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**The Impact of Closure and Other Mobility Restrictions
on Palestinian Productive Activities**

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Note

The geographic designations used in this report refer to the areas where economic activity of various sorts is conducted by Palestinians. The designations do not imply any judgement on the legal status of current jurisdictional boundaries.

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Preface

This most recent in a series of UNSCO reports on the socio-economic impact of the current crisis on Palestinians reveals some alarming findings. It covers 1 January to 30 June 2002, one of the most violent and unstable periods since Israel occupied the West Bank and Gaza Strip in 1967. In response to waves of bombings by Palestinian groups, Israel imposed tough new measures in the West Bank, including severe mobility restrictions and round-the-clock curfews, deepening an already dire economic situation.

The report is divided into several sections that address various aspects of the Palestinian economy and how closure and curfew affect them. The first section looks at poverty levels and the decline in both consumption and income. The second examines the worsening employment situation, particularly in the West Bank. The third explains how trade, both internal and external, is being stifled. Subsequent shorter sections explore investment, donor funding and the Palestinian Authority budget. Numerous tables, charts and figures lay out micro and macro trends, while boxes provide explanations, testimonials and case studies.

Overall, this report shows that the Palestinian economy was in severe depression, with only international aid stemming a possible total breakdown. The trends covering Q1 and Q2-2002 include:

- Consumption and income levels declined dramatically, leading to sharp increases in poverty levels, now estimated at 60 percent.
- Unemployment rose to around 50 percent, and even higher when factoring in curfew.
- Closure policies created economic losses of more than USD 1.1 billion, more than double annual aid disbursements.
- Internal and external trade was contracted; investment has plummeted to negligible levels and Palestinian businesses collapsing.
- The Palestinian budget remains in critical condition, its primary source of revenue coming from donors. Israel continued to withhold almost all the VAT revenue it collects on behalf of the PA, more than USD 600 million.

At the time the consequences of these negative trends were multifold:

The economy is near collapse, with longer-term problems more evident each day the current situation persists. The economy can no longer be expected automatically to "bounce back", even if closures were lifted and conditions returned to pre-Intifada levels. Total economic breakdown has been prevented only with continued injections of budgetary support from international donors, the release of a small percentage of PA revenues withheld by Israel, and humanitarian aid. Of the three, the first two remained unpredictable.

The humanitarian crisis is deepening, with living conditions plummeting as household coping strategies erode. The hard measurements of misery are stark: malnutrition, anemia, and hundreds of thousands dependant upon food assistance. The psychological consequences will be long term on a population that lacks work, hope and future prospects. Adolescent males and children have been notably affected, as are people that have been isolated by closure and curfew, which includes both urban and rural areas.

From a security perspective, cooperation on socio-economic and reform issues *should* and can still provide a basis, however modest, for cooperation and building trust between the Parties and for creating an environment conducive to progress on the security and political fronts. Israel has a legitimate right to defend itself against terror attacks against civilians. But no one will benefit if it does so in a manner that causes serious deprivation for millions of Palestinians. In a neighbourhood of approximately 10 million people living in a very confined space, the security system for two-thirds cannot possibly be durable if it is at the expense of deepening social and economic security for the other one-third. Despair and lack of vested interest in peace and stability can only play into the hands of those who advocate violence.

From a political perspective, the socio-economic situation is corrosively deteriorating. Donor supported efforts to implement the PA's 100 day institutional reform programme are unlikely to succeed in a climate of deepening poverty and dependency. The credibility of reform and the prospects of a democratic, accountable Palestinian state are likely to recede as closures and curfews remain in place. The complex process of elections can hardly be planned when people cannot move.

At the time of publishing there was unprecedented international consensus on the vision of two states living side-by-side in peace, as expounded by U.S President George Bush, and an end to the occupation that started in 1967. Recent polls showed that the majority of Israelis want a settlement based upon withdrawal from occupied territory, and there are renewed signs that Palestinians would support a cease-fire leading to a two-state solution. In very difficult circumstances, the PA has been undertaking an ambitious reform programme and has already initiated major changes in the financial area. Donors have remained committed both to the welfare of the population and to generous support for the establishment of a viable Palestinian state with strong, independent institutions.

Recommendations

Failure to take steps to reverse a deepening social, economic and humanitarian crisis, particularly at moments when the security situation is relatively calm, can only lead to further distrust, misery and, possibly, violence. Immediate steps that would be taken to help alleviate the crisis include:

- Lifting of closures and curfews, particularly those which cause greatest insecurity and deprivation for the civilian population or which have little or no security benefit for Israel;

- Release by the Government of Israel of withheld PA tax revenues and resumption of monthly transfers of VAT revenue;
- Implementation by the Government of Israel of its commitments to facilitate the work of the aid community and ensure full access to basic services for the civilian population such as water and medical assistance;
- Continuous of Arab and European donors of their generous budgetary support on a predictable basis;
- Continued response by donors to the humanitarian crisis, but within a coherent policy framework:
 - a) clarity about the respective responsibilities of donors, the PA and Government of Israel in meeting the immediate needs of the civilian population and monitoring both the situation and the delivery of assistance;
 - b) agreed plans for the effective and efficient delivery of aid in a manner which does not deepen dependency;
 - c) commitment to ensuring that humanitarian aid is provided in the context of medium- and long-term institutional, capacity building, damage repair and development needs;
 - d) agreement on the basis upon which the international community can redouble its efforts to engage the Government of Israel to take specific, monitorable measures that relieve pressure on the population, facilitate project implementation and ensure full respect for humanitarian norms, workers and beneficiaries.
- The Ministerial-level meeting of the Ad Hoc Liaison Committee scheduled for December 2002 will need to address possible policies and strategies for the continuation of development, institutional reform and humanitarian aid.

* * *

UNSCO would like to thank the Palestinian Central Bureau of Statistics (PCBS), the World Bank, the International Monetary Fund (IMF), Israel's Central Bureau of Statistics (ICBS), and Israel's Ministry of Defence for empirical inputs for this report.

1. INTRODUCTION

The Occupied Palestinian Territory is currently mired in a severe economic depression, mainly due to political and military actions. In Q2-2002, the Israel Defence Forces (IDF) re-occupied West Bank cities and towns following the deterioration of the security situation and a series of suicide bombings by Palestinian groups against Israelis. The combination of military incursions, widespread destruction and mobility restrictions severely diminished production and employment in Q2-2002, leading to major increases in poverty.

Israel's Operation Defensive Shield, which started March 29 and brought unprecedented curfews and closure, caused productive activities in every sector to decline and a subsequent semi-collapse of the Palestinian labour market.¹ Adjusted unemployment was approximately 50 percent for the West Bank and Gaza Strip in Q2-2002. Income levels deteriorated at alarming rates and consumption indicators revealed that a growing number of Palestinians were living in conditions of poverty and hardship.²

The current dire situation reflects the deepening of an economic crisis initiated by Israel's heightened closure policies implemented in October 2000, following the start of the Intifada. Before that, the Palestinian economy was embarking on the road to recovery. Between 1997 and 1999 real Gross Domestic Product (GDP) growth averaged 5 percent (although structural problems existed and per capita income growth was flat.)³

But the October 2000 closure immediately and drastically reduced Palestinian employment levels and economic production.⁴ Israel's near-complete sealing off of the Gaza Strip and restrictive permit policy in the West Bank reduced by approximately 70 percent employment of Palestinians in Israel, Israeli Settlements and Industrial Zones (ISI). Consequently, lower demand for goods and services, as well as the effect of closure on domestic economic activity, caused an almost 20 percent contraction of domestic employment. Following relatively piecemeal recovery, overall employment levels during 2001, in both the domestic economy and Israel, stabilised at less than 80 percent of their previous levels.

¹ UNSCO unemployment estimate. The methodology used by UNSCO to estimate unemployment when curfew prevails throughout much of the West Bank is based not on the number of people arriving the workplace, but on the extent to which curfew and other mobility restrictions results in a decline in income for the working population. This estimate is based on the relaxed definition of unemployment, which counts those who have ceased seeking employment due to discouragement (those, who by ILO standards, are considered outside the labour force, and therefore not among the unemployed).

² See *Preliminary Assessment of the Humanitarian Situation in the OPT*, UN Coordination Meeting, 18 March 2002, available at: <http://www.support-group.org>. See also *Nutrition Survey, 2002*, Palestinian Central Bureau of Statistics (PCBS). Also, Johns Hopkins University, Al Quds University, *Nutritional Assessment and Sentinel Surveillance System for West Bank and Gaza*, August 5, 2002.

³ See IMF, *West Bank and Gaza; Economic Performance, Prospects and Policies*, Washington DC, 2001, p. 5. Growth projection for year 2000 was made prior to the onset of the crisis.

⁴ See UNSCO, *The Impact on the Palestinian Economy of the Confrontation, Border Closures and Mobility Restrictions*, various issues, October 2000—December 2001; and World Bank *Fifteen Months—Intifada, Closures and Palestinian Economic Crisis*, March 2002.

Overall, the Palestinian economy has suffered USD 3.3 billion in income losses since the imposition of the closure policies (see annex on income losses). More than USD 1.1 billion of these losses came in the first half of 2002 -- well above the USD 650 million in reported physical damages from military action during this period.⁵ Donor aid, currently at USD 900 million annually, cannot come close to covering these cumulative losses. And even if aid were to increase substantially, there is no viable alternative to the economic prospects of a population that is employed and engaged in economic production.

2. Poverty

The severe economic depression in the West Bank and Gaza Strip has increased poverty. The degree of poverty, and its impact, can be observed through different methods of analysis, including those that measure consumption, income and loss of freedom. The current situation appears to bear out the expectations of a severe closure scenario modelled by the World Bank in March 2002.⁶ According to the World Bank worst-case scenario, poverty would increase from 44 to 60 percent in 2002. **UNSCO estimates that the 60 percent rate has already been reached, with the levels at approximately 55 percent in the West Bank and 70 percent in the Gaza Strip.**

Poverty, when measured by consumption, can be expected to have increased due to lower incomes, reduced saving and reduced credit availability,⁷ in addition to the lack of necessary consumption items in the market.⁸

A key indicator is food shortages, which were found to be widespread in a June 2002 market availability study by Global Management Consulting Group. The findings concluded that among West Bank wholesalers, 100 percent had shortages in fish, 66.7 percent in chicken and 50 percent in turkey. In Gaza, 100 percent reported shortages in lamb meat, 33 percent in fish and 20 percent chicken. Shortages of powdered milk among wholesalers ran 47 percent in the West Bank and 84.8 percent in Gaza, while 28 percent of wholesalers in the West Bank and 87 percent in Gaza reported shortages of maternal milk.⁹

⁵ See Donor Support Group, Local Aid Coordination Committee, *Physical and Institutional Damage Assessment, West Bank Governorates*, March-May 2002; also World Bank *Fifteen Months—Intifada, Closures and Palestinian Economic Crisis*, Washington, 2002.

⁶ Although the extent of the crisis will only be grasped once a full set of data is gathered by the PCBS and other organizations for an analysis based on national income accounts.

⁷ OXFAM International, *Forgotten Villages: Struggling to Survive Under Closure in the West Bank*, 26 July 2002.

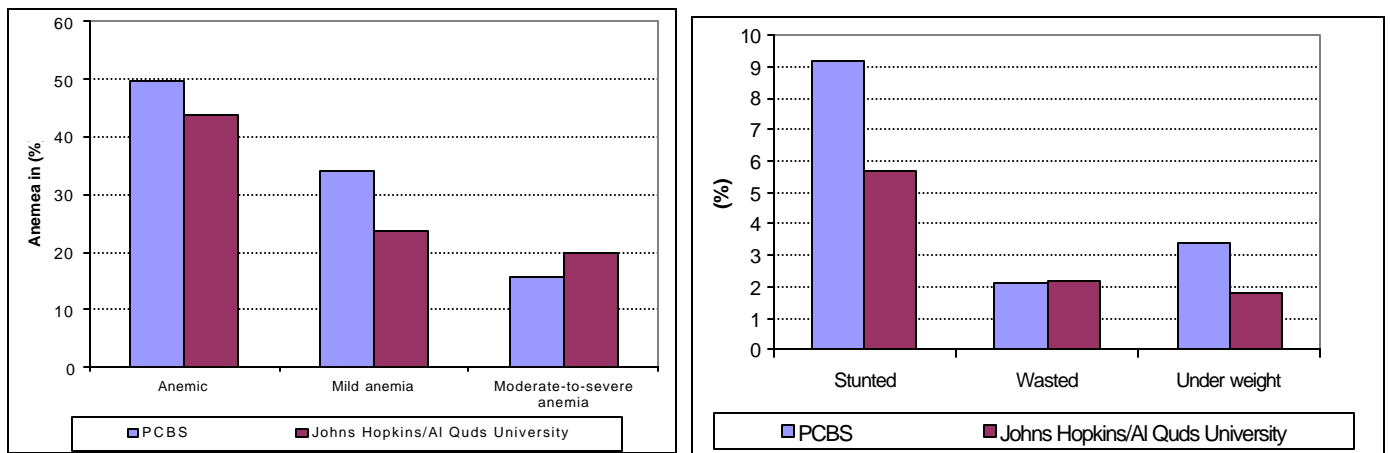
⁸ See Johns Hopkins University, Al Quds University, *Nutritional Assessment and Sentinel Surveillance System for West Bank and Gaza*, August 5, 2002 and IUED, *An Overview of Palestinian Public Assessment of its Needs and Conditions Following the Recent Israeli Military Operations in the West Bank: March-April 2002*. In the latter more than 14% of the respondents said that were able to buy essential items. A large number of respondents (almost 40%) blame the curfew for their inability to buy essential items. About 18% of the respondents said that they could not buy essentials for their households because of lack of supplies in the shops. Another 18% of the interviewees said that they could not buy essential items for their household because they lacked money.

⁹ Op. cit., *Nutritional Assessment and Sentinel Surveillance System*.

Due to the differing methodologies, field research cannot corroborate or refute macro estimates on poverty levels presented above. Nevertheless, preliminary results from survey sampling reveal abnormal rates of malnutrition in the West Bank and Gaza Strip, with acute and chronic malnutrition now observed at much higher rates than in normally nourished populations.¹⁰ This alarming phenomenon appears to reflect the drop in income and consumption.

Nutrition indicators show a much more severe situation for the Gaza Strip than in the West Bank, which is not surprising given that Gaza has endured prolonged and worsening conditions of unemployment and poverty. Approximately 42 percent of Gazans are entirely dependent on food aid and nearly 70 percent have reduced the quality of food that they consume.¹¹ Studies show that 13 percent of children in Gaza exhibit moderate to severe acute malnutrition and 18 percent exhibit chronic malnourishment.

Figure 1: Anaemia in Children and Anthropometric Measurements for Children¹²



Source: USAID/CARE International/Johns Hopkins University/Global Management Consulting Group
AI Quds University/ Rapid National Nutritional Assessment, West Bank and Gaza, August 2002.

¹⁰ Malnutrition is defined as a nutritional disorder or condition resulting from faulty or inadequate nutrition. Malnutrition can lead to anemia, a primary cause for impaired learning and growth development. The Palestinian Central Bureau of Statistics reports that 16 percent of children are moderate to severely anemic. According to the Johns Hopkins/AI Quds University Nutritional Assessment, one-fifth of children are moderate to severely anemic.

¹¹ Op. cit., PCBS *Nutrition Survey*, 2002

¹² The figures refer to children age 6-59 months. Acute malnutrition or wasting reflects inadequate nutrition in the short-term period immediately preceding the survey. The ratio of a child's weight to height (or in the case of an infant, weight for length) is the commonly used and most accurate indicator of wasting. Chronic malnutrition, or stunting, is an indicator of past growth failure, thus implying a state of longer term (weeks to months to years) under-nutrition. Chronic malnutrition may lead to serious growth and development delays. The ratio of a child's height for age is the most useful indicator for chronic malnutrition.

Adverse humanitarian consequences, however, cannot be measured just in terms of the number of people who fell below a threshold consumption level. The loss of income is troubling whether or not it drives consumption below either nutritionally precarious levels or those levels defined by consumption-based poverty measures.

Prior to March 29, 2002, more than 56 percent of households reported having lost more than 50 percent of their income; nearly 20 percent lost their income altogether.¹³ When poverty is defined by income, approximately 67 percent of households were estimated to live in poverty prior to the Israeli incursions that followed March 29, 2002.¹⁴ Accordingly, approximately 85 percent of Gazans and 58 percent of Palestinians in the West Bank lived below the poverty line in Q1-2002.

Beyond measurements of income and consumption, there is a broader definition of poverty that has particular resonance to the current crisis. As outlined by a recent United Nations Human Development Report, this has to do with loss of freedom, which the report says is “about lack of human capability [and] is almost synonymous with powerlessness”.¹⁵ Powerlessness takes a particularly poignant meaning under conditions of closure and curfew. These policies obstruct freedom of movement and jeopardise even the most basic needs, like access to water.

Under closure, Palestinian movement was highly restricted. Travel was not allowed between the West Bank and Gaza and was very limited between either of them and Israel proper. Since October 2000, Gazans could not enter Israel unless they were among the 2,000 to 3,000 persons who possessed a work permit. Travel within Gaza was constrained by military checkpoints that regulated all travel between northern and southern Gaza. Furthermore, checkpoints opened and closed without notice, making travel subject to lengthy delays.

In the West Bank, permit policies seriously constrained entrance to Israel. West Bank Palestinians without Jerusalem identity cards could only travel across the West Bank with great difficulty, and were not allowed to enter Jerusalem. Travel between West Bank villages and urban centres was often disrupted by checkpoints, blockades and destroyed roads.

Finally, it was very difficult for Palestinians to travel abroad: most had no access to air travel, with the closest airport in either Jordan or Egypt.

¹³ PCBS, *Impact of the Israeli Measure on the Economic Conditions of Palestinian Households on the Eve of Israeli Incursion*, 4th Round: January-February 2002.

¹⁴ Ibid.

¹⁵ United Nations, *Arab Human Development Report*, 2002, New York, P. 94.

Box 1: Inter-city Travel

Nablus was the main hub linking the northern governorates Jenin, Tulkarm, and Qalqilya with the central governorates of Ramallah and Jerusalem. Until Q2-2001, one taxi centre in Nablus provided service to and from all northern governorates, as well as Ramallah to the south.

Upon the implementation of heightened closure policies in Q2-2001, it became difficult for travellers from the North to reach Nablus. After January 2002 it was more difficult to depart Nablus for Ramallah. Taxi drivers from the north and villages to the west of Nablus started going directly to Ramallah by using tertiary roads to circumvent Nablus.

The cost of travelling increased substantially with the use these longer, poorly maintained asphalt and dirt roads. Before October 2002, the taxi charge ranged from US \$1 to US \$1.50 to/from any of the northern areas, and US \$2.50 to/from Ramallah. In August 2002, travel from the northern governorates to the outskirts of Ramallah will reputedly costs between US \$10 and US \$12 dollars.

In addition, “flying checkpoints” often appeared at unexpected times or places, forcing travellers to wait between a few minutes and several hours, sometimes making it impossible to reach the final destination on the same day. Required travel times have tripled – and that excludes delays at checkpoints and impassable road sections that must be traversed by foot. This type of delay has been reported in most governorates, as taxis are often unable to arrive at destinations inside urban centres, and therefore must drop off their passengers on the edges.

Source: UNSCO

BOX 2: Closure System Compared

Old system		New system (Post Operation Defensive Shield)
1	Permits required for travel between West Bank and Jerusalem/Israel	No travel between West Bank and Jerusalem/Israel. Exceptions for some international organizations: <ul style="list-style-type: none"> ▪ WB to Jerusalem/Israel: limited number of vital staff members after security clearance ▪ Jerusalem/Israel to WB: total of 20 drivers with Israeli ID will be given permit for travel to WB.
2	No permits required for travel within the West Bank (movement was restricted but possible)	Permits required for travel within the West Bank
3	Free movement for Palestinians within the Gaza strip (although at times restricted at major checkpoints)	Movement for Palestinians across major checkpoints only if accompanied by international staff member (maximum of three in car with one international)

Source: UNSCO

With the onset of Operation Defensive Shield, Israel initiated a West Bank curfew regime that kept, at times, up to 600,000 Palestinians in their houses 24 hours-a-day. These curfews, in addition to the ongoing military action, prevented the normal functioning of nearly every aspect of life. The closures cut off the rural population from health services, which are mainly in the cities and towns, meaning much of the West Bank was without proper access to healthcare.¹⁶

Basic municipal services were severely affected. The military actions -- particularly Israel's use of tanks, armoured personnel carriers and military bulldozers -- caused the destruction of water pumps, electricity generators and sub-stations, telephone lines and sewage system. This destruction deprived households, businesses and public service providers the basic means for communication, sanitation, refrigeration and heating.¹⁷

One of the most visceral impacts was on water. Access to it became increasingly costly and difficult in the West Bank, where cisterns typically run dry in the summer forcing residents to buy water from tanker trucks. Under the closure and curfew regime, tankers could not access many of the rural areas or had to take alternative routes. Water costs tripled in some areas. Some of the population reportedly went into debt to purchase water, while others cut consumption or used unclean supplies.¹⁸

Box 3: Water and Credit

Some water-supply companies have stopped providing water on credit to people who can no longer guarantee repayment. Abu Jamal, a water provider in the Jenin District, sells water to 290 households in five villages. He had to restrict credit to the 20 percent of his clients who had cleared their debts from last year. He was still owed NIS 27,000 from 2001 and had run up NIS 15,000 in credit in the first half of 2002. Those who did not pay their old debt must pay him upfront in cash or go without water. Nearly 80 percent of his household customers cannot afford to buy water.

Source: Oxfam

¹⁶ See ICRC, *The ICRC Urges Respect for Medical Services*, Tel Aviv, 3 April 2002.

¹⁷ Rita Giacaman, *Life and Health During the Israeli Invasion of the West Bank Series*, Birzeit University, 2002.

¹⁸ OXFAM International, *Forgotten Villages: Struggling to Survive Under Closure in the West Bank*. 26 July 2002.

3. Impact of Curfew and Closure on Employment

The ability of people to work, which allows them to earn income and purchase goods and services, is critical to the functioning of any economy. The primary reason the Palestinian economy is in crisis is a sharp decline in employment, primarily caused by closure and curfew. Overall, unemployment rose to around 50 percent for the entire economy, with suspension of a significantly higher number of jobs in the West Bank when curfews were in effect.

In many countries, unemployment is measured through welfare offices and lists of people seeking employment and/or benefits. The West Bank and Gaza Strip do not have a comprehensive welfare system or unemployment lists.¹⁹ So there is no way to directly ascertain the extent to which the population sought, but did not find, employment. The most accurate information available on the rise of unemployment was gathered by the PCBS for its quarterly labour force surveys, which are the backbone of this report's estimates.

Using the PCBS figures, there are three levels of analysis for unemployment. The first, and most narrow, is the International Labour Organization rate. Any person who reports having worked one hour or more per week is considered employed by ILO standards. In a period of crisis, the standard ILO unemployment definition is deficient. The large majority of the working population ends up working fewer hours and many are forced to take pay cuts.

The second level is the "adjusted" unemployment rate, which is also used by the PCBS. This figure includes the discouraged -- those who no longer seek employment and are excluded from the narrow ILO standards. The third is UNSCO's estimate of unemployment when factoring in curfew days in the West Bank.

The ILO unemployment rate increased from 28.9 percent to 33.6 percent in the West Bank and Gaza between Q1- and Q2-2002.²⁰ However, due to the prevalence of curfew in the West Bank and the inability of PCBS field workers to move about freely, this measure most likely underestimated the percentage of persons without employment.

The ILO-standard estimate was obtained from a survey that selected 7,559 households, but to which only 4,508 households were able to respond. That is a 60 percent response rate; average response rates typically exceed 85 percent. So the ILO unemployment rate must be understood to only reflect reality in some of the places, some of the time -- i.e., in economically active areas during relatively favourable time periods.

¹⁹ There is only registered information on special hardship cases. In 2001, 85,000 such cases were registered with the PA Ministry of Social Affairs, according to the World Food Program's *Emergency Assistance to the Victims of Civil Strife in the Palestinian Territory*, Project Document, available at the WFP website, www.wfp.org

²⁰ PCBS also reports that the adjusted or "relaxed" unemployment rate, which includes discouraged workers in the category of the unemployed, as rising from 38.6 percent to 44.7 percent.

Curfew halted economic activity and deprived income from large sections of the population, making them very vulnerable. Palestinians who worked in Israel could not arrive at the workplace under curfew conditions. The demand for non-regular wagedworkers throughout the West Bank diminished. Regular wagedworkers in urban areas and refugee camps were unable to arrive at the workplace. Self-employed persons in urban areas and refugee camps could not open shops, and their relatives who serve as unpaid employees could not reach work.

In order to measure the impact of curfew on employment, it is necessary to disaggregate Jerusalem from non-Jerusalem (the latter did not experience curfew), and make basic assumptions about which sections of the population were employed on a curfew day. Re-estimation of unemployment to include the vulnerable groups mentioned above results in a 63.3 percent non-Jerusalem adjusted unemployment rate on days when the West Bank urban centres were under curfew. Furthermore, under the rough assumption that the main non-Jerusalem²¹ urban centres of the West Bank were under curfew for an average of 30 percent of Q2-2002, **then the overall adjusted unemployment rate for the entire West Bank and Gaza during Q2-2002 increased from roughly 36 to approximately 50 percent in only six months.**

There were regional variations in patterns of unemployment in the West Bank. By Q2-2002, the three West Bank regions (North, Centre, South) experienced 42 to 43 percent unemployment according to PCBS measures. (UNSCO estimates have not made adjustments on the regional level to account for curfew, but adjusted unemployment would approach 50 percent, as mentioned above).

The greatest employment losses were in Hebron and Bethlehem, which increased from 26 percent to 43 percent in three months, as represented by the PCBS adjusted unemployment figures for the South West Bank. This is the most precipitous decline in the Palestinian economy because Bethlehem and Hebron were more heavily reliant on employment in Israel during that period. Still, the South West Bank did not necessarily experience the most precarious overall economic situation.

The Central and North West Bank have faced high unemployment ever since October 2000, when the implementation of closure reduced these regions' employment in Israel. Strictly from the perspective of unemployment, the North should be seen as the area of the West Bank that was most severely impacted by closure. Nablus, the economic centre of the north, had been under curfew for approximately three of the last six months as of

²¹ The estimate is for 'adjusted' unemployment, because, in addition to including these vulnerable cross sections among the unemployed, the UNSCO estimate, as reported by PCBS in its "relaxed" definition, includes the discouraged, those who no longer seek employment, and who, by definition, are excluded from the narrow ILO standards. In a period of crisis, there is a particular deficiency with using the standard ILO unemployment definition. Any person who reports having worked 1 hour or more per week, is considered employed by ILO standards. In an economic crisis, the large majority of the working population ends up working fewer hours. Furthermore, many sections of the workforce that do manage to maintain their jobs are forced to take pay cuts. The value of an indicator such as the ILO standard is, therefore, significantly diminished. These latter problems remain unresolved in the UNSCO estimate.

September 2002. And since the implementation of closure policies in October 2000, Jenin has faced higher unemployment than any other Palestinian governorate.

Table 1 : Main Employment Indicators 2000-2002 Palestinian Territories.

Indicator	Q3-00	Q4-00	Q1-01	Q2-01	Q3-01	Q4-01	Q1-02	Q2-02
Population	3,175,000	3,200,000	3,247,000	3,295,000	3,320,000	3,361,000	3,402,000	3,444,000
Labour Force	734,000	668,000	669,000	674,000	679,000	702,000	705,000	680,000
Standard Unemployment Rate	10.00%	28.30%	26.90%	23.70%	25.40%	26.20%	28.90%	33.6%
Adjusted Unemployment Rate	23.10%	39.80%	37.80%	35.30%	36.50%	35.50%	38.60%	44.7%
Employed	661,000	479,000	489,000	515,000	506,000	518,000	501,000	451,000
Unemployed	73,000	189,000	180,000	160,000	172,000	184,000	204,000	229,000
Discouraged Workers	94,000	127,000	117,000	120,000	120,000	101,000	111,000	137,000
Adjusted Unemployed	170,000	316,000	297,000	280,000	292,000	285,000	315,000	366,000
Dependency Ratio	4.80	6.68	6.64	6.40	6.56	6.49	6.79	7.6

Source : PCBS, Labour Force Surveys, Rounds Q3-2000 to Q2-2002

Table 2 : ISI Employment by Region, Q3-00 to Q2-02

	Q3-00	Q4-00	Q1-01	Q2-01	Q3-01	Q4-01	Q1-02	Q2-02
ISI Gaza	29,800	3,300	2,000	2,000	3,000	2,000	2,000	2,000
ISI Total West Bank	116,100	40,200	69,000	72,000	60,000	66,000	57,000	31,000
ISI non Jerusalem West Bank	36,000	40,000	43,000	39,000	30,000	15,000

Source : PCBS, Labour Force Surveys, Rounds Q3-2000 to Q2-2002

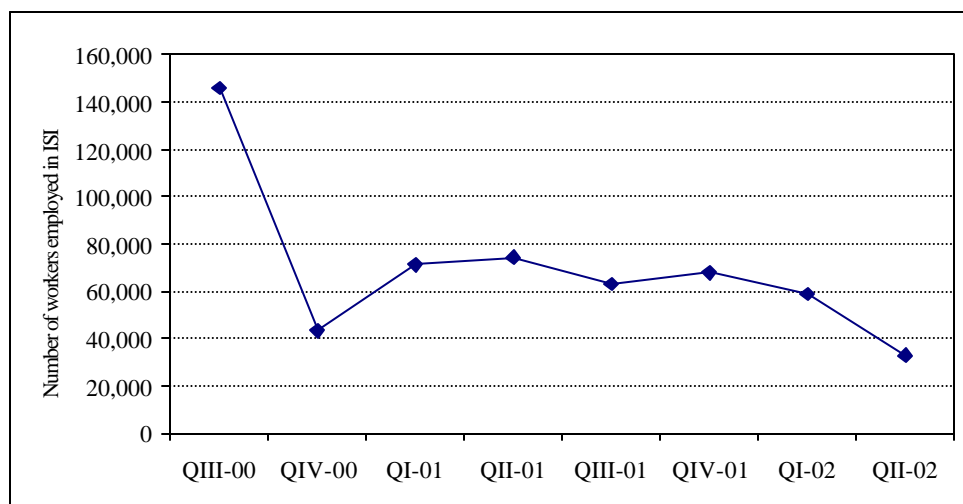
Table 3 : Domestic Employment by Region, Q3-00 to Q2-02

	Q3-00	Q4-00	Q1-01	Q2-01	Q3-01	Q4-01	Q1-02	Q2-02
Domestic Employment Gaza	164,000	120,000	126,000	127,000	129,000	134,000	138,000	131,000
Domestic Employment West Bank	352,000	316,000	292,000	314,000	314,000	316,000	304,000	287,000

Source : PCBS, Labour Force Surveys, Rounds Q3-2000 to Q2-2002

Overall, loss of jobs in Israel has been the driving force behind the high unemployment figures. Prior to the implementation of mobility restrictions in October 2000, approximately 145,000 Palestinians were employed in Israel. These totals dropped to 61,000 by Q1-2002 and 33,000 by Q2-2002 (see figure 2). Income loss from this decline in employment in Israel was substantial. In 1999, approximately 17 percent of Gross National Income came from Palestinians employed in Israel. By 2001, this share shrunk to 11 percent and is expected to diminish further in 2002.

Figure 2: Employment in Israel, Settlements and Industrial Zones (ISI)



Source: PCBS labour force survey

Box 4: The West Bank, Curfew and Wages

Perhaps the most severe aspect of curfew is the loss of income available to wage workers and the poorest of the poor. Some West Bank towns were under 24-hour curfew for nearly three out of the last six months. The lifting of these curfews for several hours on a given day did not provide the average wageworker with a workday. Rather, it merely provided some time to access basic food supplies and medical essentials. And despite the periodic lifting of curfew, many households found it difficult or impossible to obtain additional food supplies because they lacked income or cash flow.²²

Source: UNSCO

²² Op cit., *Life and Health*.

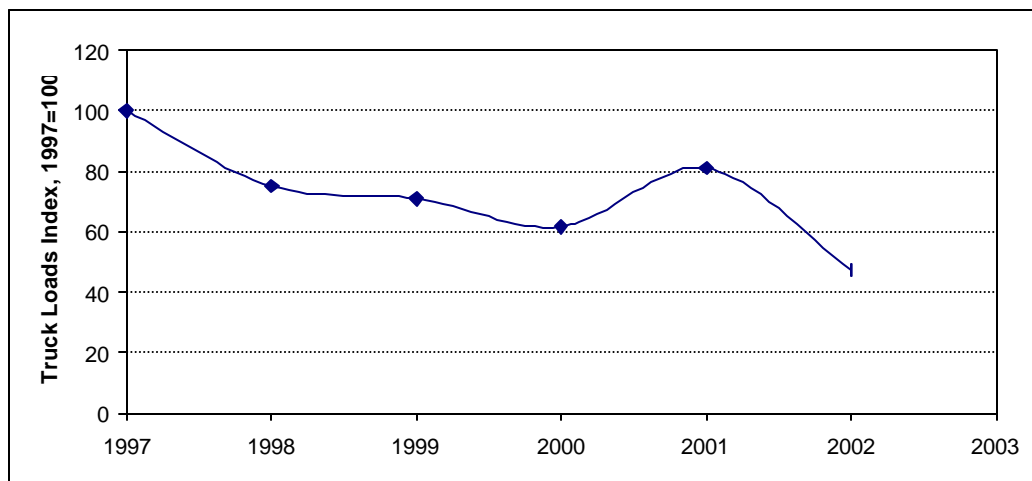
4. Trade

4.1 External Trade

The Palestinian economy is small, with 3.4 million persons and GDP of USD 4.5 billion.²³ Small economies cannot produce all that they need to consume and grow. So Palestinians are reliant on trade to import necessary goods for production, investment and consumption. In addition, to help pay for necessary imports, the Palestinian economy needs to earn hard currency through exports.

Exports and imports precipitously declined in the first half of 2002, due to demand- and supply-related reasons predominantly resulting from closure.²⁴ Based on data from the Israeli Central Bureau of Statistics, the World Bank has estimated that, compared to 1999, both exports and imports declined by approximately 30 percent in US dollar value.²⁵ In Gaza, average monthly imported truckloads for the first six months of 2002 were 15 percent lower than they were for the same period of 2001. Average monthly exports in the first six months of 2002 were 60 percent less than they were for the same period of 2001. **The period April 2001 to March 2002 constitutes the lowest number of exported truckloads in any year since UNSCO began tracking this data in 1997.**

Figure 3: Index of Gaza Exported Truckloads (Monthly Average), 1997-2002



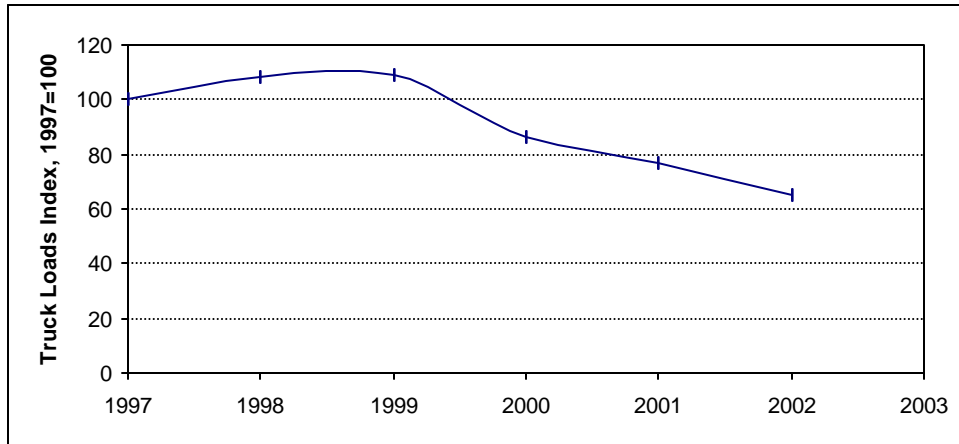
Source: UNSCO estimates based on data from Palestinian borders Authorities

²³ World Bank estimates.

²⁴ See also World Bank, *West Bank and Gaza Macro Economic Brief*, July 2002.

²⁵ Op cit., World Bank, *Recent Economic Developments*. Between 1999 and 2001, exports declined 26 percent, and imports declined 46 percent.

Figure 4: Index of Gaza Imported Truckloads (Monthly Average), 1997-2002



Source: UNSCO estimates based on data from Palestinian Borders Authorities

Box 5: Gazan Import and Export of Produce

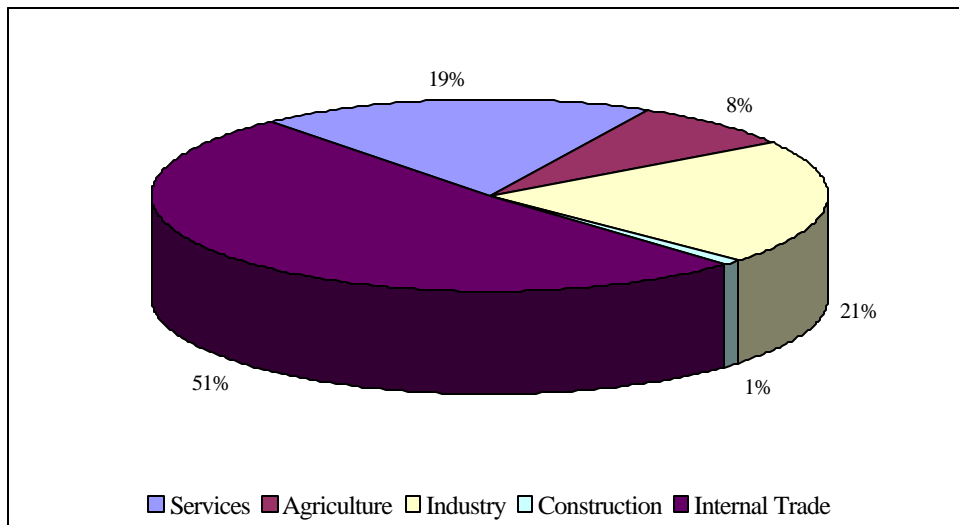
The delays in export of perishable produce from the Gaza Strip have had a serious economic impact. UNSCO researchers have regularly visited checkpoints that facilitate the trade of goods in and out of Gaza in order to examine how the delays are created, and their impact. For example, tomatoes and carrots were observed spoiling in the sun, while fresh Israeli produce appeared to be entering Gaza without extensive delays. The spoiled produce is no longer marketable, and the income lost. Reduced income in turn is converted into a demand shock via lower demand for Palestinian produced goods and services inside Gaza.

Source: UNSCO

4.2 Internal Trade

Palestinian cities, towns and villages are economically interlinked. Unobstructed internal trade is essential for employment and income generation. More than half of all Palestinian establishments work in internal trade, which underscores the necessity of the movement of people and goods within the West Bank and Gaza (see figure 5).

Figure 5: Distribution of Establishments by Economic Activity, 1997



Source: PCBS, Population, Housing, and Establishment Census, Establishment Report, 1997.

The backbone of the Palestinian economy is formed by manufacturing, a significant contributor to GDP, and agriculture, a significant source of employment. Internal and external closure reduced activity and income in both these critical sectors. Consequently, when activity in these two sectors declined, demand for trade, transport and services also declined.

In the **agricultural sector**, closure prevented farmers from working their fields and marketing their produce. Access to local output markets was highly restricted in the first half of 2002, and input markets were made more inaccessible by higher costs. For example, findings by Oxfam show that villagers in the Jerusalem district found it almost impossible to get their plums to market this year.²⁶

²⁶ Microeconomic analysis cited by Oxfam reveals that inputs such as chemicals, fuel, feed and water were increasingly expensive. *Transaction Costs in the Palestinian Economy: A Microeconomic Perspective*, in *West Bank and Gaza: Economic Performance, Prospects, and Policies. Achieving Prosperity and Confronting Demographic Challenges*, IMF, 2001.

Box 6: Olive harvest at risk

A quarter of the Palestinian agricultural sector is dedicated to olive production. This year the olive yield promises to be very high, but the entire production and marketing cycle is at risk of being wiped out because of closure. Farmers are regularly denied access to their trees, olive presses and markets, mainly because of the existence of Israeli settlements, military camps, and settlement bypass roads. Farmers traditionally travel on foot or by donkey, and even a short journey becomes a major expedition because they must use alternative routes to reach fields.

The result is that thousands of people will be deprived of a primary source of income. This has potentially devastating implications, with many families relying on olive oil income to pay for basic goods and services, and to pay off their rising debts. Support networks that provide vital credit to rural communities are already under strain and risk breaking down completely if this year's olive crop fails.

In addition, the general year-round maintenance of olive groves – ploughing, fertilising and pruning – is being neglected. To ensure good yields, olive trees must be pruned immediately after harvest. But many farmers will be too afraid to prune their trees this year. Consequently, next year's crop is likely to bring less income than it should, even if closures are lifted.

Source: Adapted from Oxfam International

The **manufacturing sector**, which is dependent on internal markets and trade to take advantage of economies of scale,²⁷ and the **wholesale sector**, which requires widespread access to Palestinian towns and cities, were both detrimentally affected by closure policies. Beginning in June 2002, UNSCO staff conducted a series of interviews with establishments in the two sectors to gauge the impact of closure policies. The interview subjects included 12 manufacturing establishments in four West Bank regions and seven wholesale establishments in five West Bank regions.

Manufacturing

The findings show that manufacturing activity was constrained, in large part by **external closure**. These policies either prevented or delayed materials from getting into the West Bank and Gaza.²⁸ Competitiveness of Palestinian products in external markets was reportedly affected by higher transaction costs and more expensive imported inputs. And manufacturing establishments said they were unable to meet contracted export orders on schedule.

Manufacturing activity was also constrained by **internal closure**. Military checkpoints, roadblocks and physical barriers impeded or prevented travel between villages and towns. Populated areas were surrounded, rural areas separated from their urban centres and workers were prevented from arriving their workplaces.

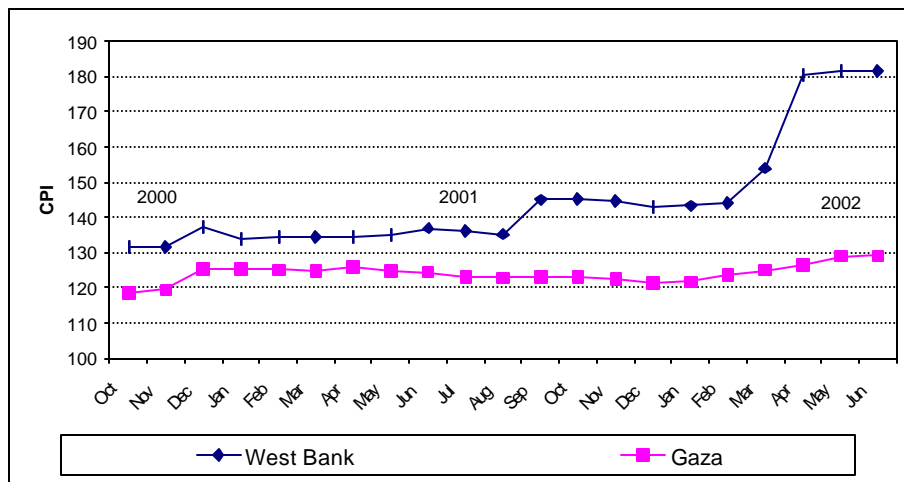
²⁷ Hebron, for example, manufactures nearly 80 percent of footwear and leather. Nearly 80 percent of manufacturing of vegetable oils, especially olive oil and soap takes place in Nablus. Ramallah hosts a concentration of the pharmaceutical industry. Bethlehem produces handcrafts in olive wood and mother of pearl. Jenin accounts for 16 percent of the total share of agriculture contribution to GDP. Tulkarm has foreign markets and sub-contracting arrangements for its sewing and garment industry. Qalqilya grows citrus and nursery plants. Salfit produces 22 percent of the total production of olive oil.

²⁸ Approximately 40 percent of the materials used by this activity are imported from/or via Israel

As a result of internal closure, manufacturers were consistently forced to decrease their output as the markets in which they distribute became less accessible. UNSCO observations correspond with other survey data obtained in 2001, which show that utilisation of production capacity in the industrial sector decreased from an average of 78 percent to 33 percent of total capacity due to the closure policies.²⁹

Manufacturers reported increases in transportation costs, because routes became much longer, more difficult to traverse, and caused greater damage to vehicles. The consumer price index (CPI) for transportation showed a continuous rise, increasing by 23 percent between June 2001 and June 2002.³⁰ In the severely impacted West Bank, it increased by almost 33 percent between June 2001 and June 2002. In Gaza, which has limited internal closure, the same price component increased by less than 4 percent (Figure 7).

Figure 6: Monthly CPI for transportation and services activities 2000-2002



Source: PCBS, Consumer Price Indices, Monthly Bulletin.

Wholesale

Interviews of wholesalers in the West Bank showed the direct impact of external and internal closure, as well as curfew, on their economic activity. These wholesalers rely on imported goods that arrive through the Israeli port of Ashdod and are then transported to the West Bank or Gaza for distribution. All respondents reported increased costs due to delays of Israeli authorities in admitting goods at the port. Extra fees and storage costs were incurred on a daily basis. And perishable goods were reportedly delayed until they nearly expired.

Unlike domestic production in the manufacturing sector, procurement of wholesale goods must be done well in advance by placing orders, often through contracts for a year or more. In order to reduce the extent to which their products are substituted by those of their competitors, wholesalers reported that they have to supply the market on a regular

²⁹ Op cit., ILO and FPCCIA, *Role of Small-Scale Enterprises*, Jerusalem, 2001.

³⁰ PCBS, *Monthly Consumer Price Index*, 2000 –2002.

basis. Therefore, in order to avoid the risk of delayed entry of goods at the Israeli controlled port, wholesale establishments reported increasing the size of purchase orders.³¹ Distribution quantities to urban centres were also reportedly increased to compensate for the risk of not having enough product.

Box 7: “Back-to-Back”

The movement of goods between Palestinian cities within the West Bank and from Israel to the West Bank was severely restricted between districts by the “back-to-back” system. Since the April 2002 start of these policies, goods have had to be loaded from one truck to another at each district crossing.

To understand this system, in June UNSCO Staff researchers visited the Betunia crossing near Ramallah, an open area without any installations or facilities located near an Israeli military station. Israeli soldiers equipped with armoured vehicles controlled entry to the location. Palestinian trucks lined up for up to five hours, and upon the submission of ID cards, were admitted. The back-to-back system has driven up transportation costs. Drivers said that the ride from Ramallah to this location (less than 10 kilometres) cost at least NIS 300. Two years ago, before the crisis, truck drivers often charged companies a similar amount to travel as far as Jericho, which is around 40 kilometres from Ramallah.

This system divided the West Bank into eight cantons (Hebron, Bethlehem, Jericho, Ramallah, Nablus, Tulkarm, Qalqilya and Jenin). Each district has one assigned commercial entrance. Some manufacturers, especially of light products, avoided the difficulties and delays of back-to-back transportation by using taxis to deliver shipments to their agents and clients in West Bank cities.

Source: UNSCO

Some wholesalers reported that closure measures made it practically impossible to redistribute their goods within the West Bank. They adapted to this restriction by building or renting new storage facilities in various West Bank regions in order to improve their access. They also said they assumed new risks as closure forced them to forecast sales levels well in advance for sub-regions and individual urban centres. Goods with short expiry dates were inevitably destroyed, as redistribution to compensate for forecast error was difficult. At the same time, the risk of sales forecast error increased exponentially in the uncertain environment of military assault, as well as declining employment and income levels.

³¹ These findings correspond to other market survey data obtained by The Food Economy Group for ICRC and British Red Cross, *Urban Food Economy/Market Study in the West Bank and Gaza*, June 2002.

Box 8: Problems Reported by Manufacturers

In UNSCO's series of interviews, problems reported by manufactures include:

- Lost access to output markets;
- Increased purchases of Israeli materials to avoid importing delays at ports;
- Limited cash flow caused restricted access to raw materials from Israel;
- Shortage of raw materials from local sources;
- Decreased sales to Israeli companies from curfew-caused time delays in delivering goods;
- Reduced production of unessential goods;
- Replacement of skilled workers with less skilled workers, because regular employees could not reach workplace;
- Apartments/hotels rented or other arrangements made for workers to keep them on-site so that they can reach the workplace;
- Lost market share to Israeli goods;
- Decreased profit due to higher overhead costs, lower production and inability to increase prices;
- Higher transportation costs due to use of yellow license-plated cars and travel delays;
- Increased damage due to transportation over tertiary roads;
- Delays and higher costs in acquiring imported raw materials from ports;
- Higher depreciation and repair costs for owned vehicles;
- Higher cost of renting additional storage facilities to assist in the distribution of goods to areas blocked by checkpoints; and
- Reduced access to markets caused excess supply and expired products.

Problems Reported by Wholesalers

In UNSCO's series of interviews, problems reported by wholesalers include:

- Lack of marketability caused by both excess supply and expired products;
- Cash problems (customers use delayed checks, or do not pay at all);
- Higher transportation costs due to use of yellow license-plated cars and travel delays;
- Increased damage due to transportation over tertiary roads;
- Delays and higher costs in acquiring imported raw materials from ports;
- Higher depreciation and repair costs for owned vehicles; and
- Extra cost of renting new storage in different areas to facilitate the distribution of goods on these areas.

Source: UNSCO

4.3 Case Studies: Manufactures and Wholesalers

Box 9: Al Pinar Dairy Co.-Ramallah

Al Pinar Dairy Company imports milk from Israel to process and distribute dairy products throughout the West Bank and Gaza. It was established in July 2000 in Ramallah, with 64 employees. By October 2000, the company had been in operation for only three months, but it was already using 20-25 tons of milk daily to produce and distribute processed dairy products. The company quickly invested to establish another plant and expand production, expecting to process and distribute 250 tons of milk by 2002. Israeli closure policies, however, began to restrict Pinar's access to output markets. By December 2001, the company was only producing at 70 percent capacity. By March 2002, operations were down to 50 percent of capacity, as Pinar lost access to its most important markets in Nablus and Jenin.

In addition to the problem of access to markets, Pinar faced the problem of getting milk from Israel. On days of severe closure policies, milk from Israel did not arrive in Ramallah, so the factory could not operate. As a result, Pinar lost part of its Ramallah market to Tnuva, an Israeli company that reportedly had easier access to the Palestinian market.

Following the reoccupation of Ramallah in Q2-2002, Pinar production decreased to 30 percent of capacity. Out of the entire West Bank, Pinar maintains access only to Bethlehem, Al Izzariyya, Bir-Nebala, and Ramallah markets, utilising only 5-7 tons of milk a day -- if there is no curfew. As July 2002, a total of 32 workers were employed at Pinar; all resided at the factory to insure they could get to work.

Source: UNSCO

Box 10: Diana Company, Ramallah

Diana Company has distributed chocolate products throughout the West Bank and Gaza since 1949. Diana had its own storage and distributor in Nablus, which has traditionally provided for the entire northern West Bank market, and a similar set-up in neighbouring Jordan. Diana use to employ between 130-160 employees at its factory in Ramallah, depending on demand.

The factory reports it was working full capacity prior to October 2000, producing six tons of wafers and one ton of chocolate per 8-hour shift. At times high demand required the factory to operate three shifts every 24 hours. Prior to closure and its effects on demand and production, Diana would distribute 25-30 percent of its product to Gaza, 15 percent to Israel and 10 percent to Jordan. The remaining 40-45 percent of its output went to the West Bank. As a result of closure, however, all markets except for the West Bank diminished to negligible levels. The number of employees plunged to 90 persons in the year 2000, and has since fluctuated between 65 and 90.

The company used to import raw materials from foreign countries, but because heightened Israeli security procedures increased storage time and port costs, it resorted to buying raw materials directly from Israeli suppliers—despite the added premium of an extra middleman. In addition, while Diana's managers say there was less competition in the West Bank from Jordanian and Israeli products due to closure, the benefits of increased market share were offset by higher distribution costs and reduced profit margins. As a result of the tightened closure in April/May, Diana closed its storage facilities in Jordan and Nablus, which it says was the most difficult West Bank city to access.

Source: UNSCO

Box 11: Al Juneidi Dairy Co.-Hebron

Al Juneidi is the largest dairy company in the West Bank, at full capacity employing 285 workers and producing 80 tons of dairy products daily. On a typical morning before October 2000, 300 lorries would distribute Juneidi's dairy products throughout the West Bank and Gaza Strip.

Closure has caused major distribution problems. To cope with the deteriorating situation, the company decreased its production capacity to 75 percent, or 60 tons of dairy products daily. During re-occupation of the West Bank in Q2-2002, production decreased to 35 percent (30 tons /day). Despite these severe reductions, the company managed to maintain its workforce, as workers agreed to utilise their vacation time or take time off.

Juneidi produces whatever quantities it can distribute and does not rely on milk from Israel. But determining which quantities to produce is not easy, with closure and curfew policies often unannounced and changing daily. On several occasions, Juneidi was forced to destroy expired products because its trucks could not get to market on time.

Source: UNSCO

Box 12: National Industries Co. (STAR)-Ramallah

Star operated in Ramallah for nearly 40 years, employing 65 workers to produce cleansing liquids and detergents. Upon the implementation of closure policies in October 2000, it reduced production to 60 percent of capacity. Following the incursion and curfew policy in April 2002, Star further reduced production to 20-25 percent of capacity. Over time inventories dwindled, and in May 2002 Star found that demand increased, allowing it to produce at 60 percent capacity again.

Star managers say they achieved flexible production by reducing the number of working days rather than reducing the number of employees -- a decision that allowed the company to maintain its trained labour force. Star also reported that it faced strong competition from foreign and Israeli products, making it difficult to convert extra transportation costs into price increases.

Source: UNSCO

Box 13: Zalmoot Trading Co., Nablus

Zalmoot imports a variety of food items, including sugar, tea, flour, sweets and chocolate. It is one of the major food suppliers in Nablus, and employed 24 workers prior to October 2000. Zalmoot reports that closure has made getting products to and from Nablus more costly and time consuming.

One of the cost increases is the use of yellow-plated Jerusalem or Israeli trucks to transfer goods. Unlike vehicles with West Bank license plates, these trucks are allowed to drive through Israel. Despite having fewer access restrictions, these trucks and their drivers still face long and time consuming roads, increased security checks and delays at checkpoints. Truck drivers reported that on many occasions they were not allowed to pass checkpoints, and had to sleep near them in to get through the next day.

Increased demand for such trucks and drivers drove up transportation charges, which are assumed by Zalmoot. But the company says it cannot pass on the cost to the consumer through higher prices because of the diminished income levels in the West Bank and Gaza. In order to avoid transportation difficulties under closure, Zalmoot rented new storage facilities in the outskirts of Nablus, enabling the delivery and storage of products coming from Ashdod port, and subsequent distribution to various governorates in the West Bank.

Sales in Q2-2002 were only 30 percent of their pre-October 2000 level. However, Zalmoot is bound by contractual obligations, and the amount of product that it receives from its suppliers abroad is greater than it requires for distribution. As a result, some raw materials must be periodically destroyed.

Source: UNSCO

Box 14: Unipal General Trading Co., Ramallah

Unipal is the West Bank and Gaza distributor of several American brand goods such as Philip Morris, Proctor & Gamble, and Kraft. Ramallah is Unipal's distribution hub for the West Bank and Gaza, but closure policies made it difficult to re-transport goods from there. So the company rented new storage facilities, at an added cost, in several areas including Nablus, Jenin, Al Esareia and Hebron, and transported goods directly to these areas from the port.

Distribution restrictions, some for extended periods, caused imports to arrive on erratic schedules. To compensate for this, Unipal increased its inventory level from two weeks worth of stock to two months. Occasionally, Unipal found it had no alternative but to deliver supplies to some areas that far exceeded demand, but was also unable to provide enough goods to other areas that were short of supply. Unipal says it had to destroy goods that it could not deliver to market before their expiry dates.

In the two months that followed the implementation of closure policies in October 2000, Unipal sales decreased by 50 percent. By December 2000, sales recovered to 70 percent. Sales remained steady until February 2002, when they decreased to 40 percent of pre-October 2000 levels, and fell further to 30 percent by March/April 2002.

Source: UNSCO

5. Investment

Investment levels plummeted under the adverse circumstances of closure. In 1998, investment totalled USD 1.5 billion, but by 2001 is expected to have diminished to negligible levels (see table 4).³² Investor confidence is represented in the number of new company registrations, which decreased by 63 percent between 2000-2001. New foreign company registrations in the West Bank and Gaza decreased by 55 percent in 2001, from 11 companies to 5 companies.

Table 4: Real Annual Change of Total Fixed Investment in West Bank and Gaza

1997	1998	1999	2000	2001
7.7%	8.4%	-8.3%	-28.3%	-82.2%

Note: All data exclude East Jerusalem. Source: World Bank estimates.

Table 5: Yearly Company Registration by Legal Type

	1999	2000	2001	Change 99/00	Change 00/01
Private	1014	976	267	-4%	-266%
Private Limited	831	776	372	-7%	-109%
Public Limited	4	2	3	-100%	33%
Foreign Companies	11	11	5	0%	-120%
Total	1860	1765	647	-5%	-173%

Sources: Ministry of Economy and Trade, Ramallah. Ministry of Justice, Gaza.

Investment is positively influenced by the level of available credit. However, the value of outstanding credit extended by the Palestinian banking system to private businesses declined from USD 737 million in December 2000 to USD 526 million in March 2002.³³ This decline contrasted sharply with the recent trend of rapid expansion of bank credit³⁴ and came at a time when many businesses reported serious liquidity problems.³⁵

Table 6: Consolidated Branch Distribution of Loans to Private Sector

Economic Branch	Sep-00	Dec-00	Mar-01	June-01	Sep-01	Dec-01	Mar-02
Total	709.15	736.85	741.98	709.17	686.57	668.28	525.61

Source: Palestine Monetary Authority

Data exclude loans to public sector, consumer credit and purchase of securities

³² Estimates on investment are expected from the World Bank later this year.

³³ Based on data provided by the Palestinian Monetary Authority, Ramallah, February 2002.

³⁴ Bank credit grew by 22 percent between December 1999 and December 2000. See UNSCO *Report on the Palestinian Economy*, Spring 2001.

³⁵ Op cit, *The State of the Private Sector*, October 2001.

In 1998, more than 40 percent of private investment went into residential building, making construction a main indicator of investment activities.³⁶ The figures show that in the West Bank, the total area licensed for construction in the Q1-2002 decreased by 76 percent compared to Q1-2001.³⁷ In Gaza, licensed construction decreased by 15 percent from Q1-2001 to Q1-2002.

A combination of factors limited available sources of capital, resulting in adverse investment behaviour. Domestic capital sources diminished as less profit income became available for investment, and a certain portion of available domestic sources can be expected to have fled the country due to adverse business conditions, in what is known as "capital flight." Meanwhile, incoming capital (i.e. from donor countries) was diverted away from investment and toward consumption to address the humanitarian decline.

6. Donor Funding

Donor funding disbursements in 2001 increased by 70 percent to just over USD 900 million. But the composition of this funding has shifted from longer-term development to shorter-term relief to address the humanitarian consequences of reduced consumption and income levels. Donors carried out food aid programs, cash relief and employment generation projects, and external budgetary support to the PA, which helped pay for PA employee salaries.

In the current environment, aid is indispensable.³⁸ However, closure, which increases humanitarian deprivation and makes aid more necessary, also reduces the effectiveness of aid by blocking access to those in need. For example, closed roads prevented implementation of food and cash assistance programs.³⁹ Reduced traffic at Gaza's Karni checkpoint slowed the import of raw materials, which delayed or stopped employment generation programs in Gaza.⁴⁰

³⁶ Op cit, World Bank, *Macro Economic Brief*, July 2002.

³⁷ Palestinian Engineers Society, Ramallah, May 2002

³⁸ This is also the conclusion reached in the Palestinian Human Development Report. For more information on a Palestinian discourse on international funding, see the report at http://home.birzeit.edu/dsp/phdr/summary_en.htm

³⁹ UNRWA appeal, *Fifteen Progress Report Covering March and April 2002*, available on their website at <http://www.un.org/unrwa/emergency/pdf/report15.pdf>. UNRWA reported suspension of their regular programmes in the West Bank and many of their emergency activities during the April invasions: "Curfew and closure kept large numbers of UNRWA personnel from their workstations. Over 60% of UNRWA staff members residing in the West Bank but assigned to positions in the Agency's Field Office in Jerusalem were unable to report to work from the time the offensive began". And due to curfews, closure and violence UNRWA was prevented from transporting rations to families in Ramallah, Nablus, Hebron, Bethlehem, Qalqilya, the villages of Ein Kinya, Iblin and Deir Bzee', and the Kalandia refugee camp. UNRWA also reported that the total closure of Karni commercial crossing point during periods since 29 March 2002 has had further serious impact on the provision of humanitarian assistance in the Gaza Strip. UNSCO data on crossing show that Karni crossing was closed for 28 days between April and June 2002.

⁴⁰ An internal World Bank consultant report for June 2002 states that 10 out of 30 middle area Gaza job creation programs were stopped or delayed because of material shortages or escalation of input prices.

If aid disbursements in 2002 keep pace with 2001 levels, they would only account for half the approximately USD 2 billion per year in losses. Furthermore, in Q2-2002 the most vulnerable groups of the population were persons employed in Israel and in the domestic private sector, and their dependants. The unemployment figures above are telling evidence that aid was not able to return these sectors of the population to productive activities.

7. Public Sector

The Palestinian budget remains in critical condition. Revenues declined from a monthly average of USD 88 million in the Q-3 2000 to only USD 21 million in Q-1 2002. This 76 percent decline is fuelled by three factors: movement restrictions on tax officers kept them from work and performing audits; Israeli closure measures eroded the income base of domestic revenues; and Israel's withholding clearance of VAT revenues it collects on behalf of the PA eliminated the great majority of revenues formerly transferred to the PA. According to IMF estimates, the withheld clearance revenues had accumulated to about USD 615 million by the end of March 2002.⁴¹

The PA gave spending priority to public salaries, constituting more than 70 percent of total expenditures, with the rest mainly spent on emergency measures. Due to declining revenues, the financing gap averaged USD 72 million per month. The continued deterioration of the PA fiscal condition was offset mainly through emergency budgetary support financed by Arab and European donor countries. As indicated in table (7), the monthly average value of external budget support increased from USD 42 million in 2001 to USD 47 million in Q1 2002.

The remaining budget deficit is reflected in the additional accumulation of domestic payments arrears. These arrears consist primarily of credit to private sector suppliers, and include unpaid PA pension contributions and delayed payments to families on social welfare. By the end of March 2002, the total stock of expenditures arrears reached USD 489 million up from USD 117 million at the end of September 2000 -- an increase of 317 percent in less than 18 months.

⁴¹ As of September 9, 2002, only USD 30 million had been transferred.

Table 7: Fiscal Accounts of the Palestinian Authority on a Monthly Average Basis (USD million)

	Q1-2000	Q2-2000	Q3-2000	Q4-2000	Q1-2001	Q2-2001	Q3-2001	Q4-2001	Q1-2002
Revenues	72	102	88	49	26	22	22	21	21
Domestic revenues	31	30	33	21	26	22	22	22	22
Clearance revenues	42	72	55	28	0	0	0	0	0
Expenditures	82	103	107	105	94	91	91	91	78
Wage expenditures	47	51	53	55	55	57	57	58	56
Non-wage expenditures	35	52	54	50	38	34	33	33	35
PA-financed capital expenditures	0	2	1	2	1	1	2	2	1
Financing	10	3	19	58	68	70	70	72	72
Expenditure arrears (net accumulation)	1	1	19	1	31	19	20	22	72
External budgetary support	0	0	0	18	26	48	49	44	47
Domestic Bank financing and residual	9	2	0	39	11	4	1	-3	0
Memorandum items (end of period):									
Stock of withheld revenue clearances	0	0	0	20	n.a.	n.a.	n.a.	519	615
Stock of expenditure arrears	93	105	117	155	250	305	365	457	489
Employment (000's)	107	n.a.	113	115	117	119	119	122	123

Source: IMF

8. Conclusion

It is axiomatic that employment and income generation are achieved through healthy economic growth. Growth, in turn, is sustained by the free flow of people and goods. These critical elements are not occurring in the Occupied Palestinian Territory.

The unprecedented restrictions put on Palestinians has brought almost a total breakdown of their economy, which is being kept on life support by international aid. Yet this nearly USD 1 billion in donor support cannot, and should not, replace normal economic activity. The daily economic losses of USD 7 million per day estimated in this report add up to more than USD 2 billion per year. Even if aid levels were capable of matching this large amount, under the current closure and mobility restriction regime the Palestinian population would remain deprived of the basic freedom to engage in productive economic activities.

As GDP growth and poverty rates attest, the Palestinian economy was on the road to recovery before the crisis began in Q3-2000. Closure and internal movement restrictions predictably caused a sharp reversing of trends in unemployment, per capita income and poverty.⁴² Unemployment in Gaza was rapidly followed by large increases in the poverty rate. Current mobility restrictions and curfew policies in the West Bank are having similar results. As a result of the economic decline, the fiscal positions of the PA and municipal authorities are deteriorating.⁴³ Consequently, reduced quality of social services will have negative implications for health and other aspects of Palestinian quality of life.

Evidence suggests that the most efficient way to relieve the economic crisis is to significantly ease movement restrictions on people, vehicles and goods. This would have to take into consideration the parties' security concerns. But greater freedom of movement would produce immediate and significant benefits, reversing the downward spiral toward a geographically fragmented economy, raise output, employment and income, increase economic growth rates and reduce the poverty rate.

* * *

⁴² Op cit., UNSCO, The Impact on the Palestinian Economy of Confrontation, various issues.

⁴³ Op cit., World Bank, An Assessment

Annex 1: Income Losses

Total income losses in the first six months of 2002 due to closure are estimated at USD 1.1 billion (7.6 million daily). Losses are caused by reduced domestic production valued at USD 760 million (USD 4.9 million daily) and lost employment in Israel valued at USD 374 million (USD 2.7 million daily).

Income losses are calculated based on 1999 PCBS National Income Account data for Gaza and the “remaining” West Bank (non-Jerusalem), and an estimated 5 percent growth in the absence of closure during 2000-2001. Actual GDP figures are calculated based on IMF estimated GDP losses of -1.8 and -15.9 for 2000 and 2001 respectively. Total losses are the difference between projected growth and estimated losses. Daily losses are calculated based on 390 working days over the first fifteen month period.

Losses during 2002 are calculated based on regular closure losses, as observed in the first fifteen months of closure, in addition to more severe losses on curfew and partial curfew days. Curfew day losses are estimated based on the assumption that 50 percent of the non-Jerusalem West Bank potential GDP activities are halted. During 2002 Israeli military incursions, there were essentially two waves of curfew imposed over the West Bank. One began on March 29, 2002 and the other in the latter part of June. In between the two periods, there were many cases of curfew, in addition to more than 90 smaller-scale military incursions were carried out in Palestinian localities in May 2002.¹ It is assumed that there were no “normal” days as regards economic activity in the Q2-2002 non-Jerusalem West Bank. All days in the quarter are therefore assigned as either under curfew or partial curfew, because economic activity is highly constrained under such circumstances.

Income loss due to employment losses in Israel are not calculated based on an assumed GNI growth rate, but on the simplification that employment levels in Israel would have remained the same in 2001-2002 as prior to the implementation of closure policies in October 2000.

In Q3-2000, 29,800 Gazans worked in Israel, Israeli Settlements and Industrial Zones (ISI), while 116,100 West Bank Palestinians worked in (ISI). At prevailing daily wage rates of USD 24.4 in Q1-2002, and USD 23.1 in Q2-2002, total daily losses due to lost employment in Israel equals USD 2.7 million. See UNSCO, *The Impact on the Palestinian Economy of Confrontation, Border Closures and Mobility Restrictions, 1 October 2000 - 31 December 2001*.

Annex 2 : Supplementary Data Tables

**Table 8: Monthly Total Registered Licensed Construction Area
In West Bank**

	Jun	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1999	404,877	310,130	347,090	348,897	450,085	404,877	409,013	390,309	422,318	394,940	359,373	526,136	4,519,408
2000	606,626	281,657	348,467	382,665	494,986	606,626	480,681	480,146	454,291	331,960	205,715	420,302	4,704,737
2001	214,578	179,558	102,628	176,097	225,902	214,578	244,564	257,721	260,226	193,167	220,261	507,585	2,928,347
2002	46,496	71,596	74,508	45,957									

In Gaza Strip

	Jun	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1999	116,128	146,599	148,196	154,846	168,937	167,518	219,051	147,287	153,838	137,537	133,207	146,165	1,839,309
2000	87,126	133,230	144,484	166,495	204,476	171,322	190,286	184,577	179,803	122,116	55,531	35,934	1,675,380
2001	44,146	51,197	9,675	33,165	74,716	60,865	92,029	65,206	80,070	86,157	83,992	119,255	800,473
2002	130,495	89,038	68,812										

Source : Palestinian Engineers Society

Table 9: Quarterly New Company Registration

	QI/00	QII/00	QIII/00	QIV/00	QI/01	QII/01	QIII/01	QIV/01	QI/02
West Bank	215	288	285	61	80	123	87	74	96
Gaza Strip	315	280	275	46	43	69	62	109	52

Source : Ministry of Economy, Trade and Industry for West Bank registrations; Ministry of Justice for Gaza registrations

**Table 10: Consolidated Branch Distribution Of Bank Loans Extended to Private Sector
(million USD)**

Economic Branch	Sep-00	Dec-00	Mar-01	June -01	Sep-01	Dec-01	Mar-02
Agriculture	17.44	21.00	14.29	12.71	13.80	14.05	11.42
Manufacturing and Mining	110.62	109.87	115.08	104.83	101.13	112.51	82.92
Construction	138.49	124.24	132.58	127.47	134.90	128.64	92.62
General Trade	335.79	357.84	350.36	342.66	319.07	307.83	250.10
Transportation	45.81	48.98	52.82	45.63	48.64	41.11	34.95
Tourism, Hotels & Restaurants	33.58	29.95	26.20	30.92	23.64	24.07	18.05
Financial Services	27.42	44.97	0.65	44.95	45.39	40.07	35.54
Total	709.15	736.85	741.98	709.17	686.57	668.28	525.61

Source: Palestine Monetary Authority. Data exclude loans to public sector, consumer credit and purchase of securities

Table 11: Change in Bank Deposits Base

	Mar/00	June/00	Sep/00	Dec/00	Mar/01	June/01	Sep/01	Dec/01	Mar/02
Value	5.20	10.04	11.8	-5.76	-0.14	-1.07	-1.67	-0.22	11.85
Change	5.20%	10.04%	11.80%	-5.76%	-0.14%	-1.07%	-1.67%	-0.22%	11.85%

Source: PMA

Table 12: Loans to Deposits Ratio

	Mar/00	June/00	Sep/00	Dec/00	Mar/01	June/01	Sep/01	Dec/01	Mar/02
	36.18%	37.06%	40.50%	38.44%	39.32%	37.04%	37.05%%	35.89%	27.74%

Source: PMA

Table 13: Population 15 Years and Over, Participation Rate, Employment, Employment-Population Ratio, and Unemployment Rate by Governorate: 1999-2001 (x1000)

Indicator	1999	2000	2001	2000		2001			
				Q3	Q4	Q1	Q2	Q3	Q4
Jenin & Tubas									
Population 15 Years & Over	137	142	149	143	145	147	149	150	152
Employment in Public Sector	8	9	8	8	8	9	7	8	10
Employment in Private Sector	30	34	27	37	33	24	32	28	28
Employment in Israel & Settlements	16	13	5	19	2	7	6	5	4
Unemployment Rate	12.3	16.2	36.3	9.4	35.6	38.3	31.0	36.9	39.1
Tulkarm									
Population 15 Years & Over	78	82	85	82	83	84	85	86	87
Employment in Public Sector	5	6	5	7	7	4	5	6	7
Employment in Private Sector	18	18	17	18	17	17	18	16	17
Employment in Israel & Settlements	7	6	3	7	2	4	3	5	2
Unemployment Rate	13.8	16.5	21.6	14.2	27.7	27.7	22.7	17.3	17.9
Qalqilya									
Population 15 Years & Over	41	42	45	43	43	44	45	45	46
Employment in Public Sector	3	3	3	3	3	3	3	4	3
Employment in Private Sector	8	8	7	10	7	7	10	7	6
Employment in Israel & Settlements	4	4	2	5	1	2	1	1	1
Unemployment Rate	13.5	17.3	32.6	8.6	38.1	36.0	27.5	17.3	37.0
Nablus and Salfit									
Population 15 Years & Over	181	189	197	190	192	194	197	199	201
Employment in Public Sector	12	13	13	13	14	13	15	17	10
Employment in Private Sector	50	54	44	59	57	45	38	44	41
Employment in Israel & Settlements	12	11	4	14	1	4	10	4	2
Unemployment Rate	9.8	11.9	26.4	7.6	21.9	27.6	25.1	28.8	23.2
Ramallah & Al-Biereh									
Population 15 Years & Over	126	132	138	132	134	136	138	139	141
Employment in Public Sector	6	8	8	9	8	8	8	7	8
Employment in Private Sector	35	35	29	38	35	30	29	29	30
Employment in Israel & Settlements	6	5	2	6	1	2	3	2	1
Unemployment Rate	5.9	9.4	25.9	3.4	21.5	22.0	21.9	27.1	31.9

Jerusalem									
Indicator	1999	2000	2001	2000		2001			
				Q3	Q4	Q1	Q2	Q3	Q4
Population 15 Years & Over	192	199	207	200	202	204	207	208	210
Employment in Public Sector	4	5	6	5	4	4	6	5	8
Employment in Private Sector	35	40	36	43	38	34	37	37	38
Employment in Israel & Settlements	31	26	27	27	24	27	28	20	29
Unemployment Rate	8.3	14.0	15.5	11.2	22.3	19.5	11.3	20.2	19.4
Bethlehem									
Population 15 Years & Over	80	83	87	84	85	86	87	88	89
Participation Rate	45.4	45.6	44.4	48.0	46.1	44.2	43.5	45.1	44.3
Employment in Private Sector	23	23	23	26	21	20	21	24	23
Employment in Israel & Settlements	6	7	7	9	2	6	6	8	8
Unemployment Rate	12.0	9.4	11.7	2.7	31.5	20.1	10.4	6.5	9.5
Jericho									
Population 15 Years & Over	19	20	22	20	21	21	22	22	22
Employment in Public Sector	2	2	2	2	2	1	1	2	2
Employment in Private Sector	6	5	5	5	4	5	6	5	5
Employment in Israel & Settlements	2	2	2	2	0	1	2	2	2
Unemployment Rate	6.1	7.0	11.4	3.5	28.1	20.1	11.5	15.6	12.5
Hebron									
Population 15 Years & Over	209	219	230	220	223	226	230	234	234
Employment in Public Sector	11	11	13	11	13	13	11	14	14
Employment in Private Sector	55	54	58	58	47	51	60	61	61
Employment in Israel & Settlements	24	21	14	28	5	10	13	17	17
Unemployment Rate	6.4	10.3	16.2	3.5	32.5	23.0	14.3	12.7	12.7

Gaza – North									
Indicator	1999	2000	2001	2000		2001			
				Q3	Q4	Q1	Q2	Q3	Q4
Population 15 Years & Over	93	99	106	100	101	103	105	106	108
Employment in Public Sector	8	9	11	10	8	10	11	11	10
Employment in Private Sector	15	16	11	17	11	11	12	11	11
Employment in Israel & Settlements	7	6	1	6	1	1	1	0.5	0.6
Unemployment Rate	14.8	16.1	34.7	13.6	33.3	36.8	30.5	34.1	37.0
Gaza Governorate									
Population 15 Years & Over	193	201	213	203	206	209	213	214	217
Employment in Public Sector	17	19	19	18	18	19	19	17	20
Employment in Private Sector	39	37	29	42	26	27	26	32	31
Employment in Israel & Settlements	8	7	1	9	1	1	1	2	0.8
Unemployment Rate	13.3	17.2	32.5	14.3	33.5	31.3	34.5	29.6	34.4
Deir El-Balah									
Population 15 Years & Over)	81	85	90	86	87	88	90	90	91
Employment in Public Sector	8	8	9	9	8	9	9	9	9
Employment in Private Sector	12	13	10	15	9	10	10	10	10
Employment in Israel & Settlements	3	3	0	4	0	0	0	0	0
Unemployment Rate	22.6	22.4	34.4	19.4	34.7	35.3	36.8	26.7	37.3
Khan Yunis									
Population 15 Years & Over	108	112	119	113	115	116	118	120	122
Employment in Public Sector	8	10	10	11	10	9	9	11	10
Employment in Private Sector	20	19	15	22	15	15	14	13	18
Employment in Israel & Settlements	5	5	1	6	1	1	0	0.5	0.8
Unemployment Rate	19.4	20.4	36.4	17.2	32.2	35.2	39.3	35.6	35.0
Rafah									
Population 15 Years & Over	66	69	73	69	70	71	72	73	74
Employment in Public Sector	6	7	7	7	7	8	7	6	6
Employment in Private Sector	12	11	9	13	8	8	9.6	10	10
Employment in Israel & Settlements	3	3	0	4	0	0	0	0	0
Unemployment Rate	19.2	19.2	34.5	14.2	34.4	35.3	31.7	35.9	34.8

Source: PCBS, Labour Force Survey, various rounds. Population figures (1000), rest of indicators is (%).

Table 14: Aggregate Wage Income			
	QIII-00	Q1-02	Change QIII-00 to Q1-02
Working in West Bank			
Average Daily Real Wage (NIS)	57.1	53.4	-6.4%
Average Real Monthly Wage (NIS)	1386.6	1227.3	-11.5%
Average Number of wage employees	193,786	179,664	-7.3%
Total Quarterly Wage Income (million NIS)	806,089,738	661,504,882	-17.9%
Working in Gaza			
Average Daily Real Wage (NIS)	41.4	41.3	-0.2%
Average Real Monthly Wage (NIS)	980.6	977.6	-0.3%
Average Number of wage employees (Thousands)	107,823	83,214	-22.8%
Total Quarterly Wage Income (million NIS)	317,188,789	244,050,019	-23.1%
Working in Israel			
Average Daily Real Wage (NIS)	90.4	89.6	-0.8%
Average Real Monthly Wage (NIS)	1834.1	1819.1	-0.8%
Average Number of wage employees (Thousands)	146,169	59,000	-59.6%
Total Quarterly Wage Income (NIS)	804,272,557	321,980,700	-60.0%
Total wage income, Palestinian households (1996 prices)			
	1,927,551,085	1,227,535,601	-36.3%
Aggregate Wage Income by Place of Employment (NIS millions, in 1996 prices)			
West Bank	806	661	-21.9%
Gaza	317	244	-23%
ISI	804	322	-59.9%

Source: PCBS