

Jon Pedersen and Rick Hooper (ed.)

Developing Palestinian Society Socio-economic trends and their implications for development strategies



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Summary Conclusions

Since 1993, international donor assistance to the Palestinian Authority and Palestinian people in the West Bank and Gaza Strip has served to cushion the affect of declining living conditions. The targeting of aid to support rapid disbursement small-scale infrastructure project and short term employment creation/income support initiatives as well as to support the continuing financial viability of the Palestinian Authority itself through the provision of budgetary support resulted to a large degree from the effective functioning of co-ordination mechanisms developed between October 1993 and the November 1994. These mechanisms contributed to a growing convergence of views among the Palestinian Authority, donors, the International Monetary Fund, the United Nations and the World Bank concerning priorities in the use of aid. The involvement of the Government of Israel at all levels of the co-ordination mechanisms has been an important factor in their effectiveness.

However, even if maintained at their present relatively high levels, the impact of donor aid will decline in the future years. One reason for this is that the losses to the Palestinian economy from closure related measures have now become approximately equal to annual disbursements by donors. Another reason relates to population growth: as the population increases the per capita effect of constant levels of donor disbursement diminishes correspondingly. Given the relatively high proportion of donor disbursements targeted to address living conditions, this development has direct implications also for future donor strategies.

Beginning with the 1987 *intifada* (or uprising) in the West Bank and Gaza Strip, and intensified after 1993, the Palestinian economy has been subjected to repeated shocks. These shocks have mainly been linked to an increasingly strict regime of movement restriction applied to both persons and goods entering or leaving the West Bank and Gaza Strip. On many occasions, particularly since 1993, no movement has been allowed in or out of the West Bank and Gaza Strip, causing considerable losses to the Palestinian economy. In addition to one-time losses of million of dollars, these closures and the broader system of movement restrictions are beginning to register a cumulative effect observable in a shift away from a wage-based economy towards a rapid increase in marginal, low-productivity, and low income-generating informal-sector activity. Should this trend continue for another five to ten years, there will be pro-

found negative consequences for Palestinian society. Many of the advantages that the West Bank and Gaza Strip previously enjoyed relative to other developing economies and the prospects for growth and development contained in the April 1994 Israeli-Palestinian Protocol on Economic Relations and the September 1995 Interim Agreement will have been squandered.

The rapid rate of population growth in the West Bank and Gaza Strip magnifies negative trends and reduces the impact of positive ones. By 2010, natural growth alone will lead to an increase of 1.8 million persons in the Palestinian population of the West Bank and Gaza Strip. In the Gaza Strip, where socio-economic conditions are relatively worse, the population will be twice the size in 2010 that it was in 1995. In the West Bank, with a somewhat lower rate of growth, population size will increase by nearly 60 per cent during the same period.

If not addressed soon, this combination of steadily declining living standards and rapid population growth will threaten to set back Palestinian social and economic development. The growth in domestic revenues of the Palestinian Authority will not keep pace with demand on public services. As a result, the quality and coverage of education and health care at all levels will decline. The private sector will be unable to create the estimated 450,000 jobs needed over the next 15 years only in order to maintain the present (unacceptably high) level of unemployment.

With the five-year pledges made by donors in the context of the 1 October 1993 Washington, DC Conference to Support Middle East Peace due to be fully committed by 1999, 1998 should be devoted to planning the next phase of the development effort. This report provides analysis and projections concerning demography, labour markets, and demand on public services each of which will be of central importance in the allocation of donor resources in the coming years.

Introduction

The Norwegian Royal Ministry of Foreign Affairs, as part of its planning of future aid to the Palestinian Authority and the Palestinian people in the West Bank and Gaza Strip, requested Fafo to prepare a report on development aid to the Palestinians. The present report has three broad aims: To set out the political and socio-economic context in which international assistance has, and will continue to be, provided in the West Bank and Gaza Strip; review the general allocation of donor funds over the past four years, mindful of the political context and constraints inherent in the area; suggest to Norwegian policy makers ways in which aid might be targeted in the coming years in light of anticipated socio-economic and political developments.

This report has been carried out mainly as a desk-top study, drawing heavily on the work of the Palestinian Central Bureau of Statistics; the Palestinian Authority Ministries of Planning and International Co-operation, Education, Higher Education and Health; the Israeli Central Bureau of Statistics; the International Monetary Fund, the Ad Hoc Liaison Committee and its Secretariat; the World Bank; the Social and Economic Monitoring Unit of the Office of the United Nations Special Co-ordinator in the Occupied Territories; and the United Nations Relief and Works Agency for Palestine Refugees.

Based primarily on economic, demographic and labour market analyses, this report represents an attempt to quantify the magnitude of the demand of the Palestinian public for basic government services and employment in the coming 15 years. Irrespective of the present status of, and future progress in, the political negotiations between the Government of Israel and the Palestine Liberation Organisation, the socio-economic needs of the Palestinian people are growing at a rapid rate and meeting them will present the Palestinian Authority and Palestinian society with a formidable challenge. The implications of this rate of growth for the Palestinian Authority first and foremost, but also for the Government of Israel, the donors and the multilateral institutions should begin to be examined.

This study is presented in three parts:

Part I is an overview of the political context in which decisions regarding donor aid have been taken since 1993. The section notes key political trends and events related to the Israeli-Palestinian negotiations and implementation of the Declaration of Principles (DoP). Part I also describes the evolution of co-ordina-

tion mechanisms for multilateral co-operation and collective decision-making and action.

Part II presents basic social and economic indicators in the West Bank and Gaza Strip (WBGs) beginning from roughly 1990 and continuing, based on projections, through 2010. The figures presented focus on developments in demography, household income and expenditure, the corresponding demand on education and health services, and the labour market. The implications of the projections for the provision of public services in particular is discussed. Part II also provides an overview of the development of the Palestinian public sector since September 1993 as well as a summary overview of public sector finance.

Part III describes how donor aid has been used since 1993 and, in light of likely political and socio-economic developments in the coming years, considers issues that will have to be addressed in the near future.

Part I The Political Context

In August 1993, the world learned that far from the stalemate that the Madrid process had apparently resulted in, behind closed doors the Government of Israel and the Palestine Liberation Organisation had reached agreement on mutual recognition and had further agreed on a framework for conducting bilateral negotiations towards an end to their conflict. Several weeks later, on 13 September 1993, in Washington, DC, the parties signed the Declaration of Principles on Interim Self-Government Arrangements, which immediately became known as the Oslo Accord, in recognition of Norway's role in facilitating the secret negotiations. On 1 October 1993, the Government of the United States hosted the Conference to support Middle East peace. Held in Washington, DC, approximately forty donor states and institutions gathered to pledge their support to the parties in the implementation of the Declaration of Principles. The main means by which members and institutions of the international community were called upon to support the Declaration of Principles was through the provision of development aid to the Palestinians in the West Bank and Gaza Strip.

The Washington Conference yielded pledges of US\$ 2.4 billion to be disbursed over a five-year period. At the Conference not all donors pledged for the entire five year transitional period established by the Declaration of Principles. Instead, these donors have announced their financial pledges on an annual or bi-annual basis. In addition, some donors have provided funds additional to those pledged in October 1993. (It is important to note that support for the regular budget of the United Nations Refugee and Works Agency which provides education, health and social services to Palestinian refugees in the West Bank and Gaza Strip is not included in the funding provided in the context of the Washington Conference.) In all, by mid-1997, approximately US\$ 3.4 billion had been pledged to support the Palestinian Authority and the Palestinian people in the West Bank and Gaza Strip. Between October 1993 and June 1997, of the \$ 3.4 billion of donor funds pledged, nearly US\$ 2.8 billion had been earmarked for specific projects of which approximately US\$ 1.524 billion had been disbursed. At present levels of donor pledges and population size, international assistance amounts to about US\$ 270 per person per year for the five year transitional period established by the Declaration of Principles.

The Declaration of Principles (DoP) was an expression of intent by the parties to end their conflict, but was not in itself a peace agreement. The DoP set a goal of five years during which the parties would strive to conclude negotiations on the issues at the heart of their conflict. However, the DoP was also more than this for the five-year negotiating period would not see the continuation of direct Israeli rule of the West Bank and Gaza Strip. Rather, through subsequent agreements between the parties, the Palestinians would assume a range of authority over part of the occupied territory. The role of the international community was to support the negotiations over both transitional and final status issues mainly by providing the Palestinians with the financial means to assume control over agreed functions as well as to assist in making major gains in developing the economy.

The Washington Conference established two broad goals which were to be pursued simultaneously: to improve living conditions in the daily lives of Palestinians and to lay the foundation for sustainable, long-term growth. With the PLO and Israel having agreed to a complex five-year process of negotiation, donors at the Conference to Support Middle East Peace believed that the support of ordinary Palestinians in the West Bank and Gaza Strip for the negotiations was to some extent dependent upon the realisation of tangible benefits connected to the peace process. The benefits of the peace process were understood to include both an improvement in such quality of life factors as infrastructure and services, as well as near-term gains in more general economic prospects, such as an increase in employment opportunities as a result of donor-funded reconstruction and development programmes. Long-term structural development was considered necessary to lay the foundation for sustainable economic growth and social stability, which in turn would be required to ensure that the final peace agreement between the parties could be successfully implemented over the long run.

In the immediate aftermath of the October Conference, everything had to be done at once, and without delay: spend hundreds of millions of dollars to improve living conditions, establish credible and accountable public sector institutions, invest in public infrastructure such as schools and health care facilities, support a fundamental economic transformation in the Palestinian economy through investment in basic infrastructure, overhaul the inheritance of several legal systems subordinated throughout the occupation to military orders, support the continuation of Israeli-Palestinian negotiations according to the Declaration of Principles and do all of these things while ensuring accountability and transparency in the use of donor funds.

At first, the inextricable link between development aid and the larger political process was not well understood. During the latter part of 1993 and much of 1994, it seems that there was an implicit assumption that the socio-economic as-

pects of the peace process could be pursued separately from the political aspects. In organisational and functional terms, the diplomats and the development specialists tended to view their efforts as mutually reinforcing but nevertheless fundamentally separate spheres of activity. The political and development spheres were expected to face their own particular challenges, but each would unfold independently of the other. There was never an explicit statement of this assumption, rather the patterns of institutional behaviour and decisions that would emerge during 1993 and 1994 strongly suggest that virtually all actors — donors and international organisations alike — tended to approach the situation from this perspective.

Development agencies (bilateral as well as multilateral) were faced with having to devise aid packages for a non-state engaged in an ongoing negotiations process with a third party in control of the territory in which development assistance would be delivered. Aside from the United Nations, which already had a large presence on the ground and did not engage in major infrastructural work, few aid organisations were equipped bureaucratically, legally, and institutionally to operate in such an unusual environment. Few of those involved anticipated that project planning and implementation would become ensnared in larger political issues related to implementation of the DoP and the continuing negotiations. Even the seemingly straightforward matter of a Palestinian counterpart and who (or which institution) would sign agreements with donors and aid agencies turned out to be a political question requiring extensive discussions between Palestinians, Israelis and donors before projects could be carried out by or in co-operation with a Palestinian public institution.

In October 1993 there was no Palestinian Authority, nor was there yet PECDAR. The PLO was in Tunis, and many divergent views were being expressed by Palestinians in the West Bank and Gaza Strip (WBGs), as well as between the WBGs and Tunis. Under the terms of the Declaration of Principles, a Palestinian-run administration in the WBGs would be established only upon completion of negotiations on the nature and extent of powers and responsibilities that the administration would have. This meant that the normal institutional setting for relationships between donors and recipients did not exist, and alternative arrangements would have to be identified. In addition, only a few donors, in particular the European Commission, had a presence on the ground sufficiently large to enable them to respond quickly to the challenge of committing and then disbursing the funds pledged in Washington, DC. This was equally true for the World Bank. The United Nations had a large presence through UNRWA and UNDP, but the UN Special Co-ordinator's Office, which would have the task of co-ordinating among all agencies and programmes of the UN system, was not established until mid-1994.

In considering the evolution of donor support to the Palestinians since 1993, this is the context that must be borne in mind. In 1993 and 1994 many mistakes were made, mistakes that came mainly because few involved had anticipated the limitations and constraints that would confront the development effort. During 1995 and 1996, the lessons that came from the frustrations of the previous year or two were applied through the application of new mechanisms for co-operation and co-ordination between the Palestinian Authority, the Government of Israel, the donors and the multilateral institutions. In addition, progress by the Palestinian Authority in establishing functioning public sector institutions made possible a growing degree of progress in speeding up the inevitably complex and time-consuming process of donor-recipient consultations which precede the commitment and disbursement of funds.

Co-ordination Mechanisms

Approximately one month following the 1 October donor conference, the Ad Hoc Liaison Committee (AHLC) was established as the principal policy co-ordination body of the development effort in the West Bank and Gaza Strip. The AHLC met for the first time on 5 November 1993 in Paris, where the full members of the AHLC - Canada, the European Union, Japan, Russia, Saudi Arabia and the United States - selected Norway as Chair. Fully associated members of the AHLC included Israel, the P.L.O, Egypt, Jordan, Tunisia and the United Nations. The World Bank assumed the tasks of the secretariat. In addition to the AHLC, a World Bank Consultative Group meeting was established as a forum in which all donors would participate. While the AHLC has co-ordinated policy and is composed of the largest donors, the Consultative Group meetings include all donors and have been annual occasions for donors to pledge and/or commit funds and discuss specific projects or programs.

In the years since 1 October 1993, the development effort has shifted its focus several times. As it became clear that it would be impossible to do everything at once, sequencing and the relative weight of various demands became of critical importance. Finding the right balance between the need for planning and the need to demonstrate results, the right balance between fiscal support and investment projects, the right balance between using aid to cushion the impact of economic crisis that resulted from political crisis and using aid to assist in fundamental transformation of the economy, and the right balance between using multilateral aid channels and using bilateral aid as a means of supporting the Palestinian Authority establish credible and functioning institutions and, finally, the right balance between intervening in bilateral Palestinian-Israeli differences and letting the parties resolve these differences without input from external parties.

From the beginning, it was apparent that the new Palestinian central administration which, under the DoP, would gradually assume responsibility from the Israeli military-run Civil Administration for negotiated spheres of civilian activities, would require support for start-up and initial running costs. This support was necessary to enable the Palestinians to establish the public administration, maintain and improve the existing services for which they would assume responsibility from the Israelis and in order to implement those new functions tasks which they would assume under the agreements, most notably in the area of policing. Conference pledges originally intended to promote social and economic benefits in the near-term were seen as dependent upon a minimum of fiscal health of the PA, which in turn was a prerequisite for the continuation of the Oslo process. The initial view, widely shared among members of the international community, was that such transitional support would not be required beyond mid-1994.

However, throughout 1994, the repeated closure of the occupied territories - prompted by a series of violent attacks against Israelis carried out in Israel, the West Bank and Gaza Strip - resulted in serious economic deterioration. Recession, and a rapid rise in unemployment, deepened the PA's recurrent deficit and generated further political instability and violence. The celebrations over the political breakthrough represented by the Agreement on the Gaza Strip and the Jericho Area, signed in Cairo on 4 May 1994, overshadowed the decline in living conditions among Palestinians. The Cairo Agreement paved the way for the full establishment of the Palestinian Authority and the return of Chairman Arafat to Gaza in July 1994. An essential element in the Cairo Agreement was the creation of a Palestinian police force to ensure law and order in areas under the PA's control. Thus, not only did the civilian parts of the PA require donor financing, but so did the new police force. In August 1994, negotiations concluded on the Agreement on Preparatory Transfer of Powers and Responsibilities, which extended PA responsibility in key civilian areas to most of the rest of the West Bank (not including police). The focus on political achievements and the resources required to reach and then implement the Cairo Agreement drew attention away from the consequences of declining standards of living, themselves the outcome of underlying political and security tensions related to the overall negotiating process.

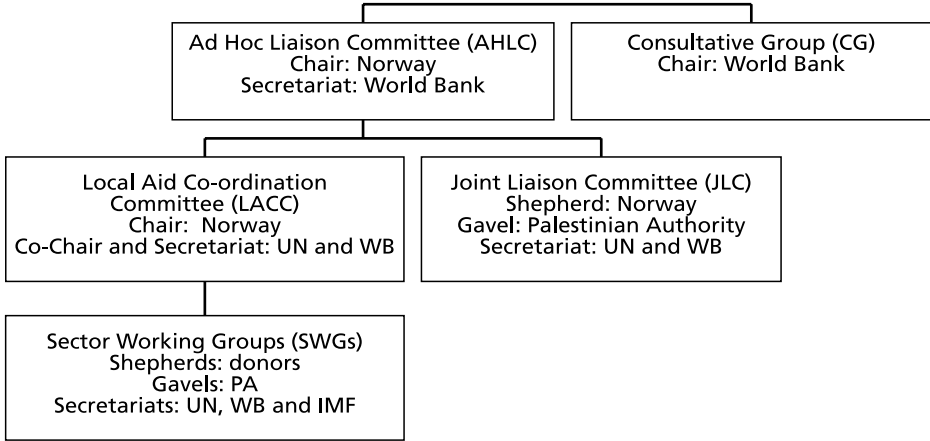
Seemingly paradoxically, the political breakthroughs of 1993 and 1994 did not ease socio-economic conditions. On the contrary, despite the breakthroughs (or perhaps because of them), political violence by opponents of the peace process continued. One of the main Israeli responses to political violence was the sealing off of the Gaza Strip and West Bank, the immediate effect of

which was to prevent thousands of Palestinian workers from reaching their jobs in Israel. The number of closure days grew steadily in 1993 and 1994.

Amongst donors, there developed a growing sense that the supportive linkage of the development effort to the peace process was rapidly becoming contradictory: the political process, far from easing restrictions on development, was increasingly responsible for a deterioration in the social and economic situation in the West Bank and Gaza Strip. For their part, both donors and the World Bank were under considerable criticism for the extremely slow pace at which pledges were being translated into real disbursement. The situation on the ground, and the delays in implementation, were such that the assumption of the convergence of near-term benefits and long-term development no longer held. New forms of intervention and implementation were sought — especially in the form of recurrent cost support and job creation schemes — formulated for precisely the purpose of shoring up a shaky political situation.

The donors also sought to better co-ordinate the development effort with the intention of speeding implementation on the ground. At a meeting of the AHLC in Brussels over 29-30 November 1994, the donors and the parties established a Joint Liaison Committee (JLC) and a Local Aid Co-ordination Committee (LACC). The two committees were established in response to the slow pace of implementation and the need to improve co-ordination in order to overcome obstacles and improve efficiency of implementation in the West Bank and Gaza Strip. In terms of membership and function, the JLC was structured as a local version of the AHLC, addressing mainly issues of a policy or political nature. The LACC was an all-donor body, similar to the Consultative Group. The LACC established twelve

Figure 1 Donor co-ordination structure



Sector Working Groups (SWGs) to improve information sharing and co-ordination at the technical level. Parallel to these multilateral mechanisms, donors and development agencies continued to conduct bilateral consultations with the Palestinian Authority.

“The development effort in the West Bank and Gaza Strip has, since November 1994, become largely concerned with the challenge of sequencing socio-economic aid in ways that responded to political realities. Over the course of the next two years, there was a steady concentration of both co-ordination activity and funding in support of covering the PA's recurrent deficit, operating emergency jobs programmes and implementing projects with quick implementation periods. Large-scale infrastructural projects (electricity, major road networks, water networks) and/or projects that touched on matters that required negotiations between the parties (such as the port) have seen little, if any, progress since 1993.

Given the overall dynamic of Israeli-Palestinian relations since the signing of the Declaration of Principles, the type of responsive, even reactive, form of multilateral co-operation and co-ordination that emerged in 1995 and especially in 1996 will be critical in the coming years for the international community to maximise the extent to which the targeting of socio-economic assistance can contribute to further the process of bilateral negotiations. Strained institutional relations and frustration over political obstacles, on the other hand, could lead to a weakening of collective decision-making and consultative structures, and negatively affect the rate of disbursement. There can be no doubt that the consequences of extended, virtually permanent, closures, have brought into stark relief the limits of international assistance in helping the Palestinian Authority weather the economic and fiscal costs of political crisis with the Government of Israel. Aid cannot be a substitute for political progress in the implementation of the Declaration of Principles and subsequent agreements. Nevertheless, in the absence of alternatives, a weakening of existing mechanisms for multilateral co-operation will dilute the concentration of assistance.

The next section of this report provides information, including projections of future trends, about a number of socio-economic indicators that should be taken into consideration in the planning of future assistance. The magnitude of growth in demand for essential public services and jobs in the coming 15 years is considerable, and well beyond the present level of assistance pledged in October 1993. Assisting the Palestinian Authority meet these demands in a situation of continuing volatility in the political process of negotiations and implementation of future agreements will require that the donor community and the international organisations maintain as close a degree of co-ordination as possible.

Part II
The Socio-Economic Situation
and the Public Sector

Population

The size of the population of the West Bank and Gaza Strip is one of the main determinants of the structure of the economy and social fabric in the West Bank and Gaza Strip. That is because it is growing very fast, putting severe strains on the ability of the society to provide needed services.

Size: A Numbers Game

The last census of the West Bank and Gaza was carried out by Israel immediately after it occupied the area during the 1967 war. Estimates for total current population of the territories vary widely. Nevertheless, it is fairly safe to say that the population in 1995 was between 2.2 million and 2.5 million, including East Jerusalem.

High Fertility, Low Mortality

The key feature of the population dynamics of the West Bank and Gaza Strip is very high fertility, coupled with comparatively low mortality. Thus, with total fertility at around 5.8 for the West Bank and 7.8 for the Gaza Strip, and an infant mortality of 25-30 per 1,000, WBGs would be considered a developing country in terms of fertility, but compares to Western countries during the 1950s and 1960s as regards mortality. Indeed, at around 70 years, life expectancy at birth is better than in many of the former Soviet Republics, including Russia.

Fertility

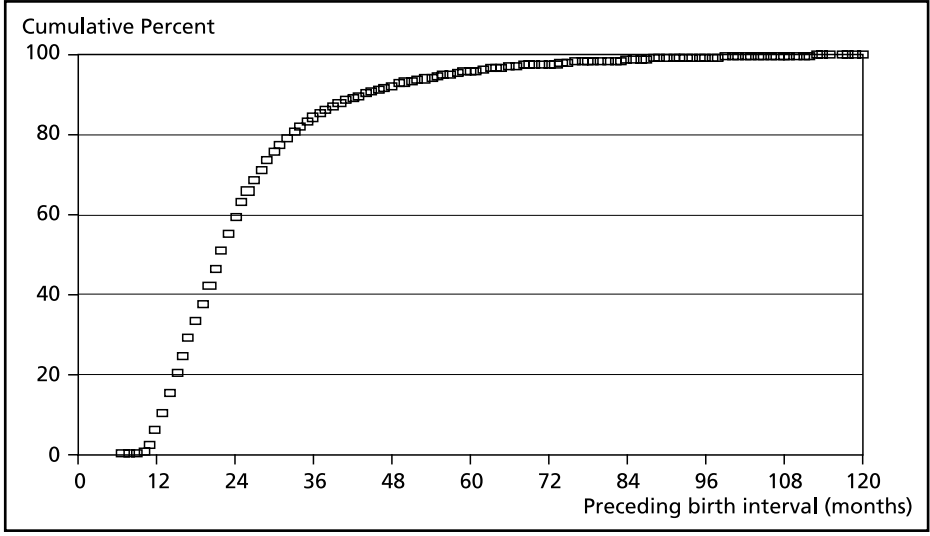
As noted above, the West Bank and Gaza Strip is marked by extremely high fertility. There are signs of reduction in the West Bank, but very little indication of a fertility decline in the Gaza Strip. (Although some recent figures for births in Gaza derived from vital registration show a decline, it appears likely that underreporting of births causes this.) The difference between the West Bank and Gaza Strip is much less when marital fertility is considered. In the West

Bank, the total marital fertility rate is 9.4, while in the Gaza Strip it is 10.7. The reason for the contrast between a fairly large difference in total fertility rates and a small difference in marital fertility is that a fairly large proportion of women in the West Bank never marry. There is also a higher prevalence of the use of modern contraceptives in the West Bank (34 per cent of women) than in the Gaza Strip (25 per cent, PCBS 1997), but the difference in marital fertility is probably only partly due to that factor.

In general, one would expect a strong negative association between education for women and fertility. Female education levels in the West Bank and Gaza Strip are currently on par with that of males, but as has been observed in a number of other Arab countries, the effect on fertility has so far been slight. Women are seldom members of the labour force, and if the experience of other Arab countries is indicative, a drop in fertility will come only as more women enter the labour force. Put in a general way, the household economy of the West Bank and Gaza Strip is such that it still allows households to have a single bread winner, and it thus allows households to fulfil cultural expectations that women should not work outside of the home. As will be discussed later, this may be about to change.

A close corollary of high fertility is very short birth spacing. 34 per cent of births (of order 2 and above) take place within 18 months of the previous birth (see Figure 2). The birth spacings are shorter than in, for instance, African populations with similar fertility levels. In fact, one of the few countries with equally short birth intervals is Jordan. Short birth spacing is a hazard both for the mother and the

Figure 2 Cumulative distribution of birth intervals in the West Bank and Gaza. Births 1990-1995. Source: Calculated from PCBS/FAFO demographic survey



child, and is undoubtedly one area that should be targeted for health interventions.

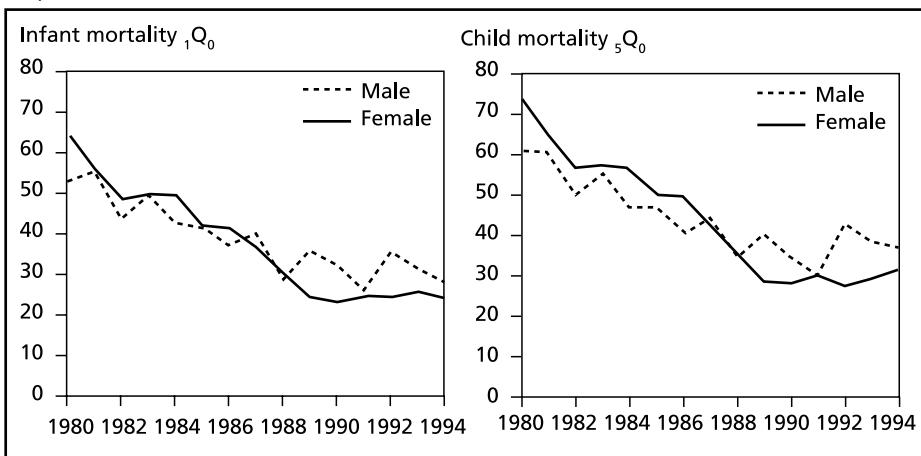
Mortality

As noted, the mortality levels in the West Bank and Gaza Strip are low compared to developing countries. They are however, higher than in many other Arab countries.

Three features of the infant and child mortality rates are striking. First, there has been a steady decline. At the beginning of the Israeli occupation, infant mortality was around 150 per 1000 births. Similar to other Arab countries, mortality fell during the 1970s and 1980s. However, and this is the second point, the mortality decline appears to have stopped around 1987, i.e. the start of the Palestinian *intifada*, or uprising. This may have been due to the economic disruptions that started with the *intifada*, or it may have been because access to emergency care became more difficult. Whatever the reason, it is a development that should be followed closely. The third point regarding the mortality trends, is that in common with other Arab countries the surplus mortality of women that was present earlier has now disappeared.

Maternal mortality in the West Bank and Gaza Strip is around 74 per 100,000 births. This is far higher than the level in Israel, but lower than many other Arab countries. The level reinforces the impression that the health care system has functioned reasonably well, despite the situation.

Figure 3 Infant (right) and child (left) mortality rates by sex for the West Bank and the Gaza Strip 1980 to 1995. Source: Pedersen 1997



The Future of the Palestinian Population

Based on currently available data, it is not possible to predict with a high degree of certainty just how much the Palestinian population in the WBGs will grow in the coming decades. For this report we have made a projection that results in a population of 1 814 000 in the Gaza Strip and 2 471 000 in the West Bank in 2010, a growth of 97 and 58 per cent respectively since 1995.

Assumptions for the Population Projection

The accuracy of a population projection depends on the input data as well as the methods used. Here a so-called cohort component projection is used, in which each age group of the population is projected separately, using age specific fertility and mortality rates. Thus, the projection depends on the size and sex structure of the population at the starting year, as well as estimates of current fertility and mortality and their development. Finally, assumptions about migration have to be made. For this projection, we have used the Palestinian Central Bureau of Statistics 1996 estimate of the population of the West Bank and Gaza Strip as the point of departure. It should be stressed that this figure is an estimate only, it is not the result of a census. (PCBS has just completed a full census, but results are not available yet) Israeli estimates are lower, and there are several higher Palestinian ones. We believe, however, that the estimate is correct within around $\pm 5\%$. Another problem with the population estimates is that the age structure does not agree completely with the fertility estimates, leading to inconsistent estimates in some cases. That is especially a problem when single years of age are considered, as is necessary for projections of the school age population.

Fertility and mortality assumptions are based on data from the PCBS Demographic Survey. We have assumed that fertility in the West Bank will continue its decline, from a total fertility rate of 5.84 in 1990-94, to one of 3.5 in year 2010. For the Gaza Strip we have assumed constant fertility, as the data show no evidence of a decline there. From comparative evidence from neighbouring countries, we assume that the fertility rate in the Gaza Strip will also, at some point, start a fairly rapid decline, but it is difficult to guess when that might occur. In any case, since the projection is most accurate in the short term, we have chosen to ignore the possibility of a fertility decline in Gaza.

We assume that mortality will decrease, but as the life expectancy already is fairly high (at around 70-72 years at birth), we consider that the chances of large improvements are small given likely development prospects. For the sake of the projections we have assumed no net migration. While we do not believe that this will be the case, introducing migration into the projections involve so much

guesswork that it is nearly meaningless. In our view, it is better to model the population as it develops without migration, and then, if migration should turn out to be large in conjunction with a final status agreement, consider the size of that population as a separate question.

Rapid Population Growth

Although the estimates have large margins of error, we believe that they illustrate well the combined consequences of high fertility and comparatively low mortality in the West Bank and Gaza Strip. They also provide a good starting point to illustrate the demographic costs on infrastructure, housing needs, health care and schooling. An interesting feature of the projection is that the overall absolute growth in the number of people in the West Bank and Gaza will be about the same in the two areas, around 900,000 persons each over the next 12 years.

A similar relation does not hold when households are considered. Because of smaller household size in the West Bank, different types of households, and different age structure the West Bank will have a relatively larger increase in the number of households than will Gaza. Thus, building needs for housing will be much larger in the West Bank.

The differences in household development as compared to overall population development illustrate a general point regarding West Bank and Gaza Strip demography: the likely development will lead to shifts in how resources should be distributed in the two areas. Depending on the topic (housing, education etc) it varies, however, which area will have the most need for resources. We will deal with the effect on households and schooling more fully later, when we consider housing and education in more detail.

Refugees and Non-refugees

Apart from its political significance, the classification of Palestinians into refugees registered with UNRWA and non-refugees in the West Bank and Gaza Strip is important with respect to provision of social services. This is because UNRWA is responsible for providing services to registered refugees. Within the West Bank and the Gaza Strip, the population development of the refugees and non-refugees is similar. However, since population growth in the Gaza Strip is faster than in the West Bank, the overall proportion of refugees in the total population will increase. The consequence is that UNRWA will be responsible for an increasing share of the total welfare provision in the West Bank and Gaza, even though its share in each of the two areas will remain constant. At present the

share of refugees in the total population is around 41 per cent. This can be expected to increase to about 43 per cent in 2010.

Households

While the figures provided above have been derived to project the increase in the number of individuals between 1995 and 2010, the same analysis can be applied to households. A projection of the growth in the total number of Palestinian household is shown in Figure 4.

Examining the number of households can have important policy implications in areas such as housing or social services. For example, the growth in the number of households translates into the number of additional housing units that will be needed over the same period.

The majority of Palestinian households do not experience socio-economic problems that can be directly related to the type of household. However, there is one exception, and that is female headed households. Such households receive support from UNRWA under their special hardship program (if they are refugees). Their projected number therefore has direct bearing on costs to social services.

From 1995 to 2010 the number of female headed households will near double in the West Bank, while the increase is less in Gaza because of differences in age distribution. About 40% of the increase will be among refugees, for whom UNRWA has responsibility.

Figure 4 Projected number of households in the West Bank and Gaza Strip. Projected by using headship rates from the PCBS/Fafo Demographic Survey

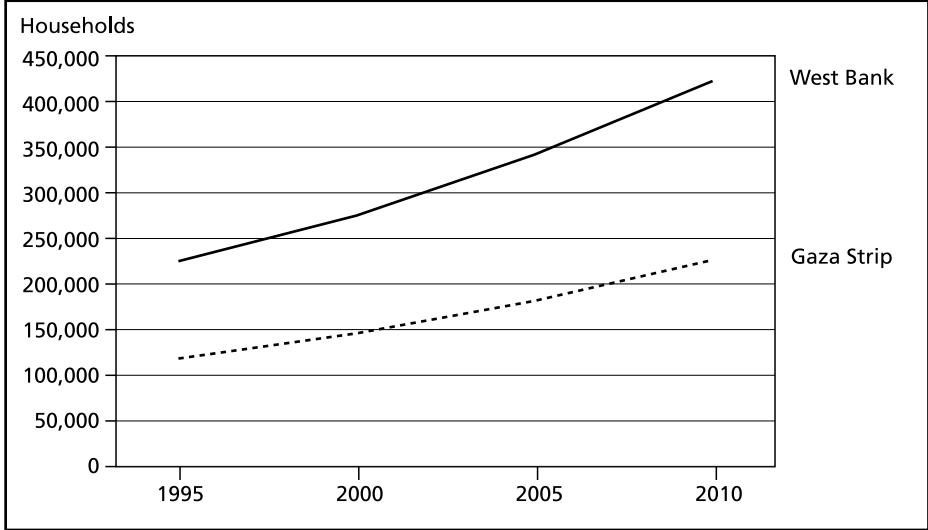
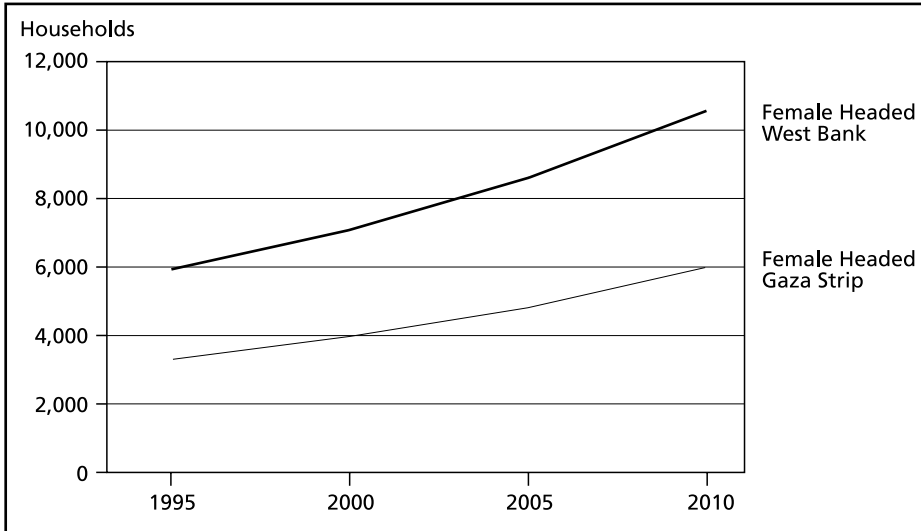


Figure 5 Projected number of female headed households with dependants



Key Issues in Population: A Summary

Population growth undoubtedly poses a challenge for the development of the West Bank and Gaza Strip both in the short and long term. There are few chances that the population growth will be much lower than the projections given in this report, and it may well be higher if final status negotiations lead to an agreement that allows migration into the West Bank and Gaza Strip. Whatever the actual growth, the challenge will be one of catch-up when investments in education, health, infrastructure, housing etc are considered. While policies aimed at reducing population growth will be useful in their own right, they will have no measurable effect on short term population growth. Considerable effort must then be made to adapt development policies and priorities to high growth levels. The requirements of that adaptation is likely to be different in the West Bank and Gaza.

Another consideration that emerges is that the arrest in the decline of the infant mortality rate should be countered. One obvious area for improvement is the short birth spacings that are related to the mortality of children.

The Palestinian Economy and Labour Market

At the time of the signing of the Declaration of Principles in September 1993, the Palestinian economy had five principal features. First, compared to other developing economies, it was to a large extent dependent upon wage labour. Second, remittances from abroad played a large role in the total income. Third, work in Israel also played a major role. Fourth, it had several important imbalances and distortions. Finally, it was an economy that was very vulnerable to the shocks that it frequently experienced. These characteristics are still valid, and the weaknesses inherent in an economy with such characteristics are becoming more and more apparent.

How Good are the Data?

How good are the data on the Palestinian economy? The short answer is not very good compared to data from developed countries, but quite good compared to data from developing countries. On the positive side, some time series data exist on labour force and employment. The Israeli Central Bureau of Statistics (ICBS) carried out labour force surveys for many years. The Palestinian Central Bureau of Statistics, established at approximately the same time as the DoP was signed, has implemented its own labour force surveys, which are fairly comparable to those formerly carried out by ICBS. Moreover, PCBS has conducted an impressive number of surveys and has a level of activity that far exceeds the typical statistical agency of a developing country.

On the negative side, many of the measures needed for basic national accounting are deficient or lacking. This is partly because of a weakly developed public administration, and partly because of the openness of the West Bank and Gaza Strip economy to Israel as regards trade and labour flows. Moreover, while the dependency on remittances is large, the exact size of remittance flows is not known. Thus, the national accounts figures presented here rely partly on actually measured stocks and flows, and partly on assumptions about how, for instance, border closures affect largely unmeasured stocks and flows. However, this situation

is fairly typical for developing economies that depend heavily on remittances and labour migration.

A particular source of confusion as regards the West Bank is whether or not East Jerusalem is included in the statistics. Not surprisingly, as a rule, Israeli sources exclude Jerusalem, and Palestinian sources include it. If it were a simple matter of exclusion or inclusion of the same area it would be fairly simple to correct for statistically, but the area covered is not the same. As a rule, Israeli statistics do not provide a breakdown of East and West Jerusalem, and Palestinian statistics on Jerusalem include not only East Jerusalem but extend Jerusalem farther into the West Bank than the Israeli definition of Jerusalem.

Declining Aggregate Income

The Office of the United Nations Special Co-ordinator (UNSCO) has published estimates indicating that the West Bank and Gaza Strip real GNP and real GDP declined by about 3 per cent and 1.5 per cent respectively in 1996. Per capita GNP and GDP declined an estimated 8.5 and 7.5 per cent respectively in 1996, the third consecutive year that per capita domestic production fell. Between end-1992 and end-1996, real GNP in the West Bank and Gaza Strip declined by 18.4 per cent from about US\$ 5,000 million to about US\$ 4,100 million. Taking the population increase into account, real per capita GNP declined 36.1 per cent during the same period, from about US\$ 2,700 in 1992 to US\$ 1,700 in 1996 (UNSCO, October 1997, all figures measured in constant 1995 US\$).

The vulnerability of the Palestinian economy to political instability is evident from the fluctuations of the growth in gross national product (GNP), which are caused mainly by changes in Palestinian employment in Israel. Remittances from Palestinian workers in Israel and other countries constituted a substantial 25 per cent of WBGS GDP in 1992, declining to eight per cent in 1995. The growth of the domestic output (GDP), which does not include remittances from abroad, has been less affected since 1992, although GDP has been moving in the same direction as GNP. Border closures negatively affect GDP in several ways. First, declining wage income experienced by Palestinian households affects their purchasing power. Secondly, the border closures cause local businesses problems in exporting goods and importing raw materials.

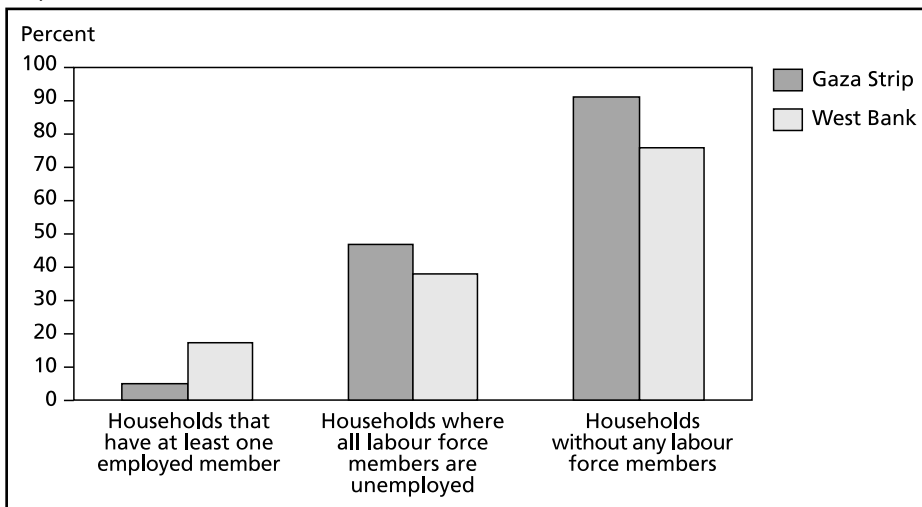
Reduced Household Income

The Palestinian labour market had two main features during the 1970s and 1980s:

- Palestinian workers from the West Bank and Gaza Strip had relatively open access to better paid employment in Israel and the Arab Gulf States. This made Palestinian households vulnerable to political instability in the region, but it also pulled up local wage rates, so that wages in the WBGS became higher than those prevailing in neighbouring Arab countries.
- Rapid annual population growth provided a steadily increasing number of new job-seekers. Isolated, this tends to lead to a downward pressure on wages.

Throughout the 1970s and into the 1980s, it was possible to discern a trend towards convergence of wages of Palestinians working in Israel with wages of Palestinians working in the West Bank and Gaza Strip. This is an indicator that, at least in some sectors, jobs were plentiful. However this trend began to be reversed following growing restrictions on access to the Israeli labour market from 1987 and, in the wake of the 1991 Gulf War, a combination of considerably reduced access to

Figure 6 The importance of employment for economic self-reliance. Percent of households receiving economic support, by household employment status in the West Bank and Gaza Strip, 1993



Source: Labour force surveys in Judea, Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank (Jerusalem not included).

Arab Gulf States' labour markets and pressure in the WBGS labour market from returnees from the Gulf.

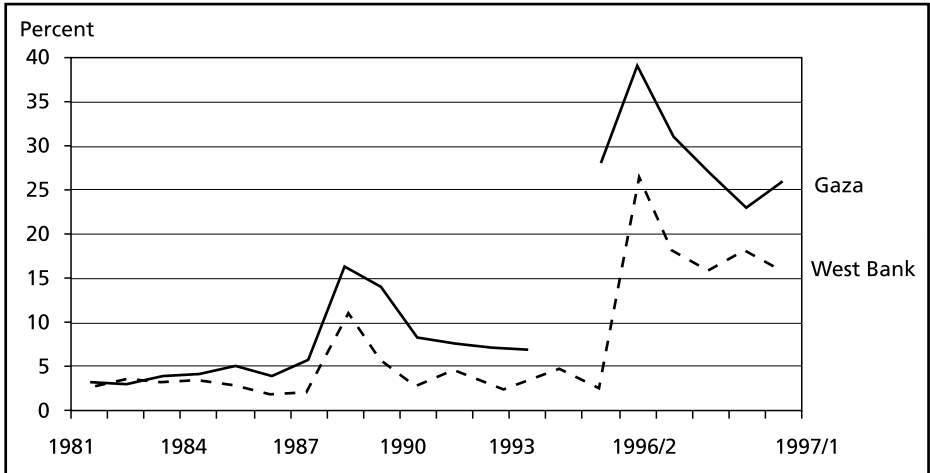
The most important factor for the economic well-being of Palestinian households is access to employment. As Figure 6 shows, households who have access to paid employment are economically self-reliant, while those who have no labour resources are dependent on gifts and transfers from relatives, UNRWA, NGOs or other institutions. In 1993, while only a negligible share of the households in Gaza that had at least one employed household member received any financial support, almost 90 percent of the households without labour resources did. Most support came from relatives.

Figure 6 also indicates the relative successful and efficient targeting of social services of all types: nearly all families with no members in the labour force receive some form of assistance, while relatively few families with employed members receive such assistance.

Increased Unemployment

Less access to the Israeli and Arab Gulf labour markets beginning in the late 1980s, coupled with high population growth led to increased unemployment. Although the number of local jobs increased substantially during the period 1980 to 1997, this increase has not been sufficient to absorb the growth in the labour force. The absolute number of employed males increased by almost 40 per cent

Figure 7 Male unemployment rates in the West Bank and Gaza



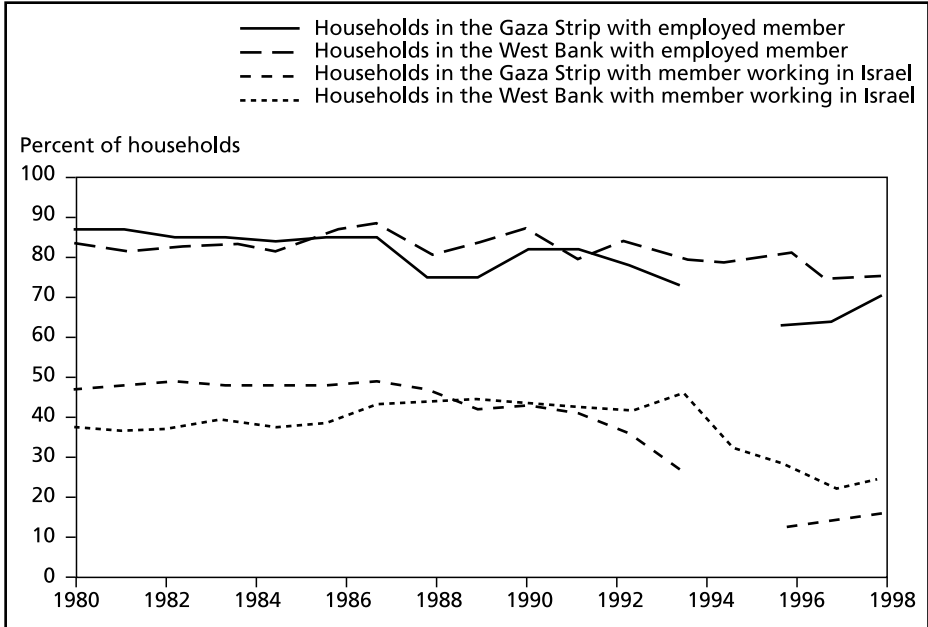
Source: PCBS. Note that the resolution of the graph is increased after 1996. 1996/2 thus denotes second quarter of 1996. Break in time series in 1994 because data were not collected in the Gaza Strip.

in the Gaza Strip and by almost 60 per cent in the West Bank, yet the number of unemployed members of the labour force actually increased. While more than 95 per cent of the labour force was employed in 1981, this was reduced to less than 90 per cent in 1993. During the fourth quarter of 1995, almost 20 per cent of the labour force was unemployed, with unemployment continuing to increase in 1996, and, by mid-1997, standing at around one third of the labour force. (Unemployment figures after 1993 include so-called temporary absence resulting from Israeli-imposed border closures).

The average rate of unemployment for men during the period after 1995 appears to be slightly below 30 per cent for Gaza and around 15 per cent or lower for the West Bank. Unemployment would have been considerably higher had it not been for the three factors: The turn to the informal sector, the reduction of reservation wages (i.e. the minimum pay at which a worker is willing to work) and the large scale employment of people in the public sector.

The impact of developments in the labour market on Palestinian households is illustrated in Figure 7. In Gaza, during the period 1981–1987, the share of households with at least one employed household member was fairly con-

Figure 8 Household employment pattern in WBGs, 1981–1997



Source: 1980-1994 Calculated from Labour Force Surveys in Judea, Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem. 1995-1997: Calculated for Fafo by PCBS. Break in time series in 1994 because data were not collected in the Gaza Strip.

stant, at around 85 per cent. After 1987, the percentage of households with employed members decreased steadily, reaching a bottom level of 64 per cent in 1996. In the same period, the share of households that had more than one employed member, but has been increasing in recent years (maybe as a response to reduced wages). The share of households in Gaza with no economically active member (i.e. no member of the household in the labour force, meaning employed or unemployed and looking for work) doubled from 10 per cent in 1987 to 20 per cent in 1993. When the increase in the number of households as a consequence of natural population growth is factored in, the absolute number of households without any attachment to the labour market grew by more than 250 per cent during the period from 1981 to 1993.

In the West Bank, participation of households in the labour market as a whole was more stable than in Gaza during the period 1981 - 1995, although there was some reduction in employment at the household level. The share of households without any involvement in the labour market was reduced from 15 to 10 per cent in the late 1980s, but seems to have increased again after 1993, and is currently at 15 per cent. Similar to Gaza, when taking population growth into account, the number of households without any members in the labour force has increased substantially.

As a response to these developments in the labour market, a long term trend seems to be that wage labour (as opposed to self employment) has had a declining role in the Palestinian household's economy, while self employment in the informal sector has become more important. Almost two-thirds of households in the Gaza Strip reported that they had received wage income in 1981, and this was reduced to about half of the households in 1993. For the West Bank, the share of households reporting wage income dropped from 60 to 55 per cent during the same period.

Even more dramatic is the reduced importance of employment in Israel. While almost 50 per cent of households in the Gaza Strip had a worker in Israel during the first half of the 1980s, this share was reduced to 27 per cent in 1993 and around 15 per cent in the past few years. For households in the West Bank, however, the decline in employment in Israel or Jerusalem seems to have been partially offset by somewhat increased activity in Israeli settlements, at least up until 1995.

Reduced Wages

Reduced access to the Israeli and Arab Gulf labour markets combined with high population growth not only led to increased unemployment; they also combined to push local wages down. In recent years, the reduction has accelerated, and in 1996

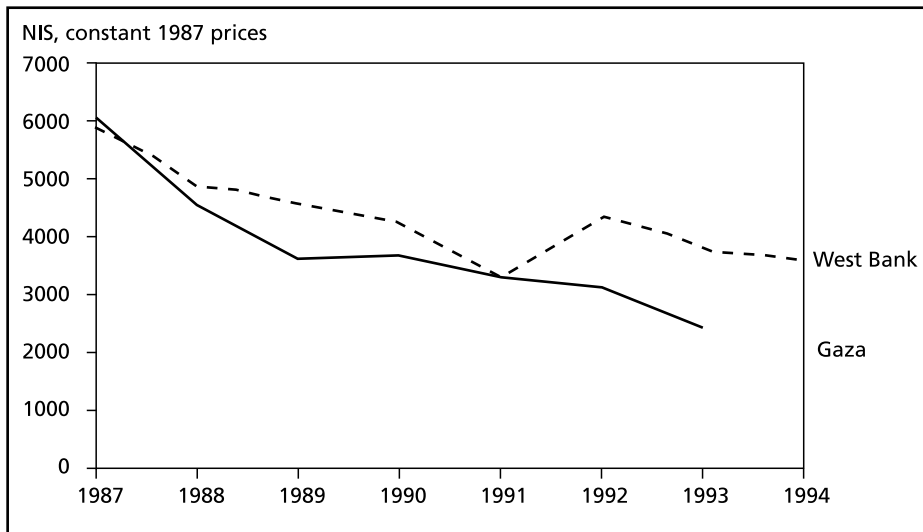
alone the average real wage declined 16 per cent in the West Bank and eight per cent in the Gaza Strip (UNSCO 1996). For Palestinians working in Israel there was also a drop of 8 per cent in the daily rate, but wages in Israel were still approximately twice as high as in the West Bank and Gaza Strip.

Figures on 1995 and 1996 expenditures indicate that living conditions worsened every month during the period, as total household monthly expenditure in nominal terms was constant from October 1995 to September 1996, while prices rose by about 10 per cent during the same period.

According to figure 9, average annual real wage income for households in the Gaza Strip with wage income fell by about 45 per cent between 1987 and 1995. In the West Bank the decline was about 30 per cent. If the overall reduction in the share of households with wage income is considered, income has dropped even more.

While the local labour wage market has not been able to absorb the increased supply of workers, a long term trend seems to be that self employment is making up an increased share of the labour force. Although there are no available data on income from self employment, it is suspected that the increase in self employment in low-productivity and low income-generating activities such as agriculture and commerce has not been able to compensate for the reduced wage incomes.

Figure 9 Development of average annual real household income from wage employment, WBGs 1987–1995



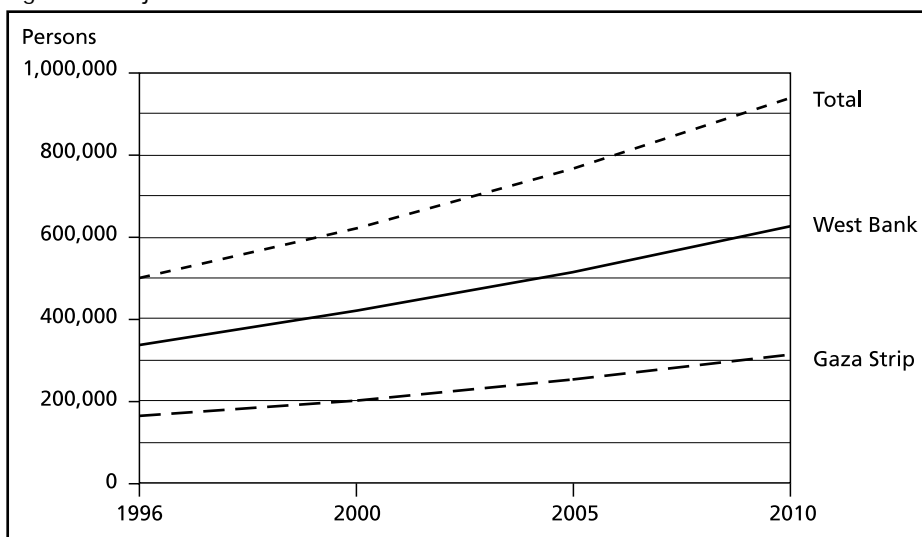
Source: Labour force surveys in Judea, Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem.

The Supply of Labour

The rapid annual population growth described above has led to a corresponding rapid annual increase in the number of persons needing work. In the Gaza Strip, where labour force participation rates have been stable, population growth has led to an increase of more than 50 per cent in the male labour force¹ since 1981. In the West Bank, where the labour force participation rate has steadily risen, there has been a 70 per cent increase in the size of the male labour force during the same period. Since labour migration to the Gulf or elsewhere is no longer occurring in large numbers, the local supply of labour is currently increasing more rapidly than before.

Despite the increase in labour force participation, the actual number is quiet low: only slightly above 40 per cent of the population between 15 and 64 are in the labour force in the first quarter of 1997. Out of this group, 20 per cent were reported to be unemployed. Thus out of a working age population of 1,285,499 persons, only 417,814 persons or 32 per cent, were actually

Figure 10 Projection of the labour force in WBS from 1996 to 2010



Source: Fafo projections.

¹ The labour force is defined as persons 15 years or above who are economically active, i.e. employed (including temporarily absent) or unemployed (i.e. not employed, but actively seeking work). Persons who want to work but who do not actively seek work are thus counted as not member of the labour force. The definition of employment is that the person worked for at least one hour during the week prior to the interview.

employed. (UNSCO, October 1997). This is less than half the level of, for example, Norway.

The main reason for this is the low level of female labour force participation. Data for female labour force participation were not collected by the Israeli authorities prior to 1992, and hence little is known about economically active women. In the Gaza Strip, less than 2 per cent of the women were reported to be in the labour force in 1992 and 1993, compared to almost 10 per cent in the West Bank. According to PCBS data, female labour force participation increased after 1993, especially in the Gaza Strip even though the level remained very low, at 7.4 per cent in July-October 1996. Some decline in female labour force participation was reported in the first quarter of 1997, probably due to seasonal adjustments in agriculture.

The high rate of natural population growth means an equally rapid growth in the need for new jobs: A conservative estimate shows that the Gaza Strip labour force will grow from 160,000 persons in 1997 to more than 310,000 persons by 2010, requiring an additional 150,000 jobs in order to maintain the present level of employment (i.e., no change in the existing high rate of joblessness). In the West Bank, the labour force will increase by approximately 280,000 persons from around 340,000 to more than 620,000 persons during the same period. For WBGs in total, the increase in the labour force alone will require the creation of 450,000 new jobs during the next 15 years in response to natural population growth.

These projections are based on constant age-specific labour force participation rates constant at their 1995 level, which means that the female labour force participation rate is assumed to remain very low. Employment opportunities in the public sector in particular may draw more women into the job market, which would increase substantially the total demand for employment in the coming years.

Female Employment

The increase in female labour force participation that has occurred, especially in Gaza, might be seen as a response to declining job opportunities for men in Israel with corresponding economic hardship for Palestinian households pushing women into the labour market. It is probably also due to the development of the public sector after the establishment of the Palestinian Authority in 1994. Experience from developed countries shows that female employment increases when job opportunities are created in sectors where females traditionally make up a high percentage of the employed. This is particularly in public sector activities such as education and health. However, one should be careful not to lay too much emphasis on recent figures because female labour force figures are extremely sensitive to data collection methods, and the recorded increase in female labour

force participation has happened during the shift from Israeli to Palestinian data collection.

In the Gaza Strip, 90 per cent of employed women are salaried employees while 10 per cent are self employed or unpaid family workers. Almost all work in their residential area. More than 90 per cent of female employees work in public or community services, while the majority of the self-employed work in commerce and agriculture. In the West Bank, around half of employed women are self-employed, of whom 90 per cent are working in agriculture. Among female employees, approximately two-thirds work in public or community services, while 20 per cent work in the manufacturing (industry) sector.

Currently female employment is not significant in proportion to overall employment of Palestinians in the West Bank or Gaza Strip. However, if the Palestinian labour market follows other Arab countries, one can expect an expansion of the female labour force. Such a development could have several effects: increase the overall number of workers, replace the less productive parts of the male labour force and force a reduction of wages. Whatever happens, female employment is a dynamic factor in the Palestinian labour market.

Child Labour

Among boys aged 12 – 16, 11 per cent were members of the labour force in 1995, according to the PCBS labour force survey (PCBS 1996). For girls in the same age group, 1 per cent were members of the labour force. Whether the frequency of child labour has increased or not over time is impossible to say based on data analysis as the phenomenon has been measured only once. Ninety per cent of the children in the labour force did not attend school, and almost 50 per cent of them had less than 7 years of schooling. Working children are approximately equally divided between wage work and unpaid family labour, and two-thirds of them work more than 35 hours per week.

So far, child labour has been limited in the West Bank and Gaza Strip. If the trend toward a more informal sector dominated economy continues, one may expect to see higher frequency of child labour, both as a result of lower quality and higher school fees in the basic education system, as well as increased poverty. However, if the coverage and quality of primary and secondary education services are kept at least at current levels, it is likely that the number of child labourers will remain at a fairly low level.

Job Opportunities for Palestinian Workers

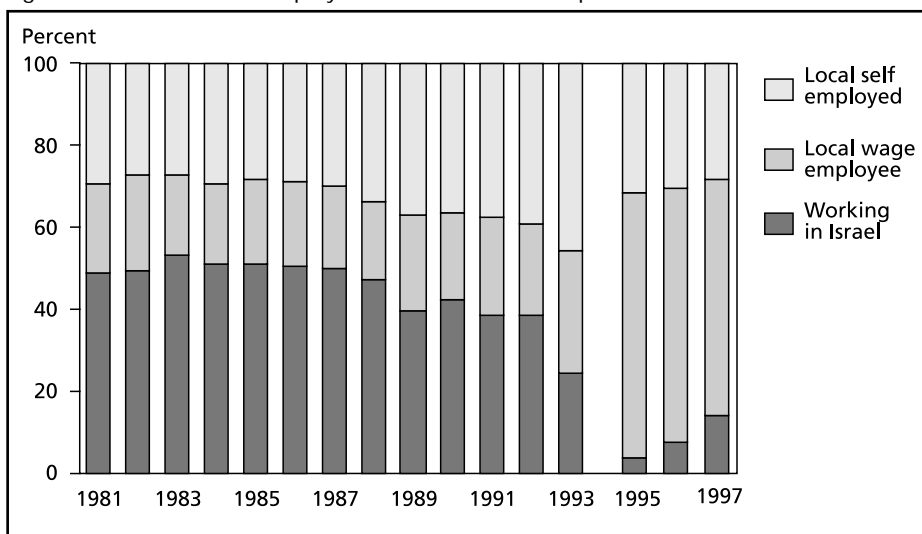
Since the early 1980s, the four principle developments in employment of Palestinians have been:

- A reduction in employment in Israel and Jerusalem;
- A shift from wage employment to self employment;
- A boom in local construction until 1994 followed by a decline;
- A boom in public sector employment from 1994.

With continuing high unemployment and underemployment, relatively fewer people are working, the loss of jobs in Israel has meant more people working in jobs that pay less, and, for all those with jobs regardless of location, real wages have fallen. Under present conditions, explained in more detail below, the WBGs economy will have to create some 450,000 new jobs, or double the percent number, over the next 15 years to absorb the increase in the labour force.

In 1981, 49 per cent of employed men in the Gaza Strip and 37 per cent of employed men in the West Bank worked in Israel or Jerusalem. In the Gaza Strip, the remaining half of the employed were locally employed wage employees (22 per cent) or self employed (29 per cent). In the West Bank, the remaining 63 per cent

Figure 11 Work status of employed men in the Gaza Strip



Source: Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem. For the years after 1994 the source is PCBS labour force surveys.

of the employed were almost equally divided between local wage employment and self employment.

By 1993, the share of employed men who worked in Israel or Jerusalem was reduced to 25 per cent for the Gaza Strip and 31 per cent for the West Bank. In the Gaza Strip, local wage work increased to cover 30 per cent of the employed men, but this was not sufficient to absorb the reduction of employment in Israel and people had to find other means of securing their livelihood. Hence, 46 per cent of employed males in the Gaza Strip worked as self employed in 1993. In the West Bank, a similar but less marked trend resulted in 36 per cent of employed males being locally employed wage earners, while 40 per cent were self employed.

Since September 1993 and following the establishment of the PA administration, employment patterns in Gaza (and to a lesser degree in the West Bank) have changed dramatically. Almost one out of three employed men in the Gaza Strip is currently employed in public services (opposed to less than 10 percent before 1993). In the West Bank, around 15-20 percent of employed men work in public services. Employment in Israel has been dramatically decreased among employed men in Gaza after 1993, and also employment in the agricultural sector.

The Israeli Labour Market

The magnitude of workers from Gaza going to Israel reached its lowest reported level of 3.6 per cent of employed males in the September/October 1995 PCBS labour force survey. This level persisted during the beginning of 1996, but increased to 9 per cent during the period from July to October 1996, and to approximately 12 percent in the first half of 1997.

The Palestinian economy has in the past benefited substantially from higher wage rates offered in regional labour markets. Unskilled workers found work in Israel and skilled workers in the Arab Gulf States. The magnitude of Palestinians working outside the West Bank and Gaza Strip has, however, made the Palestinian economy more vulnerable to the unstable political climate in the region. The number of Palestinians working in the Gulf States was reduced drastically after the Gulf War. The number working in Israel has declined in both relative and absolute terms since 1987, when half the employed men in Gaza, and 42 percent of employed men in the West Bank worked in Israel. If this high level had been maintained it would, due to the rapidly growing labour force, have implied a considerable growth in the absolute number of Palestinians working in Israel. Instead, there have been great fluctuations following border closures and other movement restrictions and an overall decline.

For Palestinians working in Israel or Jerusalem, the most important source of employment throughout the period has been construction work. The importance of this sector was stable from the early 1980s until 1992, supplying jobs to a constant share of 20 - 25 per cent (and hence an increasing absolute number) of employed Palestinian males. After 1992, its importance was reduced, and in 1997, construction work in Israel counts for 10 percent of employed West Bank and Gaza males.

The share of Palestinians working in manufacturing industry in Israel was reduced from employing around 10 per cent of Gaza males, and 5 percent of West bank males in 1987, to around 2 percent from 1995 and afterwards. The same pattern applies to Palestinian employees in the services and agricultural sectors in Israel or Jerusalem. At present, approximately 2 per cent of Palestinian employed males work in the agricultural sector in Israel.

While employment in Israel will remain critically important to the well-being of Palestinian families for many years to come, it is highly unlikely that the high percentage of the Palestinian labour force employed there could be restored to its peak levels. Returning to a level of between 40 and 50 per cent of employed Palestinian men working in Israel would mean that in 2000 about 255,000 Palestinian men would be working in Israel. An increase of somewhat less than 150 per cent from the non-closure level of today. Even more striking, in 2005, 314,000 Palestinians would be employed in Israel and in 2010, 386,000. Employment in Israel is the quickest means of lifting living conditions for large numbers of families. However, for it to remain viable in the future, not only would the present political situation have to change significantly, but also Israeli demand for non-Israeli labour of the type in which Palestinians have been employed would have to grow at a rate much faster than one could reasonably expect.

In the aftermath of the March 1993 border closer and to limit the damage to the Israeli economy due to lack of workers, guest workers, mainly from Eastern Europe and Asia were accepted by Israel. Approximately 100,000 legal work permits were issued over a time period. Moreover, an increasing number of Jordanians have sought work in Israel. Official 1996 data indicated that guest workers numbered about 73,000 or 3.7 per cent of the total number of employed persons that year. The importation of foreign, guest labour did help alleviate the immediate shortage of workers. However, many foreign workers either have overstayed their work permits or have entered the country illegally, which has led to a new, low-paid labour market numbering perhaps as many as 200,000 persons (UNSCO 1996). The Government of Israel has indicated its intention to reduce the number of documented as well as undocumented foreign workers in the country. How this will be carried out is not yet clear. Given experience elsewhere in

the world, it is at least conceivable that a large portion of these guest workers will become a permanent part of the Israeli labour market.

The magnitude of the negative impact of the presence of foreign guest workers on the demand for Palestinian labour is unclear. More precisely, it is unclear to which extent, in the absence of present movement restrictions and other measures which raise the cost to employers of employing Palestinian labour, Palestinians would replace other guest workers. Under present circumstances, the demand for Palestinian workers in the Israeli economy has been considerably reduced for reasons related to cost and uncertainty carried by employers.

Moreover, since the construction boom in Israel, which followed the immigration of Jews from Eastern Europe in the early 1990s, is now basically over, demand for construction workers is likely to be smaller than it used to be, or will at least not grow as much. All things considered, it is likely that the presence of foreign workers, changes in the Israeli economy and growth in the Palestinian labour force will pressure wages down. Paradoxically, an important factor in keeping wages high at the moment is probably the border closures, since these limit the supply of Palestinian labour.

Assuming that final status negotiations or other political changes result in free access to the Israeli labour market for Palestinians, a likely scenario concerning wages could be the following: Wages will decline, probably to a level that is similar to the level in the West Bank and Gaza Strip plus the commuting costs. Since economic development of the West Bank and Gaza Strip cannot be sustained by such low returns to labour, this puts the burden on development within the West Bank and Gaza Strip.

Absorption of Workers in the Domestic Labour Market

Based on employment data through 1997, the basic employment dynamic seems to be that relatively higher paid work in Israel has been lost, with workers taking up relatively lower paid work in agriculture, self-employed commerce and wage-based work (especially construction) in the Gaza Strip and West Bank. Where a higher level of education is normally required, the establishment of the Palestinian Authority opened up a large number of job opportunities in 1994 to 1996, then tapering off.

Patterns of private employment, in both the Gaza Strip and the West Bank began to change after 1987, when employment in Israel began an overall trend towards decline, which has continued to the present. In the Gaza Strip since 1987, self-employment in commerce, agriculture, and wage-based employment increased their share of employed persons. Self-employment in commerce grew from employing about 11 per cent of employed males until 1988, to 16 per

cent in 1993. Considering the growth of the labour force, in 1993 this sector was employing twice as many persons as it did in the 1980s. A similar situation applies to self-employment in agriculture, which started to grow rapidly early around 1991, and by 1993 was employing twice as many persons and almost twice as large a proportion of employed men than in the 1980s. The number and share of self employed in other sectors also increased, although at a slower rate. The absolute number of men in wage-based employment in the Gaza Strip doubled from 1981 to 1993, and in relative terms the increase was from 31 per cent of employed men to 36 per cent over the period.

Beginning in late 1991, employment in the construction sector began to increase at a rapid pace, and its relative size almost doubled by 1993. The construction sector boom began following the Gulf War when many Palestinian returned to the West Bank and Gaza Strip and invested in housing. The establishment of the Palestinian Authority in mid-1994, and the thousands of Palestinians who moved to the West Bank and Gaza Strip from the Palestinian diaspora, contributed to a continuing high effective demand for housing until the present.

Macro Economic Challenges

Capital Accumulation and Socio-economic Wellbeing

In 1996, 14 percent of the value of Palestinian domestic production was spent on investment, 7 percent in each of the private and public sectors. Between 1992 and 1996, however, the investment ratio dropped from 30 per cent to 14 per cent. Taking into account that capital depreciates and that the Palestinian population is growing quickly, a large share of the national income ought to be channelled into investments in order to keep a constant per capita capital stock. Considering that capital stock includes schools, hospital buildings, production capital (“machinery”), and infrastructure such as roads, water pipes, sewerage, the welfare implications of reductions in capital per individual are very large.

Under certain assumptions (given in appendix 1), it can be shown that a population growth of 5 per cent per year requires that about 30 per cent of national income is spent on capital accumulation, in order to keep per capita income constant. With an investment rate of 20 per cent of gross domestic product (GDP), it is evident that the ratio between capital and available labour will decrease, with the result that wages will inevitably decline if massive unemployment is to be avoided. In any case, the income of Palestinians will decrease, as indicated by an annual reduction in GDP per capita of about 2 per cent in table 1.

Table 1 Development in macro economic indicators for the West Bank and Gaza Strip

Year	Annual GNP growth	Annual GDP growth	Gross Investments in % of GDP (private)	Annual Population growth	Annual Per capita GDP growth
1980-1986	5	3	17 (15)	3	
1987-1991		4	26 (24)		
1992	2	2	30 (27)	9	-7
1993	-22	-14	23 (18)	6	-19
1994	3	11	21 (15)	7	4
1995	5	11	17 (8)	6	5
1996	-3	-2	14 (7)	6	-7
1997	8	6	—	7	-2
2000		3	20	5	-2

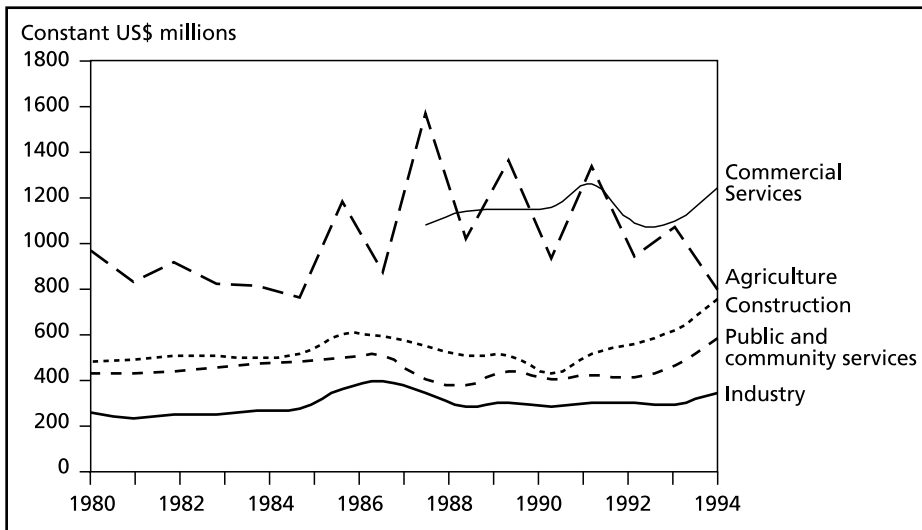
Sources: GDP, GNP and population 1981 to 1991, investment 1980 - 1986: National Accounts of Judea, Samaria and the Gaza area 1968, Israel Central Bureau of Statistics, publication no. 1012. GDP, GNP and population 1992-1997, investment 1987-1996: IMF and World Bank Estimates. Year 2000 estimates: By Fafo. Refer to Appendix 1 for details.

Private Sector Development

It was envisaged at the 1 October 1993 Conference to Support Middle East Peace that the political transitional period established in the Declaration of Principles should also have been mirrored by a sort of socio-economic transitional period during which the foundation for long-term Palestinian economic growth would be laid, with the help of international assistance. The expectation among the Palestinian political leadership and donors alike was that the private sector would assume a leading role in economic development. Instead, economic developments have been inextricably tied into political developments, which have been relatively unstable and have discouraged investment.

Very little of the transformation that was hoped for in the fall of 1993 has transpired: improvements that have taken place have been mainly funded through development aid provided by donor governments and private investment has actually contracted rather than expanded. In particular, developments since February 1996 would suggest that in the absence of a significant improvement in political relations between the parties and perhaps also sustained progress in negotiations on final status issues, it would be unreasonable to expect private capital — Palestinian or international — to make large-scale investments in the

Figure 12 Development of domestic production by sector in WBGS, 1980–1994. Constant 1986 prices



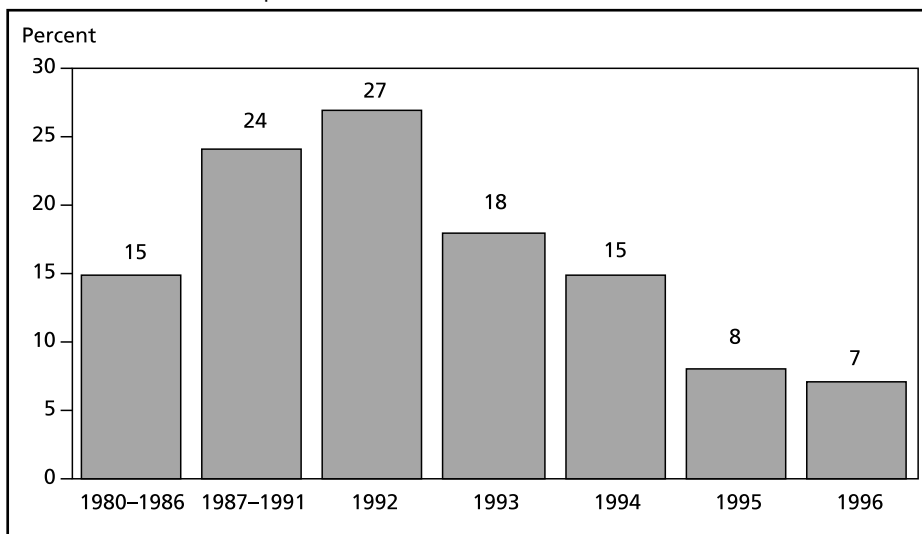
Sources: 1980 - 1987: National Accounts of Judea, Samaria and the Gaza area 1968, Israel Central Bureau of Statistics, publication no. 1012. Production values 1980 to 1987 are imputed by using real growth rates. 1992-1995: UNSCO 1997 based on IMF and World Bank estimates.

Palestinian economy. Even with a final status agreement, investors will likely watch developments for some time before committing substantial resources.

As indicated in Figure 12, agriculture and commercial services continue to be the two dominant sectors in the Palestinian economy. Subject to two-year production cycles linked to olive cultivation, the general trend in the value of agricultural output was negative from a peak in 1988 through progressively lower troughs until 1995. Commercial services, on the other hand, have generally increased the value of output since the late 1980s, although the value of output in constant US dollars was approximately the same in 1995 as it was in 1992. The construction sector has seen the most growth since 1991. By 1995, the value of output in the construction sector to GDP had risen nearly as high as that for the declining agricultural sector. The public sector represents the next largest share of GDP, increasing its value by about one-fourth between 1980 and 1995 with most of the growth coming after 1993.

During the same period, industry showed no sign of growth. Manufacturing industry still has the structure of a sector at the early stage of development, characterised by numerous small owner-operated shops. In 1994, 73 per cent of manufacturing industry enterprises had less than 5 employees including management and unpaid family workers. Only 2.5 per cent of enterprises had more than 20 employees (PCBS, August 1995).

Figure 13 Development of private investment as per cent of Gross Domestic Product in the West Bank and Gaza Strip 1980–1996



Sources: 1980-1987: National accounts of the Judea, Samaria and Gaza area 1968-1993, Israeli Central Bureau of Statistics, publication no.1012 1988-1996: UNSCO 1997

As illustrated by Figure 13, private investments have fallen every year since 1987, and dropped rapidly after 1993, from around US\$ 800 million or 23 per cent of GDP in the late 1980s and early 1990s, to about US\$ 300 million, or less than 10 per cent of GDP after 1993 (in real US\$ terms, UNSCO 1997, World Bank 1996). The Palestinian Authority Ministry of Finance has estimated that private investment in 1996 and 1997 would register at around 10 per cent of GDP.

Merchandise exports from the West Bank and Gaza Strip as a percentage of GDP declined from around 14 per cent between 1988 and 1992, to about 10 per cent after 1993. Imports declined from 50 to 40 per cent of GDP in the same period (UNSCO, 1997 and World Bank, 1996). The balance between exports to Israel and imports from Israel deteriorated in the 1990s. For example, in 1990 exports to Israel from the West Bank equalled 28 per cent of the value of imports. In 1994, the export value had dropped to 12 per cent of import value (Statistical Abstract of Israel, 1995). Historically, the Palestinian trade deficit with Israel has been countered by earnings of Palestinians working in Israel and remittances sent by Palestinians living abroad. The decline in employment opportunities in Israel and the Arab Gulf States thus not only affects household income, but also contributes to worsening the trade deficit, in the continuing absence of a strong export sector. At present, it is the flow of foreign aid as well as the income transfers from Palestinians abroad that make it possible to maintain this trade imbalance.

The reduction in real income for Palestinian households over the last 10 years has reduced local demand for goods and services. Total private consumption in real terms was more or less the same in 1995/1996 as in the late 1980s. Therefore, on a per capita basis, private consumption has actually fallen substantially during this same period.

Investments and Uncertainty

Continuing a pattern established over the past several decades, investment in housing has remained the main vehicle for investment, both of household savings and business investment. In 1991, for example, approximately 85 per cent of gross fixed capital formation went into construction, primarily housing (World Bank 1993). The predominance of private investment in housing reflects the relative security of investment in property and buildings, assets which are relatively unaffected by factors such as lack of unimpeded access to markets. Moreover, population growth, combined with limited space, particularly in Gaza, virtually

assures that property values and housing prices can only rise. The level of investment in the housing sector is not excessive, rather it reflects the fact that investment in other sectors is very low.

There is a general absence of alternative vehicles for investment in the form of financial intermediaries and private sector productive assets. The predominance of sole property ownership over other forms of private ownership, such as limited liability companies, may be one reason for this. Most productive capital in firms is financed by family savings. The development of an effective banking sector and better access to markets are preconditions for the establishment of larger-scale productive activities.

Developing Human Resources

The longer term competitiveness of industry depends both on high levels of investment to improve productivity as well as on the ability of firms to develop a strong human resource base with skills relevant to local and external markets. The 1997 Fafo survey on wage and working conditions in the Gaza Strip (Grimsrud 1997) shows that the public sector, including NGOs and international organisations providing public services, offers better wage and employment conditions than the private sector, with better leave arrangements and pensions and shorter working hours than the private sector. The average monthly wage for a public sector male employee in the Gaza Strip observed by Fafo was 1,414 NIS in December 1996 compared with 1,075 for male private sector employees. In addition, the average working week for public sector employees was 36 hours compared with 48 hours in the private sector. Public sector employees enjoyed, on average, more than twice the number of holidays and amount of leave as their private sector counterparts. This could have a long term impact in that the most educated and innovative part of the labour force seeks employment in the public sector, resulting in a scarcity of human capital in the private sector.

Despite the generally high level of educational attainment among Palestinians, there is a need to ensure that the human capital base keeps pace with the changing markets. For nearly three decades, the absence of viable job opportunities at home prompted large numbers of educated and skilled Palestinians to leave the West Bank and Gaza Strip to work abroad. Not surprisingly, at present there is a scarcity of skilled technical and managerial personnel in the private sector, despite relatively high levels of unemployment. Over the long term, this problem should be addressed through reform in and further development of the educational and vocational training system. The Palestinian Authority is actively engaged, through the combined efforts of the Ministries of Labour, Higher Education, and Education to develop a broader based and more

appropriate system of vocational education than exists today. In addition, there is also a need for research and development within enterprises and for establishing relations between private enterprises and academic institutions.

Access to Markets

While prior to 1967 the economy of the West Bank and Gaza Strip had virtually no interaction with Israel, by September, 1993 the Palestinian economy had been substantially integrated into the Israeli economy. At the time of the establishment of the Palestinian Authority in July 1994, more than 70 per cent of exports went to Israel (World Bank, 1993) and all imports came either from or via Israel.

Trade between the Palestinian and Israeli economies is asymmetric in that while there are fewer barriers to Israeli export to the West Bank and the Gaza Strip than barriers to export in the opposite direction. Under present procedures, clearance procedures for the Gaza Strip are cumbersome and inefficient, and the capacity of the transit facilities remains limited. The procedures employed for reasons of security, both for import into and export from Gaza, add considerably to the costs of Palestinian products. In addition, owing to the unpredictability of the system, Palestinian exporters find it virtually impossible to provide firm delivery times. Such factors naturally reduce the competitiveness of Palestinian enterprises, adding a further disincentive to potential investors.

West Bank and Gaza Strip trade with the rest of the world is constrained by Israeli trade and security policies. Jordanian and Arab markets are traditionally, culturally and geographically important to the West Bank and Gaza Strip, and could provide opportunities for the development of export-oriented industry and agriculture. The September 1995 Interim Agreement opened up for some limited trade with Jordan, Egypt and other Arab countries. However, the intensification of movement restrictions in the wake of Hamas' bomb attacks in February and March 1996 has meant that Israel has not facilitated Palestinian access to Egyptian and Jordanian markets.

The Palestinian Authority has signed trade agreements with both the European Union and the United States. Beginning in October 1996 products from the West Bank and Gaza Strip were granted a special duty free trade status in US markets identical to those accorded products from Israel. Efforts are under way to conclude a Euro-Mediterranean Association Agreement with the EU. However, without improving the ability of Palestinian exporters to reach potential markets, such trade agreements will have little effect on foreign demand for Palestinian goods.

Movement restrictions and periodic closures not only affect Palestinian links with external markets, but have an equally negative impact on economic exchange

between the West Bank and the Gaza Strip, as well as between various parts of the West Bank. In fact, even with the present burdensome restrictions, economic transactions between the Gaza Strip and Israel or between the West Bank and Israel are simpler than within these two parts of the Palestinian Authority area. The territorial integrity of the West Bank and Gaza Strip that formed a key element of the Declaration of Principles has not found an operational expression in so far as socio-economic life is concerned. One consequence of this is that domestic markets are characterised by, *inter alia*, substantial price differences for the same commodity between different parts of the West Bank, and between the West Bank and Gaza Strip. It has become not only costly but also complicated and time consuming for producers in the Gaza Strip to buy from or sell in the West Bank, and vice-versa. Exacerbating the situation for Palestinian producers, higher unemployment and lower wages means a reduction in purchasing power among Palestinian consumers.

The Importance of Local Governance

Political instability in the Israeli-Palestinian peace process, and the border closures that are a manifestation of this, may be the main factor discouraging investment in private sector activity, but it is not the only factor. There is a continuing need for the public sector to make significant adjustments in its policies and procedures in order to establish a predictable and reliable regulatory and legal framework based in transparent institutions. Private sector development requires legal mechanisms that protect and regulate property rights, encourage fair economic exchange, and establish acceptable and enforceable means of adjudicating disputes. At the same time, it is important that a regulatory regime not impose insurmountable barriers to entry or distort the allocation of resources. Equally important, the lack of transparency of regulations and the discretionary manner in which these are imposed create an environment of insecurity which deters private investment.

UNSCO (1997) points out that the reduction in private sector investment is not only linked to closure, but also with uncertainties and risk to invest in an environment where property laws, investment laws and the tax regime remain unclear. The World Bank (1996) has noted the need for the PA to reconsider awarding exclusive trading licenses for key imported commodities such as petroleum products, cement and tobacco.

Development of the Palestinian Public Sector

The September 1993 Declaration of Principles provided for the creation of a Palestinian self-governing body to be established pursuant to further negotiations between Israel and the PLO which would address, *inter alia*, the responsibilities to be transferred from the Israeli military occupation authorities to the new Palestinian administration. Those negotiations were completed in May 1994. The Agreement on the Gaza Strip and the Jericho Area, referred to as the Cairo Agreement, led to the establishment of the Palestinian Authority which assumed responsibility for education and culture, health, social welfare, direct taxation, and tourism in the Gaza Strip and the Jericho Area only. The Cairo Agreement also stipulated that the Palestinian Authority would have responsibility for law and order in the areas under its authority and would create a Palestinian police force for this purpose. In August 1994, the parties concluded negotiations on the Agreement on Preparatory Transfer of Powers and Responsibilities which extended the five civilian spheres of authority exercised by the Palestinian Authority to the rest of the West Bank, not including East Jerusalem.

Thirteen months later, in September 1995, Israel and the PLO completed their negotiations on the Interim Agreement on the West Bank and Gaza Strip, which led, *inter alia*, to a full definition of the powers and responsibilities of the Palestinian Authority throughout the transitional period. The Interim Agreement also included the modalities for Palestinian elections which would lead to the establishment of the Palestinian Council and the direct elections of an executive head of the Palestinian Authority. Further, the Agreement provided the basis for further redeployment of Israeli military from the West Bank and the related assumption of responsibility by the Palestinian police for law and order according to a three tier zoning system. Pending the conclusion of final status negotiations, the powers of sovereignty over the entire West Bank and Gaza Strip remain with Israel, with the powers and responsibilities of the Palestinian Authority devolved to it from the Israeli military occupation authorities.

In 1993, public sector services were rendered by four separate types of providers; the Israeli Civil Administration, which was the controlling authority for all public sector activities; village and municipal councils, appointed by Israel; Palestinian and international non-governmental organisations; and UNRWA, which was the second largest provider of services after the Civil Administration. Under the Israeli Civil Administration Palestinians were employed only in service-provider capacities, and not in senior managerial or decision-making capacities. The Palestinian Authority was faced with the daunting task of creating all necessary governmental structures, from the policy level to the operational level and, at the same

time, ensure that there would be no disruption in services throughout the process of transfer of responsibilities and establishment of public sector institutions.

Under such conditions, the Palestinian Authority has done a remarkable job creating functioning ministries providing reliable services within the relatively short span of four years. There is no doubt that there are concerns related to organisational and managerial aspects of the public sector and the future financing and quality of public sector services. If the past four years can be considered the establishment phase of the public sector, the focus should increasingly fall on consolidation, capacity building, and policy and programme planning for the future. The enormous challenges of creating wholly new institutions has understandably resulted in a very short time-horizon for most public sector institutions and officials who have been mainly concerned with ensuring the delivery of services.

The growth in the size of the Palestinian public sector since 1993 corresponds to the phased-in assumption of responsibilities by the Palestinian Authority for both substantive public sector activities as well as for additional territory. In 1993 the Israeli Civil Administration employed approximately 22,000 Palestinians. In 1994, at around the time of the Cairo Agreement, the public sector employed approximately 35,000 persons; in fall 1995 (the time of the Interim Agreement) employment in the PA stood at about 49,000, increasing to about 75,000 by the end of 1996 and, by mid-1997, some 82,000 persons were employed by the Palestinian Authority, not including short-term job creation programmes. Of this total, approximately 35,000 persons were employed by the Palestinian Police Force with the remainder carrying out the entire gamut of public sector functions in all spheres of civilian authority for which the Palestinian Authority is responsible.

As noted earlier, public services in the fields of primary and preparatory education, primary health care and relief and social services (plus certain other forms of related assistance) for registered refugees continue to be provided by UNRWA. At present, UNRWA employs some 8,500 Palestinian staff members in the West Bank and Gaza Strip. Under the DoP formula, the refugee issue is to be discussed as part of the final status negotiations. It is anticipated that in connection with the final status agreement on refugees, the Palestinian Authority would assume responsibility from UNRWA for refugees. In the meantime, UNRWA is subject to the same demographic pressures as the Palestinian public sector.

The Palestinian Authority has undertaken since 1995 to limit the growth of public sector employment and has generally observed this commitment to donors. By and large, there has not been a high degree of concern among donors or multilateral institutions, including the International Monetary Fund, over the size or cost of the civilian public sector work force. For example, civilian employee salaries, which averaged about US\$ 425 in 1993, were understood to be inadequate

when compared to the cost of living. The World Bank, in January 1994, noted that increases in "civil service" remuneration was expected "over the medium term" to permit their equalisation with that paid to UNRWA employees in equivalent positions.

Of greater concern from a public finance perspective, is the size of the Palestinian Police Force. With over 30,000 persons employed, there is a much higher degree of concern that the PPF places an extraordinary burden on the public purse. The ratio of police to the total population of the West Bank and Gaza Strip is about 1 to 75, a striking ratio compared to almost any international comparator. The worry is not only one of salaries, but equally one of pensions. However such concerns among members of the international community have tended to be muted because the parties established a threshold of 30,000 police in the Interim Agreement.

In future years, it is expected that police employment will increase only marginally, as the Interim Agreement places a ceiling on the size of the police force. However, in light of anticipated demographic developments, the civilian component of the public sector work force will have to see substantial annual increases to keep pace with population growth, assuming a constant level of services provided. For example, to accommodate the expected student population in 2010, the number of teachers will have to double as compared to 1995. If improvements are to be made in the student-teacher ratio in public schools, then even more persons must be employed.

And, of course, it is not only a matter of personnel, but also of facilities. Twice as many students and teachers also means twice as many school premises, again assuming no improvement in the present situation where students almost universally attend school in two shifts (on rare occasions, three shifts) owing to a shortage of school premises. Similar concerns hold true for other aspects of public sector services, in particular health care.

The demographic profile of Palestinian society is such that public sector services will have to double in the next 15 years or so. Such rapid growth in the demand for services has enormous implications for public institutions, not the least of which is related to public sector finance. If the socio-economic trends described elsewhere in the report continue, as is likely, the Palestinian Authority will confront the conundrum of having to greatly expand basic public services such as health care and education while declining per capita income will erode an already weak tax base.

In the absence of sustained economic growth, the Palestinian Authority deficit can be expected to balloon in the coming years. Increasing public sector revenues between 1994 and 1997 have been mainly a function of improved systems of collection, and not economic growth. There is a limit to how much additional revenue such improvement will yield. The tax base, first and foremost a function

of economic activity, will have to grow at least as fast as the increase in the demand for public services simply to maintain the status quo. Improving the quality and coverage of services, a principal challenge facing the still young public sector, will require even higher growth rates and/or external financing.

Public Finance: 1993-1997

The Palestinian Authority budget mainly reflects recurrent costs, since public investment is assumed in the budgeting process to be covered via donor financed projects. PA revenues come, in order of relative importance, from revenue clearances via Israel (65 per cent), and domestic income tax and non-tax revenues (35 per cent). Donors have covered a significant but decreasing share of the Palestinian Authority's expenditure since 1994 in order to help cover start and transitional costs, including projected recurrent deficits.

Both expenditures and revenues have consistently exceeded projections, as have recurrent deficits. In 1995, expenditure of approximately \$680 million, revenue of about \$425 million, and donor support of about \$ 170 million (of which \$135 million towards recurrent deficit); in 1996, expenditure of \$995 million, revenue of \$670 million, and donor support of some \$ 160 million (of which \$84 million towards the recurrent deficit).

The Palestinian Authority ended 1994 with a recurrent deficit of US\$ 30 million representing 1 per cent of that year's GDP; in 1995, the deficit was \$67 million, or 2 per cent of GDP; and in 1996 the deficit was some \$96 million, or 3 per cent of GDP. In late 1996, a \$52 million deficit was projected for 1997, which would be equivalent to 1.5 per cent of projected GDP. Despite closures imposed in September 1997 and a lower than budget number of Palestinians working in Israel, the PA announced in October 1997 that both revenues and expenditures were expected to be on target for the year as a whole. The 1997 deficit was revised down to US\$ 50 million. As of October, donors had disbursed US\$ 34 million for budgetary support, leaving a financing gap of US\$ 16 million. (Palestinian Authority Ministry of Finance, October 1997)

The recurrent deficit has consistently been a key focus of the principle aid co-ordination body, the Ad Hoc Liaison Committee. The AHLIC's involvement and the overall donor readiness to help cover the deficits of 1994-1996 was in large part a response to the view of the donors that the deficits were to a great extent beyond the ability of the PA to control. This is because the single most important factor accounting for continuing PA recurrent deficits has been the frequent imposition of border closures by the Government of Israel following terrorist attacks carried out by Palestinians in Israel, in anticipation of such attacks and/or as a form of sanction against the PA. Maintaining stability in the

PA and in Palestinian society in general through the PA is widely considered a necessary condition for further progress in the Israeli-Palestinian negotiations.

In addition to the sharp decline in overall economic activity, one of the immediate consequences of closure is a reduction in PA revenues from all sources. At several points since the PA's establishment, most notably at various points during 1994, spring 1995, and spring 1996, the PA was widely considered to be threatened with financial collapse in the absence of an injection of donor funding for recurrent costs. In 1996, an advance by Israel on future revenue clearances was also required. Given the expectation that the political and security situations are likely to remain precarious throughout the remainder of the transitional period, and as long as the Government of Israel maintains its closure policies, then the Palestinian Authority is almost certain to continue to experience difficulties in meeting its recurrent costs. Given the steady decline in GNP over the past five years and the marginal degree of growth registered in GDP, the deficit problem will only be exacerbated by the anticipated demographic developments which require a steady increase in expenditure to keep pace with the needs of a rapidly growing and increasingly impoverished population.

While donors recognised that the principle cause of the PA's recurrent deficits has been closure, it is unlikely that donors would have provided as much funding as they did in the absence of steady progress by the Palestinian Authority in establishing a credible Ministry of Finance. There have been three principle concerns among donors which the PLO (and subsequently the PA Ministry of Finance) had to meet: Ensuring accountability and transparency in the use of contributions; maintaining a commitment to domestic revenue collection; meeting successive commitments made to donors via the Tripartite Action Plans (1994, 1995, 1996) to limit growth in public sector employment. These concerns have been successfully met by the PA Ministry of Finance with the help of the World Bank and IMF. The World Bank manages the "Holst Fund" which was set up in late 1993 to channel donor contributions towards non-police transitional and start-up costs, and especially recurrent cost deficits. The International Monetary Fund is closely involved in supporting the work of the Ministry for Finance.

In addition, the growing leadership role assumed by the PA Ministry for Planning and International Co-operation has demonstrated to donors that the PA was increasingly institutionalising planning as an essential component of developing public investment plans based on priority needs identified by the PA. Following some ambiguity between 1993 and 1995, the Ministry for Planning became the principal focal point of the PA within the co-ordination forums and in consultations concerning the development effort. PECDAR, following a difficult and protracted beginning, has become an effective implementing arm of Palestinian

development policies. The Education, Higher Education and Health Ministries have also established a high degree of credibility with donors and are seen as having made steady advances in institutional development since their establishment. Such institutional developments contribute significantly to donor confidence in the PA's use of their contributions.

However, by late 1996 two related issues became a matter of public discussion and disagreement between donors, the multilateral institutions and the Palestinian Authority. These two issues were the involvement of the PA in commercial activities and the maintenance of certain PA bank accounts (receiving revenues and making expenditures) outside of the purview of the Minister for Finance.

The granting of exclusive trading privileges by the Palestinian Authority, often referred to as "monopolies", generates considerable profits to individuals linked to these activities in addition to unreported revenues for the Palestinian Authority. Both aspects have drawn the attention of the Palestinian Council and a number of donor countries. Members of the international community have indicated concern over the monopolies and their negative impact, *inter alia*, on private sector development. In response to sustained international concern, the Palestinian Authority committed itself, at the Ad Hoc Liaison Committee Meeting of 10 December 1996, to phase out all of its commercial activities by end-1997. Until that time, the Palestinian Authority was "committed to (a) refrain from granting any additional monopoly privileges, and (b) have, beginning no later than March 1, 1997, all proceeds from commercial activities transferred to the account of the Ministry of Finance. In addition, all existing commercial activities will be brought under the control of a Board of Directors and audited by internationally-recognised chartered accountants. (Palestinian Authority, Minister of Finance, 10 December 1996).

In a related commitment, the Palestinian Authority again undertook to bring all revenues and expenditures, including revenues from PA commercial activities under the control of the Ministry of Finance by 1 March 1997. According to the International Monetary Fund up to 25 per cent of domestic revenue passes through accounts outside the purview of the Ministry of Finance. (IMF 1997) As of mid-1997, the consolidation of accounts had not yet taken place and nor had there been meaningful progress in implementing the pledge to regularise PA commercial activity.

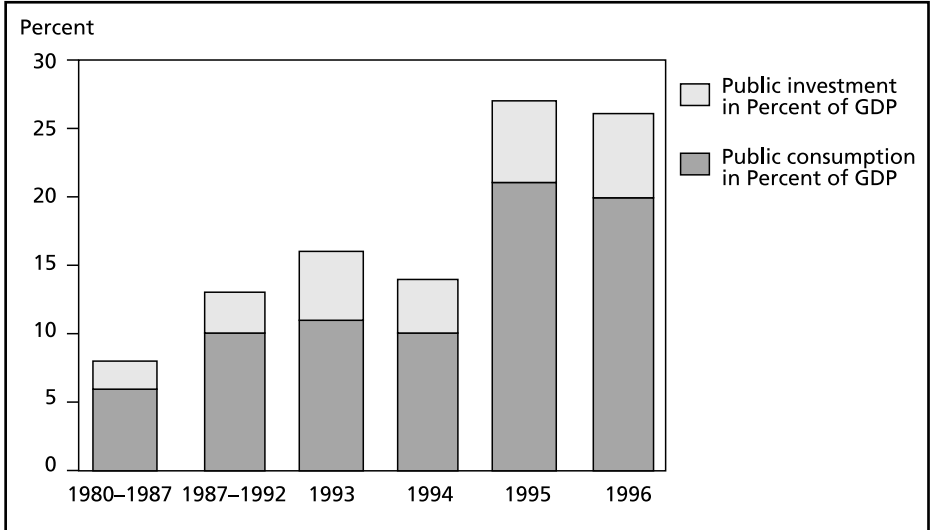
One consequence of this is that the PA's credibility, and therefore donor confidence, is gradually eroded. While donors are unlikely, if past patterns are indicative of future action, to announce a shift away from budgetary support, the lack of disbursement towards the PA's 1997 recurrent deficit may be one indicator that donors may well allocate funds towards greater concentration in public investment regardless of public finance needs. Against a backdrop of growing demand described

in the next part of this report, the withdrawal of donor support for recurrent cost deficits linked to closure could have serious consequences for the PA's ability to meet basic needs for education, health care and social services.

As noted earlier, the United Nations Relief and Works Agency (UNRWA) provides a substantial degree of public services in the West Bank and Gaza Strip, with a budget of some \$135 million (not including project activities) in 1996. These services are funded entirely through donor contributions. UNRWA services are public sector activities which at some point will be handed over to the Palestinian Authority.

At present, it is unlikely that a hand-over would take place prior to the conclusion of final status negotiations. Nevertheless, regardless of when this takes place, the total real cost of public sector services provided to Palestinians in the West Bank and Gaza Strip is the combined budgets of the PA and UNRWA. UNRWA is in the midst of a deepening financial crisis which has immediate implications for the Palestinian Authority. If donors continue to make less resources available to UNRWA than are required by the Agency to provide education, health and social services to registered refugees in the West Bank and Gaza Strip, they are creating a future problem for the Palestinian Authority. then it can be expected that, on an individual basis, refugees will respond The quality and coverage of UNRWA services will decline, creating considerable problems for the PA (and large demands on donors) when it does eventually take over from UNRWA. The anal-

Figure 14 Public investment and consumption and GDP



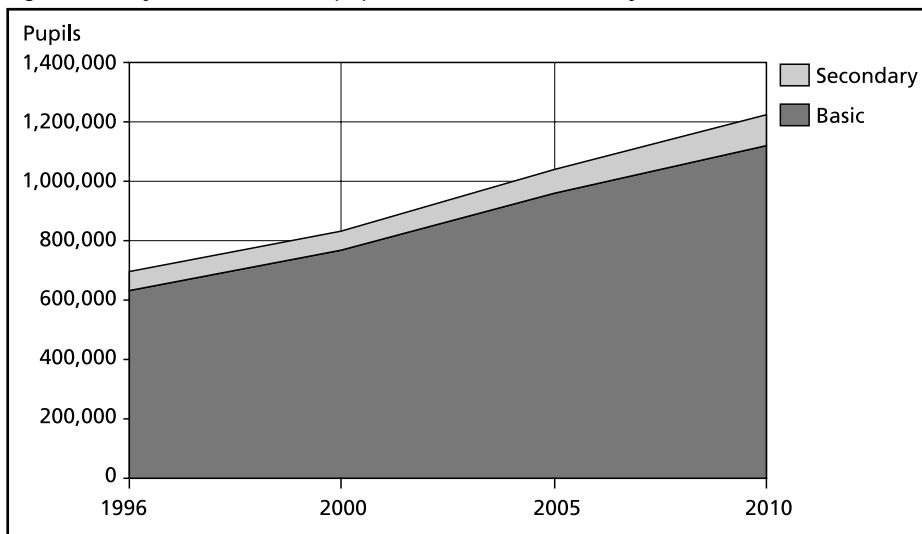
Sources: 1980-1987: National accounts of the Judea, Samaria and Gaza area 1968-1993, Israeli Central Bureau of Statistics, publication no. 1012. 1988-1996: UNSCO 1997.

ysis and projections presented in the next section of this report are of direct relevance to donors as they consider the level of funding required in the coming years by UNRWA as well as the PA.

The Size of the Public Sector

The exact size of the public sector in the West Bank and Gaza Strip is partly a matter of definition. The Palestinian Authority (PA) is obviously the main part of the public sector. In 1996, 26 per cent of the domestic production (GDP) was used by the PA for investment and recurrent expenditures. In addition, UNRWA could also be calculated as a part of public sector, as the health and education services supplied by UNRWA will have to be provided by the PA in the future. Then there are a number of NGOs operating hospitals, clinics and schools offering similar services as the public institutions, offering the same beneficial wage and working conditions as in public sector and are being financed the same way as parts of the public sector, through foreign aid. Consistent information about the amount spent by all these organisations is not available, but a conservative estimate is that the broadly defined public sector spending amounts to at least 30 per cent of domestic production.

Figure 15 Projected number of pupils in basic and secondary school, WBGS 1996–2000



Sources: Fafu population projections, enrolment rates based on the Demographic Survey, Palestinian Central Bureau of Statistics 1996.

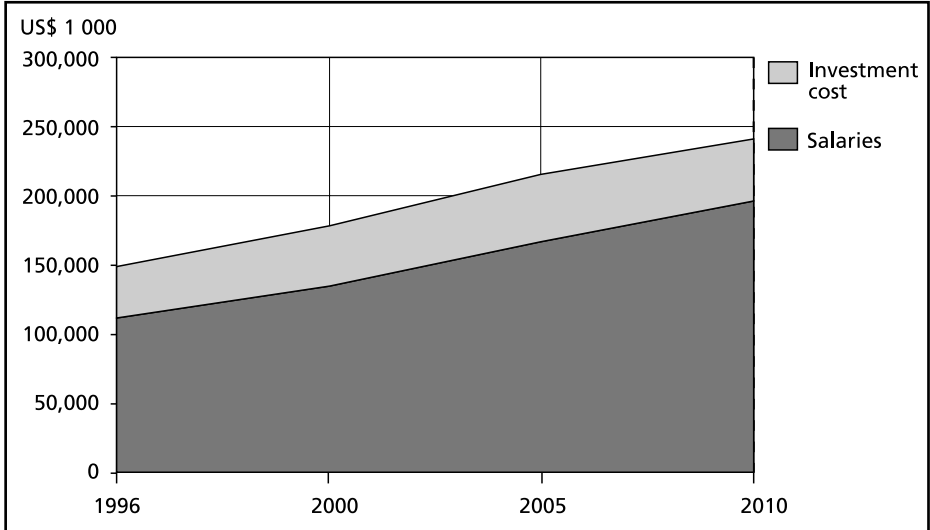
This current PA consumption is not very large if compared to, for instance, Israel government consumption (29 per cent of GDP in 1995) or Jordan (22 per cent of GNP in 1995) (World Development Report, 1997). But as illustrated in figure 14 above, it has been growing quite fast over the last years. The total use of resources by the public sector in the form of consumption and investment has grown from around 8 per cent of GDP on average in the period from 1980 to 1987, to more than 25 per cent in 1996.

Education

As a result of population growth, the difference between the number of children starting school and the number of children leaving school will increase year by year, almost doubling the number of pupils during the next one and a half decades. Hence, in order only to maintain today's standard, the number of teachers and classrooms will have to be doubled.

According to PCBS education statistics (PCBS 1995), the standard in 1994/1995 was 31 pupils per teacher, and 33 pupils per classroom in primary schools and 26 in secondary schools. Assuming that a teacher costs about US\$ 5,000 per year, and that it costs US\$ 40,000 to build a classroom, rough estimates of the expenditure on education (except maintenance, equipment and administration) are given in figure 16 below. In real terms, teachers' salaries

Figure 16 Projected required expenditure for primary and secondary education 1996–2010



Sources: Pupils per teacher, pupils per classroom: Educational statistical yearbook 1994/1995, Palestinian Central Bureau of Statistics; Fafo population projections; PA cost estimates for building new schools; PA wage estimates for teachers. No quality increase assumed.

will increase from US\$ 111 million at present to almost US\$ 200 million in 2010. Today, about 62 per cent of pupils are covered by government schools, 26 per cent by UNRWA, and the remaining 12 per cent by private schools. Taking into consideration the low total investment rate in the Palestinian economy, with the resulting slow GDP growth of 3 per cent per year, GDP will have increased by 47 per cent from 1996 to 2010. As indicated in Figure 14 above, education expenditure will have to increase by around 64 per cent. Hence, in order to meet the needs for education services in the future, either GDP growth has to be at least 4 per cent, or else the relative size of the public sector will have to increase, with a large portion of that expansion financed by international donors.

While it is often stated that the Palestinians have a particular high level of education compared to that of other countries in the region, there is little evidence that this is currently the case. Most Arab countries have made large and fairly successful efforts to improve public education in recent decades. Most countries in the region have populations that are reasonably well educated, especially in the younger age groups. Moreover, the inhabitants of many of the other countries have not suffered from the frequent interruptions and disruptions that have been the fate of Palestinian children in the West Bank and Gaza Strip. It is likely that the quality of the education of the other countries has also been better than the Palestinian one, although that is difficult to measure. In any case, in terms of attracting investments, or generating economic activity from the human resource base, the Palestinians do not enjoy a privileged status compared to other countries in the region.

Of significant importance to the long-term future is the continued development of Palestinian universities. Simply ensuring that roughly the same percentage of Palestinian students will continue to have access to a university education will become an increasingly difficult, if not impossible, challenge in

Table 2 Projected expenditure on education, by refugee status of students

	1996		2000		2005		2010	
	Non-ref.	Re-fugees	Non-ref.	Re-fugees	Non-ref.	Re-fugees	Non-ref.	Re-fugees
School population								
Salaries US\$ 1000	82200	29048	99162	35042	122970	43455	145102	51277
Investment cost, US\$ 1000	27357	9667	32630	11531	36372	12853	32960	11647
Teachers	16440	5810	19832	7008	24594	8691	29020	10255
Classrooms	14224	5026	17074	6034	21044	7437	24643	8708

Sources: Pupils per teacher, pupils per classroom: Educational statistical yearbook 1994/1995, Palestinian Central Bureau of Statistics. In addition we have used: Fafu population projections, PA cost estimates for building new schools, PA wage estimates for teachers,

the coming years. In line with overall demographic trends, universities will have to expand annually to create sufficient capacity to meet demand. Present capacity is already strained owing to limited resources, and there are growing concerns that the quality of education is suffering as a result.

However, it is difficult to foresee how needed expansion can be financed. Palestinian universities are already heavily dependent on external support to meet basic recurrent costs. The Palestinian Authority's continuing recurrent deficits are not likely to permit the PA to increase public contributions to the universities. And, given declining per capita income in the West Bank and Gaza, it is improbable that a significant portion of costs can be covered by increasing student fees. There is a real risk that over the next decade, Palestinian society will become less rather than more educated than today.

Health

Health Status: A Society in Transition

Health conditions in the West Bank and Gaza Strip "are fairly typical for lower-middle income, developing countries" (World Bank 1993). The area seems to be "in a transitional state, with characteristics and indicators falling in between those of developing and those characterising developed societies" (Endresen, et al, 1997).

On the one hand morbidity and mortality stemming from communicable diseases, malnutrition, diarrhoea and respiratory diseases, typically associated with developing countries, have dropped significantly over the last twenty years or so. The general child vaccination program in West Bank and Gaza Strip has been successful. Several diseases have been almost completely eliminated. More than 90 per cent of children are currently covered by the immunisation program (Israeli Ministry of Health 1991, Giacaman 1994, PCBS 1997, WHO/Ministry of Health 1996). Nevertheless, gastrointestinal and respiratory infections remain problems in the Gaza Strip due to poor environmental conditions and crowding (PCBS 1995; World Bank 1993). Malnutrition among children is not widespread. However, of concern is the tendency pointed to above, namely that infant mortality rates have stopped their decline, so that the last years have not seen any improvement in conditions.

On the other hand it looks like the West Bank and Gaza Strip population has started to adopt some of the negative health traits typical for the industrialised world and modern lifestyles, such as hypertension, diabetes, heart disease, and cancer (Giacaman 1994).

Distribution of Health Services

The 1992 Fafo living conditions study (Heiberg and Øvensen 1993) showed a frequent use of health services among the West Bank and Gaza Strip population. The great majority of those who had suffered an acute illness or injury had consulted some kind of health services: 89 per cent consulted a physician, while twenty-two per cent saw a nurse or a pharmacist, and twelve per cent consulted a traditional healer. (The categories are not mutually exclusive.) The data supported the view that the availability of health services was fairly distributed both socially and geographically and therefore satisfactory for most of the population. The reason for this may be “a social welfare system, which serve(d) to counteract inequality and a skewed distribution of other resources”, notably economic resources. The report referred to UNRWA in this context. Other organisations have also contributed to the access of health services of vulnerable segments of society.

Three Sectors of Providers

There are three main operators in the West Bank and Gaza Strip health services structure. They are (i) the public sector, (ii) UNRWA, and (iii) the non-governmental sector, including charitable organisations, NGOs and private providers.

The public health apparatus was run by the Israeli Civil Administration until 1994, when it was taken over by the Palestinian Authority Ministry of Health following the Agreement on the Gaza Strip and the Jericho Area. The public sector today provides primary, secondary and tertiary health care, and in addition is responsible for other activities such as disease surveillance and nursing schools. Until 1974 all residents of the West Bank and Gaza Strip were entitled to free health care from Egyptian and Jordanian health facilities respectively. At that time an insurance scheme was introduced, and the share of the population able to use public sector services dropped considerably. (World Bank 1993; PCBS 1995; Giacaman 1994).

According to the World Bank (1993) the estimated percentage of families covered by health insurance has varied enormously. It appears, however, that after a sharp drop at the start of the *intifada*, which began in December 1987, the figure remained relatively constant for some years at about thirty per cent (Giacaman et al 1993; Al Haq 1993). Despite the economic hardship experienced since 1994, the trend has been positive, and the figures from the end of 1996 are quite encouraging. They reveal that the population covered by insurance in the Gaza Strip reached about 56 per cent, while it reached about 46 per cent in the West Bank. (Paolo 1997). Results from the PCBS Health Survey in the West Bank and Gaza Strip (1996) are even more promising. They show a coverage of 76.8 per cent for the Gaza Strip and 54.7 per cent for the West Bank.

The overall figure was reported to be 61.5 per cent. (PCBS 1997: This success was attributed to three policy factors: reduced insurance premiums, increased group participation after active promotion, and expanded basket and quality of services (Paolo 1997).

What do the insured get that the uninsured part of the population do not? The Ministry of Health provides a number of services for free to *all* Palestinian inhabitants of the West Bank and Gaza Strip. These are (1) immunisation, (2) ante-natal and post-natal care (but not institutional delivery), (3) child care, preventive and curative, until the age of three, (4) school health services to the entire student population, (5) public environmental health services, and (6) ambulatory and hospital psychiatric services. In addition to this the insured get primary curative services (including specialist services), secondary care services (including hospitalisation), and tertiary care services (mainly referrals) (Paolo 1997: 1). Persons without government health insurance may purchase such services on a fee-for-service basis. A private health insurance company also offers health insurance, predominantly to people employed in manufacturing. (World Bank 1993).

The total Health budget of the Ministry of Health has increased dramatically from US\$ 62 million in 1993 to US\$ 97 million for 1997. In 1996, the revenue from health insurance was US\$ 29 million, covering about 32 per cent of total health expenditure that year. Of the total 1997 budget, about 41 per cent is allocated to salaries, 15 per cent to treatment abroad, 33 per cent to drugs and disposable materials, and 11 per cent to operating expenses. (Ministry of Health 1997). In 1993 the World Bank found that as much as 61 per cent of the public health budget was devoted to the operation of acute curative care hospitals against only 28 per cent spent on primary care and public health services. The remaining 11 per cent was committed to functions such as inspection of sanitary conditions and disease surveillance (World Bank 1993). There are no reasons to believe that the relative allocation of funds to preventive primary health care on the one hand and curative secondary and tertiary care on the other hand has changed substantially since then.

The expenditure of the public health sector is complemented by the expenditure of UNWRA which spends proportionally more on preventive care and less on curative care compared with the public sector. According to the World Bank (1993), UNRWA devoted approximately 58 per cent of its budget to primary prevention and health promotion activities, while hospital care consumed 42 per cent. The estimated total cost of the regular UNRWA health program for the biennium 1996-1997 for the West Bank and Gaza Strip is US\$ 61 million (UNRWA 1997).

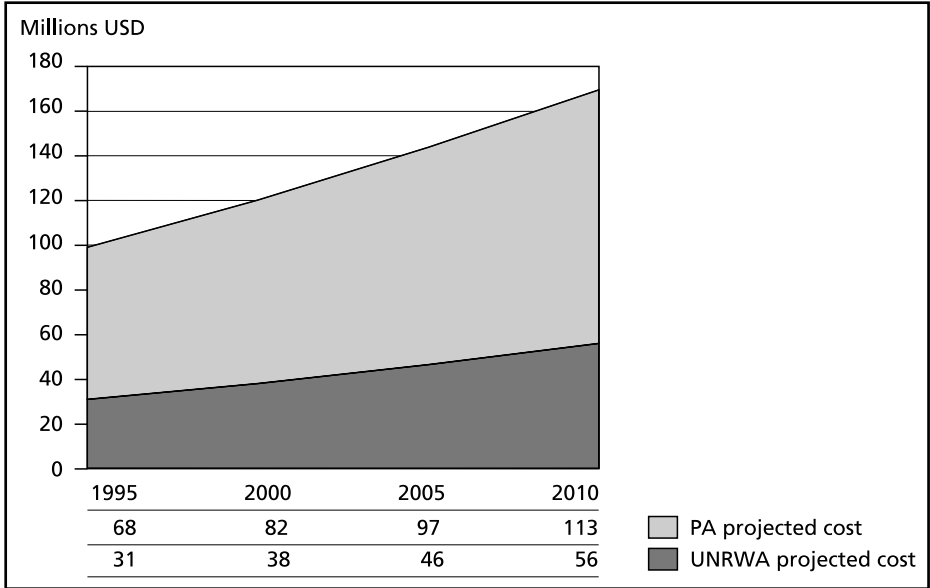
The non-governmental sector consists of three main types of health organisations. First are the private, profit-seeking medical services. User fees and/

or private insurance generally finance these private clinics, which typically are staffed with specialists, serving relatively few patients a day. Second are the charitable societies, some of which operate hospitals and diagnostic centres, while others run primary health care centres. Health institutions of the latter type usually emphasise curative medicine, drugs, injections, and x-rays, with a focus on decentralising curative services from the urban parts of the West Bank and Gaza Strip to more rural areas.

The third category of non-governmental organisations consists of grass-roots or popular health movements stressing primary health care in the true sense of the word, that is health prevention and promotion. They arose in the 1970s and 1980s as a response to Israel’s military occupation and what people in general, and some professionals in particular, conceived as a deteriorating health system leaning too much towards curative medicine. (Giacaman 1994; 1995; World Bank 1993). The charitable and grass-root primary health care providers charge nominal fees from those who can afford to pay, and give the poorest segments of the population consultation, advice, and treatment for free.

Hospitals and clinics of various kinds belonging to the voluntary sector, i.e. the charitable and popular NGOs, have up to quite recently been responsible for about one fifth of health care spending in the West Bank and Gaza Strip. Popular locally based organisations saw a tremendous development in the years

Figure 17 Projected health costs born by PA and UNRWA 1995–2010. Constant cost per head and present proportion of expenses covered by insurance assumed



after the beginning of the *intifada*, when the number of primary health facilities more than doubled. (World Bank 1993).

At present, the total number of primary health care units in the West Bank and Gaza Strip is 908, of which 410 are operated by the Palestinian Authority, 82 by UNRWA and 416 by NGO's. There are 25 hospitals of which the Palestinian Authority runs 14. The total Ministry of Health budget has increased from US\$ 62 million in 1993 to US\$ 97 million in 1997. The National Health Insurance Scheme covered 172,166 families in 1996, or 66 per cent of the Gaza Strip population and 35-40 per cent of the West Bank population. The total revenue was US\$ 29 million or 31.9 per cent of the Ministry of Health budget revenue. UNRWA has a budget of US\$ 31 million for health care in the West Bank and Gaza Strip for 1997. The hospital bed/population ratio in 1995 in the West Bank and Gaza Strip was 1:900 according to the Palestinian Ministry of Health.

Expenditure figures indicate that about 59 US\$ per person was spent by the Palestinian Authority on public health in the West Bank and Gaza Strip in 1996, or about 3.5 per cent of 1996 GDP. The scant data available indicate that the level of Palestinian Authority expenditure is 2-3 times higher than that prevailing in other Arab countries (World Bank 1997).

A possible development trajectory of future demand for health care expenditure is shown in figure 17. (Calculations only include the public sector, assume that costs born by insurance payments will be proportionally the same in the future and that the cost per head will remain the same.) The figure shows what the two main service providers, the Palestinian Authority and UNRWA will have to finance from their budgets. In general, projected population growth will result in a required 20 per cent increase in yearly budgets for every 5 year period, or about US\$ 30 million for the first five year period.

While this is probably a fairly accurate figure for the first five year period, it becomes more and more uncertain in the future. This is because the different service providers - as noted - have very different structures of care, and the relative weight put on primary health care versus secondary and tertiary care has huge effects on costs. Moreover, the epidemiological transition that the West Bank and Gaza Strip is going through, with shifts in the kinds of diseases and health problems that the population experience, make cost estimates difficult.

The trends in infant mortality (i.e. their stabilisation noted above) suggests that there is a case for renewed emphasis on primary health care. Also, compared to UNRWA, which spends about US\$ 31 per person, the Palestinian Authority uses about US\$ 86 USD per person, with approximately the same results in terms of infant mortality rates and morbidity. Since UNRWA does not cover the full cost of providing tertiary care, the cost difference probably

partly reflects that the Palestinian Authority has to take the burden of the more expensive patients. Nevertheless, UNRWA's growing financing problems mean that it has less to spend per capita, questioning its ability to maintain the present degree of coverage and quality of services. Also, the rapid increase in Palestinian Authority budgets and its skewed distribution toward secondary and tertiary care underlines the need for a focus on primary health. It also indicates the dilemma of financing health care in a transition phase where changing disease patterns often require expensive hospital care not available at home, but widely available in neighbouring Israel. Public demand, and pressure, for such treatments grows faster than resources available to develop them locally.

Part III Donor Engagement During the Transitional Period

As noted at the outset of this report, by mid-1997 total donor pledges for the West Bank and Gaza Strip since 1 October 1993 amounted to US\$ 3.4 billion. Of this total, US\$ 2.8 billion had been earmarked for specific activities and of this, US\$ 1.524 billion had been disbursed. For the purposes of this report, there are two principal concerns related to donor funding: What has been the pattern of allocation since 1993 and what might this imply for future use of aid? How much funding remains and what are the implications of this for the remainder of the transitional period and beyond?

A distinguishing feature of assistance to the Palestinians has been that in October 1993 donors indicated that their support would continue for the five-year transitional period. (Donors that did not make a specific financial pledges for the entire five year period, nevertheless committed themselves politically to providing support throughout the period.) To a certain extent, this has made the development effort in the West Bank and Gaza Strip simpler: an overall minimum level of resources was guaranteed, allowing efforts to focus on allocation and disbursement. Donor disbursements in 1994, 1995 and 1996 (not including UNRWA's regular budget) were quite steady: between US\$ 450 million and US\$ 525 million per year, according to the AHLC Secretariat.

The World Bank and the Palestine Economic Policy Research Institute (MAS) (September 1997) have compared donor disbursement between January 1994 and March 1997 to targets established in the months following the October 1993 Conference by the World Bank in its Emergency Assistance Programme for the Occupied Territories (EAP). For each of these three years donors disbursed between 15 and 25 per cent *more* than the Bank had projected was possible. Given that in 1993 the World Bank had not anticipated the numerous obstacles to disbursement which would arise during this period, this level of disbursement is impressive.

The composition of aid was far different than EAP had recommended: actual disbursement for public investment was about half of the EAP target, while disbursements for technical assistance and short-term support (mainly recurrent cost support and emergency job creation) were each about three times greater

than EAP targets. This pattern of allocation of resources reflects what came to be understood as politically necessary to support the continuation of the peace process. It also reflects what was possible given the constraints and obstacles associated with the political volatility in the Israeli-Palestinian relationship, security and political crises caused by terrorist attacks against Israelis and the imposition by Israel of restrictions on the movement of persons and goods through its various closure related measures. To the extent that EAP targets gave a reasonable indication of the level of public investment that needed to be made as a first step in developing the West Bank and Gaza Strip, the approximately US\$ 900 million difference between EAP's 1993 target and March 1997's actual disbursement provides a strong indicator of the opportunity cost of using funds to meet "political" needs linked to the peace process.

The World Bank-MAS estimate total losses during the period 1994-1996 attributed to closure and related permit policies at nearly US\$ 2.5 billion, or roughly US\$ 1 billion more than donor disbursements in all categories. On an annual basis, total losses from closure and related permit policies by 1996 were US\$ 500 million and total donor disbursements were US\$ 528 million. The overall impact of donor disbursements in such a situation will, of course, be minimal.

When the magnifying effect of population growth (described earlier in this report) is taken into account, the impact of donor disbursements on the living conditions of an average person (the per capita effect), is, in fact, diminishing. Donor aid will only have a net positive impact when it supplements economic growth in the West Bank and Gaza Strip, or when it is used to help overcome a short-term fiscal crisis. Following the 1 October 1993 Conference, mechanisms were developed which enabled donor funds to be used rather successfully in an acute care-type function. However with closure causing continuing economic decline, magnified by population growth into an even larger drop in per capita income, donor funds at their present level of disbursement will soon be insufficient to address short term emergencies. This, in turn, will bring into question the political effectiveness of the way in which donor aid has been allocated to meet pressing needs generated by political crisis in the Israeli-Palestinian negotiations.

Nevertheless, in looking ahead, it is difficult to imagine that this basic dynamic will change very much in advance of substantial political progress in the implementation of the Interim Agreement and the opening of substantive negotiations on final status arrangements. On the one hand, the threat of terrorism by Palestinians opposed to the PLO/PA's continuing pursuit of those goals established in the Declaration of Principles remains and cannot be expected to significantly diminish in the short term. And on the other hand, Israel's decision following terrorist attacks in 1997 to block the transfer of revenue clearances to the Palestinian Authority was a visible shift towards placing closure within

a continuum of economic sanctions no longer justified solely on grounds of security but equally on perceived political necessity.

Thus, the need for donor funds to be used in flexible ways in pursuit of short-term objectives will continue unabated, even if the impact of related disbursements can be expected to diminish. This will present a formidable challenge to donors and the Palestinian Authority. Given the rapid increase in demand for essential public services described earlier in this report, the need to focus the use of donors funds on public investment rather than short term measures will only grow in the coming year. Continuing decline in per capita income and instability in PA public finances will mean that the PA will continue to face a major challenge in meeting recurrent costs without donor support. In addition, the PA will, at the most, be able to cover only a small portion of public investment costs from public (as opposed to donor) resources.

The question that will have to be addressed fairly soon is: How will donors respond once the five-year funds pledged in October 1993 are fully committed? According to figures provided by donors to the PA Ministry of Planning and International Co-operation (June 1997), there should be about US\$ 900 million that remains uncommitted, and is therefore available to finance activities during 1998. (Approximately US\$ 400 million of this amount is in the form of loans and guarantees mainly linked to private sector investment.) Donors that have tended to pledge on an annual basis can be expected to do so again in 1998, which should mean that roughly the same level of funding that was made available over the previous four years should be possible for 1998. In late October 1997, the Palestinian Authority announced that it was completing a new, three-year development plan whose US\$ 2.5 billion price tag would be presented to donors in early 1998. While a large portion the plan could be covered with remaining pledges, the overall cost is clearly in excess of available funding.

What will then happen in 1999? According to the Declaration of Principles' timeline, final status negotiations should have begun in May 1996 and be concluded by May 1999. Those negotiations have not yet begun. Assuming that a Consultative Group meeting is held by end-1998 and most of the remaining funds are earmarked for activities in the coming year, by mid-1999, decisions will have to be taken concerning the future of donor assistance. Such decisions are likely to have to be made in the absence of clear indications of when the final negotiations may be concluded. Assuming that the consensus on the need to support the continuation of the negotiations will remain, how should the donors frame the continuation of their assistance throughout the remainder of a prolonged transitional period?

Even assuming that progress in those negotiations is well underway, and even that a final status agreement may be reached by mid-1999, donor support in the wake an agreement will be required no less than during the transitional

phase. An implicit, if not widely acknowledged, assumption of a number (if not most) donors in October 1993 was that the large injection of funds during the transitional period would be used to establish the necessary basis for long-term, sustainable growth in the Palestinian economy. The related expectation was that the total level of funding for the Palestinians would then decline after the transitional period. Given the way in which those funds have been allocated since 1993, combined with general economic decline, lack of private investment in the Palestinian economy, etc., the major goals established for the transitional period will not have been met by the time present funding is spent.

In addition, if the difficulties experienced in undertaking socio-economic development work in the face of political disruptions in the implementation of the Declaration of Principles provide clues to the future, then it can be expected that a final status agreement will be implemented gradually, in phases, according to some set of benchmarks, and that the implementation process will be fraught with political difficulties. Such difficulties can equally be expected to affect the development programme, rendering less likely that large scale infrastructure works can be undertaken without frequent disruption or that large-scale private investment will take place.

Under such political circumstances, it is not difficult to imagine that “transitional” support will be required throughout the implementation of the final status agreement. And only then will it be able to shift to a more normal programme of social and economic development assistance. While it is not possible to predict when that will be, a five or even ten year horizon is not unthinkable.

Conclusions

It has been a basic premise of donor engagement since Oslo that peace will ultimately be built not only on the political agreements between the parties, but on the long-term social and economic well-being of the Palestinian people. While it might be possible to describe the political process as being stalled, in the social and economic arena the starting point is in fact receding. The initial objectives set out at the 1 October 1993 Conference to Support Middle East Peace remain relevant but the horizon of their achievement is moving farther into the distance.

Repeated shocks to the Palestinian economy, primarily related to Israeli imposed closure measures and movement restrictions, are beginning to result in a fundamental shift away from a wage-based economy towards a rapid increase in marginal, low-productivity, and low income-generating informal-sector activity. Such a trend, if it continues, moves the Palestinian economy in precisely the wrong direction, squandering advantages the West Bank and Gaza Strip previously enjoyed relative to other developing economies and the prospects for growth and develop-

ment contained in the April 1994 Israeli-Palestinian Protocol on Economic Relations and the September 1995 Interim Agreement.

The rapid rate of population growth in the West Bank and Gaza Strip magnifies negative trends and reduces the impact of positive ones. By 2010, natural growth alone will lead to an increase of 1.8 million persons in the Palestinian population of the West Bank and Gaza Strip. In the Gaza Strip, where socio-economic conditions are relatively worse, the population will be twice the size in 2010 that it was in 1995. In the West Bank, with a somewhat lower rate of growth, population size will increase by nearly 60 per cent during the same period.

If not addressed soon, this combination of steadily declining per capita living standards and rapid population growth will threaten to set Palestinian social and economic development back substantially. The growth in domestic revenues of the Palestinian Authority will not keep pace with the rate of growth in the demand on public services. As a result, the quality and coverage of education and health care, among other aspects of public sector services, will decline. Of equal importance, the private sector will be unable to create the estimated 450,000 jobs needed over the next 15 years, and that only in order to maintain the present (unacceptably high) level of unemployment.

Since 1993, international donor assistance to the Palestinian Authority and Palestinian people in the West Bank and Gaza Strip has served to cushion the impact of declining living conditions and achieve gains in certain areas of public investment needs. The targeting of aid to support rapid disbursements on small-scale infrastructure projects and short term employment creation/income support initiatives as well as to support the continuing financial viability of the Palestinian Authority itself through the provision of budgetary support resulted to a large degree from the effective functioning of co-ordination mechanisms developed between October 1993 and November 1994. These mechanisms contributed to a growing convergence of views among the Palestinian Authority, donors, the International Monetary Fund, the United Nations and the World Bank concerning priorities in the use of aid. The participation of the Government of Israel at all levels of the co-ordination mechanisms has been an important factor in their effectiveness.

However, even if maintained at their present relatively high levels, the impact of donor aid will decline in the future years. One reason for this is that the direct losses to the Palestinian economy from closure related measures have become approximately equal to annual disbursements by donors. Another reason relates to population growth: as the population increases, the per capita impact of constant levels of donor disbursement diminishes correspondingly. Given the relatively high proportion of donor disbursements targeted over the past several years to address living conditions, this development has direct implications for future donor strategies.

With the funding period pledged by donors in October 1993 coming to a close by mid-1999, a process should be initiated in the near future by existing co-ordination bodies to build consensus concerning the future of donor aid. An examination will need to be made of public investment needs that remain unmet and are required to lay the foundation for sustainable economic growth and social advancement in the future. Many of these investment needs were identified already by both the Palestine Liberation Organisation and the World Bank in 1993 but have not been met owing to recurring political and security crises in Israeli-Palestinian bilateral relations.

Of equal importance, the projections offered in this report support the conclusion that a minimum objective and top priority for the use of donor aid throughout the remainder of the Israeli-Palestinian negotiations, and probably throughout the period of implementation of a final status agreement, should be to maintain and, wherever possible improve, basic social indicators, including standards of living and the coverage and quality of public sector services. The information provided here has given some indication of the enormity of that task alone between now and 2010.

In the area of population growth, while policies aimed at reducing the rate of increase should become a matter of higher priority, it should nevertheless be borne in mind that in the short run they will have no measurable impact. Development plans and public expenditures need to be adapted to high growth levels. In the education sector, this will mean focussing attention on training and recruiting teachers and equally importantly on a large-scale continuous programme of school construction, encompassing both the Palestinian Authority and UNRWA sectors. Simply protecting the current proportion of students enrolled in post-secondary education will become a growing challenge owing to the costs involved in financing vocational-technical and university education.

In health, investment in primary health care facilities should be given priority in order to ensure that there will be no slippage in gains made to date. Greater efforts should be made to reduce the infant mortality rate as there has been no significant progress in that direction over the past decade. Rapidly rising demand will place great pressure on basic health services at a time when the focus of public demand is likely to concentrate on improvements in tertiary care. A continuing decline in per capita income could well threaten families' ability to make payments towards insurance policies, which in turn would have a large impact on the financial viability of the health care system. Efforts should continue to be made to expand participation in insurance, particularly in the West Bank where enrolment remains relatively low.

Flexibility in the use of donor funds will remain a vitally important aspect of donor engagement. In turn, this will require that donors maintain mechanisms

for consultation and decision-making both locally and between capitals. At the risk of appearing to accept the *status quo* regarding movement restrictions and their consequences, consideration will need to be given to determining those needs that can possibly be met prior to the completion of final status arrangements and those that require further political advances, possible even the successful conclusion of negotiations. The sequencing of aid relative to political developments in the negotiations will be just as important in the coming years as it has been over the past four.

This report does not assume that present day restrictions and obstacles on the Palestinian economy whose solution is essentially political will continue into the future. Rather, the report has focussed on identifying the magnitude of growth in such key areas as demand for education, health care and jobs. To the extent that exogenous present day restrictions and obstacles are removed, the Palestinian Authority will increasingly be able to meet these needs mainly through its own revenues, freeing donor funds to finance public investment. This, of course, has been the objective since 1993, but conditions thus far have dictated otherwise.

It cannot reasonably be expected that the significant levels of private investment anticipated in 1993 will be available to the Palestinian economy in advance of a clear and proven commitment by the Government of Israel not to disrupt the Palestinian economy. In light of the continued volatility in Israeli-Palestinian relations that can be anticipated throughout the remaining negotiations, and possibly throughout the final status implementation phase as well, it would be an accomplishment to restore private investment to the level recorded prior to the Declaration of Principles. The lack of private investment not only re-enforces the Palestinian Authority's need for donor assistance, but is an additional sign that sustainable economic growth and development is unlikely to precede political stability.

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Appendix 1 Macro-economic projection

Assume a linear relationship between output (Y) and the capital stock (K)

$$(1) \quad Y = a * K,$$

where a denotes capital productivity (average and marginal).

The increase in the capital stock between two periods (dK) is determined by gross investments (I) and by capital depreciation

$$(2) \quad dK = I - \delta * K,$$

where the capital depreciation rate (δ) is assumed to be about 4 percent per year.

Assuming a moderate estimate of capital-output ratio at about 3,

$$(3) \quad a = 3,$$

and gross investment at 20 percent of output (GDP) per year,

$$(4) \quad I = i * Y, \quad i = 0.2$$

the yearly output growth dY/Y is derived by using equations (1) to (4) as

$$(5) \quad dY/Y = dK/K = (I - \delta * K)/K = (0.2 * Y - 0.04 * 3Y)/3Y = 0.08/3 = 0.027 \text{ or } 2.7 \text{ percent.}$$

Output per capita is denoted as y .

$$(6) \quad y = Y/L,$$

where L is the population size. Assuming that the population grows by 5 percent per year, growth in GDP per capita will hence be

$$(7) \quad dy/y = dY/Y - dL/L = 0.027 - 0.05 = -0.023 \text{ or } -2.3 \text{ percent.}$$

To obtain the investment level that is required to obtain constant income (or constant output per person), the model is solved for the investment rate i , under the condition that $dy/y = 0$:

$$i = I/Y = (dK + \delta * K)/Y = (dK/K + \delta)/(Y/K) = (dY/Y + \delta)/(1/3) = 3 * (0.05 + 0.04) = 0.27.$$

Hence, in order to keep a constant GDP per capita, 27 percent of income must be spent on investment each year.

Appendix 2 Tables

Table 1 Household who receive support from institutions and/or private persons. Percent of all households in the district.

	Year	Households with employed member		Households with all economically active members being unemployed		Households with no members in the economically active population	
		Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank
Support from UNRWA	1992	2	11	13	12	22	18
	1993	2	9	9	11	21	17
	1994		8		10		16
	1995		5		9		13
Support from other institution	1992	1	2	3	4	19	14
	1993	1	2	1	3	15	13
	1994		2		4		13
	1995		2		3		12
Support from private persons	1992	5	7	44	47	84	75
	1993	5	8	44	32	77	71
	1994		9		34		71
	1995		8		38		74
No support	1992	93	82	49	44	11	20
	1993	95	83	53	62	9	24
	1994		83		60		24
	1995		87		57		22

Source: Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem.

Table 2 Household Economic Activity. Percent of all households in district.

Year	Households with employed member		Households with more than one employed member		Households with wage income		Households with no members in the economically active population		Total number of households*)	
	Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank
1981	87	83	26	28	64	60	11	15	58000	83000
1982	87	82	26	29	65	59	10	15	58000	86000
1983	85	82	23	28	63	59	12	15	64000	94000
1984	85	83	22	27	63	60	12	13	66000	98000
1985	84	82	22	27	63	59	12	14	69000	99000
1986	85	86	23	32	64	61	11	11	68000	100000
1987	85	88	24	32	64	65	10	10	72000	107000
1988	75	81	19	27	60	61	11	10	73000	109000
1989	75	83	19	27	58	62	12	10	80000	117000
1990	82	87	19	27	59	62	11	10	84000	125000
1991	82	79	18	21	57	54	10	11	90000	133000
1992 ¹	78	84	15	28	53	62	15	12	105000	149000
1993	73	79	13	26	46	55	20	14	117000	157000
1994		78		27		54		14		164000
1995/1 ²		82		28		56		12		167000
1995/2 ³	63	78	18	26	47	55	18	14	109000	266000
1996	64	75	18	27	46	50	14	14	"	"
1997, feb-mar	72	75	18	27	54	52	15	15	"	"
1997, apr-jun	69	77	19	30	51	52	15	15	"	"

¹)Absolute number of households in uncertain, ¹)Women are included from 1992, ²)Based on first 3 quarters, ³) September to October 1995., Source: 1981 to 1995/1:Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem. 1995/2 to 1997: Labour Force Survey, Palestinian Central Bureau of Statistics. The population is all households in the Gaza Strip and West bank and, including Jerusalem.

Table 3 Dependency on work in Israel, Jerusalem or Israeli Settlements. Percent of all households in the district.

	Households with members working in Jerusalem.		Households with members working in Israel (not Jerusalem)		Households with members working in Israeli settlements		Total, households with members working in Israel, Jerus. or settlement	
	Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank
1981	0	13	47	24	0	0	47	37
1982	0	14	48	24	0	0	48	36
1983	0	13	49	25	0	0	49	38
1984	0	14	48	25	0	2	48	39
1985	0	12	48	24	0	1	48	37
1986	0	12	48	25	0	1	48	38
1987	0	13	49	30	0	1	49	44
1988	0	13	47	30	0	2	47	44
1989	0	13	42	31	0	2	42	44
1990	0	11	43	30	0	2	43	43
1991	0	10	41	31	0	2	41	42
1992 ¹	0	11	36	30	0	2	36	42
1993	0	9	27	25	0	3	27	46
1994		8		22		3		32
1995/1 ²		5		19		4		28
1995/2 ³	-	-	12 ⁴	25 ⁴	1	3	13 ⁵	28 ⁵
1996	-	-	14 ⁴	23 ⁴	1	4	15 ⁵	26 ⁵
Feb-mar	-	-	16 ⁴	24 ⁴	0	4	16 ⁵	28 ⁵
1997 apr-jun	-	-	16 ⁴	24 ⁴	1	5	17 ⁵	28 ⁵
1997								

¹)Women are included from 1992, ²)Based on first 3 quarters,

³) September to October 1995., ⁴) From 1995/2 « Israel» includes West Jerusalem,

⁵) From 1995/2 « Jerusalem « is not including East Jerusalem

Source: 1981 to 1995/1:Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem. 1995/2 to 1997: Labour Force Survey, Palestinian Central Bureau of Statistics. The population is all households in the Gaza Strip and West bank and, including Jerusalem.

Table 4A Development of the male labour force

	Labour force members		Not members of the labour force		Labour force participation rate	
	Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank
1981	77969	111247	40219	80788	66.0	57.9
1982	78021	116535	40252	77582	66.0	60.0
1983	81070	126379	44929	77219	64.3	62.1
1984	83435	134967	43914	77023	65.5	63.7
1985	87821	137560	46498	77568	65.4	63.9
1986	91228	148804	47719	74109	65.7	66.8
1987	97428	159878	39596	61452	71.1	72.2
1988	97574	163613	43949	59565	68.9	73.3
1989	98080	168849	48655	60698	66.8	73.6
1990	105008	175308	48086	66036	68.6	72.6
1991	108889	177250	50194	71440	68.4	71.3
1992	115655	187661	48955	67919	70.3	73.4
1993	116932	193201	55765	72826	67.7	72.6
1994		209556		77077		73.1
1995		217919		70992	62.8	75.4
4-5 1996					67.6	71.3
7-10 1996					65.8	71.4

Table 4B Development of the female labour force.

	Labour force members		Not members of the labour force		Labour force participation rate	
	Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank
1992	2905	27121	168708	238898	1.7	10.2
1993	3282	25111	175354	251677	1.8	9.1
1994		27596		258293		9.7
1995		25998		265100	7.6	(12.8) 8.9
4-5 1996					9.3	13.3
7-10 1996					6.4	13.5

Source: 1981 to 1993 for both districts as well as 1994 and 1995 for West Bank only: Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem. 1994 and 1995 for Gaza as well as 1996 and 1997 for both districts: Labour force surveys, Palestinian Central Bureau of Statistics. The population is all households in the Gaza Strip and West bank and, including Jerusalem.

Table 5A Male employment in percent of labour force members.

	Employed		Unemployed		Temporarily Absent	
	Gaza Strip	West Bank	Gaza Strip	West Bank	Gaza Strip	West Bank
1981	97	96	3	2	0	1
1982	97	95	3	3	0	1
1983	96	95	4	3	0	2
1984	95	93	4	3	1	4
1985	94	92	5	3	1	5
1986	95	95	4	2	1	3
1987	93	95	6	2	1	2
1988	81	87	16	11	2	3
1989	84	90	14	6	2	4
1990	88	94	8	2	4	4
1991	89	84	8	4	4	11
1992	90	93	7	2	3	5
1993	89	88	7	3	5	9
1994	-	87	-	4	-	9
Sep-Oct 1995	72	86	28	15	7	9
Apr-May 1996	61	75	39	26	2	4
July-Oct 1996	69	82	31	18	1	6
Oct 1996-Jan 1997	74	84	27	16	1	2
Feb-Mar 1997	77	82	23	18	1	5
Apr-June 1997	74	84	26	16	0	0

Source: 1981 to 1995/1: Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem. 1995/2 to 1997: Labour Force Survey, Palestinian Central Bureau of Statistics. The population is all households in the Gaza Strip and West Bank and, including Jerusalem.

Note to tables 6.A to 6.C In addition, 2 - 3 percent of the employed are employers not included in the table. They are employed with approximately 15 percent in agriculture, 40 percent in industry, 20 percent in construction, 10 percent in commerce, and 15 percent in other services.

Table 6.A. Gaza Strip and West Bank male employed working in Israel or Jerusalem by sector. In percent of all employed men in district. Total number of men working in Israel or Jerusalem.

Gaza Strip men	Agriculture	Manufacture	Construction	Other	All	N
1981	7.3	9.1	24.2	8.4	49.0	34869
1982	7.9	8.9	24.6	8.2	49.6	35485
1983	8.2	10.4	24.0	10.5	53.1	38646
1984	9.4	9.6	22.4	9.7	51.1	38600
1985	10.1	10.0	21.0	9.9	51.1	40191
1986	10.6	8.9	21.9	9.1	50.4	41981
1987	10.1	9.5	20.3	10.3	50.2	43604
1988	10.7	6.7	21.7	8.1	47.1	36739
1989	6.7	4.8	21.4	6.9	39.8	31759
1990	6.3	4.1	26.1	5.9	42.4	38375
1991	6.3	2.4	27.4	2.7	38.7	36814
1992	5.5	1.7	29.0	2.5	38.6	38995
1993	3.7	0.9	18.7	1.4	24.7	24879
Sep-Oct 1995/2	0.8	0.4	2.0	0.3	3.6	-
Apr-May 1996	1.2	0.5	2.0	0.3	4.0	-
July-Oct 1996	1.4	1.2	6.5	0.8	9.9	-
Oct 1996-Jan 1997	2.0	1.5	8.2	1.0	12.8	-
Feb-Mar 1997	1.5	1.3	10.4	1.5	14.7	-
Apr-June 1997	1.2	1.8	8.2	1.1	12.3	-

Table 6.A continued.

West Bank men	Agriculture	Manufacture	Construction	Other	All	N
1981	3.1	6.7	20.0	7.3	37.1	38084
1982	3.3	7.0	21.3	6.6	38.3	40781
1983	3.0	7.4	21.6	7.7	39.7	45964
1984	3.6	7.3	21.0	8.1	40.0	48504
1985	3.7	6.3	19.9	7.5	37.4	45910
1986	3.8	6.7	19.1	7.5	37.1	50405
1987	4.2	7.7	20.4	9.8	42.1	62005
1988	4.4	7.2	22.1	9.3	43.0	59315
1989	4.4	6.1	23.4	9.3	43.2	63610
1990	3.6	4.6	23.6	8.4	40.1	64582
1991	3.3	3.3	24.8	5.5	37.0	54007
1992	2.6	3.2	32.1	5.5	43.4	73234
1993	2.7	2.7	22.1	4.4	31.9	52227
1994	2.8	2.5	16.3	4.4	26.0	45464
1995/1	1.9	2.3	15.5	3.5	23.2	43191
Sep-Oct 1995/2 ¹	1.9	3.2	11.9	5.7	22.6	-
Apr-May 1996 ¹	1.4	2.6	5.7	3.4	13.1	-
July-Oct 1996 ¹	1.9	2.9	11.4	4.7	20.9	-
Oct 1996-Jan 1997 ¹	2.0	3.1	12.4	4.6	22.1	-
Feb-Mar 1997 ¹	2.2	3.2	12.6	5.4	23.3	-
Apr-June 1997 ¹	2.5	3.5	11.4	4.4	21.8	-

Men employed in West Jerusalem not included.

Source: 1981 to 1995/1: Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem. 1995/2 to 1997: Labour Force Survey, Palestinian Central Bureau of Statistics. The population is all households in the Gaza Strip and West bank and, including Jerusalem.

Table 6.B Gaza Strip and West Bank male employees working in their residential district, by sector. In percent of all employed men in the district.

Gaza Strip men	Agri- culture	Manu- facturing	Constr- uction	Public/ commun.		All	N
				services	Other		
1981	2.5	3.8	3.3	8.6	3.4	21.6	15383
1982	2.9	3.7	3.6	9.3	3.6	23.1	16507
1983	2.6	3.5	2.6	8.2	2.9	19.7	14356
1984	2.2	4.0	2.4	8.3	2.8	19.7	14838
1985	2.3	4.1	2.4	8.3	3.4	20.5	16176
1986	1.9	4.7	3.0	8.5	3.0	21.0	17488
1987	1.4	4.9	2.3	8.2	3.2	20.0	17339
1988	1.9	3.9	2.0	8.8	2.4	18.9	14753
1989	3.7	3.8	5.0	8.3	2.6	23.4	18676
1990	3.9	3.0	4.0	7.7	2.7	21.2	19201
1991	4.2	4.4	3.6	8.6	3.2	24.0	22796
1992	2.6	4.7	5.0	7.6	2.2	22.1	22314
1993	3.2	4.9	8.7	10.3	2.8	29.8	30062
	Agri- culture	Manu- facturing	Constr- uction	Commerce, Hotel, Commun.		All	N
Sep-Oct 1995/2	3.0	11.2	12.1	7.9	31.0	65.2	-
Apr-May 1996	2.7	8.4	5.2	6.1	38.4	60.8	-
July-Oct 1996	1.0	7.3	6.2	6.7	35.6	56.8	-
Oct 1996-Jan 1997	1.7	8.5	5.4	5.4	35.0	56.1	-
Feb-Mar 1997	2.0	8.0	6.9	4.9	32.4	54.3	-
Apr-June 1997	2.0	8.4	6.2	5.2	32.8	54.6	-

Table 6.B continued:

West Bank men	Agri- culture	Manu- facturing	Constr- uction	Public/ commun. services	Other	All	N
1981	1.5	7.2	7.3	9.2	5.3	30.5	31296
1982	1.4	7.3	6.8	8.3	5.4	29.2	31096
1983	1.2	6.6	6.5	7.9	5.1	27.3	31629
1984	1.1	6.9	6.5	8.0	5.2	27.6	33505
1985	1.3	7.2	7.1	7.5	5.6	28.6	35116
1986	1.1	7.1	7.6	7.2	5.5	28.5	38788
1987	1.1	6.9	6.6	6.8	4.8	26.1	38512
1988	1.1	6.4	5.0	4.9	4.2	21.7	29863
1989	0.7	7.2	5.2	5.1	4.3	22.6	33221
1990	0.6	7.1	5.4	6.5	4.5	24.0	38596
1991	0.8	7.2	5.4	7.1	4.4	24.9	36360
1992	0.9	7.2	5.0	6.7	4.2	23.9	40297
1993	0.9	7.9	8.8	7.4	5.0	29.9	49075
1994	0.9	8.7	11.3	7.2	5.0	33.2	57946
1995/1	0.7	8.1	14.5	7.5	5.3	36.1	67132
	Agri- culture	Manu- facturing	Constr- uction	Commerce, Hotel, Commun.	Other	All	N
Sep-Oct 1995/2	1.1	10.4	8.6	8.1	14.4	42.5	-
Apr-May 1996	1.4	9.7	5.5	8.4	18.9	43.8	-
July-Oct 1996	0.6	9.0	7.1	7.0	16.3	40.0	-
Oct 1996-Jan 1997	0.7	8.3	6.8	6.3	17.1	39.2	-
Feb-Mar 1997	0.6	8.3	6.0	7.2	17.6	39.8	-
Apr-June 1997	0.8	8.1	5.8	7.4	16.2	38.4	-

Source: 1981 to 1995/1: Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem. 1995/2 to 1997: Labour Force Survey, Palestinian Central Bureau of Statistics. The population is all households in the Gaza Strip and West Bank and, including Jerusalem.

Table 6.C Gaza Strip and West Bank male self employed and unpaid family members working in their residential district, by sector. In percent of all employed men in the district.

Gaza Strip men	Agri- culture	Manu- facturing	Com- merce	Transport	Other	All	N
1981	7.4	3.1	11.2	4.5	3.1	29.4	20923
1982	6.3	2.9	11.1	3.7	3.3	27.4	19583
1983	6.5	3.0	10.3	3.8	3.7	27.2	19810
1984	6.0	3.5	11.0	4.6	4.1	29.2	22054
1985	6.8	3.5	10.6	3.3	4.1	28.4	22351
1986	6.6	3.8	10.9	3.5	3.8	28.6	23783
1987	6.9	3.8	11.0	3.7	4.6	29.9	25937
1988	9.1	4.2	11.6	3.9	5.0	33.9	26430
1989	7.6	4.0	16.1	3.7	5.4	36.7	29292
1990	8.5	3.3	15.5	4.0	5.2	36.4	32976
1991	9.5	3.2	14.0	4.6	5.9	37.3	35429
1992	10.3	3.6	14.7	5.1	5.5	39.3	39621
1993	12.3	4.9	16.2	5.7	6.3	45.5	45939
Sep-Oct 1995	6.3	3.7	13.2	3.6	5.6	32.4	-
Apr-May 1996	5.9	4.2	12.5	3.2	4.2	30.0	-
July-Oct 1996	4.9	3.3	11.9	3.0	4.5	27.6	-
Oct 1996-Jan 1997	5.6	2.3	12.1	2.1	4.4	26.5	-
Feb-Mar 1997	4.8	3.8	11.8	2.6	3.8	26.8	-
Apr-June 1997	4.5	3.6	12.6	3.5	4.1	28.2	-

Table 6.C continued:

West Bank men	Agri- culture	Manu- facturing	Com- merce	Transport	Other	All	N
1981	12.4	3.3	10.1	3.0	3.6	32.4	33267
1982	12.5	3.5	10.1	2.9	3.6	32.6	34724
1983	11.9	3.9	10.3	3.5	3.3	32.9	38127
1984	11.4	3.7	10.1	3.8	3.3	32.4	39265
1985	12.7	3.6	10.2	3.6	3.8	33.9	41587
1986	13.4	3.4	10.3	3.5	3.8	34.4	46808
1987	11.4	2.9	9.5	4.1	3.8	31.8	46833
1988	14.4	3.2	9.3	4.4	4.0	35.3	48672
1989	12.5	3.6	10.0	4.1	4.0	34.2	50350
1990	13.6	3.6	10.1	4.7	3.9	35.9	57730
1991	13.6	4.6	10.5	5.3	4.1	38.1	55641
1992	11.6	3.8	9.5	4.4	3.5	32.7	55134
1993	13.1	3.8	11.5	4.9	4.8	38.2	62557
1994	14.1	4.5	11.7	5.2	5.3	40.8	71212
1995/1	13.6	4.8	11.4	5.1	5.5	40.3	75013
Sep-Oct 1995/2	7.3	3.9	10.6	3.6	4.8	30.2	-
Apr-May 1996	12.9	3.9	10.0	3.7	5.1	35.6	-
July-Oct 1996	8.1	3.8	10.0	4.0	5.6	31.4	-
Oct 1996-Jan 1997	7.2	3.1	9.2	3.5	3.8	26.8	-
Feb-Mar 1997	7.3	4.4	10.8	3.1	4.1	29.8	-
Apr-June 1997	9.6	4.8	10.9	3.8	3.7	32.8	-

Source: 1981 to 1995/1: Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem. 1995/2 to 1997: Labour Force Survey, Palestinian Central Bureau of Statistics. The population is all households in the Gaza Strip and West bank and, including Jerusalem.

Table 7 Development of average household real wage income per year (NIS, in 1987 prices)

	All Households		Households with wage income	
	Gaza Strip	West Bank	Gaza Strip	West Bank
1987	5994	5874	9400	9048
1988	4474	4853	7454	8022
1989	3544	4483	6123	7290
1990	3616	4161	6168	6772
1991	3232	3270	5694	6102
1992	3042	4342	5786	7004
1993	2350	3757	5127	6894
1994	.	3492		6436

Source: Labour force surveys in Judea Samaria and Gaza Strip, Israel Central Bureau of Statistics. The population is all non-Israeli households living in the Gaza Strip and in the West Bank except Jerusalem.

Explanation:

Wage income is income from employees (i.e. not including income from self employment).

The columns « All households» include both households with and without wage income, and hence shows the effect of the declining (relative) number of households that have wage earnings (but it does not take into account income from self employment, which is probably increasing).

Developing Palestinian Society

This report describes past trends in the economy of the West Bank and Gaza Strip and also project some of the trends into the near future. The population of the West Bank and Gaza Strip is rapidly growing. With the current slow development of the peace process, the public sector has expanded with support from international donors, but with little base in the private sector.

If the trends continue, the Palestinian economy will develop into a typical third world economy based on a large public sector and low productive informal sector activities.

Throughout the remainder of the negotiations period, the international community should continue to support the public sector in order to ensure stability in basic living conditions, including health care and education.



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