDP growth because PA public sector employment is bloated, i.e. many on the public payroll do not in fact produce services or produce services with a value below what they are paid. Thus the apparent growth in the public sector's contribution to GDP in first-half 2006 must be discounted. Moreover, public sector employment as a motor force for economic growth must be assessed in light of the fiscally unsustainable nature of public sector expansion.

Of greater consequence is the underlying stagnancy of the private sector—the source for most job and income generation in the oPt—indicated by the most recent GDP data. Private sector retrenchment is evident whether PA revenues are included or excluded or whether the analysis is based on quarter-to-quarter or year-on-year data. The continued growth in bank credit to the private sector seems, at best, to have cushioned the decline. Of critical concern is the steep drop in manufacturing value-added in the past year. That trend bodes ill for future private sector employment creation and overall economic growth in a country with a young and rapidly growing labour force. **The importance of strengthening the domestic private sector is underscored by declining job opportunities in Israel and the fiscally unsustainable nature of PA public sector employment.**

V. Labour Force and Labour Market

A. Labour Force

Some of the most robust measures of socio-economic conditions are those associated with the labour market, e.g. developments in the labour force, in employment and unemployment. The latest available data, presented in Table 6, suggests that the size of the labour force—defined as all employed persons plus all persons actively seeking employment—continued to grow more rapidly than the population as a whole during 2005-2006, with an average of 859,000 persons in QII-2006. Labour force growth exceed population growth by 0.5 percentage points as between first-half 2005 and first-half 2006, a long-term trend in the oPt.

Table 6
Estimates of Population and Labour Force in the oPt,
Quarterly 2005-2006[22]

Population and Labour Force	**QI-2005**	**QII-2005**	**QIV-2005**	**QI-2006**	**QII-2006**
Total Population	3,730,886	3,762,005	3,825,149	3,856,720	3,888,292
Total Labour Force	794,699	832,862	830,121	831,445	859,105
of which: Men	673,637	691,231	695,832	700,636	716,215
of which: Women	121,062	141,631	134,289	130,809	142,890
of which: Refugees	316,791	315,739	327,249	331,531	333,383
of which: Non-Refugees	477,908	517,123	502,872	499,914	525,722
Changes in Labour Force		**QIV-2005-QI-2006**	**QI-2006-QII-2006**	**QI/QII 2005-QI/QII 2006**	
Total Population		0.83%	0.82%	3.36%	
Total Labour Force		0.16%	3.33%	3.87%	
Men		0.69%	2.22%	3.81%	
Women		-2.59%	9.24%	4.19%	
Refugees		1.31%	0.56%	5.12%	
Non-Refugees		-0.59%	5.16%	3.08%	

During that same period, while the total labour force grew by 3.8 percent, those sections of the labour force composed of women and refugees grew more rapidly (by 4.2 and 5.1 percent respectively). In 2005-2006, women accounted for an average of 16.3 percent of the total labour force (men for 83.7 percent) while refugees accounted for 39 percent of the labour force (non-refugees for 61 percent). It is noteworthy that the labour force commitment of men and refugees in this period—as measured by quarter-to-quarter fluctuations in the labour force size of these two demographic segments—was more stable than that for women and non-refugees.[23]

[22] All population and labour force estimates in this report, unless otherwise noted, were provided by PCBS based on a special request, August 2006 and include East Jerusalem. Labour force is calculated as the product of the working-age population (all persons 15 years old and above) and the labour force participation rate (the ratio of the working-age population employed or actively seeking employment). Note that the total labour force is disaggregated by gender and refugee status such that the sum of men and women equals the sum of refugees and non-refugees equals the total labour force.

[23] Greater variability in the size of women's formal labour force is evinced in the greater variability in women's labour force participation rates. While refugee commitment to the labour force is more stable, refugee labour force participation rates are consistently 1-2 percentage points below average.

During the crucial period under analysis—QII-2006—labour force growth (3.3 percent) exceeded that during QI-2006 (0.16 percent) but was slower relative to the longer year-on-year period (3.8 percent) and slower than that in QII-2005 (4.8 percent). The growth of women's and non-refugees' participation in labour force in QII-2006 exceeded that of men and refugees. This was also true for QII-2005, suggesting a seasonal pattern.

B. Employment

The employed portion of the oPt labour force grew less rapidly (3.3 percent) than the labour force in general (3.8 percent) during 2005-2006, with an average of 662,000 employees in QII-2006 (see Table 7), suggesting a growing number of unemployed during this period (see below). The rate of employment growth among refugees (5.0 percent) significantly exceeded that of non-refugees (2.2 percent) while that of women (2.5 percent) and non-refugees lagged relative to the overall rate as between first-half 2005 and first-half 2006.

Table 7
Estimates of Employment in the oPt,
Quarterly 2005-2006[24]

Employment	**QI-2005**	**QII-2005**	**QIV-2005**	**QI-2006**	**QII-2006**
Total Employment	585,885	656,393	632,343	621,149	662,086
of which: Men	489,336	542,545	530,635	521,118	546,480
of which: Women	96,549	113,848	101,708	100,031	115,606
of which: Refugees	219,433	237,852	236,202	237,833	242,628
of which: Non-Refugees	366,452	418,541	396,141	383,316	419,458
		QIV-2005-	**QI-2006-**	**QI/QII 2005-**	
Changes in Employment		**QI-2006**	**QII-2006**	**QI/QII 2006**	
Total Employment		-1.77%	6.59%	3.30%	
Men		-1.79%	4.87%	3.46%	
Women		-1.65%	15.57%	2.49%	
Refugees		0.69%	2.02%	5.07%	
Non-Refugees		-3.24%	9.43%	2.27%	

With regard to QII-2006 (relative to QI-2006), employment growth (6.6 percent) exceeded both the year-on-year rate (3.3 percent) and the rate for QI-2006 (-1.7 percent). Employment of women and non-refugees grew significantly faster than for men and refugees, respectively. The same pattern of divergence in relative employment growth rates among demographic segments in QII-2006 was apparent in QII-2005. This suggests seasonality in employment patterns. However, employment growth rates in QII-2006 were only about half those in QII-2005 indicating deceleration of growth.

C. Unemployment

The total number of unemployed persons in the labour force grew faster (5.7 percent) than the labour force in general (3.8 percent) during 2005-2006. Using the narrow International Labour Organization (ILO) definition of unemployment,[25] there were an average of about

[24] Employment is calculated as that portion of the labour force that worked for at least one hour during the week prior to being surveyed. Note that total emploment is disaggregated by gender and refugee status such that the sum of men and women equals the sum of refugees and non-refugees equals total employment.

192,600 unemployed persons in first-half 2005, rising to about 203,600 in first-half 2006 (see Table 8). Unemployment growth among women (11.0 percent) was almost twice the average growth rate (5.7 percent). This was accompanied by higher than average growth in women's labour force participation as indicated in Table 5. In other words, comparing first-half 2005 with first-half 2006, women were both more likely to be in the labour force and more likely to be unemployed. The number of unemployed refugees, on the other hand, grew a bit more slowly (5.2 percent) than average.

Table 8
Estimates of Unemployment (ILO) in the oPt,
Quarterly 2005-2006[26]

Unemployment	**QI-2005**	**QII-2005**	**QIV-2005**	**QI-2006**	**QII-2006**
Total Unemployed	208,814	176,469	197,778	210,296	197,019
of which: Men	184,301	148,686	165,197	179,518	169,735
of which: Women	24,513	27,783	32,581	30,778	27,284
of which: Refugees	97,358	77,887	91,047	93,698	90,755
of which: Non-Refugees	111,456	98,582	106,731	116,598	106,264
		QIV-2005-	**QI-2006-**	**QI/QII 2005-**	
Changes in Unemployment		**QI-2006**	**QII-2006**	**QI/QII 2006**	
Total Unemployed		6.33%	-6.31%	5.72%	
Men		8.67%	-5.45%	4.88%	
Women		-5.53%	-11.35%	11.03%	
Refugees		2.91%	-3.14%	5.25%	
Non-Refugees		9.24%	-8.86%	6.11%	

Quarterly unemployment growth in QI-2006 relative to the previous quarter (6.3 percent) was exceeded by men (8.6 percent) and non-refugees (9.2 percent). The number of unemployed women, on the other hand fell. In QII-2006, total unemployment declined 6.3 percent, offsetting its growth in the previous quarter. Non-refugees and especially women disproportionately benefited from this development. Reduced numbers of unemployed in QII-2006—and the increased employment (Table 7)—seem to be seasonal (see below).

Changes in the *number of unemployed persons* obfuscates to some extent the rather persistent differences in *rates of unemployment* of different segments of the labour force. More statistical detail, as presented in Table 9, indicates that men's unemployment rates (whether refugee or non-refugee) were consistently and significantly higher than those of women (whether refugee or non-refugee) during the first four years of the second *Intifada* (late 2000-2004). In 2001-2002 in particular, men's unemployment rates rose to unprecedented levels as tens of thousands lost jobs in Israel (where very few Palestinian women worked).

[25] According to the International Labour Organization (ILO), one is unemployed if, in the week prior to being interviewed, one had no work but was actively searching for a job. This definition excludes unemployed persons who have ceased searching for work for whatever reason.

[26] The table provides unemployment measures using the ILO definition. Note that total unemploment—and changes in the number of unemployed—are disaggregated by gender and refugee status such that the sum of men and women equals the sum of refugees and non-refugees equals total unemployment.

Table 9
Estimates of Average Unemployment Rates (ILO)
in the oPt, Annual 2000-2005[27]

Unemployment Rates	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Non-Refugee Unemployment Rates	14.3%	25.2%	31.3%	25.6%	26.8%	23.5%
Non-Refugee Men Unemployment Rates	14.7%	26.9%	33.5%	26.9%	28.1%	23.7%
Non-Refugee Women Unemployment Rates	12.3%	14.0%	17.0%	18.5%	20.1%	22.3%
Refugee Unemployment Rates	16.2%	28.8%	35.2%	28.4%	31.0%	27.4%
Refugee Men Unemployment Rates	16.2%	30.4%	37.3%	29.0%	31.9%	27.5%
Refugee Women Unemployment Rates	16.4%	17.8%	21.1%	25.2%	26.2%	27.2%

Women's unemployment rates in these years also trended higher, even as their labour force participation rates declined in 2001-2002 and rebounded in 2003-2005. By end-2005, unemployment rates of men and women—whether refugee or non-refugee—had essentially converged.[28] By QII-2006, women's unemployment rates, especially those of refugee women, once again fell below those of men. Table 9 also highlights the persistence of different rates of unemployment as between refugees and non-refugees in general and between refugee and non-refugee men and refugee and non-refugee women. On average, refugees have endured unemployment rates 3-4 percentage points higher than those of non-refugees.

Table 10
Estimates of Broad Unemployment in the oPt,
Quarterly 2000-2005

Broad Unemployment	**QI-2005**	**QII-2005**	**QIV-2005**	**QI-2006**	**QII-2006**
Total Unemployment	272,460	294,482	267,633	280,243	265,009
Of which: Men	237,985	196,429	219,194	237,605	224,808
Of which: Women	34,475	98,053	48,439	42,638	40,201
Of which: Refugees	121,785	101,214	120,203	124,681	118,263
Of which: Non-Refugees	150,675	193,268	147,430	155,562	146,746
Changes in Broad Unemployment		**QIV-2005-QI-2006**	**QI-2006-QII-2006**	**QI/QII 2005-QI/QII 2006**	
Total Unemployment		4.71%	-5.44%	-3.83%	
Men		8.40%	-5.39%	6.45%	
Women		-11.98%	-5.72%	-37.49%	
Refugees		3.73%	-5.15%	8.94%	
Non-Refugees		5.52%	-5.67%	-12.11%	

[27] The table presents estimates of unemployment rates—i.e. the proportion of the labour force without work but actively seeking employment—as per the ILO definition.

[28] The years 2001-2005 apparently saw a rupture in the relative labour force profiles of men and women from the previous decade in at least two respects. Unlike the 1990s, when spikes in men's unemployment rates generally led to lower women's labour force participation rates, after 2002 women did not withdraw from the formal labour market despite persistently high unemployment rates among men. Secondly, the convergence of unemployment rates is unprecedented—as women's unemployment rates had been consistently lower than those for men, in large part due to the withdrawal of women from the labour force in times of crisis. See PCBS *Labour Force Surveys,* 1995-2000.

Using a relaxed definition of unemployment, one which takes account of unemployed persons who have ceased searching for work, yields a better measure of the phenomenon, as presented in Table 10. For the 2005-2006 period as a whole, the average number of unemployed under this broader definition declined from an average of 283,450 persons in first-half 2005 to 272,600 persons in first-half 2006—a decline of about 11,000 persons (3.8 percent).

In the same period, the number of unemployed men under the broader definition increased by an average of 14,000 persons (6.4 percent) while the number of unemployed women declined sharply by 25,000 (-37.5 percent).

The precipitous decline in women's broad unemployment was associated with a significant increase (11 percent) in narrowly defined unemployment (see Table 8). This seemingly contradictory result is in reality a confirmation of the phenomenon described previously. Women's more consistent labour force participation in the past several years explains the rise in their ILO unemployment—defined as those actively seeking work—and the decline in their broad unemployment—which includes those who have stopped searching for work. In other words, there were less "discouraged" women and more actively seeking—but not finding—work leading to higher ILO unemployment rates. **Comparing year-on-year averages, Table 10 also indicates that broad unemployment among refugees increased by an average of about 10,000 persons (8.9 percent) even as average unemployment declined.**

Broad quarterly unemployment grew by 4.7 percent in QI-2006 relative to the previous quarter. Men's unemployment grew far more rapidly (8.4 percent), women's declined sharply (-11.9 percent), while refugees fared a bit worse than average. In QII-2006, there were proportional declines of about 5.5 percent in the total number of unemployed in all demographic categories. This offset unemployment growth in QI-2006. **Thus, by both definitions of unemployment, the number of unemployed in QII-2006 was reduced relative to QI-2006 for seasonal and other reasons to be addressed below.**

Broad unemployment rates throughout the period under study were an average of about 5 percentage points higher for each demographic cohort relative to their ILO unemployment rates. As illustrated in Table 11, refugee men and refugee women experienced broad unemployment rates 3-5 percentage points greater than their cohorts in the non-refugee population throughout this period. Table 11 also suggests that the broad unemployment rates of women tended to converge over this period.

Table 11
Estimates of Broad Unemployment Rates
in the oPt, Quarterly 2000-2005[29]

Broad Unemployment Rates	QI-2005	QII-2005	QIV-2005	QI-2006	QII-2006
Non-Refugees	31.74%	26.35%	29.37%	31.09%	28.58%
Non-Refugee Men	32.72%	26.58%	29.23%	31.32%	29.15%
Non-Refugee Women	26.31%	25.23%	30.09%	29.89%	25.80%
Refugees	35.69%	29.85%	33.73%	34.39%	32.77%
Refugee Men	36.14%	29.61%	33.51%	34.51%	33.32%
Refugee Women	33.07%	31.11%	34.95%	33.69%	29.72%

[29] Broad unemployment rates are calculated as the sum of ILO unemployed and "discouraged workers" divided by the sum of the labour force and "discouraged workers."

D. Employment by Economic Activity: Men and Women

There were an average of 533,500 employed men in the oPt in first-half 2006, about 83.2 percent of all employed persons, and an average of 107,800 working women, or about 16.8 percent of all the employed. Working men—as indicated in Table 12—were distributed among all economic activities, with concentrations in commerce (22.1 percent) and services (32.8 percent). Employed women, on the other hand, were clustered in two main activities—agriculture (28.5 percent) and services (53.3 percent)—with much lower frequency in manufacturing (8.2 percent) and commerce (8.3 percent) and almost no presence in construction and transportation.

Table 12
Employment and Distribution of Employed Men and Women in the oPt by Economic Activity, First-Half 2006

Economic Activity	Employed Men	Distribution	Employed Women	Distribution
Agriculture, Hunting & Fishing	60,573	11.35%	30,747	28.52%
Manufacturing, Mining & Quarrying	67,829	12.71%	8,923	8.28%
Construction	75,507	14.15%	296	0.27%
Commerce, Hotels & Restaurants	118,093	22.13%	9,046	8.39%
Transport, Storage & Communication	36,505	6.84%	1,266	1.17%
Services & Other Branches	175,076	32.81%	57,541	53.37%
of which: Public Employment	*123,856*	*23.21%*	*27,719*	*25.71%*
Total Employed	**533,583**	**100.00%**	**107,818**	**100.00%**

As shown in Table 13, there was an increase of almost 18,000 jobs for men in the year-on-year period (first-half 2005 relative to first-half 2006), an employment growth rate of 3.4 percent. About 70 percent of this increase was accounted for by the public sector where average employment increased by some 12,500 positions or 11.2 percent. The only other activity for which employment growth was significantly above average was commerce (mainly wholesale and retail trade) which added 9,400 jobs, an increase of 8.7 percent. Employment growth in agriculture was slightly above average while that in transportation was well below average. There were absolute, seasonally adjusted declines in manufacturing and construction employment which, combined, lost some 9,600 jobs for men in the year-on-year period.

There were about 25,000 more employed men in QII-2006 relative to QI-2006—an increase of 4.8 percent. There was employment growth in every economic activity except for transportation and commerce which experienced small absolute losses. Of note, agriculture added some 10,650 seasonally-related jobs, while manufacturing bounced back with 8,000 additional jobs. The public sector accounted for the remainder of the job growth in QII-2006, adding about 6,000 jobs for men—about one-fourth of men's employment growth.

For women, there were about 2,650 more jobs in first-half 2006 relative to first-half 2005, an employment growth rate of 2.5 percent (see Table 14)—about one percentage point below that for men (3.4 percent). More than 80 percent of the new positions held by women—2,200 in all—were in the public sector, an increase of about 8.6 percent for the period, some 2.5 percentage points below the public employment growth rate of men. The only other activities which contributed to new employment for women were non-public services (e.g. private, UNRWA and NGO education and health, community, business and personal services)—an average of 1,200 new jobs or about 6.3 percent growth.

Table 13
Men's Employment in the oPt by Economic Activity, Quarterly 2005-2006[30]

Employment by Activity	**QI-2005**	**QII-2005**	**QIII-2005**	**QIV-2005**	**QI-2006**	**QII-2006**
Agriculture, Hunting & Fishing	53,422	62,302	58,812	57,913	55,248	65,897
Manufacturing, Mining & Quarrying	64,411	78,294	77,218	74,647	63,817	71,840
Construction	77,969	85,371	85,108	76,891	75,221	75,793
Commerce, Hotels & Restaurants	101,744	115,560	122,882	115,639	118,220	117,967
Transport, Storage & Communication	35,544	36,375	34,312	35,711	37,091	35,919
Services & Other Branches	156,153	164,220	169,416	169,583	171,387	178,765
of which: Public Employment	*107,316*	*115,406*	*118,659*	*119,150*	*120,886*	*126,825*
Total Employed Men	**489,243**	**542,123**	**547,749**	**530,384**	**520,984**	**546,183**
	Absolute Change			Percentage Change		
	QIV-05-	**QI-06-**	**QI/QII 05-**	**QIV-05-**	**QI-06-**	**QI/QII 05-**
Changes in Employment by Activity	**QI-06**	**QII-06**	**QI/QII 06**	**QI-06**	**QII-06**	**QI/QII 06**
Agriculture, Hunting & Fishing	-2,664	10,649	2,711	-4.60%	19.28%	4.69%
Manufacturing, Mining & Quarrying	-10,829	8,023	-3,524	-14.51%	12.57%	-4.94%
Construction	-1,670	572	-6,163	-2.17%	0.76%	-7.55%
Commerce, Hotels & Restaurants	2,581	-252	9,441	2.23%	-0.21%	8.69%
Transport, Storage & Communication	1,379	-1,171	546	3.86%	-3.16%	1.52%
Services & Other Branches	1,804	7,378	14,889	1.06%	4.30%	9.29%
of which: Public Employment	*1,736*	*5,939*	*12,495*	*1.46%*	*4.91%*	*11.22%*
Total Changes	**-9,400**	**25,199**	**17,901**	**-1.77%**	**4.84%**	**3.47%**

Notably, there was a net contraction in seasonally-adjusted women's employment in agriculture, an activity that in first-half 2005 engaged about 30 percent of all working women. Likewise, there was a reduction in women's employment in commerce, hotels and restaurants activities.[31]

As for QII-2006, there was a spike of some 15,600 employed women—15.5 percent growth—relative to QI-2006. This was three times the employment growth rate for men during the same period. The seasonal surge in agriculture accounted for more than half of this growth while public employment (17 percent of total job growth) and other services combined accounted for nearly one-third of new employment. The remainder of employment growth was distributed between manufacturing and commerce, hotels and restaurants.

[30] For statistical reasons, and unlike the GDP estimates above, employment estimates for commerce activity (wholesale and retail trade) is combined with hotels and restaurant activities, while "services and other branches" are not differentiated as between social, community, business and personal services. The number of public employees is estimated on the basis of field surveys and may be different from figures reported from the PA Ministry of Finance or General Employee Council.

[31] Women's employment in construction and transportation is statistically insignificant and data for these activities should be treated with caution.

Table 14
Women's Employment in oPt by Economic Activity, Quarterly 2005-2006

Employment by Activity	**QI-2005**	**QII-2005**	**QIII-2005**	**QIV-2005**	**QI-2006**	**QII-2006**
Agriculture, Hunting & Fishing	24,486	40,062	38,837	33,260	26,570	34,924
Manufacturing, Mining & Quarrying	9,080	8,503	7,982	8,492	8,174	9,672
Construction	297	0	129	657	370	222
Commerce, Hotels & Restaurants	8,244	10,075	8,935	7,482	8,487	9,604
Transport, Storage & Communication	828	441	660	609	1,143	1,389
Services & Other Branches	53,613	54,661	51,880	51,170	55,286	59,795
of which: Public Employment	*25,778*	*25,274*	*25,062*	*25,683*	*26,406*	*29,032*
Total Employed Women	**96,549**	**113,742**	**108,424**	**101,670**	**100,031**	**115,606**
	Absolute Change			Percentage Change		
Changes in Employment by Activity	**QIV-05-QI-06**	**QI-06-QII-06**	**QI/QII-05-QI/QII-06**	**QIV-05-QI-06**	**QI-06-QII-06**	**QI/QII-05-QI/QII-06**
Agriculture, Hunting & Fishing	-6,690	8,354	-1,527	-20.11%	31.44%	-4.73%
Manufacturing, Mining & Quarrying	-317	1,497	131	-3.74%	18.31%	1.49%
Construction	-287	-149	148	-43.64%	-40.13%	99.43%
Commerce, Hotels & Restaurants	1,005	1,116	-114	13.44%	13.15%	-1.25%
Transport, Storage & Communication	533	247	632	87.52%	21.58%	99.53%
Services & Other Branches	4,116	4,509	3,404	8.04%	8.16%	6.29%
of which: Public Employment	*723*	*2,626*	*2,193*	*2.82%*	*9.94%*	*8.59%*
Total Changes	**-1,639**	**15,575**	**2,673**	**-1.61%**	**15.57%**	**2.54%**

i. Working Men and Women: A Summary

The year-on-year employment growth rate for men in 2005-2006 exceeded that for women by about one percentage point. Public sector employment accounted for about 70 and 80 percent, respectively, of net new jobs for men and women while other services contributed to employment growth for both genders. This was the only similarity between men and women in the labour market during the year. **In every other economic activity, employment of men and women moved in opposite directions.** Commerce and agriculture, in that order, accounted for nearly all the balance of net job growth for men, while manufacturing and construction generated some 9,600 job losses. For women, beyond services, the balance of net employment growth was registered by a small increase in manufacturing employment. Women lost ground in agriculture and commerce. The higher than average growth rate of the women's labour force (noted above), combined with significant growth in services employment and declines in agriculture and commerce employment (the font of informal labour in the oPt), suggests increasing formalization of women's work.

In the most recent quarter—QII-2006—women's employment growth rate accelerated to three times that of men, fuelled by agriculture, services and, to a lesser extent, by manufacturing. While employment growth in all three activities was important for men and women, women's employment growth in agriculture and manufacturing was 50 percent fasters than men's while in services the employment growth rate was twice as high as men's. Beyond the more rapid growth of women's employment, the most glaring disparity between men and women was the net employment decline in commerce, hotels and restaurants for men and the rather rapid growth in women's employment in that activity.

E. Employment by Economic Activity: Refugees and Non-Refugees

There were an average of 240,000 refugees employed in the oPt in first-half 2006, about 37.4 percent of all employed and about 400,000 non-refugee workers accounting for 62.6 percent of employed persons. Relative to refugees, non-refugees were twice as likely to be employed in agriculture and almost 50 percent more likely to be employed in manufacturing and construction (see Table 15). Refugees, on the other hand, were 80 percent more likely to be employed in services of all types and almost twice as likely to be employed in the public sector.

The relatively low frequency of refugee workers in agriculture is mainly the result of minimal land resources among this segment of the population. The same phenomenon probably accounts for refugee overrepresentation in manufacturing, construction and commerce relative to non-refugees. The historic lack of land assets required refugees, more so than non-refugees, to seek wage-employment or engage in commerce. The significantly higher presence of refugee workers in services—including public sector employment—is accounted for by disproportionate refugee employment in the PA and in UNRWA.

Table 15
Distribution of Employed Refugees and Non-Refugees in the oPt by Economic Activity, First-Half 2006

Economic Activity	Employed Refugees	Distribution	Employed Non-Refugees	Distribution
Agriculture, Hunting & Fishing	22,310	9.74%	69,010	18.36%
Manufacturing, Mining & Quarrying	23,654	10.85%	53,097	14.39%
Construction	21,144	10.15%	54,658	14.62%
Commerce, Hotels & Restaurants	46,343	18.15%	80,795	20.46%
Transport, Storage & Communication	14,119	5.61%	23,652	5.40%
Services & Other Branches	112,599	45.51%	120,017	26.77%
of which: Public Employment	*76,261*	*30.63%*	*80,658*	*17.89%*
Total Employed	**240,170**	**100.00%**	**401,232**	**100.00%**

Relative to first-half 2005, as illustrated in Table 16, there were some 11,500 more employed refugees, a growth rate of about 5 percent. **About 66 percent of the net increase was accounted for by increased public sector employment where an average of 7,600 jobs was added, a year-on-year growth rate of 11 percent.** The remainder of employment growth was accounted for by the private sector: commerce, hotels and restaurants added almost 6,500 new jobs—an activity growth rate of 16.2 percent. This was offset by stagnancy or net declines in refugee employment in all other private sector activities, notably in construction, where refugees lost some 2,700 jobs or 11.3 percent for the year-on-year period.

In QII-2006, there was a net increase of about 4,700 jobs held by refugees, an increase of 1.9 percent relative to the previous quarter. The seasonal surge in agriculture accounted for nearly the entire gain. Manufacturing and transport produced about 1,100 new jobs but these were offset by almost 1,000 fewer refugees employed in construction and more than 700 fewer employed in services relative to QI-2006. The public sector contribution to job growth was the lowest of any quarter under study.

Table 16
Refugee Employment in the oPt by Economic Activity, Quarterly 2005-2006[32]

Employment by Activity	**QI-2005**	**QII-2005**	**QIII-2005**	**QIV-2005**	**QI-2006**	**QII-2006**
Agriculture, Hunting & Fishing	20,539	24,510	21,753	20,723	19,746	24,874
Manufacturing, Mining & Quarrying	20,936	27,155	24,336	25,888	23,280	24,028
Construction	24,264	23,419	24,749	22,024	21,642	20,647
Commerce, Hotels & Restaurants	37,364	42,355	43,794	42,927	46,281	46,406
Transport, Storage & Communication	14,863	12,696	13,916	14,662	13,927	14,310
Services & Other Branches	101,411	107,717	108,353	109,978	112,957	112,241
of which: Public Employment	*65,427*	*71,896*	*73,511*	*73,605*	*75,983*	*76,539*
Total Employed Refugees	**219,377**	**237,852**	**236,901**	**236,202**	**237,834**	**242,505**
	Absolute Change			Percentage Change		
Changes in Employment by Activity	**QIV-05-QI-06**	**QI-06-QII-06**	**QI/QII-05-QI/QII-06**	**QIV-05-QI-06**	**QI-06-QII-06**	**QI/QII-05-QI/QII-06**
Agriculture, Hunting & Fishing	-977	5,128	-215	-4.72%	25.97%	-0.95%
Manufacturing, Mining & Quarrying	-2,608	748	-392	-10.07%	3.21%	-1.63%
Construction	-382	-996	-2,697	-1.74%	-4.60%	-11.31%
Commerce, Hotels & Restaurants	3,355	125	6,484	7.81%	0.27%	16.27%
Transport, Storage & Communication	-735	383	339	-5.01%	2.75%	2.46%
Services & Other Branches	2,979	-716	8,035	2.71%	-0.63%	7.68%
of which: Public Employment	*2,379*	*555*	*7,599*	*3.23%*	*0.73%*	*11.07%*
Total Employed Refugees	**1,631**	**4,671**	**11,555**	**0.69%**	**1.96%**	**5.05%**

Employment growth for non-refugees amounted to about 9,000 new jobs, as indicated in Table 17—an increase of about 2.3 percent in the year-on-year period ending in first-half 2006. The job growth rate in this period was only half that for refugees. Nearly all of the growth was accounted for by service activities which added some 10,200 jobs, an increase of 9.3 percent, a rate four times faster than overall employment growth. **About 74 percent of this growth was in public employment.** In the private sector, the 5,000 additional jobs generated in agriculture, commerce and transport were more than offset by some 6,300 lost jobs in manufacturing and construction in the year-on-year period.

For the most recent quarter, there was a net increase of some 36,000 jobs, an increase of 9.4 percent over QI-2006. **The rate of employment growth for non-refugees exceeded that of refugees by a factor of 4.5 in QII-2006.** Unlike refugees, where agriculture accounted for nearly all new employment in the quarter, only 38 percent of net job growth for non-refugees was in agriculture, 35 percent was in services (68 percent of this was in public services) and 24 percent was in manufacturing. There were also small employment gains in construction and commerce while transportation employment fell by some 1,400 positions.

[32] Refugees are those persons who identify themselves as such in PCBS field surveys and may or not be officially registered with UNRWA.

Table 17
Non-Refugee Employment in the oPt
by Economic Activity, Quarterly 2005-2006

Employment by Activity	**QI-2005**	**QII-2005**	**QIII-2005**	**QIV-2005**	**QI-2006**	**QII-2006**
Agriculture, Hunting & Fishing	57,369	77,853	75,896	70,450	62,072	75,948
Manufacturing, Mining & Quarrying	52,555	59,642	60,865	57,251	48,712	57,484
Construction	54,002	61,952	60,489	55,524	53,949	55,368
Commerce, Hotels & Restaurants	72,624	83,281	88,022	80,194	80,426	81,166
Transport, Storage & Communication	21,509	24,120	21,056	21,658	24,306	22,998
Services & Other Branches	108,355	111,164	112,944	110,775	113,716	126,319
of which: Public Employment	*71,664*	*74,545*	*75,285*	*74,437*	*76,382*	*84,934*
Total Employed Non-Refugees	**366,414**	**418,012**	**419,272**	**395,852**	**383,181**	**419,283**
	Absolute Change			Percentage Change		
Changes in Employment	**QIV-05-QI-06**	**QI-06-QII-06**	**QI/QII-05-QI/QII-06**	**QIV-05-QI-06**	**QI-06-QII-06**	**QI/QII-05-QI/QII-06**
Agriculture, Hunting & Fishing	-8,377	13,875	1,399	-11.89%	22.35%	2.07%
Manufacturing, Mining & Quarrying	-8,539	8,772	-3,001	-14.92%	18.01%	-5.35%
Construction	-1,575	1,419	-3,318	-2.84%	2.63%	-5.72%
Commerce, Hotels & Restaurants	231	740	2,843	0.29%	0.92%	3.65%
Transport, Storage & Communication	2,648	-1,308	838	12.22%	-5.38%	3.67%
Services & Other Branches	2,941	12,603	10,258	2.65%	11.08%	9.35%
of which: Public Employment	*1,945*	*8,553*	*7,554*	*2.61%*	*11.20%*	*10.33%*
Total Employed Non-Refugees	**-12,671**	**36,102**	**9,019**	**-3.20%**	**9.42%**	**2.30%**

i. Working Refugees and Non-Refugees: A Summary

On a year-on-year basis, employment growth for refugees was twice that of non-refugees in the aggregate. For both groups of workers, all net employment gains were registered in two activities: public services and commerce, hotels and restaurants. In terms of their employment impact, gains in public service were greater for non-refugees while those in commerce were greater for refugees. For both groups there was a significant net loss in construction employment, though the effect on non-refugees was proportionately greater. Both groups lost jobs in manufacturing although, proportionally, non-refugees were more severely impacted. Both groups experienced job losses in construction with refugees more greatly affected. Only in agriculture did changes in employment move in opposite directions with refugees losing ground and non-refugees registering a modest gain. Clearly, public services and commerce were the motors of job growth while manufacturing and construction accounted for most job destruction in the past year.

Labour market developments in the most recent quarter were quite different for refugees and non-refugees. Specifically, in QII-2006 nearly all refugee job gains were confined to agriculture with only modest growth in manufacturing and transport employment while, on a net basis, there were job losses in construction and private services. Non-refugee employment gains were not only more robust, but the sources of growth were more diverse. In particular, the importance of public services in non-refugee job growth stands in marked contrast to refugees who lost ground in private services and had only modest gains in public services. Moreover, non-refugee employment in construction grew while that for refugees declined. **Whether one compares refugees and non-refugees in the labour market in the longer or shorter term, divergent outcomes are strongly influenced by the different trajectory of the Gaza economy where refugees account for the vast bulk of the employed labour force.**

F. Social Composition of the Employed Labour Force

The employment status of working people, and changes over time, are suggestive of the social composition (or class structure) of the population. It also provides clues as to trends in income growth and distribution. A growing proportion of employers among the employed, for example, suggests expanded business formation and improved economic conditions and vice versa. In the Palestinian context, a growing proportion of the self-employed—those who neither employ nor are employed by others—suggests higher levels of unemployment and informality and vice versa. Large or increased numbers of unpaid family members suggests disguised unemployment and greater informality, usually in agriculture and commerce.

Table 18
Social Composition of the Employed Labour Force in the oPt, Annual 2000-2005[33]

Status	2000	2001	2002	2003	2004	2005	
Employer	27,218	23,849	17,555	19,976	23,874	27,292	
Self-Employed	117,049	121,212	127,429	156,712	153,030	165,133	
Wage Employee	392,916	313,129	281,802	322,749	336,545	376,009	
Unpaid Family Member	57,993	46,171	48,972	64,421	64,221	64,037	
Total Employment	**595,176**	**504,361**	**475,759**	**563,857**	**577,671**	**632,471**	
							Relative
							Change
Social Composition							**00/05**
Employer	4.57%	4.73%	3.69%	3.54%	4.13%	4.32%	-5.64%
Self-Employed	19.67%	24.03%	26.78%	27.79%	26.49%	26.11%	32.76%
Wage Employee	66.02%	62.08%	59.23%	57.24%	58.26%	59.45%	-9.95%
Unpaid Family Member	9.74%	9.15%	10.29%	11.42%	11.12%	10.12%	3.91%
Total Employment	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	--

The social composition of the oPt in recent years, as shown in Table 18, has been such that less than 5 percent of economically engaged persons were employers (and by inference, relatively well-off), about 25 percent were self-employed, something under 60 percent were wage employees, while about 10 percent were unpaid family labourers. While social composition has been relatively stable, there was a decline in the proportion of employers, a more definitive decline in wage employement, an increase in unpaid family labour and a significant increase in self-employment. **In the context of the long-term ciris, these chages are indicative of increasingly difficult business conditions, a general increase in unemployment and the growth of the informal economy. Factors such as microlending may have marginally reinforced the rising proportion of self-employed persons.**

In the year-on-year period under study, and as illustrated in Table 19, some 4.2 percent of working people were employers while 59.4 percent were wage employees. Moreover, more than a quarter of the economically engaged were self-employed while almost one-tenth were unpaid family members. One year later, and with 3.3 percent more people working, the social composition of employment was largely unchanged except for a small relative decline in the ratio of employers, matched by a small relative increase in the ratio of wage employees (indicative of general job growth) and a more significant relative decline in the ratio of unpaid family labourers.

[33] The upper rows give estimates of average annual employment by category. The lower rows are the annual average proportions of total employment in each category. The last column calculates relative changes in the proportions of each category as between 2000 and 2005.

Table 19
Social Composition of the Employed Labour Force
in the oPt, Semi-Annual 2005-2006[34]

Status	Average Employment QI/QII 2005	Average Employment QI/QII 2006	Social Composition QI/QII 2005	Social Composition QI/QII 2006	Relative Change
Employer	26,584	27,077	4.28%	4.22%	-1.41%
Self-Employed	164,830	170,462	26.55%	26.58%	0.10%
Wage Employee	369,143	386,872	59.46%	60.32%	1.44%
Unpaid Family Member	60,272	56,990	9.71%	8.89%	-8.48%
Total Employment	**620,828**	**641,402**	**100.00%**	**100.00%**	--

i. Social Composition: Men and Women

Disaggregating the data uncovers important differences in the work status of men and women as illustrated in Table 20. In first-half 2006, women were less than one-fourth as likely to be employers compared to men, while they were less than one-half as likely to be self-employed. On the other hand, they were about five times as likely as men to be unpaid family labourers.

Table 20
Social Composition of Employed Men and Women
in the oPt, Semi-Annual 2005-2006

Status (Men)	Average Employment QI/QII 2005	Average Employment QI/QII 2006	Social Composition QI/QII 2005	Social Composition QI/QII 2006	Relative Change
Employer	25,380	26,042	4.92%	4.88%	-0.83%
Self-Employed	152,773	156,229	29.63%	29.28%	-1.17%
Wage Employee	307,960	322,314	59.72%	60.41%	1.15%
Unpaid Family Member	29,569	28,998	5.73%	5.43%	-5.22%
Total Employment	**515,683**	**533,583**	**100.00%**	**100.00%**	--
Status (Women)					
Employer	1,204	1,035	1.14%	0.96%	-16.18%
Self-Employed	12,056	14,234	11.47%	13.20%	15.13%
Wage Employee	61,183	64,557	58.19%	59.88%	2.90%
Unpaid Family Member	30,703	27,993	29.20%	25.96%	-11.09%
Total Employment	**105,146**	**107,818**	**100.00%**	**100.00%**	--

Men's social composition was little changed in the year-on-year period. **For women, the main evolution was a large relative increase in the proportion of self-employed and a significant decline in the proportion of unpaid family members.** In absolute terms, the growth in the wage-employed women (about 3,400) is roughly equal to employment gains in services in second-half 2006 (see Table 14). The decline in women's employment in agriculture and commerce (about 1,700) explains most of the decline in women unpaid family labourers (about 2,700) (see Table 14). The growth in self-employment (about 2,100) may have been accentuated by increased micro-lending to women.

[34] The first column contains estimates of average employment by category in first-half 2005 and the second for first-half 2006. The third and fourth columns provide the proportions employed in each category for the respective periods. The last column calculates relative changes in the proportions of each category as between the two periods.

ii. Social Composition: Refugees and Non-Refugees

Comparing the employment status of refugee and non-refugee workers in first-half 2006 (see Table 21) indicates that refugees are one-third less likely to be employers, about one-fourth less likely to be self-employed and about one-third less likely to be unpaid family workers. On the other hand refugees are one-fifth more likely to be wage employees as compared to non-refugees. These are suggestive of a population with fewer non-labour assets.

Table 21
Social Composition of Employed Refugees and Non-Refugees
in the oPt, Semi-Annual 2005-2006

	Average Employment	**Average Employment**	**Social Composition**	**Social Composition**	**Relative**
Status (Refugees)	**QI/QII 2005**	**QI/QII 2006**	**QI/QII 2005**	**QI/QII 2006**	**Change**
Employer	7,569	8,498	3.31%	3.54%	6.87%
Self-Employed	50,952	55,508	22.29%	23.11%	3.70%
Wage Employee	153,155	161,342	66.99%	67.18%	0.28%
Unpaid Family Member	16,939	14,822	7.41%	6.17%	-16.71%
Total Employment	**228,615**	**240,170**	**100.00%**	**100.00%**	--
Status (Non-Refugees)					
Employer	19,015	18,579	4.85%	4.63%	-4.49%
Self-Employed	113,877	114,955	29.03%	28.65%	-1.32%
Wage Employee	215,988	225,530	55.07%	56.21%	2.07%
Unpaid Family Member	43,333	42,169	11.05%	10.51%	-4.87%
Total Employment	**392,213**	**401,232**	**100.00%**	**100.00%**	--

Over the course of the year, total refugee employment growth (5 percent) was about twice that of non-refugees (2.3 percent). In the process, the proportions of employers, the self-employed and wage employees increased among them, while that of unpaid family members declined sharply. In absolute terms, the importance of wage labour growth is greatest and consistent with employment growth in the public sector noted in Table 16. The growth in self-employment is consistent with that in commerce activity, while the decline in unpaid family labour is consistent with a decline in employment in construction activities among refugees (see Table 16).

G. Wage Rates and Monthly Wage Incomes

Labour force participation and employment are important—but incomplete—as measures of the relative well-being of working people. The other necessary ingredient is the real, i.e. purchasing-power, value of the wages and salaries earned from work. Data on wages in the oPt (see Table 22) indicates that **the average daily wage lost about 15 percent of its purchasing power during the period 2000-2005.**

Table 22
Average Real Daily Wages
by Work Force Segment, Annual 2000-2005[35]
(real 1996 NIS)

Work Force Segment	2000	2001	2002	2003	2004	2005	2000-2005 Change
All Employed	62.54	58.51	56.09	53.72	52.78	53.21	-14.92%
Employed Women	45.13	45.67	47.19	45.81	45.36	46.29	2.56%
Employed Refugees	58.06	53.40	50.49	50.34	49.81	49.47	-14.79%

This was the case for men and refugees as segments of the work force. **Women's average daily wage improved marginally during the same period.** The result of this evolution was a trend toward convergence between the real wages of men (the bulk of "all employed") and women and between refugees and non-refugees (the majority of "all employed"). Thus, while the average daily wage for women in 2000 was about 28 percent below the average (reflecting men's wages mainly), the differential in 2005 was only 13 percent in 2005. The smaller differential between refugee and average daily wages also declined slightly to about 7 percent.

Table 23
Average Real Monthly Wage Income
by Work Force Segment, Annual 2000-2005[36]
(real 1996 NIS)

Work Force Segment	2000	2001	2002	2003	2004	2005	2000-2005 Change
All Employed	1,419	1,354	1,289	1,237	1,241	1,243	-12.40%
Employed Women	1,096	1,121	1,152	1,120	1,114	1,154	5.30%
Employed Refugees	1,347	1,277	1,186	1,157	1,180	1,184	-12.10%

As the real daily wage declined, Palestinian working people compensated by modestly increasing the average number of monthly days worked over this period. As the monthly wage is the product of the number of days worked and the daily wage rate, the net result was that monthly wage incomes declined by less than the daily wage rates, as indicated in Table 24. Due to the greater work effort of women and refugees—more monthly days worked on average—the monthly incomes among the three segments of workers converged more than the daily wage rates. **Thus, just as unemployment rates for men and women and refugees and non-refugees have converged since 2000, so too have daily wage rates and monthly wage incomes in real terms.**

For the year-on-year period, monthly wages averaged a 3.3 percent real increase (see Table 24) with women's and refugees' outpacing the average. For the most recent period, data suggests an improvement in monthly wage incomes which rose 1.3 percent in real terms in

[35] Data are derived by dividing the average daily NIS wage (in nominal terms) by the CPI deflator with base year 1996 for each work force segment. Average real daily wages thus reflect their purchasing power in 1996. Average daily wages are from PCBS labour force surveys while CPI data is derived from PCBS consumer price surveys for the respective years.

[36] Monthly wage income is the product of the average number of monthly days worked and the average daily NIS wage (in nominal terms) for each work force segment. The result is then divided by the CPI deflator with base year 1996 to arrive at the real purchasing power value of the monthly income. Working days and average daily wages are from PCBS labour force survey data while CPI data is from PCBS consumer price surveys.

QI-2006 and less than 1 percent in QII-2006. Women and refugees obtained better than average results in QI-2006 and worse than average results in QII-2006. Refugees' better QI-2006 results may be due to the net employment loss in low wage agriculture and manufacturing and net gains in relatively high wage services, especially public services (see Table 16). Women's worse QII-2006 results seem to be related to the surge of women's employment in relatively low-paying agriculture and manufacturing (see Table 14).

Table 24
Average Real Monthly Income
by Work Force Segment, Quarterly 2005-2006
(real 1996 NIS)

Wages by Segment	**QI-2005**	**QII-2005**	**QIV-2005**	**QI-2006**	**QII-2006**
All Employed Persons	1,194	1,264	1,248	1,265	1,273
Employed Women	1,073	1,165	1,219	1,236	1,154
Employed Refugees	1,155	1,194	1,200	1,241	1,233
		QIV-05-	**QI-06-**	**QI/QII-05-**	
Changes by Segment		**QI-06**	**QII-06**	**QI/QII-06**	
All Employed Persons		1.36%	0.61%	3.31%	
Employed Women		1.33%	-6.59%	6.75%	
Employed Refugees		3.38%	-0.63%	5.34%	

H. Public Sector Employment and Wages

The crisis faced by Palestinians in first-half 2006 stems largely from the inability of the PA—given the GOI impounding of VAT and customs revenues and the donor boycott—to pay the salaries of public employees, a share of the working population which has expanded in recent years.

Table 25
Average Employment, Distribution of Employment and
Growth Rates by Sector in the oPt, Annual 2000-2005[37]

	Average	**Average**	**Employment**	**Employment**	**Absolute**	**Rate of**
	Employed	**Employed**	**Distribution**	**Distribution**	**Growth**	**Growth**
Sector	**2000**	**2005**	**2000**	**2005**	**00/05**	**00/05**
Public	116,247	145,093	19.53%	22.94%	28,846	24.81%
Private	362,989	424,448	60.99%	67.11%	61,459	16.93%
Israel	115,941	62,930	19.48%	9.95%	-53,010	-45.72%
Totals	**595,176**	**632,471**	**100.00%**	**100.00%**	**37,295**	**6.27%**

As indicated in Table 25, the share of average annual employment accounted for by the public sector rose from 19.5 percent in 2000 to about 23 in 2005. Private sector employment grew from a 61 percent share to a 67 percent share in the same period. **In absolute terms, public sector employment grew 24.8 percent—to an annual average of 145,000 persons in 2005—50 percent more rapidly than private sector employment. Employment in Israel**

[37] Public sector includes central government employment only. Employment in public local authorities, in UNRWA and other international organizations, as well as that in NGOs, is included in the private sector. Employment in Israel includes that in Israeli settlements and industrial zones. Data from PCBS labour force surveys by special request.

declined by almost half in absolute terms and as a proportion of employed Palestinians.[38]

As noted above, the public sector has been the main source of job growth in the past year. Absolute public sector employment growth exceeded that of the private sector by an average of 5,500 jobs as indicated in Table 26. On average, there were more than 15,000 more jobs in the public sector in first-half 2006 relative to first-half 2005—a growth rate of 10.7 percent. Private sector job growth was only about one-quarter of this (2.2 percent), while Palestinians continued to lose employment in Israel with an average net loss of 4,000 jobs.

Table 26
Average Employment, Distribution of Employment and Growth Rates by Sector in the oPt, Semi-Annual 2005-2006[39]

Sector	Average Employment QI/QII 2005	Average Employment QI/QII 2006	Employment Distribution QI/QII 2005	Employment Distribution QI/QII 2006	Absolute Growth 05/06	Rate of Growth 05/06
Public	141,766	156,919	22.84%	24.47%	15,153	10.69%
Private	415,843	425,292	66.98%	66.31%	9,449	2.27%
Israel	63,219	59,190	10.18%	9.23%	-4,029	-6.37%
Totals	**620,828**	**641,402**	**100.00%**	**100.00%**	**20,573**	**3.31%**

A central aim of this study is to measure the impact of the PA fiscal crisis and, in particular, the non-payment of public sector employee salaries. **Despite the non-payment of salaries, the labour force surveys confirm that Palestinian public employees continued to turn up for work and perform their duties throughout first-half 2006. Thus the 160,000 plus public sector employees were counted as employed during this period even though they were not fully paid.**

The most direct and immediate effect of the non-payment of salaries was the loss by one-fourth of the work force of its main source of income. With average households of about 6.3 persons in first-half 2006, the loss of income has directly affected more than one million persons—more than one-quarter of the oPt population.

As Table 27 illustrates, the loss of income has more severely impacted specific segments of the Palestinian population. **For example, the Gaza Strip, where almost 41 percent of employment was in the public sector, has been more severely affected than the West Bank where only 18.5 percent of the employed relied on public sector jobs. For the same reason, the impact has been greater on employed refugees—31.7 percent of whom worked in the public sector in first-half 2006.**

The average monthly PA wage bill during first-half 2006 is estimated at about USD 94.3 million, about the same as that in QIV-2005.[40] This sum reflected average PA salary increases of about 15 percent in second-half 2005. Under normal conditions, the 160,000 plus public employees should have received a total of about USD 565.6 million in salaries during

[38] These declines were the result of GOI's closures policy and the reduced numbers of work permits issued. These policies precipitated the unprecedented unemployment and poverty rates after 2000.

[39] Public sector employment are estimates based on PCBS labour force surveys. PCBS estimates QII-2006 public employment at 161,450.

[40] Data are from Ministry of Finance, Gaza, August 2006. This sum excludes transfer payments to existing and retired employees.

first-half 2006. In reality, they received the equivalent of only 2.5-months' salary—USD 235.7 million—during the six-month period—less than 42 percent their due.[41]

Table 27
Average Public Employment, Average Total Employment and Public Share of Employment by Region, Gender and Refugee Status in the oPt, First-Half 2006[42]

Region/ Segment	Average Public Employment QI/QII 2006	Average Total Employment QI/QII 2006	Public Share of Total Employment
West Bank	87,195	470,423	18.54%
Gaza Strip	69,724	171,195	40.73%
Men	126,344	533,583	23.68%
Women	30,575	107,818	28.36%
Refugees	76,261	240,170	31.75%
Non-Refugees	80,658	401,232	20.10%

Thus, the most important and direct effect of the PA fiscal crisis was a USD 330 million shortfall in incomes to public employee households in first-half 2006. The loss of household income was, by extension, a loss of revenues to businesses and other establishments that sell goods and services to households. This has additional and dampening knock-on effects on general business activity. In addition to lost wage incomes, the fiscal crisis resulted in reduced PA expenditures on other goods and services purchased from the private sector. So-called "non-wage" expenditures (which include Ministry of Social Welfare payments to hardship cases) have been reduced from about USD 60 million per month in QIV-2005 to less than USD 30 million in first-half 2006—a net reduction of USD 180 million in expenditures during the period.

Thus, excluding the knock-on or multiplier effects, the crisis has directly reduced the public sector's contribution to income and business sales by more than USD 500 million in first-half 2006, equal to more than one-tenth of GDP for the period. Such a decline has had measurable effects on the number of households and persons living in poverty (as discussed below).

[41] PA employees were paid their normal salaries in January and February 2006, the last regular payment being made on 3 March. In June, the PA was able, using domestic revenues and cash donations from abroad, to pay one month's salary—about NIS 1,500—to 40,000 of the lowest paid employees and advances of that sum to the other employees. See International Crisis Group *Palestinians, Israel, and the Quartet: Pulling Back from the Brink* Middle East Report No. 54 , 13 June 2006, p. 8; World Bank *West Bank and Gaza: Fiscal Developments in 2006*, July 2006, p. 7.

On 22 July, the PA was able to pay NIS 1,200 to all employees. Thus, by July, 40,000 low-paid PA employees had received the equivalent of two months' salary since March (40 percent of their salaries); employees paid NIS 1,500-2,500 per month have received one month's salary (20 percent of their salaries); and employees paid more than NIS 2,500 per month have received one-half month's salary (10 percent of their salaries). See UN *Humanitarian Monitor Occupied Palestinian Territory, n*umber 3, July 2006, p. 3.

[42] The sum of West Bank and Gaza Strip public employment equals the sum of men and women's public empoyment equals the sum of refugee and non-refugee public employment equals total average public employment of 156,919 in first-half-2006. Averag total employment in first-half 2006 was 641,400. Employment estimates are from PCBS by special request.

VI. Poverty, Poverty Gaps and Humanitarian Assistance

A. Defining Poverty in the Palestinian Context

There are multiple definitions of what constitutes poverty; thus it is important to specify the term precisely.[43] **The first distinction to be made is that the best measures of poverty use household or individual expenditures and consumption—and not income—as the main criterion.** Using income as the main criterion to measure poverty is problematic in at least two ways. First, respondents in household or individual surveys worldwide consistently understate their incomes for various reasons (e.g. avoiding taxes, maximizing social welfare benefits, etc.). Understating income automatically overstates poverty. Second, even if income were accurately reported, it would tend to capture only the portion of income received via money payments—i.e. wages, salaries, rents, profits and revenues—from formal or informal economic activity. It would miss that portion of income received as transfers in kind, whether from relatives, neighbours or social welfare institutions (e.g. the Ministry of Social Affairs, UNRWA) and insurance coverage. It would also overlook the home-production of food, shelter, clothing, utensils and/or other items that are consumed within the household. The focus on money incomes would underestimate non-money income and, therefore, overestimate poverty. **Thus, poverty is more accurately measured on the basis of individual or household expenditures and consumption which better reflect needs.**

In 1998, the Palestinian National Commission for Poverty Alleviation defined two poverty lines—**official poverty and deep poverty**—on the basis of actual average **consumption expenditures** of Palestinian households.[44] 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 Commission took into account the fact that children consume less than adults and that household consumption expenditures are subject to economies of scale, i.e. per capita consumption expenditures on housing and other amenities decrease as the number of the persons in the household increase.[45]

In establishing the broader **official poverty line**, the Commission considered Palestinian household consumption of nine categories of goods and services: food, clothing, housing, utensils and bedding, housekeeping supplies, health care, personal care, education and transportation. Adjusting for household size, households were ranked from highest to lowest on the basis of monthly expenditures for these items. Those households whose consumption of these items was below the average household in the 30th percentile (in ascending order) were defined as the **official poor**.

In 2004 PCBS estimated the official poverty line for the representative household to be NIS 1,934 in monthly consumption expenditures. Assuming a six-person representative household, the official *per capita* poverty line was established at NIS 322 in monthly consumption. At the prevailing 2004 average NIS/USD exchange rate, the official poverty line amounted to USD 71.8 in monthly—or USD 2.4 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.**

[43] Technical advice and assistance for this section was provided by the PCBS.

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

[45] Adults in households are persons 18 years old and above while children are less than 18 years of age. For a representative household, consisting of six persons—two adults and four children—the adult equivalent (AE) is calculated as follows: $AE = (2 + (.46*4))^{.89} = 3.31$, where 2 is the number of adults and 4 is the number of children.

In establishing the narrower **deep poverty line**, the Commission considered Palestinian household consumption of only three categories of goods and services: food, clothing and housing. Again, adjusting for household size, households were ranked from highest to lowest on the basis of monthly expenditures for these basic items. Those households whose consumption of the basics was below the average household in the 30th percentile (in ascending order) were defined as **deep poor** households.

In 2004 PCBS estimated the deep poverty line for the representative household to be NIS 1,622 in monthly consumption expenditures or about USD 362. For the six-person representative household, the deep *per capita* poverty line was therefore estimated at about USD 60 per month or about USD 2 per day. **Households or individuals below this level of consumption are considered unable to meet basic needs.**

B. Palestinian Household Consumption

Estimates of household and individual poverty lines are based on PCBS expenditure and consumption surveys. The surveys include detailed information on what households consume—whether or not such consumption entails monetary expenditures. Table 28 below provides an overview of average monthly household consumption for the four most recent full years for which household surveys were conducted.

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, "consumption" is equal to monetary expenditures. The "own-produced" items (A9 and B12) indicate consumption without expenditures. Item 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. (The household consumption surveys estimate the value of "housing services" consumed by homeowners as equal to what the home would rent for in the open market while rents paid by households who do not own their dwellings are included in item B2.)

Table 28
Average Monthly Household Consumption in the oPt,
All Households, 1998-2005[46]
(in nominal USD)

	1998	2001	2004	2005
A. Food Consumption	**322.5**	**273.0**	**282.7**	**291.8**
1. Breads and Cereals	48.2	40.6	44.3	43.2
2. Meat, Poultry and Fish	92.0	71.0	73.1	79.7
3. Dairy Products and Eggs	26.5	24.6	23.9	23.6
4. Oils and Fats	13.7	8.4	9.7	9.7
5. Fruits, Vegetables and Nuts	74.1	66.0	62.1	62.2
6. Sugar, Confections, Salt, Spices	29.2	28.5	30.2	32.5
7. Beverages	15.7	12.3	12.3	12.7
8. Restaurant/Take Out Food	12.1	11.6	15.5	17.1
9. Own-Produced Foods	11.0	10.1	11.5	11.0
B. Non-Food Consumption	**523.1**	**568.5**	**546.8**	**583.0**
1. Clothing and Footwear	64.5	48.4	49.9	60.0
2. Housing	56.4	73.4	73.9	61.6
3. Medical Care	30.3	27.8	31.1	30.4
4. Education	27.3	37.0	25.1	27.6
5. Transport and Communications	78.3	86.4	91.3	109.7
6. Household Operations	10.1	11.5	11.1	1.6
7. Personal Care	16.0	16.7	18.7	20.8
8. Furniture and Utensils	31.9	34.6	34.1	39.8
9. Recreation	23.5	24.5	18.5	21.4
10. Tobacco	35.6	34.4	32.7	38.2
11. Other Non-Food	30.8	30.0	28.3	39.4
12. Own-Produced Non-Foods	118.3	143.8	132.4	132.5
C. Total Household Consumption	**845.6**	**841.5**	**829.6**	**874.8**
Average Household Size	*7.0*	*6.9*	*6.6*	*6.5*

The average Palestinian household consumed an average of USD 847 in goods and services per month in nominal terms in the four years of the survey. Of this amount, food accounted for an average of about 34 percent of all consumption, housing accounted for about 24 percent, clothing for about 6.5 percent, education and health care for about 3.5 percent each and transportation and communications for about 10.5 percent. In all, these six basic items accounted for an average of 82.3 percent of total consumption. With an average household of 6.75 persons, per capita monthly consumption was an average of USD 125—about USD 4.15 per person per day—in the four years of the survey. **Average per capita daily consumption was, therefore, about twice that of the deep poor.**

[46] Data are from PCBS expenditure and consumption surveys for the respective years. Original NIS values were rendered into USD values using average NIS/USD exchange rates as provided by the Palestinian Monetary Authority, August 2006. Several categories of consumption expenditures have been consolidated for simplicity.

Table 29
Index of Inflation-Adjusted Average Monthly Household Consumption in the oPt, All Households, 1998-2005[47]
(with 1998 base year)

	1998	2001	2004	2005	Index Change 1998-2005
A. Food Consumption	**100**	**89**	**93**	**92**	**-8.33%**
1. Breads and Cereals	100	88	93	88	-12.26%
2. Meat, Poultry and Fish	100	81	81	85	-15.23%
3. Dairy Products and Eggs	100	97	92	87	-12.66%
4. Oils and Fats	100	64	72	69	-30.81%
5. Fruits, Vegetables and Nuts	100	93	85	82	-17.83%
6. Sugar, Confections, Salt, Spices	100	102	105	109	8.90%
7. Beverages	100	77	70	69	-31.48%
8. Restaurant/Take Out Food	100	101	130	139	38.82%
9. Own-Produced Foods	100	96	106	98	-2.42%
B. Non-Food Consumption	**100**	**109**	**98**	**96**	**-4.27%**
1. Clothing and Footwear	100	82	87	103	3.17%
2. Housing	100	118	111	89	-11.09%
3. Medical Care	100	92	97	92	-7.82%
4. Education	100	136	86	94	-6.18%
5. Transport and Communications	100	96	80	93	-6.55%
6. Household Operations	100	125	122	17	-82.90%
7. Personal Care	100	99	102	108	8.07%
8. Furniture and Utensils	100	119	118	134	33.90%
9. Recreation	100	137	108	127	26.97%
10. Tobacco	100	95	82	91	-8.80%
11. Other Non-Food	100	93	80	107	6.60%
12. Own-Produced Non-Foods	100	116	98	93	-6.60%
C. Total Household Consumption	**100**	**102**	**96**	**94**	**-5.69%**
Average Household Size	*7.0*	*6.9*	*6.6*	*6.5*	*-7.31%*

In order to measure changes in the real living levels of the average Palestinian households, Table 29 provides an index of monthly consumption expenditures for the four years. The normalized base year—1998—represents the average level of consumption two years before the onset of the crisis in late-2000. The index numbers for 2001 are suggestive of the severity of the initial decline in average living levels in the first full year of the crisis.[48] **Average monthly household food consumption was 11 percent below its 1998 level.** Non-food consumption was 9 percent greater, accounted for mainly by greater estimated housing

[47] The indexes in this table are derived by deflating nominal NIS consumption by commodity group by the corresponding component of the consumer price index with 1997 as the base year. Resulting data for 1998 were normalized at 100 and data for subsequent years were calculated as ratios of the 1998 level of consumption expenditures. Thus differences in the index can be read as percentage differences in real consumption as between the 1998 base year and the year in question.

[48] The real decline in household consumption was likely sharper as general economic conditions continued to improve in 1999 and 2000 before the onset of the second *Intifada*. Average household consumption probably reached its low point in 2002-2003, years when the PCBS did not conduct household consumption surveys. See World Bank *Four Years—Intifada, Closures and Palestinian*, October 2004.

costs—both explicit and imputed—which weigh more heavily in the non-food consumption budget.

By 2005, monthly total real (inflation-adjusted) household consumption was 5.7 percent below its 1998 level, with food consumption down 8.3 percent and non-food consumption down 4.2 percent. Meanwhile, the size of the average household fell by 7.3 percent—more rapidly than the drop in average household consumption. **When household size is factored into the calculation, real per capita food consumption declined only about 1 percent, while non-food consumption increased by about 3 percent during the seven-year interval. That food consumption did not fall further is mainly attributable to significant amounts of external emergency and humanitarian assistance.**

Table 30
Average Monthly Consumption for Refugee Households and All Households in the oPt, 2001-2005[49]
(in nominal USD)

	2001	2004	2005	Refugee Household Average 2001-2005	All-Household Average 2001-2005	Refugee Household Difference 2001-2005
A. Food Consumption	**255.3**	**264.5**	**281.5**	**267.1**	**282.5**	**-5.77%**
1. Breads and Cereals	36.6	41.7	40.5	39.6	42.7	-7.88%
2. Meat, Poultry and Fish	65.0	66.2	74.8	68.7	74.6	-8.64%
3. Dairy Products and Eggs	23.8	21.7	22.4	22.6	24.0	-6.23%
4. Oils and Fats	8.6	9.9	10.3	9.6	9.3	3.18%
5. Fruits, Vegetables and Nuts	64.9	62.1	62.8	63.2	63.4	-0.32%
6. Sugar, Confections, Salt, Spices	28.5	30.8	33.7	31.0	30.4	1.97%
7. Beverages	11.3	11.3	11.7	11.4	12.4	-8.81%
8. Restaurant/Take Out Food	11.9	15.1	18.8	15.3	14.8	3.35%
9. Own-Produced Foods	4.8	5.8	6.5	5.7	10.9	-90.73%
B. Non-Food Consumption	**525.9**	**527.8**	**559.3**	**537.7**	**566.1**	**-5.29%**
1. Clothing and Footwear	43.1	45.2	62.0	50.1	52.8	-5.28%
2. Housing	72.5	75.0	59.6	69.0	69.7	-0.92%
3. Medical Care	22.4	24.6	27.6	24.9	29.7	-19.55%
4. Education	34.1	25.5	24.9	28.2	29.9	-6.18%
5. Transport and Communications	75.3	94.1	108.5	92.7	95.8	-3.37%
6. Household Operations	10.2	10.3	0.9	7.1	8.1	-13.09%
7. Personal Care	17.0	18.0	21.5	18.8	18.7	0.50%
8. Furniture and Utensils	30.1	32.6	38.9	33.9	36.2	-6.80%
9. Recreation	23.0	19.4	17.2	19.9	21.5	-8.06%
10. Tobacco	32.4	32.3	38.7	34.4	35.1	-1.86%
11. Other Non-Food	27.6	24.9	31.9	28.1	32.6	-15.79%
12. Own-Produced Non-Foods	138.3	126.0	127.6	130.6	136.2	-4.28%
C. Total Household Consumption	**781.3**	**792.3**	**840.8**	**804.8**	**848.6**	**-5.45%**
Average Household Size	*7.0*	*6.7*	*6.8*	*6.8*	*6.7*	*2.13%*

[49] Data are from PCBS expenditure and consumption surveys for the respective years. Original NIS values were rendered into USD values using average NIS/USD exchange rates as provided by the Palestinian Monetary Authority, August 2006. Several categories of consumption expenditures have been consolidated for simplicity.

Separate refugee household consumption data for 1998 are not available but comparisons with the all-household averages can be made for 2001, 2004 and 2005. As indicated in Table 30, average refugee household monthly consumption in USD terms was generally on the rise during the crisis years of the *Intifada* (as they were for all households—see Table 28) and averaged about USD 804.

Nonetheless, refugee household consumption remained an average of 5.4 percent below that for all households with similar proportional discrepancies in overall food and non-food categories. **When the larger size of refugee households (2.1 percent larger than average households) is factored into the equation, the per capita refugee consumption deficit rises to about 7.5 percent. There were even larger refugee deficits in several crucial categories including protein-rich foods (items A2 and A3) and in health and education services.** On the other hand, refugee households, on average, consumed more detrimental oils and fats and sugar-based products compared to households as a whole.

Table 31
Index of Inflation-Adjusted Average Monthly Refugee Household Consumption in the oPt, 2001-2005
(with 2001 base year)

				Index Change
	2001	**2004**	**2005**	**2001-2005**
A. Food Consumption	**100**	**104**	**108**	**8.36%**
1. Breads and Cereals	100	110	103	3.43%
2. Meat, Poultry and Fish	100	99	108	7.78%
3. Dairy Products and Eggs	100	88	88	-11.86%
4. Oils and Fats	100	112	112	12.22%
5. Fruits, Vegetables and Nuts	100	93	91	-9.47%
6. Sugar, Confections, Salt, Spices	100	105	111	10.80%
7. Beverages	100	92	89	-10.74%
8. Restaurant/Take Out Food	100	123	148	47.62%
9. Own-Produced Foods	100	116	125	25.45%
B. Non-Food Consumption	**100**	**94**	**94**	**-6.49%**
1. Clothing and Footwear	100	108	146	45.85%
2. Housing	100	96	74	-26.42%
3. Medical Care	100	104	113	13.36%
4. Education	100	70	68	-32.22%
5. Transport and Communications	100	99	110	10.20%
6. Household Operations	100	102	9	-90.96%
7. Personal Care	100	98	111	10.90%
8. Furniture and Utensils	100	109	127	26.79%
9. Recreation	100	88	80	-20.46%
10. Tobacco	100	91	103	3.27%
11. Other Non-Food	100	83	101	1.05%
12. Own-Produced Non-Foods	100	84	81	-19.25%
C. Total Household Consumption	**100**	**98**	**99**	**-1.26%**
Average Household Size	*7.0*	*6.7*	*6.8*	-3.04%

The consumption gaps between refugee households and households at large during five crisis years (2001-2005) suggest refugees were more susceptible to consumption poverty. **While refugees do in fact suffer higher poverty rates (see following section), data suggests that refugees were able to maintain overall real household consumption levels during those**

years due to significant amounts of external assistance. As compared to the base year 2001, and adjusting for inflation, Table 31 indicates that, on average, refugee household consumption in 2005 was down 1.2 percent, with food consumption up 8.3 percent and non-food consumption down 6.5 percent.

Since the size of the average refugee household declined by 3 percent, *per capita* food consumption rose more than 11 percent between 2001 and 2005 while *per capita* non-food consumption declined by 3.5 percent. Leading the growth in food consumption was meat, poultry and fish, breads and cereals and sugar and its derivatives. At the same time, there were notable declines in the consumption of dairy products and eggs and fruits and vegetables. Declines in non-food consumption were driven mainly by the decline in housing services (whether rented or owned) and education. There were notable increases in transportation and communications expenditures.

The data suggests that, while gaps between refugee and non-refugee households have persisted during the crisis years, the gaps have gotten smaller for two reasons: first, the population as a whole has grown poorer in consumption terms as indicated in Table 29; second, refugees seem to have received disproportionate amounts of emergency and humanitarian assistance in the *Intifada* years.

C. Counting the Palestinian Poor

As indicated in Table 32 below, while the total oPt population grew by some 30 percent between 1998 and 2005, **the number of Palestinians in poverty grew at more than three times that rate—despite significant amounts of emergency and humanitarian assistance provided during the 2001-2005 period**. There were an estimated 1.3 million persons in 170,000 households living below the official poverty line in 2005—nearly double the number in 1998. **Most of the poor—820,000 persons in 104,000 households—also lived in deep poverty. Of note is the unprecedented leap in the number of poor and poor households as between 1998 (prior to the second *Intifada*) and 2001 (its first full year).**[50]

Among those living under the official poverty line in 2005 were 623,200 refugees in some 81,350 households while deep poverty afflicted more than 406,000 refugees in 51,500 households in the oPt. While refugee poverty was not measured in the 1998 surveys, data for subsequent years indicate that a disproportionate share of the poor and poor households were accounted for by refugees as indicated in Table 33 below.

[50] According to World Bank estimates, the number of poor continued to decline throughout 1999 and 2000 until the beginning of the second *Intifada*. The jump in poverty was, therefore, even more dramatic than indicated here. See World Bank *Four Years—Intifada, Closures and Palestinian*, October 2004.

Table 32
Official and Deep Poverty among Individuals and Households by Refugee Status in the oPt, 1998-2005[51]

					Absolute Growth
	1998	**2001**	**2004**	**2005**	**1998-2005**
Total Population	2,897,113	3,275,389	3,637,529	3,762,005	29.85%
of which: Non-Refugee	1,700,107	1,922,090	2,134,604	2,207,650	
of which: Refugee	1,197,006	1,353,299	1,502,925	1,554,355	
All Households	411,596	474,997	547,698	576,594	40.09%
of which: Non-Refugee	242,299	279,622	322,420	339,430	
of which: Refugee	169,297	195,375	225,278	237,164	
Official Poor Persons	673,662	1,101,711	1,113,050	1,307,355	94.07%
of which: Non-Refugee	n.a.	545,399	608,407	684,133	
of which: Refugee	n.a.	556,312	504,643	623,222	
Official Poor Households	83,494	132,393	140,185	170,053	103.67%
of which: Non-Refugee	n.a.	66,200	74,912	88,695	
of which: Refugee	n.a.	66,192	65,273	81,358	
Deep Poor Persons	420,241	790,605	738,830	820,008	95.13%
of which: Non-Refugee	n.a.	365,822	412,464	413,893	
of which: Refugee	n.a.	424,784	326,366	406,115	
Deep Poor Households	51,600	92,630	89,895	104,148	101.84%
of which: Non-Refugee	n.a.	43,347	48,193	52,612	
of which: Refugee	n.a.	49,283	41,702	51,536	

In the *Intifada* years, poverty rates for refugees and non-refugees were significantly higher than for 1998, emblematic of the long-term crisis. Individual deep poverty rates were an average of 52 percent greater in the 2001-2005 relative to 1998 while household deep poverty rates were about 44 percent greater. Throughout the period, there were persistently higher poverty rates for refugees relative to the population as a whole with some convergence in rates between 2001 and 2004, followed by greater divergence in 2005. **The burden of poverty, whatever the measure, was borne disproportionately by refugees. While refugees were about 41 percent of all persons and households in the oPt, they accounted for about half of the deep poor and deep poor households in the post-2000 period**.

[51] Estimates of total population and total households are from PCBS by special request, September 2006 and include East Jerusalem. Estimates of refugee population and refugee households are calculated using their respective proportions per the Palestinain census of 1997, e.g. 41.3 percent and 41.1 percent. The poverty rates and the number of poor and poor households are based on PCBS household consumption surveys including *all external assistance received whether official or private*. Surveys for intervening years were not conducted by PCBS. Questions concerning refugees separately were not included in the 1998 surveys.

Table 33
Official and Deep Poverty Rates for Individuals and Households by Refugee Status in the oPt, 1998-2005[52]

Official Poverty Rates	1998	2001	2004	2005
All Persons	23.25%	33.64%	30.60%	34.75%
Refugees	n.a.	41.11%	33.58%	40.10%
All Households	20.29%	27.87%	25.60%	29.49%
Refugee Households	n.a.	33.88%	28.97%	34.30%
Deep Poverty Rates				
All Persons	14.51%	24.14%	20.31%	21.80%
Refugees	n.a.	31.39%	21.72%	26.13%
All Households	12.54%	19.50%	16.41%	18.06%
Refugee Households	n.a.	25.22%	18.51%	21.73%
Refugee Shares of Poverty				
Refugees/All Persons (Official)	n.a.	50.50%	45.34%	47.67%
Refugee Households/All Households (Official)	n.a.	50.00%	46.56%	47.84%
Refugees/All Persons (Deep)	n.a.	53.73%	44.17%	49.53%
Refugee Households/All Households (Deep)	n.a.	53.20%	46.39%	49.48%

D. Estimating the Poverty Gap and the Effects of Humanitarian Assistance

To effectively address widespread poverty in the oPt, it is necessary to focus on its most severe manifestation—**deep poverty**. The deep poor have the lowest living levels, constitute the vast majority of those below the official poverty line and are disproportionately refugees (see Table 32). With an average of 8.2 persons, deep poor households were about 20 percent larger than households in general over the period 1998-2005. Per capita monthly consumption of the deep poor was less than 40 percent of average in the oPt throughout this period, as indicated in Table 34.

Table 34
Average Household Size and Per Capita Monthly Consumption by Refugee and Poverty Status in the oPt, 1998-2005[53]
(consumption data in nominal USD)

Average Household Size	1998	2001	2004	2005
All Households	7.0	6.9	6.6	6.5
Refugee Households	n.a.	7.0	6.7	6.8
Deep Poor Households	8.1	8.5	8.2	7.9
Deep Poor Refugee Households	n.a.	8.7	7.9	8.1
Per Capita Monthly Consumption (USD)				
All Persons	121	122	126	135
Refugees	n.a.	112	118	124
Deep Poor Persons	41	46	47	50
Deep Poor Refugees	n.a.	46	49	49

[52] Consumption poverty rates are from PCBS by special request, September 2006 and include East Jerusalem. Poverty rates are derived from household consumption surveys for the indicated years and include *all external assistance received from all sources*. Per capita poverty rates are calculated on the assumption that all members of poor households are poor.

[53] PCBS data provided by special request, September 2006 and includes external assistance received.

The **per capita monthly deep poverty line**—a level reflective of basic needs—was estimated by the PCBS at USD 64 in nominal terms in 2005 (see Table 35). Multiplying the per capita deep poverty line by the average number of persons in deep poor households (see Table 34) yields the **adjusted household deep poverty lines** as given in Table 35.[54] For the average deep poor household in 2005, the adjusted poverty line was USD 507 in monthly consumption while for the average deep poor *refugee* household, the adjusted poverty line was USD 524 (reflecting the larger size of refugee households).

The difference between the **adjusted deep poverty lines** and **actual monthly consumption** for deep poor households and persons can be defined as the **poverty gap**, i.e. the amount of expenditures required to raise the consumption level of the average deep poor person (or household) to the relevant deep poverty line. In other words, it is a measure of the monthly cost of **eliminating deep poverty**.

Table 35
Monthly Poverty Lines, Consumption and Poverty Gaps for the Deep Poor by Refugee Status in the oPt, 1998-2005[55]
(in nominal USD)

Adjusted Deep Poverty Lines (USD)	**1998**	**2001**	**2004**	**2005**
All Households	426	511	496	507
Refugee Households	n.a.	521	476	524
Per Capita	52	60	60	64
Monthly Deep Poor Consumption (USD)				
All Households	337	394	388	393
Refugee Households	n.a.	396	386	402
Per Capita (All Persons)	41	46	47	50
Per Capita (Refugees)	n.a.	46	49	49
Deep Poverty Gap (USD)				
All Households	90	117	108	114
Refugee Households	n.a.	124	91	122
Per Capita (All Persons)	11	14	13	14
Per Capita (Refugees)	n.a.	14	12	15

In 1998, it would have cost about USD 90 per month to increase the average deep poor family's consumption level to the deep poverty line, while in 2005, due to price inflation, the cost was an estimated USD 114 per month. Alternatively, it would have cost about USD 11 in per capita expenditures per month to eliminate deep poverty in 1998 and USD 14 in 2005. On a per capita basis, the cost of eliminating deep poverty among refugees was not significantly different than for non-refugees.

[54] PCBS provides the household deep poverty line for a six-person representative household. As deep poor households are larger on average, the household deep poverty line must be adjusted upward.

[55] Based on PCBS data by special request, September 2006 and inclusive of all assistance received.

Combining the **number of deep poor individuals** with **per capita poverty gaps** allows for an estimate of the *additional* resources[56] required to eliminate deep poverty in the oPt as indicated in Table 36. Thus approximately USD 11.9 million in additional monthly expenditures, if perfectly targeted, would have raised the consumption levels of 820,000 deep poor Palestinians to basic needs sufficiency in 2005. **On an annual basis, the required additional resources would have been USD 142.8 million. To eliminate deep poverty among refugees would have required about USD 73.1 million in additional resources in 2005.**

Table 36
Monthly Deep Poverty Gaps and the Deep Poor by Refugee Status and the Estimated Additional Monthly Cost of Eliminating Deep Poverty in the oPt, 1998-2005[57]
(in nominal USD)

Deep Poverty Gaps (USD)	**1998**	**2001**	**2004**	**2005**
Per Capita (All Persons)	11	14	13	14
Per Capita (Refugees)	n.a.	14	12	15
Deep Poor				
All Persons	420,241	790,605	738,830	820,008
Refugees	n.a.	424,784	326,366	406,115
Additional Required Resources (USD)				
All Persons	4,635,114	10,792,895	9,669,570	11,896,787
Refugees	n.a.	6,074,825	3,756,205	6,097,707

Table 36 indicates that the value of the overall monthly deep poverty gap declined by about USD 1 million between 2001 and 2004 due to the reduced *refugee* poverty gap (the latter declined by USD 2.3 million on a monthly basis). Relative improvements in economic conditions in 2003-2004, after steep declines in 2001-2002, and substantial amounts of humanitarian assistance,[58] especially to refugees, reduced the number of deep poor and/or the *severity* of deep poverty—i.e. the degree of divergence of per capita deep poor consumption levels from the deep poverty line—and, therefore, the magnitude of the poverty gap. **The increase in the poverty gap in 2005—some USD 2.2 million on a monthly basis—was accounted for almost entirely by an increase in deep poverty and/or poverty severity among refugees.**

[56]Deep poor consumption levels are calculated inclusive of assistance from all sources. Thus the poverty gaps represent the amount of *additional* assistance required to eliminate deep poverty.

[57] Based on PCBS data by special request, September 2006. Monthly consumption figures inclusive of assistance received from all sources.

[58] The World Bank estimates annual humanitarian assistance to the oPt (inclusive of the UNRWA Emergency Appeal) as follows: 2001: USD 214 million; 2002: USD 365 million; 2003: USD 264 million; 2004: USD 345 million; 2005: USD 500 million. See World Bank *Four Years—Intifada, Closures and Palestinian,* October 2004, p. 66; *West Bank and Gaza Update,* June 2005, pp. 24-26 and April 2006, p. 4.

To assess the effects of humanitarian assistance on the number of deep poor, PCBS has estimated *pre-assistance* and *post-assistance* deep poverty rates for 2004 and 2005.[59] As indicated in Table 37, humanitarian assistance in 2004 reduced the total deep poor count by 13.5 percent. The non-refugee deep poor count was reduced by 10.6 percent while that for deep poor refugees was reduced by 16.8 percent.[60]

Table 37
Deep Poor and Deep Poverty Rates by Refugee Status
Pre- and Post-Assistance in the oPt, 2004-2005[61]

	Pre-Assistance 2004	**Post-Assistance 2004**	**Absolute Changes 2004**	**Pre-Assistance 2005**	**Post-Assistance 2005**	**Absolute Changes 2005**
Deep Poor Persons	854,020	738,830	-13.49%	1,032,862	820,008	-20.61%
Non-Refugees	461,638	412,464	-10.65%	497,734	413,893	-16.84%
Refugees	392,382	326,366	-16.82%	535,127	406,115	-24.11%
Deep Poverty Rates			**Relative Changes**			**Relative Changes**
All Persons	23.48%	20.31%	-13.49%	27.46%	21.80%	-20.61%
Refugees	26.11%	21.72%	-16.82%	34.43%	26.13%	-24.11%

In 2005, despite improvements in labour market conditions and nominal increases in average household and average deep poor household consumption, the pre-assistance number of deep poor increased by about 179,000 persons or 21 percent relative to 2004. **The vast bulk of the growth in the deep poor—almost 143,000 persons—was accounted for by refugees.** However, higher levels of external assistance were able to reduce the total deep poor count by 20.6 percent, the non-refugee poor by 16.8 percent and the total number of refugee deep poor by 24.1 percent.[62] **Nonetheless, the post-assistance deep poor in 2005 grew by some 82,000 persons relative to 2004 with refugees accounting for nearly all this growth.** The post-assistance poverty rates also moved higher, even more so for refugees, suggesting worsened conditions in Gaza where the majority of refugees reside.[63]

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[59] PCBS defines humanitarian/emergency assistance to exclude budget support, job creation programmes and martyr's compensation. See PCBS and World Bank *Deep Palestinian Poverty in the Midst of Economic* Crisis (Ramallah and Jerusalem: October 2004).

[60] In addition to disbursements from foreign governments, sources of humanitarian assistance include private transfers from friends and relatives, from *zakat* committees, from local NGOs and from the PA. Due to imperfect targeting, some assistance intended for the deep poor "leaks" to others.

[61] Based on PCBS data by special request, September 2006. Poverty reduction is calculated based on the effects of external assistance from all sources.

[62] World Bank estimates foreign donor humanitarian/welfare assistance to the oPt in 2005 at about USD 500 million (including UNRWA emergency appeal). See World Bank *West Bank and Gaza Update,* April 2006, p. 4. This excludes private, local NGO and PA assistance. Not all such assistance is intended for the deep poor and, due to imperfect targeting, a portion of assistance intended for the deep poor "leaks" to the non-deep poor.

[63] The IUED detected the same phenomenon during this period. See *Palestinian Public Perceptions,* Report 9, April 2006, pp. 62-64.

Table 37 also suggests that assistance was about 50 percent more effective in reducing the number of deep poor *refugees* relative to non-refugees in both 2004 and 2005. That is, the rate of reduction in deep poverty was 50 percent greater for refugees versus non-refugees in both years. Research suggests that more robust poverty reduction among refugees is due to more accurate targeting of assistance and, therefore, less "leakage" of 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[64]—but the place of residence for less than half of all refugees. **Better poverty reduction results for refugees are attributable in large part to the relatively well-developed physical and institutional capacity of UNRWA vis-à-vis its refugee constituency, as well as the resources provided to UNRWA by donors.**

E. Estimating the Household Impact of the Present Phase of Crisis

i. Impact on Consumption Levels

The withholding of customs and VAT revenues by the GOI and the reduction in donor assistance to the newly-elected Palestinian government after March 2006 resulted in a significant decline in the public sector's contribution to household disposable income in the oPt in during most of first-half 2006 (see estimates in section IV.A.x above). This had a negative effect on household and per capita living levels. **As indicated in Table 38, there was a 12 percent reduction in real per capita consumption in the oPt with per capita food consumption down by 8 percent and per capita non-food consumption down by some 13 percent as compared to second-half 2005.**

With regard to the food basket there were sharper than average declines in meat, poultry and fish, oils and fats, fruits and vegetables and beverage consumption with a rise in dairy products and egg consumption. With regard to non-food items, there were larger declines in clothing, transport and recreation expenditures with sharp increases in housing and medical care expenditures. **These consumption levels include all external assistance received by Palestinian households during this period.**

[64] 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 2005 were, respectively, 15 percent, 21 percent and 23.3 percent. See PCBS *Poverty in the Palestinian Territory, 2005, Main Findings Report*, June 2006, p. 11.

Table 38
Index of Inflation-Adjusted Average Monthly Per Capita Consumption in the oPt, Second-Half 2005-First-Half 2006[65]

	Second-Half 2005	First-Half 2006
A. Per Capita Food Consumption	**100**	**92**
1. Breads and Cereals	100	99
2. Meat, Poultry and Fish	100	76
3. Dairy Products and Eggs	100	114
4. Oils and Fats	100	86
5. Fruits, Vegetables and Nuts	100	89
6. Sugar, Confections, Salt, Spices	100	104
7. Beverages	100	80
8. Restaurant/Take Out Food	100	97
9. Own-Produced Foods	100	167
B. Per Capita Non-Food Consumption	**100**	**87**
1. Clothing and Footwear	100	54
2. Housing	100	127
3. Medical Care	100	133
4. Education	100	84
5. Transport and Communications	100	61
6. Household Operations	100	87
7. Personal Care	100	89
8. Furniture and Utensils	100	82
9. Recreation	100	59
10. Tobacco	100	102
11. Other Non-Food	100	91
12. Own-Produced Non-Foods	100	98
C. Total Per Capita Consumption	**100**	**88**

ii. Impact on Deep Poverty

Reduced average real household consumption led to a sharp increase in deep poverty. Table 39 indicates that **the share of the total population in deep poverty increased by an estimated 64.3 percent as between second-half 2005 and first-half 2006 as the individual deep poverty rate climbed from 17.3 to 27.5 percent. The number of deep poor averaged more than one million persons in the oPt in first-half 2006, almost exactly their pre-assistance number in 2005.**

The increase in deep poverty at the individual and household levels seem drastic, given the stability of unemployment rates in first-half 2006 relative to second-half 2005. The explanation for the sharp jump in deep poverty in first-half 2006 has several dimensions. First, official and private humanitarian assistance was significant in 2005 and, as indicated in Table 37, served to reduce the number of deep poor by about 20 percent. Moreover, assistance received in 2005 was concentrated in the second half of the year (partly motivated by optimism stemming from "disengagement") which substantially reduced deep poverty rates relative to first-half 2005. Second, public employee wage increases of 15-20 percent took effect in second-half 2005 which boosted household incomes and helped to reduce deep poverty.

[65] Based on PCBS data by special request, September 2006. Index was derived using nominal NIS consumption expenditures deflated by the respective components of the CPI with 1997 base year.

Table 39
Deep Poverty among Individuals and Households in the oPt, Second-Half 2005 and First- Half 2006[66]

	Second-Half 2005	First-Half 2006	Relative Changes
Deep Poverty Rates			
Persons	17.30%	27.50%	58.96%
Households	13.80%	22.20%	60.87%
Deep Poor Count			
Persons	650,827	1,069,280	64.30%
Households	79,625	137,016	72.08%

The situation in first-half 2006 was starkly different. Emergency and humanitarian assistance was minimal as donor state contributions were drastically reduced. Moreover, GOI withholding of PA tax revenues resulted in a severe fiscal crisis leading to an estimated USD 500 million shortfall in public sector salary payments and other PA spending (see section IV.A.x), that reduced household incomes. **Thus two important elements in poverty reduction in second-half 2005—external assistance and public sector salaries—were deficient in first-half 2006.**

Due to the relatively small sample size, disaggregating quarterly and semi-annual consumption poverty data by region or refugee status results in high statistical bias. However, the differential poverty impact on the West Bank relative to Gaza can be gleaned by reference to *income poverty* rates for the first half of 2006. As with consumption poverty, deep income poverty is defined as a level of money income insufficient to afford basic food, clothing and shelter. Using the *income poverty* measure, PCBS estimates that an average of 40.2 percent of oPt households were under the deep income poverty line in 2005, rising to 55.6 percent in QII 2006. This represents a 38.3 percent relative growth in deep income poverty over this period as indicated in Table 40.

Table 40
Household Deep Income Poverty Rates in the oPt, 2005 and First- Half 2006[67]

	2005	QII 2006	Relative Change
oPt	40.2%	55.6%	38.3%
West Bank	34.5%	43.2%	25.2%
Gaza Strip	51.6%	79.8%	54.6%

[66] Estimates of total population and total households include East Jerusalem. The number of poor and poor households is calculated with respect to houshold consumption and on a post-assistance basis, i.e. after including *all external assistance received whether official or private*. PCBS data by special request, September 2006.

[67] PCBS data by special request, August 2006. As noted above, using money income is less accurate in discerning poverty as households and individuals may consume commodities without offsetting money payments, e.g. humanitarian assistance, health insurance and other goods and services received in kind.

The deep income poverty rate in Gaza increased to almost 80 percent—a 54.6 percent in relative terms during this period. **The disproportionate concentrations of refugees and PA employees—two groups especially vulnerable to the decline in donor assistance and public sector wages—in Gaza explains the rapid rise in income poverty estimates.**

In addition to the expenditure and consumption surveys, PCBS conducted a relatively large field survey (a sample of 8,000 households) during March-May 2006.[68] While the survey did not systematically distinguish refugee from non-refugee households, it revealed general household living level information on a regional level in the past year.

A clear majority of households—an estimated 387,000 in all—reported declines in income (62.7 percent) and consumption (66.8 percent) in the past year as indicated in Table 41. Slightly more than half the households reporting income declines stated their losses as less than 50 percent of their income in the past year (a plurality of 43.3 percent reported losses of between 25-50 percent). **The proportion of households that reported declines in consumption was greater than those reporting income declines, especially in Gaza, indicative of in-kind humanitarian assistance received.** Of the estimated 412,000 households reporting consumption declines, the highest proportions reported shortfalls in food and clothing, followed by housing, followed by essential services.

Table 41
Reported Changes in Palestinian Household Income and Consumption in the oPt, QII-2006[69]

Household Responses	oPt	West Bank	Gaza Strip	oPt Estimated Households
Income Declined	62.70%	63.70%	60.50%	386,978
of which: < 50%	*52.50%*	*53.60%*	*50.40%*	*203,163*
of which: > 50%	*47.40%*	*46.50%*	*49.60%*	*183,427*
Consumption Declined	66.80%	58.20%	83.70%	412,282
of which: food	*87.9%*	*82.2%*	*95.7%*	*362,396*
of which: clothing	*96.2%*	*95.3%*	*97.5%*	*396,616*
of which: housing	*81.9%*	*81.9%*	*82.0%*	*337,659*
of which: health services	*61.7%*	*56.1%*	*69.2%*	*254,378*
of which: education services	*50.9%*	*46.7%*	*56.7%*	*209,852*

iii. Impact of Humanitarian Assistance

As indicated in Table 42, about 29.4 percent of oPt households—an estimated 181,450 in all—reported one or more members in receipt of humanitarian/ emergency assistance in QII-2006 with a far larger portion of Gaza households (56.9 percent) and a far lower proportion (15.3 percent) in the West Bank (see Table 42). According to the PCBS, 84.8 percent of households that received aid in QII-2006 were poor, indicating a high level of accuracy in targeting assistance.[70]

[68] PCBS *Survey of the Impact of the Israeli Unilateral Measures on the Social, Economic and Environmental Conditions of Palestinian Households, Main Findings*, September 2006.

[69] Ibid. Survey questions asked about income and consumption in QII-2006 relative to one year prior to the survey.

[70] PCBS *Impact of the Siege on Palestinian Society--Second Quarter 2006*, Workshop Papers, July 2006 (in Arabic).

Of those households receiving aid, 67.8 percent received assistance once during QII-2006 while 21.1 percent received assistance twice. Gazan households were more likely to report having received assistance twice during the period while West Bank households were more likely to report receiving assistance three times.

By far, food assistance was the most prevalent type with 77.9 percent of households reporting receipt of such aid. West Bank households were less likely than Gaza households to receive food assistance (perhaps reflecting greater food insecurity in Gaza) but three times more likely to receive assistance in cash. West Bank and Gaza households in almost equal proportions reported receiving jobs as assistance. The type of assistance received was consistent with the type desired as reported by households.

Of those receiving aid, 47.8% of the households stated that they received NIS 200 or less in aid during QII 2006; 24.5% reported receiving NIS 200-299 and 27.7% reported more than NIS 300 in assistance. According to PCBS, households that received aid collected an average of NIS 489 from all sources in QII-2006, while poor households collected an average of NIS 420.[71]

Table 42
Humanitarian/Emergency Assistance Received as Reported by Palestinian Households in the oPt, QII-2006[72]

Household Responses	oPt	West Bank	Gaza Strip	oPt Estimated Households
Received Assistance (Frequency)	29.40%	15.30%	56.90%	181,454
of which: once	*67.80%*	*66.70%*	*68.40%*	*123,026*
of which: twice	*21.10%*	*16.50%*	*23.50%*	*38,287*
of which: three times or more	*11.10%*	*16.80%*	*8.10%*	*20,141*
Received Assistance (Type)	29.40%	15.30%	56.90%	181,454
of which: food	*77.90%*	*62.40%*	*86.70%*	*141,352*
of which: money	*17.70%*	*31.10%*	*10.20%*	*32,117*
of which: employment	*2.50%*	*2.80%*	*2.30%*	*4,536*
Received Assistance (Value)	29.40%	15.30%	56.90%	181,454
of which: < NIS 200	*47.80%*	*40.70%*	*51.70%*	*86,735*
of which: NIS 200-299	*24.50%*	*21.10%*	*26.40%*	*44,456*
of which: NIS 300+	*27.70%*	*38.20%*	*21.90%*	*50,263*

As indicated in Table 43, some 45.6 percent of recipient households reported UNRWA as the main source of humanitarian assistance in QII-2006, far above all other sources. This was true of 61.7 percent of Gaza households but only 17.1 percent of households in the West Bank, reflective of the proportional representation of refugees in the two territories and the disproportional representation of refugees among the poor. UNRWA was followed by the PA Ministry of Social Affairs, relatives and international organizations, in that order, although these sources were generally more important for West Bank households.

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[71] Ibid.

[72] PCBS *Survey of the Impact of the Israeli Unilateral Measures*, September 2006.

Table 43
Main Sources of Humanitarian/Emergency Assistance Received as Reported by Palestinian Households in the oPt, QII-2006

Sources of Assistance, QII 2006	oPt	West Bank	Gaza Strip
UNRWA	45.60%	17.10%	61.70%
PA Ministry of Social Affairs	14.40%	11.10%	16.20%
Relatives	14.20%	25.70%	7.70%
International Organization	9.10%	19.20%	3.40%
Other PA Institution	5.10%	10.10%	2.20%
Charitable Organizations	3.50%	2.50%	4.00%
Friends, Neighbors, Charitable Persons	2.10%	2.20%	2.00%
Political Parties	1.60%	1.40%	1.70%
Zakat Committees	1.10%	2.10%	0.60%
Labour Unions	0.50%	1.00%	0.30%
Local Improvement Committees	0.30%	0.90%	0.00%
Arab States	0.10%	0.20%	0.00%
Other	2.40%	6.50%	0.20%
Total	**100.00%**	**100.00%**	**100.00%**

UNRWA

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