

## I INTRODUCTION

In June 2001, the Minister for Agriculture of the Palestinian Authority requested FAO assistance, in cooperation with other agencies, to field a food and nutrition assessment mission to the West Bank and Gaza Strip (WBGs) and to study the obstacles facing Palestinian farmers in their efforts to improve the quantity and quality of food production.

The FAO Council, at its 120th Session (18-23 June 2001), received assurances from the Secretariat that the Organization was taking steps to field a mission to the West Bank and Gaza Strip to assess the food security and nutrition situation. The relevant paragraph (6C) of the Report of the Council (CL 120) states:

*"In response to a strong demand by a large number of Members to send a special mission to the West Bank and the Gaza Strip in order to assess their food insecurity and the underlying causes thereof, consequent to the outbreak of violence, and in order to take appropriate remedial measures, the Council received the assurances from the Secretariat that, under the umbrella of the United Nations (UN) and applying FAO's rules, the Organization was taking steps for a mission to the West Bank and Gaza Strip, together with other agencies, and in particular the World Food Programme (WFP), to assess the food security and nutrition situation there, and would act upon its recommendations as appropriate."*

In reply, the Director-General informed the Minister of Agriculture that FAO, in collaboration with WFP, would undertake a food and nutrition assessment mission, subject to security clearances and to the availability of adequate extra-budgetary resources.

Security conditions in the WBGs prevented the fielding of a mission in 2001 and early 2002. However, as soon as it was feasible, FAO mobilised several exploratory missions beginning in June 2002 and between October and November 2002 in order to explore the conditions for undertaking the food and nutrition assessment. Detailed Terms of Reference for the assessment were elaborated and agreed upon with EC and USAID. Following discussions with all potential stakeholders on the scope and timing of possible assistance, agreement was reached on conducting a three-part food security assessment (food access, food availability, strategy building and programming) and a complementary nutrition assessment managed by CARE with its partners John Hopkins and Al Quds Universities, funded by USAID. The European Commission (EC) and United States Agency for International Development (USAID) provided funding for the assessment and during the course of project implementation additional financial resources were provided by FAO. WFP and UNRWA also provided significant support to the project.

The Food Security Assessment has two objectives: 1) To assist the Palestinian Authority and relevant stakeholders to better design, target and implement future development programmes and relief interventions for food security and nutrition; and, 2) To provide inputs into the development of a national food security strategy, taking into account all previous related assessments and their findings. The assessment was undertaken beginning February through July 2003.

The assessment team was guided by the following widely accepted concept of food security, food insecurity and vulnerability namely:

*Food security exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life.*

Food security has four different components, all of which need to be present before an individual is considered food and nutritionally secure. These are:

- *Availability* – Sufficient quantities of food of appropriate qualities are present, whether supplied through domestic production or imports (including food aid).
- *Access* – Access by individuals to adequate resources (entitlements) to acquire appropriate foods for a nutritious diet. Entitlements are defined as the set of all those commodity bundles over which a person can establish command given the legal, political, economic and social arrangements of the community in which they live (including traditional rights, e.g. access to common resources).
- *Stability* – For food security, a population, household, or individual must have access to adequate food at all times, and should not be at risk of losing access to food as a consequence of a shock, e.g. an economic or climatic crisis, or cyclically, e.g. during a particular period of the year (seasonal food insecurity).

- *Use* – Consumption and utilisation of food through adequate diet, clean water, sanitation, and health care, to reach a state of nutritional well-being for which all physiological needs are met. This highlights the importance of non-food inputs such as care and health for nutritional outcomes.

*Food insecurity exists when people lack secure access to sufficient amounts of safe and nutritious food for normal growth and development and an active and healthy life.* The main causes are the lack of financial or natural resources to procure or produce sufficient food, the unavailability of adequate supplies of safe and nutritious food, inappropriate consumption patterns, and weak social welfare systems. Food insecurity may be chronic, seasonal or transitory. Food insecure people become undernourished when their habitual food intakes fall below their minimum caloric (energy) requirements, as well do those who are energy and nutrient deficient resulting from an inadequate or unbalanced diet or from the body's inability to use food effectively because of infection or disease.

*Vulnerability relates to the presence of factors that place people under threat of becoming food insecure or malnourished, including those factors that affect their ability to cope.* Vulnerability implies defencelessness, insecurity, exposure to risks, coping difficulties, strain and lack of resilience to shocks. The level of vulnerability of individuals, households or groups of people is determined by the level of exposure to the risk factors and their ability to cope with or withstand stressful situations.

Food security at the level of the household is consequently affected by a range of factors that vary in importance across regions, countries and social groups, as well as over time. These factors (*see Conceptual Framework in the Introduction*) can be considered in relation to the socio-economic and political environment; the performance of the food economy; care practices; health and sanitation. All these factors affect household food security of the residents of the WBGS.

In the WBGS physical access to food has been affected by the restrictions on the movement of people and goods and the damages to property. The constraints these events placed on achieving and maintaining food security were therefore assessed at the macro and local levels.

Social access to food was assessed through a review of the food security related humanitarian activities of the Palestinian Authority (PA) and its national and international partners, with special attention to the social welfare system and its food assistance component. At the local level the vulnerability assessment sought to ascertain the constraints to social access to food, including within the household.

To ascertain the situation with respect to economic access to food, particular attention was given to the trends in employment and earnings, remittances, financial assistance from friends, relatives and benefactors and food prices.

The assessment of sufficiency of food supplies involved a detailed review of the trends in food production and food imports (including food aid) in order to assess the availability and stability of food supplies at the aggregate level. Sufficiency of food supplies at the local level was ascertained through the vulnerability assessment.

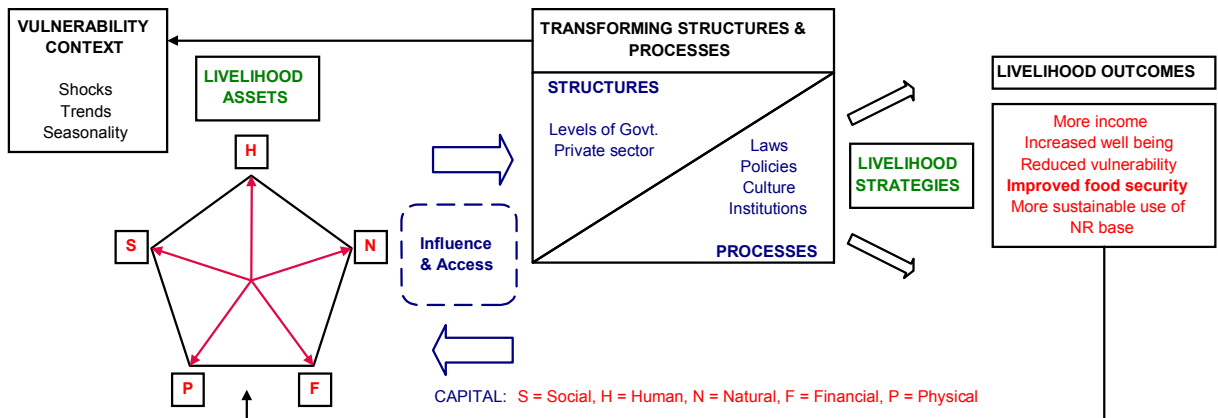
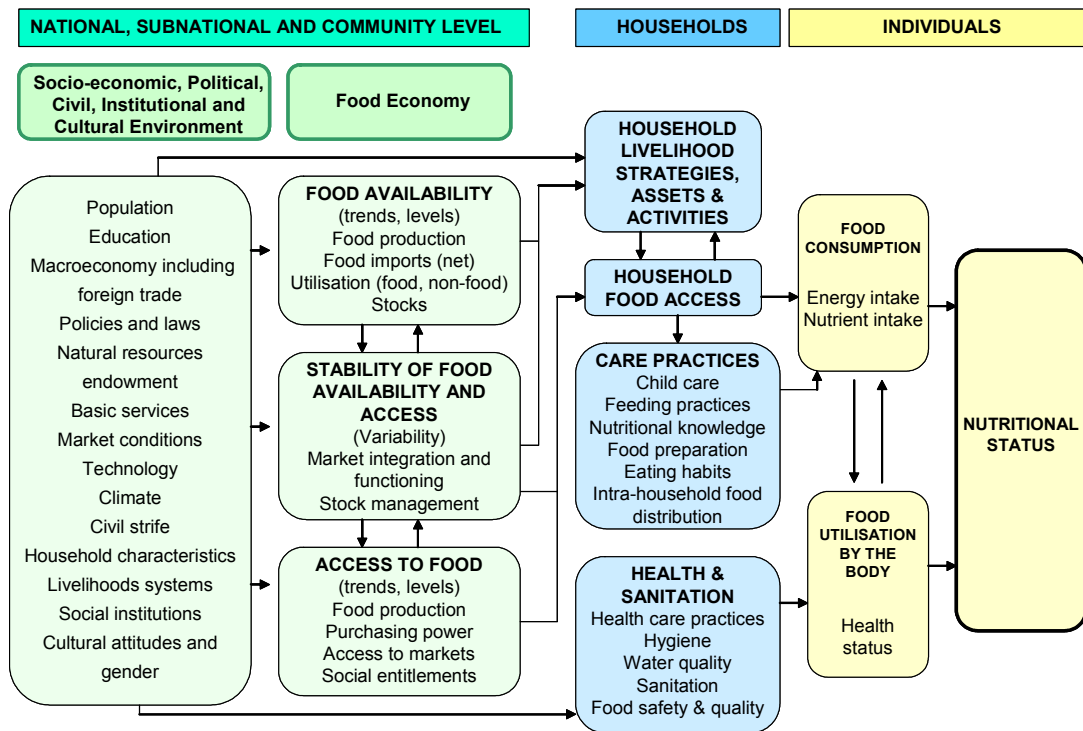
The situation with respect to a safe and nutritious supply of food over time was ascertained primarily from the numerous nutrition assessments and complemented by the findings of the vulnerability assessment and the composition of the diet.

Recommendations of the Food and Agriculture Organization (FAO), World Health Organization (WHO), and United Nations University (UNU) for dietary energy and protein intake for each average weight age-sex group were drawn upon in concluding that on average the Palestinian people engaged in light physical activity need to consume 2 100 kcal and 53 grams of protein daily to meet their average daily energy and protein requirements.

As called for in the project documents, the recent trends in social, economic and physical access to sufficient, safe and nutritious foods and in the availability, stability and distribution of food supplies were assessed at the macro level and during March-May 2003 at the household level. Interviews at the local level and the pair wise ranking approach (see Annex for a detailed description of the pair wise approach and the methodology used) provided the basis for estimates of the food insecure, those under threat of becoming food insecure and the food secure as well as identifying where the vulnerable live, their main sources of livelihood, and their coping strategies. The food security related activities of the PA and its partners were reviewed.

The full set of factors that place the Palestinian population at-risk of being food insecure were assessed. These included restrictions on the movement of people and goods, the damages to personal property, the loss of jobs, earnings, assets and incomes, reductions in the quantity and quality of food consumed, and changes in food production and the available supply of food. The previous studies of nutritional status, food consumption patterns and micronutrient deficiencies complemented the findings.

**Conceptual framework for understanding possible causes of low food consumption and poor nutritional status**



The report is in two parts. This, the main report, contains the assessment findings and recommendations with the detailed methodology and instruments, food security maps and tables and the list of references contained in the Annex. The consultants' reports and the results of the pair-wise ranking analysis reports are provided separately.

Chapter II provides basic information on the political situation, the population, geography and climate. Chapters III through to VI present the mission's findings. Chapter III contains an overview of the impact of closures, curfews and the separation barrier on the movement of people and goods (physical access to food) and sets the stage for the more detailed assessments of the factors associated with the increase in food insecurity. Chapter IV documents the changes in population, labour force, employment, earnings, incomes, trade and consumer prices before and after September 2000 and identifies the main factors that were responsible for the initial and subsequent decline in economic access to food and the consequent increases in the number of food insecure people and in the humanitarian assistance caseload. Chapter V presents the results of the vulnerability assessment, which covered access to food and the availability of food at the local level. Coping mechanisms that households rely upon and vulnerability profiles are described. Estimates of the food insecure (chronic and new poor) and those under threat of becoming food insecure are presented together with the identification of the geographic areas where the most vulnerable are concentrated. This chapter ends with a review of the nutritional status of the Palestinian people over time (access to safe and nutritious food), including the situation with respect to the consumption of micronutrients, vitamins and minerals. Chapter VI begins with a review of the food security situation during 1996-98 and the trends in the demand for food, food consumption patterns and expenditures subsequently. It then presents a detailed review of the trends in food sufficiency/availability (food production, imports and supplies). The final section of the chapter addresses the potential contribution of agriculture to a sufficient supply of food.

Chapter VII reviews the food security and nutrition related actions and programmes undertaken in response to the crisis by the national authorities and their partners in the attempt to ensure social access to food. Special attention is given to the provision of food assistance. Chapter VIII presents the conclusions of the Assessment concerning food security and nutritional status and the recommendations for moving towards a more food secure future. Some of the essential components of a food insecurity and vulnerability information and mapping system are outlined.

The FAO food security and nutrition assessment was conducted in collaboration with WFP and full co-ordination and co-operation with the Palestinian Authority (PA), including the Ministry of Agriculture (MoA), the Palestinian Central Bureau of Statistics (PCBS), the Ministry of Health (MOH) and the EC Food Security Technical Assistance Programme (FSTAP), United States Agency for International Development (USAID), United Nations Relief Works Agency (UNRWA), United Nations Development Programme – Programme of Assistance to the Palestinian People (UNDP-PAPP), CARE and other international and national NGOs.

The mission was officially launched on 3 March 2003 upon the return of the Minister of Agriculture from consultations with FAO and IFAD in Rome. However, with the agreement of the Minister of Agriculture, the mission commenced preliminary activities in the West Bank and Gaza Strip in early February 2003. Extensive field work was undertaken by the mission from March through to May 2003 together with staff of WFP, UNRWA and UNDP-PAPP, in all accessible parts of the WBGS. Close collaboration was maintained with CARE who conducted the household nutrition and food security survey in the West Bank and Gaza Strip in cooperation with Al Quds Nutrition and Health Research Institute at Al Quds University and Johns Hopkins University.

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Gaza Strip); and Ayman Al Hour, Shahdia Abu Shaweesh, Iman Al Bayouk, Radwan Okal, Belal Al Hamida, Luay Al Amassi, Hamida Al Tahrwi, and Osama Al Kurdi (Gaza StripVolunteers).

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## II BACKGROUND

The West Bank and Gaza Strip (WBGs), the two separate entities of what is now called the Palestinian Territories (616 000 ha), were once a part of the Palestine Mandate covering an area of 27 098 square km that was controlled by the United Kingdom from 1920-1948. In the aftermath of the foundation of the State of Israel in 1948, the Gaza Strip was severed from the rest of the Palestinian territories and administered by Egypt and the West Bank was administered by Jordan until the 1967 Israel occupation of the West Bank and Gaza Strip.

After 26 years of Israeli occupation, the Declaration of Principles (Oslo Agreement), signed on 13 September 1993, was a major milestone in returning control of the West Bank and Gaza Strip to the Palestinians. However, under existing arrangements, Palestine is not recognized as a sovereign state and the Palestinian Authority, the administrative authority responsible for administering the occupied Palestinian Territories, controls only parts of the West Bank and Gaza Strip. Under the Oslo Agreement, Area A, comprised of the Gaza Strip and the eight largest West Bank Municipalities (Ramallah, Jenin, Tulkarem, Nablus, Hebron, Bethlehem, Jericho and Quaqilya), is under full Palestinian control except 20 percent of Hebron which remains under Israeli control. Area B includes around 100 separate pieces of rural land. The Palestinian Authority is responsible for its civil administration but Israel has control over all aspects of security. The Israel authorities remain in full control of area C, which includes Israeli settlements, military and security areas along the borders, making up 59 percent of the West Bank (see Map of the West Bank and Gaza Strip 2003).

The two parts of the territory under the control of the Palestinian Authority, the West Bank and Gaza Strip, are not geographically contiguous and their physical separation, combined with the great difficulties in inter- and intra-connectivity between these areas and between governorates, towns and villages makes coordination and economic exchange very difficult. The compartmentalisation and physical separation of people and territories, the restrictions to and difficulties for travel between and within these areas, and the detachment of Jerusalem give rise to complicated and irregular legal and socio-economic structures that hinder efforts for developing an efficient economic, social and political system even in normal times. Since 28 September 2000 the restrictions on the movement of people and goods have become much tighter with the addition of checkpoints, the imposition of closures, the expansion of military zones and settlements, the construction of the separation barrier, limited access by Palestinians to bypass roads, barriers and destruction of rural roads and the back-to-back system for the transport of goods.

The approach to a permanent two-state solution to the Israeli-Palestinian conflict is being sought. A performance based roadmap, prepared by representatives of the United States of America, the European Union, the Russian Federation and the United Nations, was presented to the Government of Israel and the Palestinian Authority on 30 April 2003. It and related proposals remain on the table but so far concrete actions to move towards a two-state solution have been extremely limited. The severe restrictions on the movement of people and goods have been associated with a massive decline in economic access to food and consequent increase in the need for social access to food. An end to terror, violence and curfews, progressive withdrawal of the IDF from areas occupied since 28 September 2000 and associated elimination of restrictions on the movement of people and goods, and reaching agreement on settlement and security barrier issues would create a fundamentally different and positive climate for moving towards a more food secure future.

### Population

PCBS has projected the mid-2003 population in the Palestinian Territory at 3 634 495 persons, with 2 304 825 (63.4 percent) in the West Bank and 1 329 670 (36.6 percent) in the Gaza Strip (see Table IV.1). Refugees and their dependents account for a large share of the population, especially in the Gaza Strip. At 31 March 2003 the refugee population was 1 549 011, equivalent to 43 percent of the total population at that time. In the Gaza Strip the 901 092 refugees accounted for 68 percent of the total population while in the West Bank the 647 919 refugees accounted for only 28 percent of the population. Those residing in refugee camps numbered 651 145 (174 842 living in 19 camps in the West Bank and 476 303 residing in eight camps in the Gaza Strip).

The population growth rate is very high, projected to have been 4.9 percent from mid-2002 to mid-2003 (4.6 percent for the West Bank and 5.4 percent for the Gaza Strip). Nearly half of the population is below the age of 15 (over 50 percent in the Gaza Strip and 45 percent in the West Bank). While in western countries nearly 20 percent of the population is above the age of 65, only 3.5 percent of the Palestinian population is in that age group.

While the West Bank is more populous than the Gaza Strip, the smaller size of the Gaza Strip, its higher fertility rates, lower mortality rates, lower rates of emigration, larger refugee population (absolute and relative) and the density per square mile (15 times that of the West Bank) result not only in differences of poverty and food security but also of the potential remedial actions that can be proposed to address the situation.

#### Geography/Climate

The West Bank has a varied topography consisting of central highlands, where most of the population live, semi arid rocky slopes, an arid rift valley and rich plains in the north and west. It is mostly composed of limestone hills that are between 700 to 900 metres high. The lowest point of the area is the Dead Sea at 400 metres below sea level and the highest point is the Tall Assur at 1 022 metres above sea level. Brown lithosols and loessial arid brown soils cover the eastern slopes and grassland, with pockets of cultivation spreading over the steep slopes. Fertile soils are found in the plains. Soil cover is generally thin and rainfall is erratic. About 12 percent of the land is desert, eroded or saline. The Gaza Strip is a narrow, low-lying stretch of sand dunes along the eastern Mediterranean Sea that forms a foreshore plain sloping gently up to an elevation of 90 metres.

The West Bank and Gaza Strip have five main ecological sub-regions: the Mediterranean shoreline coastal plain, the upper coastal plain, the central highlands, the semi-arid eastern slope steppes and the arid semi-tropical Jordan valley. The dry southern West Bank, eastern slopes and central Jordan valley are composed of Mediterranean savannah, grading into land dominated by steppe brush and spiny dwarf shrubs. The southern Jordan valley around Jericho and the Dead Sea is influenced via the Wadi Araba by Sudanian vegetation. On the Gaza Strip coastal plain, the original Saharo-Sindian flora has been almost completely replaced by farmland and buildings. The Gaza Strip includes six main vegetation zones: the coastal littoral zone, the stabilized dunes and blown-out dune valleys, the Kurkar, alluvial and grumosolic soils in the northern part, the loessial plains in the eastern part, and three wadi (river) areas.

The climate in the West Bank and Gaza Strip is predominantly of the Eastern Mediterranean type with cool and rainy winters, hot dry summers and an annual rainfall in the range of 100-700mm. The wet season occurs between November and May. The limestone hills of the West Bank act as a porous sponge which absorbs most of the rain water and much of this emerges as springs in valleys and along the margins of the highlands both east and west. The freshwater resources available to the Palestinians in WBGS are estimated by the World Bank at about 112 CM/caput/annum. This figure is amongst the lowest in the world. It compares for instance with 198 CM/caput/annum for Jordan, 377 for Israel and 940 for Lebanon.

Historically, agriculture played a significant role in the livelihood of the majority of the Palestinian people and the West Bank and Gaza Strip remain basically agricultural regions. The agricultural sector consumes an estimated 175 mm<sup>3</sup>, or more than 60 percent of the total water consumption. About 70 percent is from wells while the remaining 30 percent originates from springs. Water shortages are aggravated by uneven per capita allocations between the West Bank and Gaza Strip and Israel.

### III FACTORS AFFECTING FOOD SECURITY

The restrictions on physical access to the inputs to produce food, to the ability of farmers to care for their plants and animals, to the movement of imported or domestically produced food to processors or wholesale or retail markets and to purchases or receive food aid have had a devastating impact on the food security of the Palestinian people. The restrictions on the movement of people and goods and the consequent losses of jobs and assets since September 2000 that continues until today, led to an immediate massive increase in food insecurity for a large proportion of the population. Subsequent to the initial impact, thousands more have lost their livelihoods and have joined the ranks of the food insecure. The removal of the restrictions on the movement of people and goods would create a more favourable environment for moving towards food security for all the Palestinian people.

Israeli security measures during the current *al Aqsa Intifada* have had a much more devastating impact on the Palestinian people and their economy than any previous ones. The impact is deeper and more serious than that during the first *Intifada* (1987-93). Although in both there was closure of the West Bank and Gaza Strip borders and strict limitations on the entry of Palestinian workers into Israel, in this current *Intifada*, additional restrictions were imposed on internal movements between villages, towns, and cities. Earth mounds and concrete blocks have been put up on the roads leading into Palestinian villages. Deep trenches have been dug into roadbeds, and barriers such as heavy gates have been placed across roads, particularly in the vicinity of settlements. The network of settlement bypass roads, permanent checkpoints and roadblocks built since September 2000 restricting movements in and out of most villages and towns have divided the West Bank and Gaza Strip into enclosed urban areas creating isolated and separated rural clusters or “cantons”. According to Oxfam, in May 2002 there were approximately 120-140 checkpoints which divide the West Bank and Gaza Strip into approximately 220 separate clusters. These restrictions have seriously damaged the economy, created massive unemployment, restricted access to goods and services, reduced incomes, and have been a major cause of tension, frustration and violence.

These internal closures, where the movement of citizens and goods within the West Bank and within the Gaza Strip are severely restricted and at times prohibited, are reinforced by curfews. Prolonged curfews during which the entire population of cities is restricted to their homes, is pervasive. The curfews are often in force round-the-clock and lifted only periodically, resulting in some locations being under curfew for 90 percent of the time. During curfews, the population is not permitted to leave their houses and this is strictly enforced, resulting in a substantial number of civilian casualties and deaths. While curfews have been eased or lifted in some locations, the total number and duration of curfews remains at very high levels<sup>1</sup>.

The impact has also been more serious due to the reoccupation of much of the West Bank and frequent incursions into the Gaza Strip. Since “Operation Defensive Shield” began in March 2002, many West Bank cities, towns and villages have been transformed into military zones with residents placed under curfew for days at a time. The closures, “clamp-downs” and curfews creates a new economic situation, one which differs significantly from the last *Intifada*, and one which continues to evolve as the *al Aqsa Intifada* enters its fourth year. Frequently changing military restrictions, often imposed with inadequate warning, complicate normal economic activity in continually different ways. Coping strategies are continuously shifting to adapt, but for more and more of Palestinian households, coping mechanisms are being exhausted.

According to the UNSCO Report<sup>2</sup>, military curfews were in place in the West Bank 70 percent of the time during the last half of 2002, affecting approximately 75 percent of domestic production and seriously disrupting the movement of goods into and out of the West Bank. In certain regions, closure sealed areas to such a degree that even humanitarian assistance did not reach those in need for prolonged periods. Some village enclaves, particularly in the Gaza Strip, remain virtually sealed.

In the Gaza Strip, according to a report by UNRWA in March 2003, 1 032 Palestinian houses had been demolished beyond repair since the start of the current *Intifada* and another 1 144 sustained varying degrees of damage. Over 8 000 persons have been made homeless. Eighty percent of these demolitions have taken place in the Rafah/Khan Younis area, mostly along settler road and border areas. Families are not warned of impending demolitions. This means that they have little time to take any goods with them and the destruction of their homes means the destruction of everything in the home, including any money, jewelry, furniture, clothing and food inside at the time of the demolition. Lives have been lost in the housing demolitions of the Gaza Strip .The

<sup>1</sup> UN. Humanitarian Action Plan 2003, Occupied Palestinian Territory

<sup>2</sup> UNRWA. *Closure: Palestinian Productive Activities and Short to Medium Policy Alternatives*



demolition of houses and the destruction of agricultural land and businesses cause extensive damage to the civilian population, who will bear the consequences for many years to come. This has a severe impact on the ability of Palestinians to gain or maintain food security.

Estimates of physical damage and income losses during the first 27 months of the second *Intifada* (US\$5.4 billion) are much higher than the amount of emergency aid (US\$2.5 billion) received so far. Some areas have been disproportionately affected. According to UNSCO, Nablus suffered US\$475 million of damage and income losses since October 2000 but received only US\$42 million in donor support during the same period. According to the World Bank<sup>3</sup>, the cost of physical damages from September 2000 to December 2001 was US\$305 million, much of which was in the agricultural sector (73 percent and 58 percent of all physical damage in the Gaza Strip and West Bank respectively occurred in the agricultural sector). By the end of 2002 this figure had risen to US\$930 million.

MoA estimated farmers suffered physical damages and losses that reached US\$845 million between September 2000 and December 2002. This estimate included losses associated with the demolition/destroying/razing of greenhouses, poultry and livestock farms, wells, farm houses, irrigation systems and ponds, fences and walls, main water pipelines, packaging and experiment station, nurseries, crop, tree and vegetable planted land as well as killed cattle, sheep, goats and poultry and damaged beehives. Losses and damages continue to escalate as the construction of the separation barrier continues. Funds disbursed to date to repair, rehabilitate or compensate for physical damages represent a small fraction of the losses and it is therefore evident that the uncovered losses have made a significant impact on economic access to food. It is evident that there is ample opportunity for an employment creation programme.

A further important factor affecting the population in the border areas of the West Bank and in particular their livelihoods and access to food, is the construction of the controversial and politically sensitive “separation barrier” – a complex series of walls, barriers, trenches, and fences – roughly following the western border of the occupied West Bank with Israel. However, its placement does not follow the 1967 cease-fire line precisely but rather follows an uneven path through some of the most fertile agricultural land of the West Bank, carving out large pockets of the West Bank in order to incorporate settlements on the Israeli side as can be seen on the above map of the West Bank and Gaza Strip 2003. The path of the separation barrier varies between 3 and 20 km, or even more, inside the *Green Line* i.e. cutting into the West Bank.

The construction of the separation barrier is accompanied by the confiscation of land, the destruction of houses and buildings, greenhouses and irrigation infrastructures, the uprooting of fruit trees, the cutting off of Palestinian towns and villages from the countryside, and the further fragmentation of Palestinian populations into segregated pockets on both sides of the separation barrier. According to the Local Aid Coordination Committee, the land confiscated in the first phase of the construction alone, stretching 147 km at US\$1.4 million per km, will exceed 160 000 dunums (16 000 ha) of the richest agricultural farm lands in the northwest of the West Bank. According to PCBS, the first phase will impact 13 286 people in 16 villages and hamlets. The final cost to the Palestinians and its impact on food security will be determined by the final alignment of the separation barrier, and by the degree of access provided in practice through it.

Constraints on physical access present *four main obstacles to food production*: First, closures and curfews restrict Palestinian farmers’ access to agricultural land. To avoid checkpoints, closed roads and curfews, Palestinian farmers are forced to use much longer, more expensive, more time consuming, laborious and hazardous routes to get to their fields. They run the risk of being caught, fined, imprisoned or worse and are often unable to reach their land or animals at all. Basic tasks such as ploughing, sowing, fertilizing, pruning and reaping or tending to livestock are fraught with risk and are subject to arbitrary restrictions often imposed without adequate warning. Second, violence between settlers and Palestinians is increasing. Violence includes the vandalism and destruction of crops, water supplies, electrical infrastructure, private property and blocking access to agricultural land, animals and markets.

Third, producers are facing difficulties in selling their products, both in the Palestinian market and abroad. There is a fragmentation of the distribution and marketing system caused directly by measures undertaken in response to the September 2000 *Intifada* that intensified in 2002 with Operation Defensive Shield. Traders now face enormous new hurdles in transportation with “back-to-back” restrictions imposed, meaning that all non-humanitarian goods must be off-loaded from incoming trucks and re-loaded onto local trucks at checkpoints. Transporting goods to and from the major city and market can often mean loading and off-loading several times.

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<sup>3</sup> World Bank. Twenty Seven Months – *Intifada*, Closures and Palestinian Economic Crisis – An Assessment

This system had previously been in place in the Gaza Strip, but not in the West Bank. While travel was difficult during the first seventeen months of the *Intifada*, over the subsequent year the transport of people and goods became much more difficult and hazardous. Prices fluctuate in local markets due to closure and curfews, regional and local price integration is diminished, markets are fragmented, and farmers face major obstacles in marketing their products while at the same time imports from Israel displace domestic production. Fourth, input costs are higher, particularly for agricultural chemicals, animal feed, and water.

The intensification of the restriction on access during the current *Intifada* has severely hampered the ability of the Palestinian administration, international organizations, local and international NGOs to deliver the needed services to the population. Households dependent on welfare remittances from the Ministry of Social Affairs (MoSA) went several months without payments due to the lack of funds. Many families survived through the generosity of neighbours, benefactors and the extended family. As most households now face the same conditions, these social networks which guaranteed earlier survival are now disappearing.

Households who faced a loss of income were also able initially to survive through their savings, or by shifting to other forms of work. But this ability to cope is now severely hampered as fewer households are able to earn income. The dependency ratio has dramatically increased for those still able to earn income. There is extreme vulnerability in many households not because they have suffered from a loss income during the current *Intifada*, but because their income must now support a greater number of people.

The World Bank has stated that closures, curfews, incursions, destruction of land and the withholding of Palestinian tax revenues had combined to bring the Palestinian economy to its knees, resulting in unprecedented levels of unemployment and poverty. By 2002 real per capita income had fallen to 54 percent of the 2000 level and 59 percent of the population were below the poverty line. GNI, including remittances from abroad, was 40 percent lower in 2002 than in 2000 and overall GNI losses reached US\$5.4 billion after 30 months of the current *Intifada*, approximately equal to the entire GNI of 1999. The PCBS labour survey results for the first quarter 2003 show unemployment, adjusted for discouraged workers, at 39 percent (40 percent in the West Bank and 37 percent in the Gaza Strip). The distortions caused by occupation, the destruction of assets and infrastructure and the contraction of the labour market have changed all aspects of the economy, including labour, capital, savings, investment and consumption, making 2002 one of the worst years ever for the Palestinian economy even with the infusion of US\$1.1 billion of foreign aid. The dismal situation with respect to economic access to food continues in 2003.

There has been a rapid erosion of local support networks that provided a range of services and social protection such as credit, loans and food. In the January and February 2002 round of household surveys conducted by PCBS, 81 percent of households indicated their need for humanitarian assistance (78 percent in the West Bank and 87 percent in the Gaza Strip), and in the April-May 2003 round 79 percent so indicated. Of the total amount received, 91 percent reported receiving less than US\$100 in the 2003 survey. The study examined the impact of the crisis on the economic conditions of Palestinian households and reported that 57 percent of them had lost more than half of their usual income during the *al Aqsa Intifada* (58 percent in the West Bank and 54 percent in the Gaza Strip), but this was down to 47 percent by early 2003. Further, the PCBS 2002 study indicated that 31 percent of the households reported the need for money as their first priority, and 24 percent reported employment, 12 percent food and 12 percent personal security as their first priority. By 2003 food and jobs, both at 25 percent, were the top priorities, with money, the third priority, having dropped to 23 percent.

The Palestinian Authority is now the biggest single employer. Donors have provided direct budgetary support to the Palestinian Authority and the municipalities to pay salaries for maintaining public services and to ensure that some basic social services, such as health, education, water and sanitation, continue to be provided. Salaries now account for almost half of the total wage income earned inside the West Bank and Gaza Strip. Palestinian Authority structures are under severe strain and as its resources decline, the quality and coverage of services that ministries and municipalities are able to provide have been significantly reduced with serious consequences in many areas, including public health, the provision of care and emergency services, and law and order

## IV THE PALESTINIAN PEOPLE AND THEIR ECONOMY

### Summary

This chapter looks at the factors that affect economic access to food, goods and services. The main conclusion is that the substantial fall in per capita income together with the moderate but significant increase in the cost of living since September 2000 has cut economic access to food and other necessities by about half. This has necessitated the cutting of household expenditures down to unsustainable levels. At present there is the need to create at least 200 000 jobs to generate earnings and stimulate economic activity sufficient to augment economic access to food so that food insecurity and the new poor caseload can be reduced.

Macro-economic indicators, consumer prices and trade data reflect the consequence of closures and curfews and the related losses of livelihoods for the private sector wage workers and the farmers and businessmen who lost earnings, income and assets. Changes in consumer prices are consistent with expectations when there are sharp declines in incomes. The extremely large net trade import position with little chance to reverse it together with Israeli subsidization policies further constrain growth in the Palestinian economy. The elimination of trade barriers on Palestinian agricultural products, removing restrictions on economic activities, reducing political and economic uncertainty, developing financial institutions, and creating a legal and regulatory framework were the objectives of the Paris Protocol aimed at correcting disparities regarding trade and income and stimulating growth. These measures remain the best long term option for improving food security and need to be accompanied by substantial donor support in terms of infrastructure investment and technical assistance.

The population of the West Bank and Gaza Strip and the numbers of the potential labour force continue to grow rapidly, while unemployment has risen sharply and employment opportunities have fallen substantially. The initial loss of jobs after September 2000 was followed by further declines in employment as the economy suffered from the knock-on effects. The numbers of the unemployed remain high and many are now so discouraged about their chances of finding work that they no longer participate in the labour force. Those who lost their jobs and the household members who they provided for became the “new poor” and their numbers are so large that initially the social welfare system was overwhelmed and still is unable to provide adequately for all those in need. A large share of the new poor thus became food insecure, further aggravating the already precarious food insecurity situation.

Those who lost their jobs were private sector wage earners working within the West Bank or the Gaza Strip and in Israel and the settlements. Most of them were engaged in the goods producing sectors of the economy, mainly construction, but also manufacturing or working in hotels, restaurants or providing services. Public sector wage workers were better protected largely due to donor provided budgetary support. For those who do have jobs their incomes are stretched as they have to provide for their extended family and economic dependency ratios have substantially increased. Relatively low wages, particularly in the Gaza Strip further compound food insecurity.

Based on where they worked, daily net earnings and the number of days worked in a month, the loss of earnings for the 183 000 people who were the first to lose their jobs was NIS 351.6 million or US\$87.0 million a month, equivalent to NIS 4 219 or US\$1 044 million a year. Based on the then prevailing dependency ratios, the loss of earnings would have directly affected 900 000 people and indirectly affected thousands more. Gross domestic product and gross national income steeply declined from 2000 to 2001 and from 2001 to 2002, and per capita incomes fell even faster. The share of the population below the US\$2 per day poverty line grew three-fold from 20 percent in 1999 to 58.5 percent for 2002 and to around 60 percent early in 2003. Food price inflation was abnormally low from 2000 to 2002 but now has started to rise more rapidly.

The rapid growth in population and in the labour force requires a steady growth in food supplies and in the number of jobs just to remain in the present dismal state of food insecurity. To move to a more food secure future, a large increase in jobs will be necessary over the next several years to reduce the large existing backlog of jobs, which is at least 200 000, and to provide for the relatively large annual increases in the potential labour force. Just to accommodate the new entrants into the labour force, between 45 000 and 50 000 jobs are required.

An indication of the backlog can be obtained as follows. The potential labour force by mid-2003 was around 1 960 000. A target labour force participation rate equal to the 41.5 percent realized from 1998 to 2000 would mean a labour force of 813 000, and a target unemployment rate of 10 percent, equal to that obtained the year before the crisis would mean 81 000 unemployed and 732 000 employed. During 2002 the number employed averaged 486 000 and by the first quarter of 2003 there were 518 000 employed, leaving a gap of 214 000. The gap during the first quarter of 2003 was 199 000. These are massive gaps, far above the largest annual increase

over the past seven years, but for a more food secure future it is essential that efforts to close it begin now. Private sector workers earn about NIS 67 a day and work 22 days a month, so closing the employment gap of between 200 000 to 214 000 jobs would augment earnings by as much as NIS 3 785 million (US\$788 million) a year thereby providing a major stimulus to the economy.

If new entrants to the labour force are to be absorbed into productive employment and at the same time unemployment is to be reduced, employment must expand sharply. Given the limited prospects for access to jobs in Israel and the settlements, domestic employment must be vigorously created. Private sector wage employees and the goods producing sectors of the economy are the prime targets for any job creation programme. A start should be made to rehabilitate the infrastructure necessary for private sector growth, including village water systems and rural roads. Additional jobs are absolutely essential if a more food secure future is to be achieved for the Palestinian people.

### **Economic access to food in the West Bank and Gaza Strip prior to 1996**

Since the occupation of the West Bank and Gaza Strip in 1967 until the signing of the interim peace accord in 1993 and the subsequent Paris Accord and Paris Protocol, Israel exercised full authority over the West Bank and Gaza Strip resulting in the close integration of the Palestinian economy with that of Israel. Consequently its development and growth is conditioned by Israeli demand for goods and labour, whose free flow is subject to stable political relations with Israel. Events since the signing of the interim agreements (Oslo Accords and the Paris Protocol) have shown that the political relations with Israel and their impact on economic development remain the overriding factors that determine the level of food security for the Palestinian people.

Between 1968 and 1980 the Palestinian economy grew strongly with average annual increases of 7 percent and 9 percent in real per capita GDP and GNP respectively, fuelled by the rapid integration with Israel and the regional economic boom. In the early years the conditions for improved economic access were extremely favourable. There was a sharp expansion in the employment of unskilled Palestinian labour in Israel and a rise in incomes, which in turn spurred domestic economic activity, in the construction sector. Earnings of Palestinian workers in Israel rose from negligible levels in 1968 to almost one quarter of GNP in 1975.

In the 1980's, real GNP for WBGS (excluding East Jerusalem) averaged 4.9 percent annually i.e. approximately two percent more than the population growth of three percent. Thus, per capita income grew modestly. Palestinian unemployment was averaging three percent during the 1980s and the poverty rate remained under 10 percent. Thus during this period average incomes were sufficient for most to meet their essential minimum needs including food needs except for a relatively small number of unemployed and chronic poor who depended on support from relatives, social networks and welfare.

Palestinian production largely provided inexpensive, low value-added products for Israeli consumption or re-export, and Palestinian labour filled low-productivity construction and agriculture sector jobs. Trade between the WBGS and Israel effectively became internal, reflecting a customs union trade regime and labour flows into the Israeli labour market typically accounted for a quarter of total Palestinian employment.

The Paris Protocol was intended to formalize the Palestinian-Israeli economic relationship for an interim period of six years. Its aim was to correct disparities regarding trade and income by improving the environment for private investment and growth throughout the West Bank and Gaza Strip through elimination of trade barriers on Palestinian agricultural products, removing restrictions on economic activities, reducing political and economic uncertainty by developing financial institutions, and creating a legal and regulatory framework. These measures were accompanied by substantial donor support in terms of infrastructure investment and technical assistance.

The de facto one-sided customs union with Israel was formalized under the Paris Protocol to cover an Interim Period of six years, but with three main modifications: (i) free Palestinian access to the Israeli market and a system of permits that regulated the flow of Palestinian labour to the Israeli labour market, (ii) limited direct Palestinian trade with its Arab neighbours; and (iii) revenue-sharing through Israeli tax collection and remittance to the PA; coordination of VAT rates and other indirect tax rates.

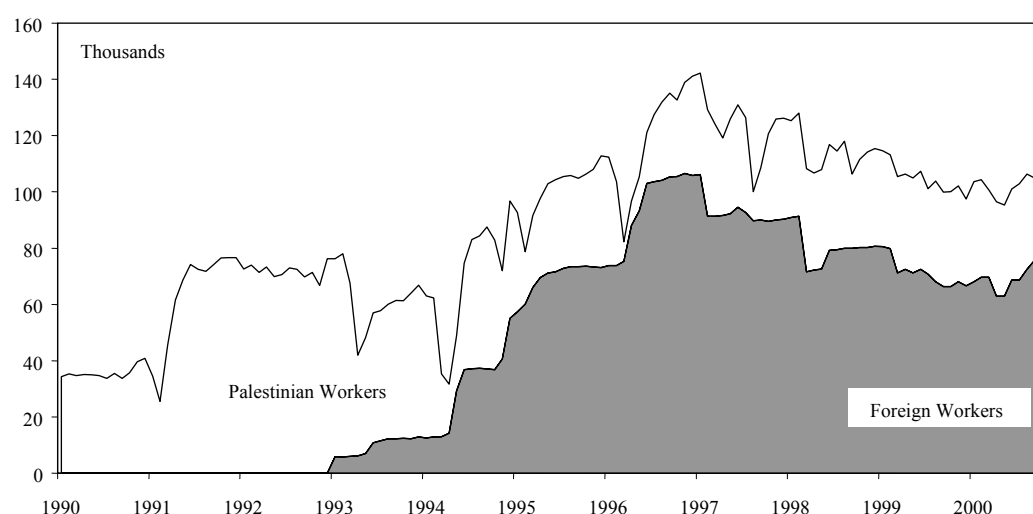
All Palestinian trade must be conducted through Israel rather than directly with third parties. The West Bank and Gaza Strip gains from being in a customs union with Israel through preferential access to the Israeli market, and vice versa, which makes Israel by far the West Bank and Gaza Strip's most important trade partner, heavily dominating both imports and exports. The impact (positive and negative) of economic interdependence is however relative to the size of the national economies (Israel's US\$100 billion compared to West Bank and Gaza

Strip's US\$5.4 billion at its peak) and has led to disastrous consequences for the Palestinian economy during economic downturns in Israel and more importantly during periods of prolonged closures.

The Oslo accords marked a fundamental shift in Israeli labour policy, as permit requirements and other mobility restrictions such as border closures were enforced. The combined effect of permit requirements and closures discouraged Israeli labour demand for hiring Palestinian workers by raising the cost of their labour. In response, Israeli employers sought alternative sources of labour, facilitated through liberal immigration policies adopted to encourage the importation of foreign workers into Israel.

The following figure shows that, in general, foreign workers replaced Palestinians during closures in the West Bank and Gaza Strip and when closures ended, Palestinians returned to jobs that had in the meantime been taken up by foreign workers. Overall, however, the proportion of foreign workers has steadily displaced Palestinian workers.

**Fig.IV.1: Palestinian and Foreign Workers Employed in Israel 1990-2001.**



Source: Government of Israel Employment Service  
Government of Israel Ministry of Finance, November 2000

Trade agreements under the Oslo Accord also impact upon competitiveness of Palestinian agricultural products. While Israeli farm products have free access to the markets of the West Bank and Gaza Strip, Palestinian agricultural exports to Israel are restricted. The MoA estimates that Palestinian companies pay 30 percent higher transaction costs than Israeli companies for identical export shipments.

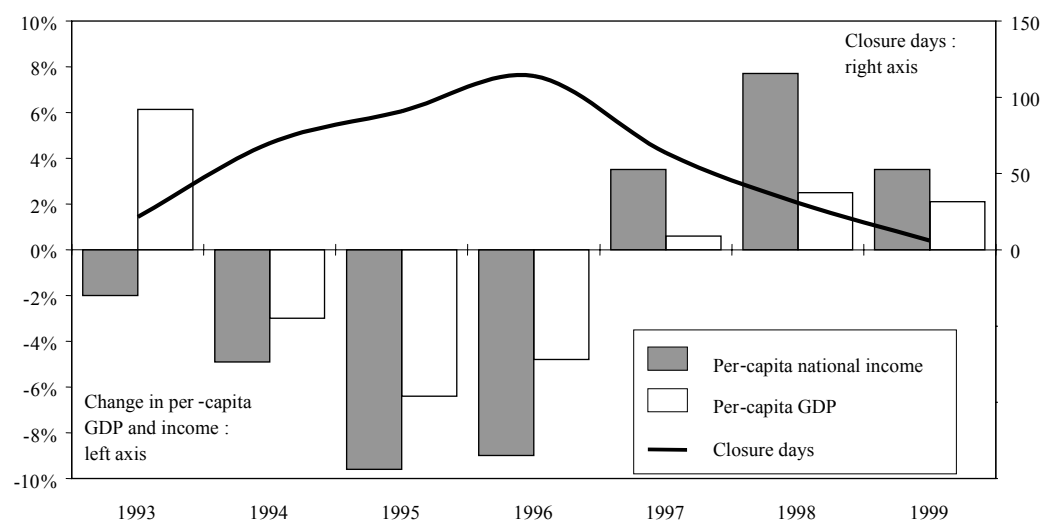
Although direct support is minimized, the Israeli policy of protective tariffs on agricultural products and inputs apply to the West Bank and Gaza Strip under the customs union agreed upon in 1994. Import tariffs for most agricultural products and inputs range from 100-350 percent. The result is that prices in the West Bank and Gaza Strip are far above world market prices for many products and inputs due to the tariffs applied to imports and to the trade being in more highly processed food products. For example meat was US\$3 500 a tonne, when the world price was around US\$1 950 a tonne, for cereals the import price from Israel was US\$670 a tonne when the world price for wheat was US\$205, and for sugar products the import price was US\$1 030 a tonne compared with US\$326 a tonne for sugar on the world market

Consequently the post-Oslo period did not lead to an improved development path or convergence with Israel as anticipated despite substantial donor support for infrastructure and institutional development through investment and technical assistance. The Palestinian economy continued to strongly depend on Israeli demand for goods and labour, which did not allow the Palestinian private sector to diversify production for other export markets and entailed significant trade diversion and high domestic wages.

Unfortunately, the years 1995-96 were characterized by intermittent external closures, resulting in trade, labour, and transaction cost distortions that raised production costs and diminished Palestinian competitiveness. High transportation costs for the effectively land-locked West Bank and Gaza Strip was the most important factor that significantly raised the final price of exports as well as the cost of inputs.

The graph below shows the strong negative correspondence between the number of closure days<sup>4</sup> per year and the rate of change in GDP and per-capita national income in the West Bank and Gaza Strip. Per-capita national income includes not only GDP but also the wages of Palestinians working in Israel and foreign aid, and therefore reflects most strongly both increases and decreases in the number of closure days.

**Fig. IV.2: Closure Days, Change in Palestinian Per Capita GDP, and Change in Palestinian Per Capita National Income**



Source 1) Government of Israel Ministry of Finance, *Economic Outlook*, November 2000.  
 2) P. Alfonso-Gamo, M. Alier, T. Baunsgaard, and U. Erickson von Allmen, *West Bank and Gaza Strip, Economic Developments in the Five Years Since Oslo*, IMF 1999.  
 3) *West Bank and Gaza*, IMF, June 2000.

### Changes in the national economy and in per capita income

As a result, GDP increases reversed, with rapid population growth undermining the effects that the growth in GNP had on average living standards. GNP growth fell to 2.5 percent and population growth increased to an annual average of approximately 4 percent. The prospect and unpredictability of closures created an environment of uncertainty and risk. This was compounded by extraordinarily high transaction costs and restrictions on access to alternative markets for import or export under the Paris Protocol. Domestic output and exports declined, as did private sector investment, and labour flows to Israel were sharply curtailed, all of which contributed to unemployment, rising poverty and reduced economic access to food. Palestinian unemployment reached 23.8 percent in 1996, up from modest levels in the early 1990s. According to *The Economist*, this was a dramatic change from the 1980's when unemployment was negligible.

Beginning in 1997, closures were less frequent, labour flows to Israel grew and transaction costs fell, while private investment increased. With the ease in security measures, particularly in 1998, 1999, and the first part of 2000, the economy returned to its higher trend in annual GDP growth. The Palestinian economy also benefited from an economic boom in Israel through enhanced opportunities for exports of Palestinian goods and labour. However, the modest overall economic growth in these years was primarily in construction and services, largely explained by the creation of jobs in Israel and in the Palestinian public sector. They added marginally to real productivity and resulted in workers becoming increasingly dependent on Israeli-owned companies for their livelihoods.

<sup>4</sup> The more recent estimates of changes in GNI and GDP per capita differ somewhat from those shown in the chart, but in general the pattern is the same and therefore the relationships between the per capita data and closures tend to be much the same as depicted in the chart.

At the end of the 1990's, average Palestinian incomes were substantially lower than ten years earlier. As the World Bank pointed out in a 2001 report on poverty in the West Bank and Gaza Strip, unless the economy was to grow by 4.8 percent annually, the proportion of people in poverty would inexorably increase, simply because of the growth in population. In order to reduce the number of poor people, GNP had to grow each year by at least 6.9 percent.

The World Bank estimates that Gross National Income (GNI) (excluding East Jerusalem) increased from US\$4.10 billion for 1995 to US\$5.45 billion by 2000. It then declined to US\$4.53 billion for 2001 and to US\$3.77 billion by 2002. Gross Domestic Product (GDP) declined from US\$4.64 billion in 2000 to US\$3.40 billion in 2002. The larger decline in GNI is due mainly to decreases in domestic production and job losses in Israel. Per capita income in nominal terms fell by 20.5 percent from 2000 to 2001 and by 20.3 percent from 2001 to 2002 and real per capita income decreased by more than 23 percent in 2001 and another 23 percent in 2002. Household consumption expenditures decreased 15.5 percent in 2001 and 14.8 percent in 2002. The World Bank estimates that by 2002 the share of the population below the US\$2 per day poverty line had risen to 58.5 percent, nearly three times the 20 percent estimated for 1999. In nominal terms, income (economic access) on a per capita basis declined from US\$1 839 to US\$1 166 from 2000 to 2002, a decline of US\$673 (36.6 percent) to a level 30 percent below the 1996 level. In the meantime the cost of living had continued to rise and even further decline in income was in prospect.

**Table IV.1: Palestinian Macro Economic Trends: 1999-2002**

	1995	1996	1997	1998	1999	2000	2001	2002
Gross National Income (GNI), US\$ million	4 098	4 190	4 565	5 058	5 056	5 455	4 526	3 768
Gross Domestic Product (GDP), US\$ million	3 597	3 739	3 959	4 230	4 198	4 637	4 034	3 396
GNI per capita (nominal), US\$	1 710	1 664	1 737	1 852	1 779	1 839	1 462	1 166
Real annual change in:								
GNI per capita (%)	-8.6	-5.6	1.8	7.7	3.9	-7.5	-23.2	-23.4
GDP per capita (%)	-7.9	-4.1	-1.1	3.9	3.1	-5.3	-19.5	-22.5
Private Consumption (%)	-3.0	-1.0	4.0	9.0	7.5	-5.6	-15.5	-14.8
Public Consumption (%)	20.0	20.0	10.0	7.0	20.3	31.0	-2.1	-0.6
Total Fixed Investment (%)	5.7	-1.9	7.7	8.4	-8.3	-28.3	-76.9	-44.0

Source: UNSCO, PCBS, World Bank. (Note: All data excludes East Jerusalem)

The baseline scenario in the 2003 Palestinian Authority (PA) budget proposal, submitted to the Palestinian Legislative Council (PLC) on 31 December 2002, was for a continuation of the status quo in terms of underlying economic conditions. Under this scenario, GDP was projected to decline by 7 percent in 2003 which implied a 11-12 percent reduction in per capita income. Revenue-making capacity was also expected to decline to about US\$530 million, while external budgetary support was assumed at around the same level as in 2002 (US\$500 million). On the other hand, it was assumed that Israel would resume the regular transfer of revenues it collects on behalf of the Palestinian Authority, and that the stock of withheld revenues would be released in 2003. Under these assumptions, it was assumed that the Palestinian Authority would be able to fund current and capital expenditures in the amount of about US\$1.1 billion, while eliminating the stock of budgetary arrears and reducing bank loans.

The proposed budget also provided estimates of an alternative scenario, one that assumed a return in the first quarter of 2003 to the conditions that prevailed in the third quarter of 2000. Under this scenario, GDP was estimated to grow by 17 percent in 2003, 15 percent in 2004, and 9 percent in 2005. This alternative scenario was based on the assumption of a removal of the restrictions imposed by Israel beginning 1 January 2003, and therefore provides an indication of the opportunity cost of current closures.

It is obvious that the scenario in 2003 is much closer to the baseline scenario than the alternative. Although the Israeli Government has resumed the transfer of revenues collected by Israel on behalf of the Palestinian Authority and arrears are being paid, the assumption of a return to the conditions that prevailed in the third quarter of 2000 remains a hope for the future.

## Trade

According to statistics available from PCBS the value of imports into the WBGS are far in excess of the value of exports. The value of imports rose from US\$2.02 billion in 1996 to US\$3.01 billion in 1999 before declining to US\$2.38 billion for 2000. The value of exports exceeded US\$400 million for the first time in 2000. The net value of imports ranged from US\$1,677 million to US\$2,635 million and averaged US\$2.03 billion over the five years from 1996 to 2000.

The West Bank and Gaza Strip is a net importer of essentially every category of goods. Manufactured items accounted for the largest shares of the export and import values from 1996 to 2000. During these years the value of exported manufactured items ranged from US\$190 million to US\$230 million, accounting for 56 to 60 percent of the total value of exports. But the value of imported manufactured items was much higher, from US\$600 million to over US\$1 billion, so the net value of imports was large. Large quantities of fuels, lubricants and related materials (mainly petroleum, electric current and natural gas) were also imported, with the value ranging from US\$378 million to US\$455 million between 1996 and 2000. The export value of these products was small, US\$4 to US\$9 million. The other large import groups were machinery and transport equipment, and food and agricultural products.

**Table IV.2: Value of Palestinian Exports and Imports (Thousand US\$)**

Calendar Year	1996	1997	1998	1999	2000
Value of Imports	2 016 056	2 238 561	2 375 102	3 007 227	2 382 807
Value of Exports	339 467	382 423	394 846	372 148	400 857
Net Imports	1 676 589	1 856 138	1 980 256	2 635 079	1 981 950

Source: PCBS

Detailed data on trade in 2001 and 2002 are not yet available, but according to the World Bank, exports fell by 13.4 percent from 2000 to 2001 and by 24.3 percent from 2001 to 2002 while imports declined by 29 percent from 2000 to 2001 and by 12.9 percent from 2001 to 2002. The Israeli Central Bureau of Statistics also reports that imports from Israel as well as exports to Israel declined in 2001 and again in 2002.

Israel is by far the West Bank and Gaza Strip's most important trade partner, dominating both imports and exports. PCBS reports that US\$1.73 billion (73 percent) of the US\$2.38 billion imported in 2000 came from Israel and that US\$370 million (92 percent) of the US\$401 million exported was destined for Israel. The main export items are non-metallic mineral manufactures, vegetables and fruit, furniture, footwear, cork and wood manufactures and iron and steel. The main import items are petroleum, electricity, non-metallic mineral manufactures, cereals, vehicles, iron and steel. Other important food imports include vegetables and fruits and sugar. Of the 68 divisions of the classification system used to report trade, the West Bank and Gaza Strip are net exporters of only two, which together with the magnitude of the imbalance, presents the case for an expansion in the domestic economy. In the meantime remittances and clearance revenues are the main avenues to close the trade gap.

The Paris Protocol states that the nature of commercial relations between Israel and the West Bank and Gaza Strip is a "customs envelope". The main feature is that the tariffs applying to Palestinian imports should approximate the rates that Israel imposes on the same products, except for a list of goods on which the Palestinian Authority is allowed to set tariffs. According to the World Bank, although Israeli tariffs plus purchase tax average 11 percent overall, the effective rate is a much higher 16.6 percent on Palestinian imports due to the different types of goods imported by the West Bank and Gaza Strip. Furthermore, the Paris Protocol allows only limited Palestinian access to Egyptian and Jordanian markets. Because Israel controls all borders, Palestinian trade must be conducted through Israel rather than directly with third parties. The West Bank and Gaza Strip gain from being in a customs union with Israel through preferential access to the Israeli market, although this is one-sided during closures.



## Consumer prices

Economic access is also affected by changes in prices. A comparison between the rates of change in consumer prices from 1996 to September 2000 and then from September 2000 to September 2003 indicates that prices in general have been rising at a slightly slower pace since the beginning of the crisis. Price patterns for the various categories differ to the extreme. Most notable is the exceptional increase in transport and communication prices, a consequence of the closures and other barriers to the transport of goods to, from and within the West Bank and Gaza Strip. Other exceptional features are the essential stability in furniture, household goods and services and the much slower growth in the prices for textiles, clothing and footwear, the consequence of the sharp decline in incomes over the last three years. Consumer prices in September 2003 were 12.8 percent above the September 2000 average which, combined with the much larger reduction in income, leads to the conclusion that on average economic access to all items would be no more than one-half of what it was three years earlier.

**Table IV.3: Rates of Change in Consumer Prices (%)**

Time period	Mid-1996 to September 2000	September 2000 to September 2003
Food	4.51	2.41
Transport and Communications	5.50	12.53
Textiles, clothing and footwear	5.38	1.07
Furniture, household goods & services	4.93	0.06
Housing	5.86	4.87
Beverages and tobacco	6.21	5.82
Medical care	5.82	3.32
Education	3.27	5.38
Recreation, cultural goods & services	- 2.00	1.59
Miscellaneous goods & services	5.85	3.56
Consumer prices (all items)	4.96	4.10

Source: Calculated from PCBS data.

In the search for expenditure reduction opportunities the retail price patterns suggest that furniture, household goods and services, textiles, clothing and footwear were the prime candidates. Food prices also have risen at a much slower pace than the average for all items and even slower relative to before September 2000.. The cost of medical care also appears to have been affected by the crisis as prices have been rising much slower than before. Prices for miscellaneous goods and services also are moving up at a significantly slower pace, and beverage and tobacco prices are climbing at about the same rate as before the crisis. Education and housing prices have risen faster than before the crisis although the prices for education are still rising at a much slower rate than prices generally. In general these price patterns appear to be consistent with expectations concerning the impact of the events since September 2000. Closures and related measures are known to have sharply increased costs for the transportation system, while the sharp reductions in employment and incomes would be expected to temper demand for items that can be postponed and, to a lesser degree, for food and medical care.

Inflation rates have followed very different paths since September 2000 in Jerusalem and the rest of the West Bank and Gaza Strip, rising much slower in the Gaza Strip and Jerusalem than in the rest of the West Bank. It is in the West Bank where the transportation problems have been most severe and where transport costs have risen at a phenomenal rate. The inflation rates for housing and food also are well above those in the Gaza Strip or Jerusalem. Prices have risen the slowest in the Gaza Strip. Yet, when the price paths for these three areas are compared it is easy to see that the impact of the closures and curfews has been much less severe in Jerusalem.

The impact of the sharp reductions in incomes is most evident in the Gaza Strip but also is quite clear in the rest of the West Bank where the prices of textiles, clothing, footwear, furniture, household goods and services were lower in April 2003 than they were in September 2000. Fortunately, transportation costs have not risen as much in the Gaza Strip as in the rest of the West Bank.

**Table IV.4: Palestinian Consumer Inflation Rates in the Gaza Strip, Jerusalem and Rest of West Bank**

Rate of change Sept. 2000 to April 2003 (%)	Gaza Strip	Jerusalem	Rest of West Bank
Food	2.35	2.31	4.61
Transport and communications	4.17	2.51	16.23
Textiles, clothing & footwear	- 3.03	5.52	- 0.06
Furniture, household goods & services	- 0.62	0.88	- 0.47
Housing	3.42	3.04	8.39
Medical care	1.80	6.11	2.38
Education	3.10	5.57	5.73
All items	2.07	3.31	5.73

Source: PCBS.

### The Palestinian people

The population of the WBGS in mid-2003 based on projections from the 1997 census was 3 634 495 and is expected to be 3 986 813 by mid-2005, an average annual increase over the two years of 176 159. In line with these projections, the population in the West Bank is expected to increase from 2,304,825 to 2 514 480 and in the Gaza Strip from 1 329 670 to 1 472 333 between mid-2003 and mid-2005.

**Table IV.5: Population of the West Bank and Gaza Strip (Mid-year in 000)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005
West Bank	1787.6	1857.9	1932.6	2011.9	2102.4	2200.7	2304.8	2407.4	2514.5
Gaza Strip	995.5	1039.6	1087.1	1138.1	1196.6	1261.4	1329.7	1399.2	1472.3
Total	2783.1	2897.5	3019.7	3150.1	3299.0	3462.1	3634.5	3806.6	3986.8

Source: PCBS, Projected Total Resident Population by Region, 1997-2001, 2003 and 2005; interpolation for 2002 and 2004. Figures include East Jerusalem

The projected annual population growth rates from mid-2003 to mid-2005 therefore are 4.45 percent for the West Bank, 5.23 percent for the Gaza Strip and 4.73 percent for the populations combined. The population is growing at a considerably faster rate in the Gaza Strip, where population density already is very high, with an average of 3 278 people per square kilometre at mid-2001, compared to 372 for the West Bank. These are young populations with around 45 percent and 50 percent of the West Bank and Gaza Strip populations under 15 years of age.

The WBGS have one of the highest population growth rates in the world. Population growth during the 1980's averaged 3.2 percent per year and domestic labour demand was insufficient to absorb the growing labour force, leading many to seek employment in other markets, notably Israel and the Gulf States. Annual population growth surged to 6 percent in the early 1990's due to the repatriation of Palestinians from countries in the region following the outbreak of the Gulf War.

Although the natural rate of increase in the population has been slowly declining in both the West Bank and the Gaza Strip, because of increased net immigration the population is believed to have been growing at an increasing rate. However, the rates of growth may have passed their peak, as the projected growth rates for both the West Bank and the Gaza Strip are higher for 2001-2003 than for either 1999-2001 or 2003-2005. Nevertheless, the annual absolute increase in population will continue to climb for several years, until the end of the decade if the medium series population projections are found to be close to reality.

The implications for food security are quite clear. Just to maintain per capita food consumption the food supply needs to expand by at least 4.7 percent a year between now and mid-2005, with the rate of growth subsequently declining only slowly. To actually reduce food insecurity, a substantially larger increase will be necessary.

### The potential labour force (population 15 years of age and over)

The potential Palestinian labour force (those 15 years of age and over) is expanding rapidly mainly due to the large and growing number of persons reaching 15 years of age. From the second quarter of 1998 to the third quarter of 2000 those 15 years of age and over rose by 154 000, while during the next nine quarters the average increase was 205 000. The total for those 15 years of age and over in 2002 was 1 856 000, having risen by 5.5 percent from 2001 and by 5.0 percent from 2000 to 2001. By the end of 2002 the number had reached 1 894 000 and by the first quarter of 2003 there were 1 920 000 who were 15 years of age or older.

**Table IV.6: Population 15 Years of Age and above in the West Bank and Gaza Strip (000)**

1995	1996	1997	1998	1999	2000	2001	2002	2003
1 320	1 399	1 479	1 539	1 604	1 675	1 759	1 856	1 959
Change	79	80	60	65	71	84	97	103

Source: PCBS, Labour Force Surveys Round 27 1995-2002, own estimate for 2003.

The increase in those 15 years of age and above is significantly higher in the Gaza Strip than in the West Bank. Growth in 2003 and beyond depends primarily upon those born since 1988 but also upon movements to and from the West Bank and Gaza Strip. This segment of the population has been increasing rapidly, by 71 000 from mid-1999 to mid-2000, by 84 000 from mid-2000 to mid-2001 and by 97 000 from mid-2001 to mid-2002. Based on the PCBS data for the last two quarters of 2002 and the first quarter of 2003 it appears that the increase in the potential labour force from mid-2002 to mid-2003 was around 103 000, and the annual increase from mid-2003 to mid-2005 is likely to be in the order of 110 000. In normal times from 40 000 to 50 000 of the potential labour force would actually participate in the labour force, so to keep food insecurity from increasing the economy should be generating this number of jobs just to accommodate the new entrants. Many more jobs will have to be created to improve economic access and reduce food insecurity.

### Participation in the labour force

During 1998-2000 the share of those 15 years of age and older that were in the labour force averaged 41.5 percent. By the third quarter of 2000 it had reached 43.5 percent, but fell sharply to 39.2 percent for the fourth quarter and reached a low of 36.9 percent during the second quarter of 2002, the quarter after the initiation of "Operation Defensive Shield". Although the potential labour force increased by 14 000 from the third to the fourth quarter of 2000, those who actually participated in the labour force declined by 67 000.

**Table IV.7: Labour Force and Labour Force Participation Rate in the West Bank and Gaza Strip**

Year	1995	1996	1997	1998	1999	2000	2001	2002
Labour Force (000)	515	560	599	637	667	695	682	707
Participation rate (%)	39.0	40.0	40.5	41.4	41.6	41.5	38.7	38.1

Source: PCBS, Labour Force Survey Round 27

The review of past labour force participation rates (the share of those 15 years of age and over who were in the labour force during 1998-2000) suggest that the food security strategy and action plan should aim for a rate of at least 41.5 percent. The labour force participation rate remained abnormally low during 2001 and 2002. If it had been maintained at 41.5 percent during 2001 and 2002, the labour force would have been 730 000 in 2001 and 770 000 in 2002, which is 48 000 and 63 000 higher than reported. The abnormally low participation rate was because potential workers were so discouraged about job prospects that they decided not to seek work and dropped out of the labour force. The number who were so discouraged that they did not participate reached its peak during the second quarter of 2002. By the first quarter of 2003 the number was reported by the PCBS at 109 000 of which 91 000 were male and 18 000 female, but this assumed a normal labour force participation rate higher than previously observed. Getting the discouraged back into the labour force and maintaining a reasonable participation rate is crucial to food security, but the overall climate for jobs will have to be vastly different to induce them to do so, as they will have the most difficulty finding employment.

The labour force was reported to have reached 742 000 by the last quarter of 2002, which gave a labour force participation rate of 39.2 percent for the quarter. But from then to the first quarter of 2003 only 3 000 of the 26 000 potential members actually joined the labour force and therefore the participation rate fell back to 38.8 percent. If the participation rate had been at 41.5 percent the labour force would have been at 797 000 during the first quarter of 2003, 52 000 higher than it was, indicating that the gap between the actual

Palestinian labour force and the potential labour force remains large. The labour force participation rate for the West Bank is higher than for the Gaza Strip, although the gap between them narrowed significantly early in 2003. Nevertheless, the share of the potential labour force that is outside the labour force is significantly higher in the Gaza Strip, at all times.

The labour force participation rate for women has always been low relative to men. For women 25 years of age and older the averages were 15.5 percent and 12.5 percent for, respectively, 1999-2000 and 2001-2002, while for males they were 80.9 percent and 77.4 percent. The young (15-24 years of age) also have relatively low rates, averaging around 30 percent. As a result of the different rates, during the last quarter of 2002 women aged 25 and older constituted only 12 percent of the total Palestinian labour force (and even less in the Gaza Strip) while men in these age categories represented 66 percent and the young 22 percent. Female labour participation is low when compared to countries in the region, where the averages range from 22 percent to 40 percent. Women head approximately 9 percent of all Palestinian households, yet these households constitute a much larger share of the poorest households, with 30 percent falling below the poverty line.

### Employment and unemployment trends

Following the recession in the mid-1990s and the easing of closures steady progress was made in reducing unemployment among the Palestinians. This trend was abruptly reversed after September 2000 when the restrictions on the movement of people and goods caused the loss of 183 000 (-28 percent) jobs from the third to the fourth quarter of 2000, consisting of the 67 000 individuals who remained out of the labour force and the 116 000 persons who were looking for work but could not find a job. Based on where they worked, their daily net earnings and number of days they worked, the loss of earnings of the 183 000 was NIS 351.6 million (US\$87 million) a month, equivalent to NIS 4 219 million (US\$1 044 million) a year.

At the average dependency rate at the time, around 900 000 people would have lost economic access due to the loss of 183 000 jobs. They became the “new poor”, which placed extreme pressure on family and social welfare networks in seeking to cope with the sudden massive loss of earnings which in turn had a significant knock-on effect on the economy as the loss in economic access in turn led to reduced earnings and incomes of those employed or operating businesses. These initial job losses were so large that they totally overwhelmed the social welfare system. By 2001 the share of the labour force employed was far below the 2000 average and declined even further in 2002, with the rise in the numbers of the unemployed adding to the number of food insecure and to the humanitarian assistance caseload. Although the numbers of the discouraged and unemployed remained near the fourth quarter 2000 levels during 2001, they were sharply higher for the second and third quarters of 2002, subsequent to “Operation Defensive Shield”. This once again added a significant number of “new poor” to the humanitarian assistance caseload, which already had overwhelmed the capacity of those providing assistance.

**Table IV.8: Employment and Unemployment in the West Bank and Gaza Strip (000)**

Year	1995	1996	1997	1998	1999	2000	2001	2002	1 <sup>st</sup> Q 2003
Employment	421	426	477	546	588	597	508	486	518
% of 15 yr. or more	31.9	30.5	32.3	35.5	36.7	35.6	28.9	26.2	27.0
Unemployment*	94	133	122	92	79	98	174	221	226
% of Labour Force	18.2	23.8	20.3	14.4	11.8	14.1	25.5	31.3	30.3

Source: PCBS, Labour Force Surveys 1995-2003. \* ILO Standards.

During the first quarter of 2003 the number of employed were estimated at 518 000, so there was a net loss of 22 000 jobs since the fourth quarter of 2002. This increased the unemployed ranks, pushing the share of the labour force that was unemployed to 30.3 percent according to the ILO standards and to 39.3 percent using the relaxed definition which includes the discouraged, compared with the 27.3 percent and 36.8 percent reported for the fourth quarter of 2002. The net loss of 22 000 jobs was associated with an increase of 18 000 in the Gaza Strip and a loss of 40,000 in the West Bank. Based on the relaxed definition there were 336 000 persons in need of a job during the first quarter of 2003, the 109 000 discouraged and the 226 000 unemployed. This, however, implies that the labour force participation rate was at 44.5 percent, a relatively high percentage, above even the 43.5 percent reached during the third quarter of 2000.

Immediately before September 2000 the unemployment rate was at 10 percent and over the previous year (Q4 1999 to Q3 2000) had averaged 9.9 percent. The food security strategy and action plan should aim for an unemployment rate at or below 10 percent, and also for unemployment compensation for those who lose their job. If the unemployment rate had remained at 10 percent during 2001 and 2002 and the first quarter of 2003 there would have been 73 000, 77 000 and 80 000 unemployed instead of 174 000, 221 000 and 226 000. The unemployment rate increased sharply in 2001 and again in 2002, with the peak rates at 33.6 percent and 35.6 percent (ILO standards) during the second and third quarters of 2002. It was highest for the young (15-24 years) and lowest for female's 25 years and over. Unemployed men have lower educational attainment than women, with three-fourths of unemployed women having a post-secondary degree compared to 13 percent of unemployed men. Almost 80 percent of Palestinians working in Israel have a preparatory education or less, reflecting a lower education level than among those employed domestically.

As noted, closures, curfews and related actions have had a major impact on the labour force, employment and unemployment. An indication of the magnitudes can be seen by comparing the data for 2001, 2002 and the first quarter of 2003 with what would have been if the labour force participation had remained at 41.5 percent and the unemployment rate had remained at 10 percent.

**Table IV.9: The impact of closures and curfews on the labour force, employment and unemployment**

Item	Actual 2001	Actual 2002	Actual Q103	Est. 2001	Est. 2002	Est. Q12003
Population 15 and over	1 759 000	1 856 000	1 920 000	1 759 000	1 856 000	1 920 000
Labour force	682 000	707 000	745 000	730 000	770 000	797 000
Employed	508 000	486 000	518 000	657 000	693 000	717 000
Unemployed	174 000	221 000	226 000	73 000	77 000	80 000

Source: PCBS, Labour Force Surveys for actual 2001, 2002 and 1<sup>st</sup> Q 2003. Estimates assume labour force participation rate at 41.5 percent (1998-2000 average) and unemployment at 10 percent (September 2000). Note that the unemployment rate averaged 9.9 percent from the 4<sup>th</sup> quarter of 1999 to the 3<sup>rd</sup> quarter of 2000.

As shown in Table IV.5, if the labour force participation rate would have remained at the 1998-2000 average of 41.5 percent and the unemployment rate had remained at the September 2000 rate of 10 percent an additional 149 000 would have been employed in 2001, an additional 207 000 would have been employed in 2002 and an additional 199 000 would have been employed during the first quarter of 2003. By mid-2003 the labour force is estimated to have been at 1 959 000 and at the 41.5 percent participation and 10 percent unemployment rates the number employed would have been 732 000, or 214 000 more than was reported to have been employed during the first quarter of 2003. These comparisons suggest that the jobs backlog is at least 200 000.

Employing an additional 149 000 wage workers in 2001 and 207 000 in 2002 would have augmented earnings by NIS 2.63 billion in 2001 and by NIS 3.78 billion in 2002. Closing the 200 000 or 214 000 person gap, assuming a daily wage of NIS 67 and the days worked in a month at 22, would mean an additional NIS 3 540 million (US\$740 million) NIS 3 785 million (US\$788 million) a year in earnings. Spending the additional earnings would generate a substantial second round effect.

### **Economic dependency ratios**

The economic dependency ratios (population divided by employed persons) for the population as a whole were at 5.1 and 5.3 during 1999 and 2000. The ratio increased significantly due to the closure-related loss of jobs, to 6.5 for 2001 and to 7.1 for 2002. It was still close to 7.0 during the first quarter of 2003.

The economic dependency ratio has always been considerably higher in the Gaza Strip than in the West Bank. Drawing upon the PCBS data for the October-December quarter of 2002, out of every 100 people, only 23 and 17 were in the labour force in the West Bank and Gaza Strip respectively, and 6 and 5 of these were unemployed, leaving 17 and 12 either fully or under employed. Only 15 and 12 were fully employed. The economic dependency ratios therefore were at 5.9 and 8.2 for the West Bank and Gaza Strip respectively. That is, on average 5.9 people depended upon each employed West Bank person while 8.2 depended upon each employed person in the Gaza Strip, a much larger dependency load for those in the Gaza Strip. The economic dependency ratios for the first quarter of 2003 were reported to have increased from the previous quarter in the West Bank, from 5.9 to 6.6, but to have decreased in the Gaza Strip, from 8.2 to 7.5. Before the crisis they were much lower – during the third quarter of 2000 they were 4.3 for the West Bank and 6.0 for the Gaza Strip. Although the first quarter changes reduced the gap in dependency ratio between the West Bank and the Gaza

Strip, the dependency load was still 14 percent higher in the Gaza Strip. But this was a major improvement over the 39 percent higher dependency load prior to the crisis or during the last quarter of 2002.

### Wage employees

There was essentially no change in non-wage employee employment consequent to the initiation of the crisis. Non-wage employment averaged 195 500 during 1999-2000 and 195 000 during 2001-2002, including the 7 000 and 6 000 non-wage employees working in Israel and the settlements. Essentially all of the reduction after September 2000 therefore took place among wage employees (now about 58 percent of the total employed), and especially among those previously working in the private sector or in Israel and the settlements, with average decreases of 40 000 (23 percent) and 65 000 (55 percent) respectively. But there was a 10 000 increase in public sector wage employees (all public sector employees are classified as wage employees), from an average of 106 500 during 1999-2000 to 116 500 during 2001-2002. Budget support from donors was sufficient to enable the Palestinian Authority to maintain public sector employment.

According to PCBS Labour Force Surveys, the low point for wage workers came during the second quarter of 2002, when private sector wage employment fell to 118 000 and wage employment in Israel and the settlements fell to 31 000. Although substantial gains were reported for the third and fourth quarters (gains of 26 000 for the private sector and 20 000 in Israel and the settlements), employment in Israel and the settlements, including non-wage employment, during the fourth quarter of 2002 still was 12 000 lower than during the fourth quarter of 2001. Therefore, employment of private sector wage workers in the Territory, together with all those working in Israel and the settlements, was 200 000 during the fourth quarter of 2002, the same as it was a year earlier. However, total employment in Israel and the settlements declined from 56 000 during the fourth quarter of 2002 to 49 000 during the first quarter of 2003, and almost all of this decline must have been in private sector wage workers.

**Table IV.10: Employment by Place of Work and Sector**

Item	1999-2000 Average	2001-2002 Average	Change
Total employed	592 500	497 000	-95 000
Non-wage employees	195 500	195 000	-500
- In Palestinian Territory	188 500	189 000	+500
- In Israel & settlements	7 000	6 000	-1 000
Wage employees	397 000	302 000	- 95 000
- Public sector	106 500	116 500	+10 000
- Private sector	171 500	131 500	-40 000
- Israel & settlements	119 000	54 000	-65 000

Source: PCBS, Labour Force Survey Round 27

### Wage rates in West Bank, Gaza Strip and Israel

Israeli jobs pay considerably higher wages than jobs in the domestic Palestinian market, reflecting Israel's large and well-developed economy, more modern productive capacities, and high per capita income levels. Although the relatively free movement of Palestinian labour prior to the mid-1980's led to a near closing of the gap between wages earned by Palestinians employed in Israel and those employed within the West Bank and Gaza Strip, a significant wage gap re-emerged and has persisted since the late 1980's. The average daily wage is similar for public and private sector workers. However, during 1999-2000 wages for public sector employees were higher by nearly 3 percent, while during 2001-2002 private sector wages were nearly eight percent higher.

At the prevailing wage rates and days worked per month, public sector workers earn around NIS 1 400 a month and private sector workers earn around NIS 1 500 a month. At the exchange rate during the first quarter of 2003, earnings of NIS 1 500 a month would only have been enough to keep families with fewer than five persons above the US\$2.10 per person per day poverty line. With the dependency ratio now around 7.0 persons the implication is that even with a fully employed wage worker, large households remain below the poverty line.

There are major differences in wages by place of work. Those who work in the Gaza Strip earn the lowest daily wage and the wage gap between them and those working in the Jerusalem Governorate or in Israel and the settlements had widened by the fourth quarter of 2002 and again in the first quarter of 2003. Not only does each employee in the Gaza Strip support more people; they do so with less income. There also is a substantial

difference between the wages received by those working in the Jerusalem Governorate and those working in the rest of the West Bank. The highest wages are paid for work in Israel and the settlements. The average daily net wage in Israel and the settlements during the first quarter of 2003 was 69 percent higher than in the West Bank and 127.5 percent higher than in the Gaza Strip. Wage rates in general continued to rise over the last four years in nominal terms, but in real terms they are lower now than they were during 1999-2000 in the Gaza Strip and in the West Bank outside of Jerusalem Governorate.

During the last quarter of 2002 the average daily wage was NIS 54.7 in the Gaza Strip, 66.4 in the West Bank outside of the Jerusalem Governorate, 103.3 in the Jerusalem Governorate and 120.2 in Israel and the settlements. Applying the average monthly workdays by place of work shows that on average the wage worker in the Gaza Strip earned NIS 1 198 a month, those working in the West Bank outside Jerusalem Governorate earned NIS 1 514, those in Jerusalem Governorate NIS 2 355 and those working in Israel and the settlements earned NIS 2 440. During the fourth quarter of 2002 the dependency ratio for Gaza Strip wage workers was at 8.2 while it was at 5.9 for West Bank wage workers. With earnings of NIS 1,200 and NIS 1 500 these amounts were only enough to keep families of 4 and 5 persons above the national poverty line, the implication being that a very large share of families with a full time wage worker in the Gaza Strip were below the national poverty line. Therefore even those who had a job would have been hard pressed to ensure food security for their families.

**Table IV.11: Average Daily Wage per Employee (NIS)**

By Sector	1999	2000	2001	2002	Q4 2001	Q4 2002
Public Sector	59.4	69.9	61.0	65.2	60.9	63.0
Private Sector	60.3	65.5	66.8	69.1	66.5	67.1
<b>By Place of Work</b>						
Gaza Strip	51.4	53.3	54.4	54.9	55.5	54.7
West Bank outside Jerusalem Governorate	63.9	67.1	65.6	69.4	63.9	66.4
Jerusalem Governorate	85.6	93.2	93.2	101.6	92.2	103.3
Israel and the Settlements	105.8	110.4	106.9	117.3	108.8	120.2

Source: PCBS, Labour Force Survey Round 27.

#### **Employment by Place of Work and Economic Activity**

The decline in employment from the 1999-2000 average to the 2001-2002 average of 95 500 was concentrated in the goods producing sectors of the economy, with the loss in construction jobs accounting for 63 percent of the total decline. Manufacturing, mining and quarry job losses were the second most important, representing 20 percent of the decline, while agriculture, fishing and forestry was third, accounting for 12 percent of the overall reduction in jobs. The remaining 4 percent were accounted for by the service producing sectors, mainly in hotel and restaurant jobs. By the first quarter of 2003 construction and manufacturing jobs, at 60 000 and 66 000, were still far below the 1999-2000 averages of 124 000 and 88 000, while employment in the other sectors were near or above the 1999-2000 levels.

In 1999 a relatively large 23 percent of the employed worked in Israel and the settlements, with the percentage significantly higher for those residing in the West Bank. The sharp decline in employment in Israel and the settlements during the last quarter of 2000 combined with record employment within the West Bank and Gaza Strip shifted the share for those working outside the Territory to 20 percent. There was a large decline in employment throughout the West Bank and Gaza Strip in 2001 but larger relative declines in jobs in Israel and in the settlements so the share for those working there dropped to 14 percent for 2001 and to 10 percent for 2002. The 35.6 percent reduction from 1999 to 2002 in jobs in the goods producing sectors, led by the 59 percent reduction in construction jobs, accounted for most of the decline in total employment. Jobs in the service sectors increased in 2000 but then declined modestly in 2001 and 2002, and therefore those employed in the service sectors represented a larger share of total employment. In 1999 the service sector accounted for one-half of total employment, but the relative decline in the goods producing sectors led to the service sector share climbing to nearly 61 percent by 2002. The temporary surge in employment in the goods producing sectors during the last quarter of 2002 pulled the share back to 57 percent but the increase in service related jobs combined with the decline in goods producing jobs during the first quarter of 2003 brought the service sectors jobs to 61 percent of total employment.

**Table IV.12: Employment by Place of Work and Economic Activity (000)**

Place or Sector	1999	2000	2001	2002	2002 4 <sup>th</sup> Q	2003 1 <sup>st</sup> Q
In the Palestinian Territory	453	480	438	436	484	469
In Israel & Settlements	135	117	70	50	56	49
<b>Total Employed</b>	<b>588</b>	<b>597</b>	<b>508</b>	<b>486</b>	<b>540</b>	<b>518</b>
<b>In goods producing sectors</b>	<b>295</b>	<b>285</b>	<b>207</b>	<b>190</b>	<b>233</b>	<b>202</b>
Agriculture, fishing, forestry	74	82	61	72	95	76
Manufacturing, mining, quarry	91	85	72	65	69	66
Construction	130	118	74	53	69	60
<b>In service producing sectors</b>	<b>293</b>	<b>312</b>	<b>301</b>	<b>296</b>	<b>307</b>	<b>316</b>
Services and related	165	178	175	172	176	181
Trade, restaurants, hotels	100	105	98	97	101	106
Transport, storage, communication	28	29	28	27	30	29

Source: PCBS, Labour Force Survey Rounds.

During the last quarter of 2002, of each 100 people employed (fully or under), 87 worked in the West Bank and 95 worked in the Gaza Strip while the remaining 13 and 5 worked in Israel and the settlements. There were 56 000 working in Israel and the settlements then but only 49 000 during the first quarter of 2003. Further, the profile of those working in Israel and the settlements differed sharply from those working in the West Bank and Gaza Strip. That is, 45 percent of Palestinians employed in Israel or the settlements worked in construction compared to only 9 percent in either the West Bank or Gaza Strip. The main economic activities of those employed in the West Bank and Gaza Strip, in rank order, were “services and other,” “commerce and hotels,” and “agriculture, fisheries and forestry.” These three accounting for 72 and 77 of every 100 employed in, respectively, the West Bank and Gaza Strip. Agriculture, fisheries and forestry accounted for 20 percent of the employed in the West Bank, 15 percent in the Gaza Strip and 9 percent in Israel and the settlements, but the percentages changed quite significantly for the first quarter of 2003, to 13.2 percent for the West Bank, 19.6 percent for the Gaza Strip and 7.5 percent for Israel and the settlements. The share engaged in agriculture fell sharply in the West Bank but increased in the Gaza Strip from the fourth quarter 2002 to the first quarter 2003.

**Table IV.13: Composition of the Employed Palestinian Population, Year End 2002 (of each 100 employed persons)**

	West Bank	Gaza Strip	Israel	Total
<b>Employed Palestinian persons:</b>				
In West Bank and Gaza Strip	87	95		89
In Israel and settlements with Palestinian identity	6	5		6
In Israel and settlements w/ Israeli or Foreign identity	7	0		5
<b>Index</b>	100	100		100
<b>Economic activity</b>				
Agriculture, fisheries, and forestry	20	15	9	18
Mining and manufacturing	13	9	17	12
Construction	9	9	46	13
Commerce, Restaurants, Hotels	20	17	15	19
Transport, Storage, Communications	6	5	4	5
Services & other	32	45	9	33
<b>Index</b>	100	100	100	100

Source: Calculated from PCBS data

#### Employment in the West Bank and Gaza Strip

Employment in the West Bank and Gaza Strip reached a record high of 480 000 in 2000, but dropped to 438 000 in 2001 and to 436 000 in 2002. In relative terms, the reduction in the goods producing sectors was ten



times that for the larger service producing sectors. Based on the annual averages from 2000 to 2002 employment in the goods producing sectors fell by 20 percent from 195 000 to 156 000, while the decline in the service producing sectors was from 285 000 to 280 000, a reduction of 5 000 (-2 percent).

Within the goods producing sectors the largest reduction from 2000 to 2002 took place in construction, from 54 000 to 33 000 followed by manufacturing, quarrying and mining, from 70 000 to 55 000 and agriculture, hunting, forestry and fishing, from 71 000 to 68 000. These reductions meant that 39 percent of the construction workers, 21 percent of the manufacturing, quarrying and mining workers and 4 percent of the agriculture workers lost their jobs. However, by the fourth quarter of 2002 those employed in each of these three sectors was above the 2002 average, and also above the year earlier level for construction and agricultural workers. Nevertheless, employment in construction and manufacturing remained well below the levels reached in 2000, and declined again from the fourth quarter of 2002 to the first quarter of 2003.

But the story for agriculture is different. In the fourth quarter of 2002 agricultural employment was estimated at 90 000, an impressive 42 000 above the previous quarter, 33 000 more than the fourth quarter of 2001 and 22 000, 34 000, 19 000 and 27 000 above the averages for 2002, 2001, 2000 and 1999. The implication was that the dismal economic situation had stimulated a return to agriculture. However, the report for the first quarter of 2003 shows that much of the increase in agricultural employment was due to seasonal factors, especially in the West Bank, where the agriculture share of the employed fell from 20.2 percent to 13.2 percent. Yet, the agriculture share increased in the Gaza Strip, from 15.1 percent to 19.6 percent.

While major changes were taking place within the goods producing sectors the changes in employment within the larger service producing sectors were much more modest. The net reduction of 5 000 from 2000 to 2002 was the consequence of relatively large reductions in service (-25 percent) and hotel/restaurant (-14 percent) employment and relatively small employment reductions in transportation, storage and communication (-4 percent), public administration and defence (-4 percent) and education (-2 percent), partially offset by modest increases in health, trade and "other" employment.

#### Employment in Israel and the settlements

After dropping to 14 percent of the employed in 1996, employment in Israel and the settlements accounted for an increasing share of total Palestinian employment in 1997, 1998 and 1999. By 1999 the share reached 23 percent. For 2000, 2001 and 2002 the numbers and shares fell to 20 percent, 14 percent and 10 percent. By 2002 employment had declined from the 135 000 employed in 1999 to 50 000, a reduction of 63 percent. Most of the lost jobs (70 000) were in the goods producing sectors, with a 56 000 reduction in construction jobs, an 8 000 reduction in manufacturing, quarrying and mining jobs and a 7 000 reduction in agriculture, hunting, forestry and fishing jobs. But 15 000 jobs were also lost in the services producing sectors, with the largest reduction in hotel and restaurant employment (-5 000) and smaller reductions in every service sector except health.

**Table IV.14: Employment in Israel and the settlements: 1999-2002 (000)**

Time period	1999	2000	2001	2002	Q4 2001	Q4 2002
Total employment	588	597	508	486	518	540
Employment in Israel & settlements	135	117	70	50	68	56
Share in Israel & settlements ( percent)	23.0	19.6	13.8	10.3	13.1	10.4
<b>Employment in Goods Producing Sectors</b>	<b>105</b>	<b>90</b>	<b>51</b>	<b>34</b>	<b>52</b>	<b>41</b>
Construction	76	64	35	20	38	26
Manufacturing, Quarrying & Mining	18	15	11	10	9	10
Agriculture, Hunting, Forestry & Fishing	11	11	5	4	5	5
<b>Employment in Service Producing Sectors</b>	<b>31</b>	<b>27</b>	<b>19</b>	<b>16</b>	<b>16</b>	<b>15</b>
Trade	10	11	8	7	7	6
Hotels and Restaurants	8	7	4	3	3	3
Other	13	9	7	6	6	6

Source: PCBS, Labour Force Survey Round 27

During the second quarter of 2002 after the start of "Operation Defensive Shield" only 33 000 were employed in Israel and the settlements, with 23 000 employed in goods producing and 10,000 employed in service producing jobs. By the fourth quarter of 2002 there were 56 000 employed, a significant gain from the second quarter but still well below the 68 000 employed a year earlier, but the total employed fell back to 49 000 for the first quarter of 2003. Construction continues to be the main source of employment, followed by manufacturing and trade and agriculture. Trade now is a more important source of employment than agriculture. Agricultural employment fell from 11 000 in 1999 and 2000 to 5 000 in 2001 and 4 000 in 2002. The low point was reached in the third quarter of 2002, when only 3 000 were reported to have been employed in Israel and the settlements. But during the fourth quarter an increase to 5 000 was reported.

### **Labour Relations between Israel and the West Bank and Gaza Strip**

According to the Israeli Ministry of Finance, in 2001 Israeli imports from the West Bank and Gaza Strip were as follows: US\$1.1 billion in wage payments to Palestinian workers in Israel, US\$500 million in goods and services, and US\$500 million in trade along the line between the West Bank and Israel. Given the Palestinian dependency on Israel for employment, labour relations deserve special attention in the overall context of food security.

The relative dependency of the Israeli economy on Palestinian labour has risen in the recent past, and that of the Palestinian economy on the wages of West Bank and Gaza Strip inhabitants earned outside Palestinian areas has grown even more. About 22 percent of Palestinians were employed in Israel in 2000, but since Israeli wages were generally twice as high as wages in the West Bank and Gaza Strip at that time, income from labour in Israel accounted for a larger share - more than one-third - of total labour income for Palestinians. When the West Bank and Gaza Strip lose its labour income from workers in Israel and the settlements during closures, the overall level of economic activity is significantly affected. According to the Israeli Ministry of Finance, during closure in early 1996 approximately 60 000 Palestinians were denied entry to Israel for several months. During that time, economic activity in the West Bank and Gaza Strip contracted so severely that another 60 000 Palestinians who were domestically employed lost their jobs.

The 1:1 ratio in which every Palestinian worker in Israel "supported" a Palestinian worker in the domestic economy by means of his or her contribution to overall Palestinian economic activity makes the Palestinian economy particularly sensitive to closures and curfews. The above data on employment suggests that this ratio may have been lowered, but it is evident that a loss of jobs in Israel and the settlements has a negative impact on jobs in the West Bank and Gaza Strip. Furthermore, the loss of the higher wage jobs in Israel and the settlements certainly means that the impact on the Palestinian economy is considerably greater than it is from a loss of lower paying jobs.

Another aspect of the labour relations between Israel and the West Bank and Gaza Strip in relation to closure and curfews is that the Israeli government has taken actions to subsidize both their agricultural (currently) and construction (in the 1990's) sectors to compensate employers for losses due to closure-related wage increases. Specifically, three months after the *al Aqsa Intifada* began the Israeli government put in place an emergency subsidy programme for the farm sector to encourage Israeli unemployed into the sector to replace Palestinian workers. A similar government subsidy programme was undertaken in the early 1990's. At that time construction activity almost doubled in Israel following a year of mass immigration that caused housing demand to skyrocket. In response, the Israeli government, in conjunction with the building contractors, created training and incentive programs for approximately 20 000 people (including intensive courses, internships at construction sites, minimum wage guarantees, and, for soldiers, early discharge, a preferred-labour grant, and an additional NIS 10 000 grant at the end of their first year of work). At nearly the same time, several successive border closures were applied and Palestinian workers were barred for several weeks or months at a time. Building contractors protested and, in response, the number of permits granted to foreign workers was increased.

### **Manufacturing capacity**

A report by the Palestinian Trade Centre (PALTRADE) and the Industrialists' Federation indicates that Israeli security measures had caused 76 percent of factories to lower production and 17 percent to shut down completely. Most industry is concentrated in the production of consumer goods, including food processing, textiles and clothing and pharmaceuticals, as well as construction materials. According to PALTRADE, the number of companies engaged in export activities declined from 232 before the *Intifada* to just 46. The main obstacles are the restrictions imposed on the movement of goods and people.

**Table IV.15: Manufacturing Capacity Utilisation 2002**

(%)	West Bank	Gaza Strip	Overall
Normal Operation	12.1	3.4	6.9
Partial Operation	69.8	80.6	76.3
Closed	18.1	16.1	16.9
Average capacity utilisation for partially operating firms	35.7	26.9	30.1

Source: The Economist Country Reports, January 2003