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CONTENTS

PALESTINIAN LABOR MARKET OUTCOMES, DYNAMICS, AND POLICIES	2
A. Labor Market Outcomes and Dynamics	2
B. Policies for Job Creation and Labor Productivity Growth	8
C. Conclusion	11

¹ The IMF provides technical services to the West Bank and Gaza, including policy advice in the macroeconomic, fiscal, and financial areas, as well as technical assistance, with a focus on tax administration, public financial management, public expenditure management, banking supervision and regulation, and statistics. See www.imf.org/wbg for previous reports.

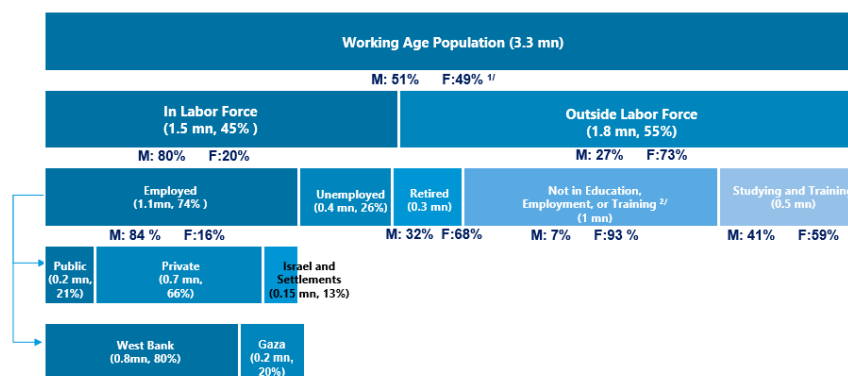
PALESTINIAN LABOR MARKET OUTCOMES, DYNAMICS, AND POLICIES

Over the last two decades, the Palestinian economy did not create enough jobs to absorb new labor market entrants. This even as labor force participation rates remained stubbornly low and among the lowest in the world for Palestinian women. Female labor outcomes are particularly disappointing. For both sexes, there are high disparities in labor market outcomes across governorates and cities, reflecting geographic fragmentation and spatial mismatch between labor force and employment growth. Moreover, the gap in labor outcomes between the West Bank and Gaza has widened over time. Further facilitation of private sector job creation in high-productivity tradable services sectors could help absorb well-educated labor market entrants, while Palestinian Authority (PA) policies could raise female labor force participation and employment. But PA policies alone will not suffice to tackle job market challenges, as growth remains tepid in ambitious policy scenarios, barring easing of Israeli-imposed restrictions on the movement of people. Overall, a high elasticity of jobs to growth of 0.7 suggests improved labor market outcomes and higher growth would go hand in hand.

A. Labor Market Outcomes and Dynamics

The Current Situation

1. Palestinian labor market outcomes are on the whole disappointing. Labor force participation is low (45 percent at end-2022). More than half of the working age population is outside the formal and informal labor force and only a third of the working age population is employed.² Another third is not in education, employment, or training, including 860,000 people, all women, whose occupation is labeled “housekeeping” in Palestinian Central Bureau of Statistics (PCBS) labor force surveys.



Sources: Palestinian Central Bureau of Statistics (PCBS) Labor Force Survey 2022Q4; and IMF staff calculations.

1/ Percentages within the total working age population.

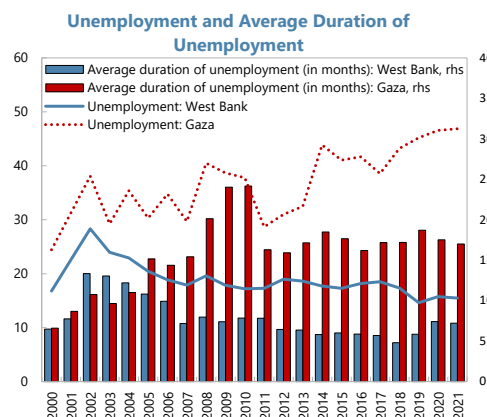
2/ Including 860,000 people whose occupation is labeled “housekeeping” in PCBS labor force surveys.

Yet, unemployment is high at 23.4 percent at end-2022. Two-third of the employed are in the Palestinian private sector, while 21 percent are public sector employees, and 13 percent work in Israel and settlements.

² PCBS labor force survey statistics do not systematically separate formal from informal sector labor force participation and employment. Data and trends in outcomes in this paper therefore reflect both informal and formal sector developments.

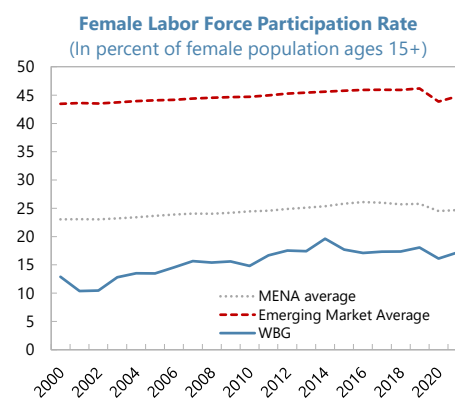
2. The Palestinian economy did not create enough jobs during the past two decades to absorb new labor market entrants. Labor demand has not kept pace with the growth in the supply. Between 2000 and 2021, the Palestinian labor force expanded by around 35,000 workers per year, while about 20,200 new jobs were created annually in the domestic labor market, and 1,800 more Palestinians took jobs in Israel and settlements each year.³

Consequently, unemployment rose from 14.3 percent in 2000 to 26.4 percent in 2021.



Sources: PCBS; and IMF staff calculations.

3. The gap in labor outcomes between the West Bank and Gaza has widened over time. For example, unemployment was 7 percentage points higher in the Gaza Strip than in the West Bank in 2000 (19 percent in Gaza compared to 12 percent in the West Bank). By 2021, it was 31 percentage points higher (47 percent in Gaza compared to 15.5 percent in the West Bank). At 6½ months, the average duration of unemployment was the same in the two regions in 2000. By 2021, it had risen to 7.2 months in the West Bank and 17 months in Gaza. These increasing but comparatively low joblessness duration numbers in a particularly difficult labor market suggest that many Palestinian workers who struggle to find a job get discouraged and drop out of the labor force.



Sources: ILOSTAT; and IMF staff calculations.

4. Labor outcomes are particularly poor for women and youth. The female unemployment rate more than trebled between 2000 and 2021, from 12.4 percent in 2000 to 43 percent in 2021. This even as female labor force participation—among the lowest in the world—remained stubbornly low, averaging 15.5 percent over the past two decades. Male unemployment increased by half over the same period (from 14.6 percent in 2000 to 22.4 percent in 2021). In West Bank and Gaza (WBG), only 1 in 10 women aged 15 and over is employed. Most unemployed women are young (34 or younger) and highly educated (93 percent of them completed 13 or more years of schooling, while only 30 percent of males attained the same level of education). It takes women twice as much time to find a job as their male counterparts, i.e.,

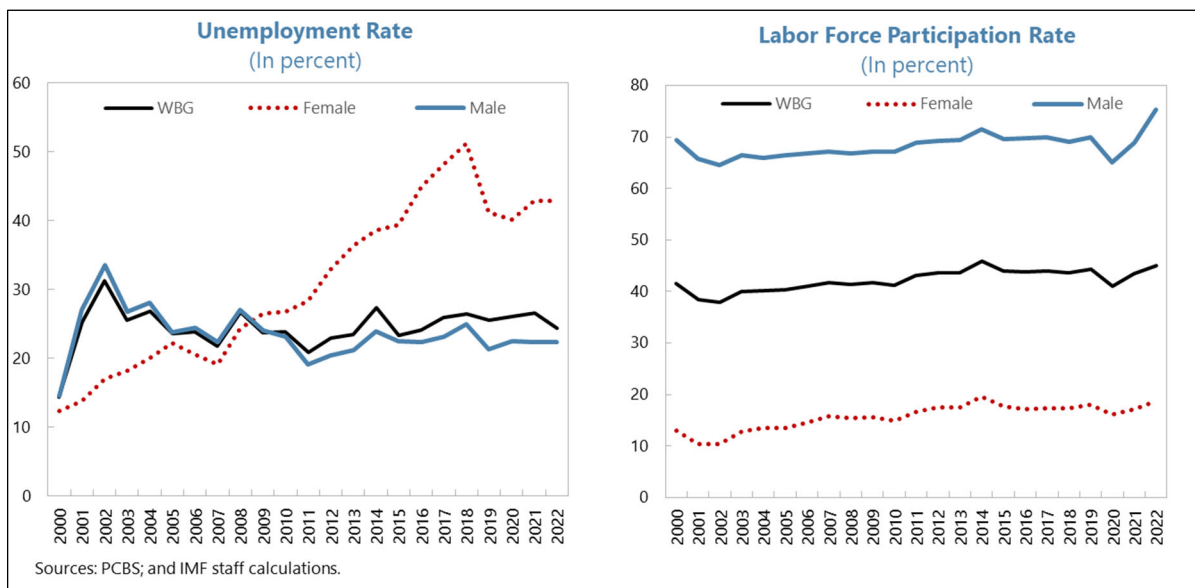
Female Employment by Region, 2022Q4



Sources: PCBS; and IMF staff calculations.

³ While Palestinian employment in Israel and settlements impacts conditions in the domestic labor market, it is not the focus of this paper. Emphasis is instead put on domestic labor trends and PA policies to improve outcomes.

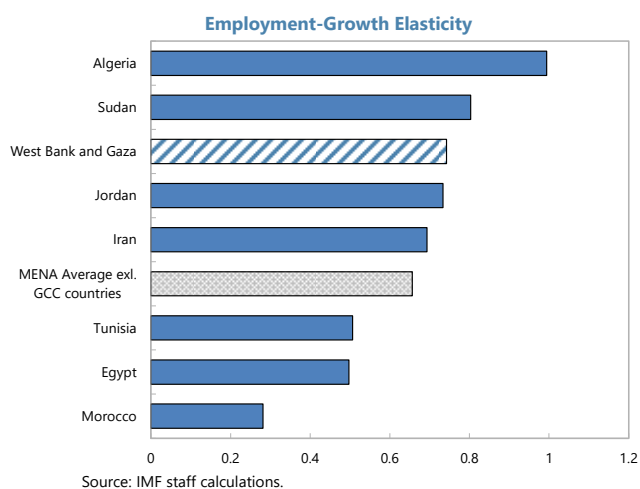
the average unemployment duration is around 20 months for women compared to only 10 for men. Youth⁴ unemployment is also high at more than 33 percent at end-2022 (and over 60 percent in Gaza), with young women faring the worst (53 percent unemployment) overall.



5. Palestinian women are mostly employed in and are the majority of workers in service subsectors other than commerce, hotel, and restaurants. Most female university students study social sciences. Some 73 percent of employed women are in these service subsectors, with employment in education, public administration and health and social work comprising the largest share of female employment. Teaching remains more conducive to family life (particularly for married female employees) and the public sector offers job security, while working in the health sector is generally seen as socially acceptable. At equal levels of education, women’s average daily wage is about a third lower than their male colleagues’ in nearly all sectors. At the same time, women entrepreneurship rates are low. Only 9 percent of private sector firms are female-headed.

The Growth-Employment Nexus

6. The elasticity of jobs to growth is high. A 1 percent growth in output correlates with a 0.74 percent increase in Palestinian employment on average during 1990–2021, compared to 0.66 percent on average for



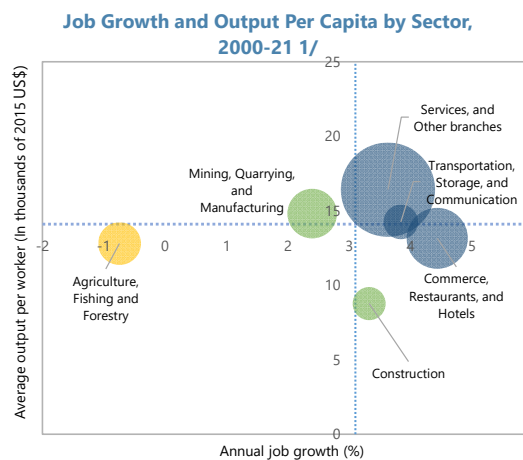
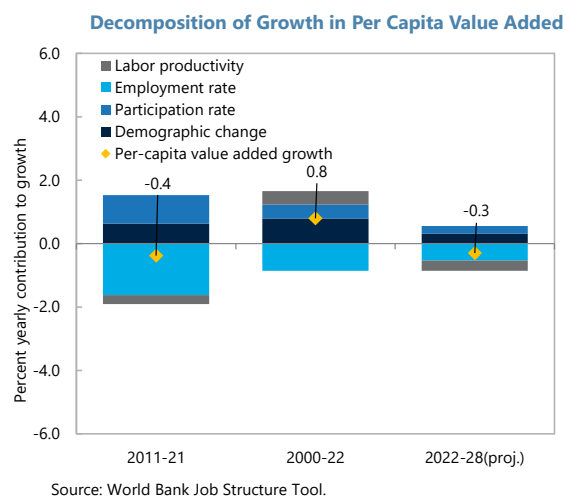
⁴ Young people between the ages of 15 and 29.

MENA countries.⁵ WBG's employment-growth elasticity is significantly higher than the elasticities for countries with similar levels of per capita gross national income, population, regulatory quality, and government effectiveness. The high elasticity of jobs to growth suggests higher growth and improved labor market outcomes would go hand in hand.

Jobs, Productivity, and Growth⁶

7. Low employment and labor productivity growth have been a drag on per capita value-added growth over the past decade and will continue to weigh on it in the medium term under unchanged policies. Positive contributions from demographic change and increased labor participation rates are not projected to offset the negative impact of employment and productivity, thus lowering Palestinians' per capita income over the medium term.

8. Job creation has been highest in service sectors, particularly in non-tradable sectors such as commerce, restaurants, and hotels. In the agricultural sector, annual job growth was negative on average during 2000–21 and output per worker below the average for all sectors, suggesting jobs are transitioning from low-productivity agriculture to services. However, a significant share of workers also took up new jobs in low-productivity construction activities, while traditional mining, quarrying, and manufacturing sectors generated almost as many jobs. Overall over the past two decades, some 10,000 jobs were lost in the agriculture sector, 43,000 new jobs were created in the mining and manufacturing sectors, and 50,000 in the domestic construction sector, while six times more were created in services.

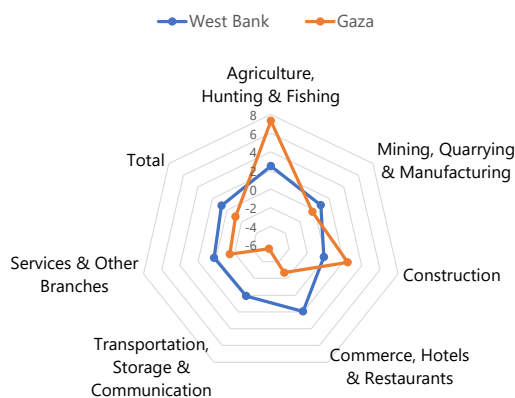


⁵ Excluding Gulf Cooperation Council (GCC) countries, whose economies and employment structures are not comparable.

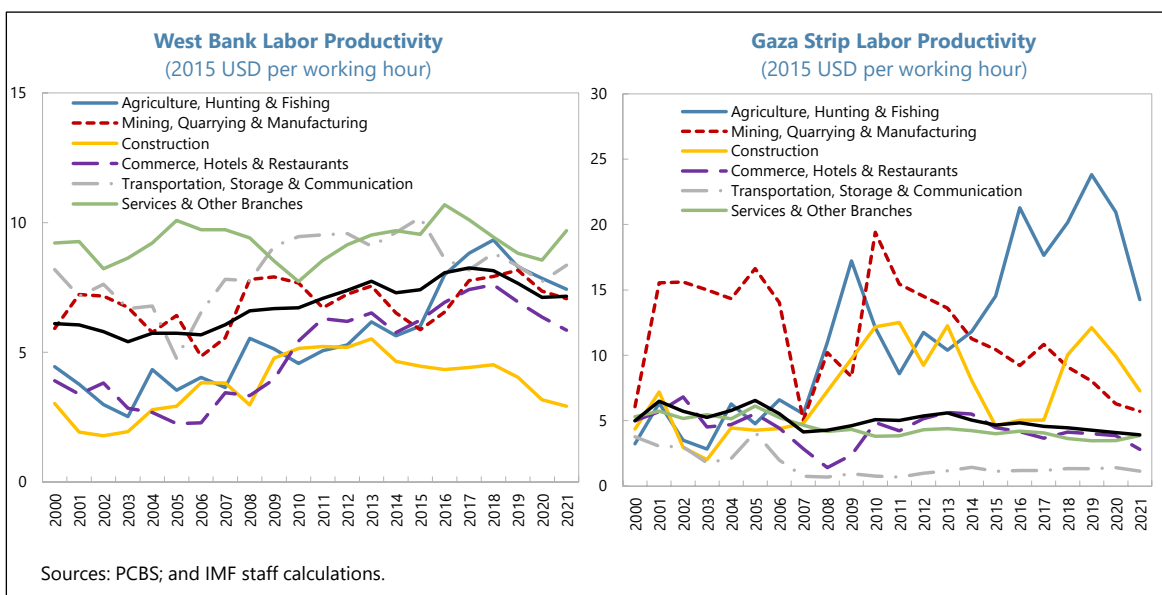
⁶ Sectoral analyses and analyses of trends broken down by governorate exclude data for Palestinian workers in Israel and settlements to better reflect Palestinian domestic labor market conditions.

9. Labor productivity and productivity growth varied considerably by sector in both the West Bank and Gaza. While labor productivity hovered on average around US\$6 (in 2015 US\$) per hour worked for the past two decades in the West Bank, it was closer to US\$3 (in 2015 US\$) for the construction sector—a sector heavily impacted by Israeli-imposed restrictions on building materials’ imports and Israeli authorities’ denials of construction permits—but reached US\$9 (in 2015 US\$) for services other than commerce, hotels, and restaurants. In the Gaza Strip, average labor productivity during 2000–21 was about US\$5 (in 2015 US\$),⁷ and was lowest for the transportation and storage sector, and highest for agriculture and fishing, while labor productivity in the construction sector was heavily impacted by war. Productivity growth was more even in the West Bank but generally low. In Gaza, an annual 5.5 percent decline in labor productivity in transportation and storage contrasted with a 7.3 percent annual increase for the agriculture and fishing sector.⁸

Labor Productivity Growth by Sector, 2000-21
(Annual average growth, in percent)



Sources: PCBS; and IMF staff calculations.

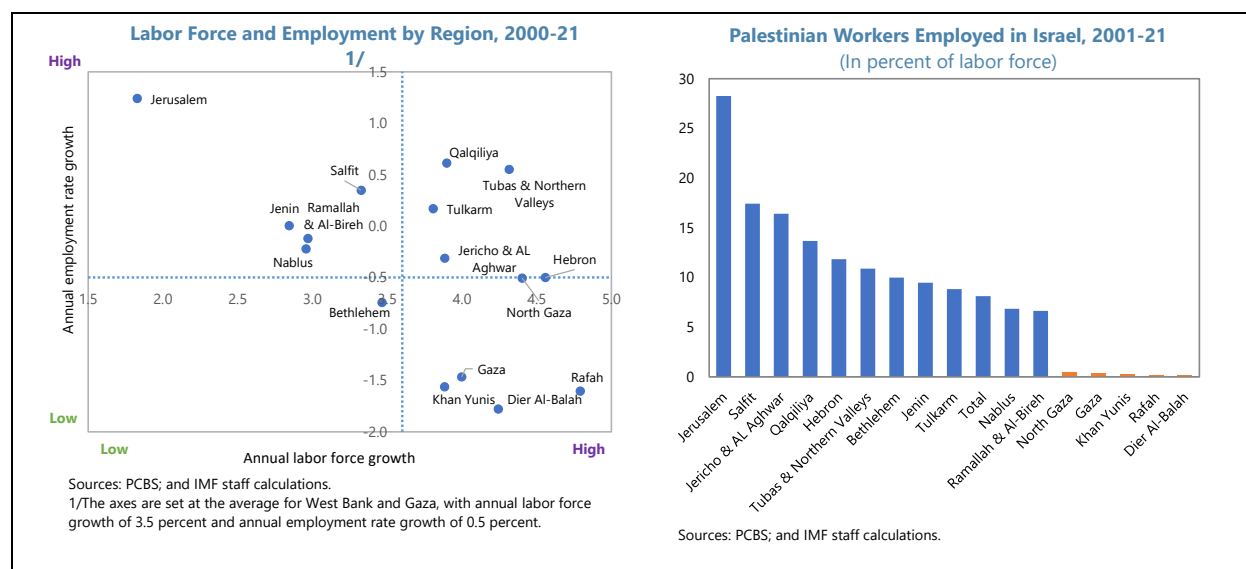


⁷ The productivity of capital is much higher in the West Bank than in Gaza and explains most of the differences in per capita income across the two regions.

⁸ The Strip’s fishing industry’s labor productivity has increased significantly since Israel expanded the permitted fishing zone to 15 nautical miles in 2006, though the sector’s productivity was impacted by war, and the restrictions on the import of motors and other parts. Gaza Strip farmers produce and export high-value crops such as strawberries, eggplants, bell peppers, citrus, ornamental plants, and cut flowers.

Spatial Mismatch and Barriers to Mobility

10. Spatial mismatches between where people live and where the jobs are explain the considerable variations in labor market outcomes across governorates. Jobs are not created where they are most needed and barriers to mobility across the Palestinian territories make moving or commuting very hard. The labor force grew faster over the past decade in the Gaza Strip even as jobs were lost in most of its governorates and the 16-year blockade prevents Gazans from traveling to the West Bank for work.⁹ The North Gaza governorate had the highest employment growth rate of the Strip at 0.5 percent annually. Overall, in WBG the governorates with the highest annual domestic employment growth (except Nablus and Ramallah) were all governorates where more than 10 percent of the labor force worked in Israel or settlements, suggesting job creation was boosted by higher incomes and demand for goods and services from Palestinian workers in Israel and their households.



11. The mismatch between the geographic location of jobs and job seekers plays a more significant role in shaping female labor market outcomes. This as women are less likely to travel for work and most job opportunities available for Palestinians in Israel and settlements are not seen as suitable.¹⁰ Commuting to work remains difficult for women, reportedly in large part due to Israeli checkpoints and other restrictions.¹¹ Moreover, women are often discouraged from crossing checkpoints daily to go to work by male family members anticipating long wait hours at checkpoints in confined spaces and near large numbers of men. Unmarried women are expected to live in the family home. They typically do not move to cities with more job opportunities, though this is

⁹ The land, sea and air blockade significantly upgraded previous Israeli-imposed restrictions, limiting the number of people and categories of goods allowed in and out of the Strip through the Israeli-controlled crossings.

¹⁰ Most of the jobs are in the construction and agriculture sector and require grueling physical labor.

¹¹ [ILO \(2022\) The Situation of Workers of the Occupied Arab Territories.](#)

becoming more socially acceptable. Female unemployment rates are lowest in Ramallah and El Bireh where most PA institutions are based.

B. Policies for Job Creation and Labor Productivity Growth

PA Policies

12. The authorities are overhauling the legal and regulatory framework to improve labor market governance. Some 30 bylaws and amendments were added to Palestinian Labor Law No. 7 since it was adopted in 2000. A final new labor law is still being drafted and consensus has yet to be reached on maternity rights, working time, managing enterprise restructuring and dismissals, and severance pay. The authorities are also working to overhaul the 2016 social security law that was suspended in 2019—after widespread protests at the end of 2018 over high costs for employers, lack of coverage for informal workers and low confidence in the private sector schemes’ prospects for actuarial soundness and success—and lay adequate legal and operational foundations for new private schemes to extend pension coverage to private sector workers. Equally important is the need to strengthen compliance and enforcement of laws, as, for instance, around 40 percent of those currently employed in the private sector earn less than the minimum wage. There is also a need to establish dedicated labor courts to ensure timely hearing of cases by specialized judges.

13. The PA is also working to further strengthen technical and vocational education and training (TVET) and active labor market programs (ALMPs). There are currently 76 TVET centers, more than 200 educational and cultural centers providing TVET services, and more than 130 ALMPs, that mostly operate under a fragmented framework and lack coordination with the private sector. A crosscutting issue between TVET and ALMP is the misalignment of programs offered with market needs. TVET centers face various other challenges including weak oversight, as they operate under several different ministries. Their staff sometimes lack proper teaching qualifications, and student enrollment remains low, while the centers’ capacity to absorb more students is limited. The authorities are working to improve this situation, guided by the National Employment Strategy for 2021-25. In 2021, they have created the national TVET council to formalize TVET center management, and coordination, formulation, and review of their policies and regulation. In addition, the Palestine Employment Fund—established to provide work opportunities for youth, women, and marginalized groups—focuses on boosting the employability of these groups. TVET centers and the fund created around 7,000 job opportunities in 2021 (a large portion of which was in the IT sector), financed around 600 micro, small and medium enterprises (MSMEs), and trained around 1,500 individuals. Around half of the fund’s beneficiaries were women. The fund also created a portal that matches job seekers with potential job opportunities. In addition, the Ministry of Labor provides employment services through its 16 employment offices in the West Bank. However, these offices are not well staffed, have weak links to employers and are mostly ignored by job seekers.

14. Transformational reform is needed to promote further job gains through these interventions and improved labor productivity. Thus far, PA policies focused on improving workers’ employability resulted in only modest job creation not commensurate to the needs, as these supply-side policies failed to address the much greater labor demand constraints.

Demand-side PA interventions (including MSME funding and efforts to attract foreign direct investment), while commendable, do not suffice. The Palestinian economy generates about 20,000 new jobs per year, while TVET, ALMPs and other existing PA initiatives under the National Employment Strategy put together comprised about a third of that total in the past year. This as the total projected cost of the strategy significantly exceeds available government funding.¹² The large gap in funding for the strategy could be partially filled by donors. Improved donor coordination and donor focus on National Employment Strategy priorities could also help reduce program fragmentation. Further facilitation of private sector job creation in high-productivity tradable services sectors is needed to help absorb well-educated labor market entrants. Policies to boost employment and labor productivity in traditional sectors of WBG's economy (thereby boosting wages, aggregate demand and employment in the medium term) are also sorely needed. Without such a transformational change, there is little prospect of absorbing the large projected number of new labor market entrants over the medium term.

15. Barriers to female labor force participation and employment should also be addressed.

Such barriers are myriad, entrenched in social norms, and implicit in some laws and regulations, even as protections remain insufficient. While the removal of regulatory barriers to formalize home-based businesses in the new companies law should increase formal female employment, other barriers remain. Social patriarchal norms define jobs that are socially acceptable and appropriate for women, support unfavorable views on employment of women in mixed gender environments, and reinforce stereotypes and biases against women's managerial and leadership skills.¹³ As such, they represent significant barriers to women's wage employment and entrepreneurship. Only 1 percent of members of the Board of Directors of the Chambers of Commerce, Industry and Agriculture are women, and only 2 percent of directors of companies listed on the Palestinian capital market are women.¹⁴ Persistent gender wage gaps discourage women from seeking employment. Affordable childcare options are also limited. While the labor law explicitly prohibits discrimination between men and women, it also restricts female employment and prohibits women from i) dangerous or hard work as defined by the Minister of Labor, ii) extra working hours during pregnancy and during the first six months after delivery, iii) work during night hours except as defined by the Council of Ministers.¹⁵ The law does not include any clear definition of discrimination and does not provide protection for women against sexual harassment. It does not mandate equal pay across genders, nor does it require employer provision of childcare for working parents.

¹² The strategy's total projected cost of implementation is an estimated US\$243 million, of which US\$175 million remains unfunded.

¹³ [World Bank \(2018\) Enhancing Job Opportunities for Skilled Females in the Palestinian Territories](#)

¹⁴ PCBS, Women and Men in Palestine – Issues and Statistics, 2022.

¹⁵ In addition, while the Labor Law (No. 7 2000) Article 2 states that "work is a right for each citizen capable of working", it does not include specific provisions applicable to self-employed workers, seasonal workers, and unpaid family workers. It also does not cover Palestinian workers in Israel and settlements.

16. The authorities have started to deal with some of these issues, but more is needed.

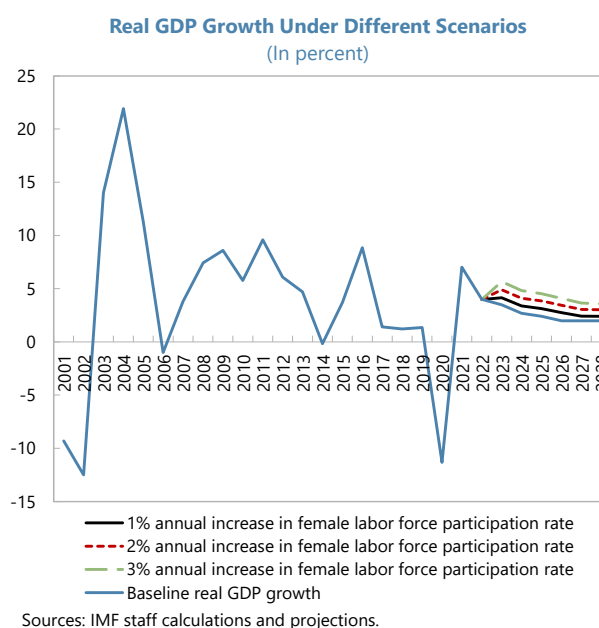
Current efforts by the Ministry of Women’s Affairs and the Ministry of Labor to establish a national committee on pay equity are a welcome step. Going forward, changes to family law, the penal code, and the personal status code are needed to explicitly prohibit gender discrimination in hiring, promotion, and pay and provide further legal protection to women, including from harassment, and allow and encourage women to file claims in court. Enforcing these new provisions will be crucial. For example, only half of the women eligible for maternity leave in 2022 took it, even as employers were less likely to hire women of child-bearing age, for fear of having to bear maternity leave costs.¹⁶ In addition, female students should be encouraged to study in fields other than social sciences to gain skills more in line with market demand.

17. Gender bias in taxation should also be addressed. Tax laws are generally not explicitly biased against women. However, exemptions and deductions for household dependents are typically granted to the man (or husband for married couples) rather than equally divided among spouses. Women can only claim these personal income tax deductions and exemptions if they head the household, are divorced, or widowed.¹⁷

Scenario Analysis

18. Policies to raise female labor force participation could generate higher growth, but labor supply-side PA policies alone will not suffice to tackle job market challenges.

Economic growth remains tepid in realistic but ambitious (general and gender-friendly) policy scenarios, barring contributions from Israel and donors. A scenario in which the female labor force participation rate increases by 1 percent a year and these new female job market entrants are gainfully employed could bring growth to 3 percent on average during 2023–28, compared to 2.4 percent in the baseline. This would bring the female labor participation above MENA and peer averages, though still significantly below the 2020 emerging market and developing economies



¹⁶ Article 103 of the labor law provides for 10 weeks of employer-paid maternity leave and prohibits post-partum dismissal.

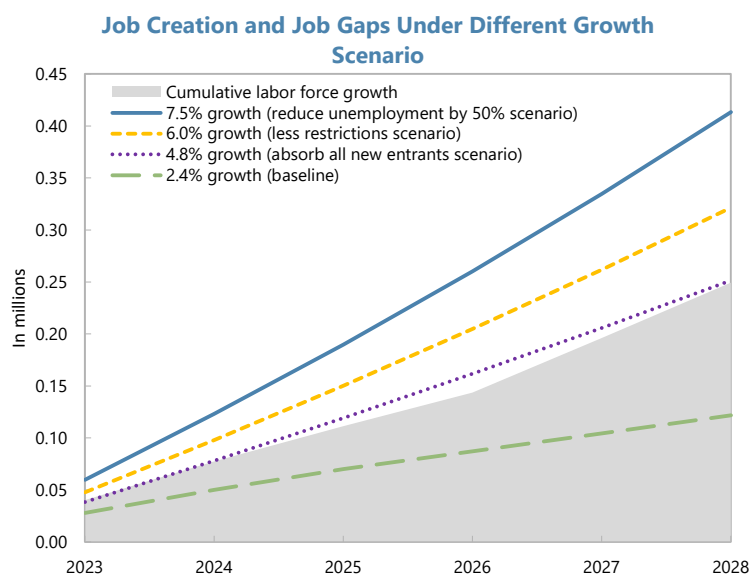
¹⁷ [Palestine Fair Tax Monitor 2018](#).

average.¹⁸ For comparison, this growth impact is comparable to a very significant 10 percent of GDP boost in annual total investment each year during the same period.¹⁹

19. Absorbing all new market entrants will require significantly higher growth. An estimated 209,000 additional jobs (or 41,800 additional jobs each year) need to be created between 2023 and 2028 to absorb all expected new labor market entrants. This is more than double the annual average number of new jobs that the Palestinian economy generated over the past two decades. Under unchanged

policies and labor force participation patterns, labor demand will continue to lag behind the supply, on account of demographics. Assuming a constant employment-growth elasticity of 0.74, the Palestinian labor market will only absorb half of entrants during 2023–28 and unemployment would rise to an estimated 29.4 percent by 2028 in the baseline scenario. An annual growth of 4.8 percent on average over 2023–28 is required to absorb all new entrants. If growth were to reach 6 percent on average over

2023–28, the unemployment rate would be projected to gradually decline to 18 percent. Such growth is achievable if Israeli-imposed restrictions on movement of goods, capital and people and investment were eased.²⁰ To halve the unemployment rate and bring it in line with the 12 percent peer average would require a higher 7.5 percent annual growth on average over 2023–28.



Sources: PCBS; and IMF staff calculations.

C. Conclusion

20. Labor market outcomes are poor and further PA policies for improvement are needed.

The PA's efforts to harmonize and improve the domestic labor market's legal and regulatory

¹⁸ Peers are Jordan, Lebanon, Morocco and Mauritania, countries with similar levels of per capita gross national income, population, regulatory quality, and government effectiveness as WBG. A somewhat unrealistic 3 percent annual increase in the Palestinian female labor force participation rate would raise Palestinian annual average output growth to 4.4 percent on average over 2023–28.

¹⁹ The scenario analysis was conducted using a growth accounting model in which annual output is a function of capital and labor, $Y_t = A_t K_t^\alpha L_t^{(1-\alpha)}$, where Y_t is annual output, A_t is total factor productivity, L_t is employment (the product of the labor force in million, the labor force participation rate and the employment rate), and K_t is the capital stock. α the output share of capital was set at 0.3. The perpetual inventory method was used to estimate WBG's capital stock. Changes in female labor force participation rates' implications for total labor force participation rates were estimated using a simple linear function.

²⁰ See the analysis in IMF staff's [May 2022 Report to the Ad Hoc Liaison Committee](#).

framework, boost workers' employability, and address skills mismatches, in line with the National Employment Strategy, are commendable. However, policies to boost employment and labor productivity in both traditional sectors of WBG's economy and in high-productivity tradable services sectors are needed. Increasing female labor participation also requires further action by the PA. The PA should revise labor laws and regulations to make them gender neutral, introduce legislation against sexual harassment in the workforce and allow and encourage women to file claims in court, and explicitly prohibit gender discrimination in hiring, promotion, and pay.²¹ It should encourage female higher education in fields other than social sciences. Affordable childcare is also needed.

21. However, PA action alone is unlikely to be able to solve the unemployment problem.

Boosting labor productivity growth in traditional sectors of the Palestinian economy such as mining, quarrying, and manufacturing, and construction, requires PA policies but also hinges on easing of Israeli-imposed restrictions on the movement of people, goods, and capital. Reducing the high disparities in labor market outcomes across governorates and cities will also require easing these restrictions on the movement of people. Improved donor coordination around, focus on, and funding of the National Employment Strategy would be opportune.

²¹ A new draft labor law reportedly addresses these issues.