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Looking ahead: Developing sovereign institutions and creating a sustainable Palestinian economy

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Investing in youth through education

Summary

This brief paper addresses the intersection of robust population growth, educational attainment and labour force participation of youth in the Occupied Palestinian Territory. It presents evidence of significant improvement in educational attainment among Palestinians. At the same time it documents rapid deterioration in the labour market for youth. It argues that rather than focusing on education as the remedy, maximizing benefits for youth requires more attention to the economic and political context and on policies that would accelerate economic growth and employment generation. This would allow them to fully realize the potential of the educations they have attained.

1. Population

Census data for the Occupied Palestinian Territory (OPT) indicates relatively robust population growth in the decade after 1997 (the year of the first Palestinian National Authority census). In broad terms, population grew at an average annual rate of 3.2 percent between end-1997 and end-2007 net of migration. Table 1 (see appendix) indicates that the youth segment of the population, defined as those 15-24 years of age by the Palestinian Central Bureau of Statistics (PCBS), grew at an average annual rate of 3.7 percent.

Due to a decline in the birth rate, the children's segment of the population—those 14 years of age and below—grew by only 2.3 percent per annum, on average, nearly one percentage point slower than the population as a whole. Meanwhile, the youth segment of the population, expanded by an average of 3.7 percent per year, or about one-half percentage point faster than overall population growth. These trends were manifest in both the West Bank and Gaza although more pronounced in the former where the youth segment grew at twice the rate of the children's segment of the population.

Despite lower birth rates, the population pyramids for both census years indicate that children remained a very large demographic segment of the total population with more than twice the weight of the youth segment. However, as a proportion of the total population, children receded in importance as the youth segment grew in weight. As indicated in Table 2, both the children's and retired persons (65 years and above) demographic segments declined in both the West Bank and Gaza as the working-age population bulged. Youth—the bottom fifth of the working-age segment—also expanded although not as robustly as the larger segment. In the West Bank, the working-age population grew at more than twice the rate of the youth segment while the growth of the Gaza youth population outstripped that of the larger working-age demographic.

2. Education

Parallel to the demographic progression outlined above, there were important developments in the realm of education for Palestinians in the OPT. Most notable were significant declines in illiteracy, higher secondary-school completion rates and a dramatic increase in post-secondary educational attainment (refer to Table 3 in appendix).

Illiteracy among those 10 years and above fell from 11.6 percent of that population to 5.6 percent. Moreover, the portion of the population with only basic abilities to read and write fell by about one-fifth.

At the other end of the spectrum, as shown in Table 3, the share of the population with post-secondary school degrees (associate diploma and above) jumped from 8.7 percent to 11.3 percent, a rise of 30.5 percent in relative terms.

Both the West Bank and Gaza experienced similar declines in illiteracy while advances in post-secondary education were somewhat more pronounced in the West Bank. Furthermore, advances in women's educational attainment was greater than that of men in the decade after 1997, especially in post-secondary education.

Youth attained increasing levels of education in the OPT. In 2007, 87.5 percent of the 15-17 years cohort were enrolled in school with 48.9 percent of the 18-22 years segment enrolled.¹ The portion of the population 15 years and above who had completed secondary school rose from 16.5 percent in 1997 to 21.2 percent in 2007, a relative increase of 28 percent. Those who had obtained bachelors degrees or higher rose from 5.5 percent to 8.7 percent, a relative increase of 58 percent. It is noteworthy that raw educational attainment in Gaza exceeded that of the West Bank with larger shares of the 15 years and above population having obtained secondary school and bachelors degrees or higher both in 1997 and 2007.²

The evidence suggests that the quality of education in the OPT has also improved in the period after 1995, with lower student to teacher ratios, more resources directed to education, important changes in curriculum introduced and a dramatic rise in post-secondary educational enrolment and attainment. One of the reasons for this growth has been the introduction of more flexible college programmes including distance learning. This led to a doubling of the post-secondary enrolment rate among youth in the OPT between 1999 and 2007, with the number of women in such programmes exceeding that of men.³

3. Labour Market Dislocation

The increased diffusion of education contributed to important changes in Palestinian culture. One of the more salient effects was the decline in fertility rates⁴ as women increasingly postponed marriage to attain higher levels of education. Another effect of more sustained educational experiences has been declining labour force participation rates for the youth demographic segment. In 1997, the average proportion of youth who were employed or seeking employment (by the strict ILO definition) was 32.4 percent (55.2 percent for males, 7.9 percent for females). By 2007, the labour force participation rate had fallen to 26.6 percent (44.2 percent for males, 8.2 percent for females).

¹PCBS "Youth in Palestinian Territory; Statistical Indicators," August 2008.

² In addition, the share of youth 15-24 able to read and write was over 96% in 1997 and over 98% in 2007. Information in this paragraph is from Samir Safi and Khalil Miqdad *A Comparative Study on the Social, Familial, Marital, Educational and Economic Characteristics of the Households in the Palestinian Territory, 1997-2007* (PCBS Dissemination and Analysis of Census Findings Series, December 2009).

³ See Edward Sayre and Samia Al-Botmeh *Youth Exclusion in the West Bank and Gaza Strip: The Impact of Social, Economic and Political Forces* (Middle East Youth Initiative Working Paper, Dubai School of Government, November 2009), pp. 14-19.

⁴ The fertility rate in the OPT, still high by world standards, fell from 6.0 births (5.6 for West Bank; 6.9 for Gaza) in 1997 to 4.6 births (4.2 for West Bank; 5.4 in Gaza) in 2006. See "Youth in Palestinian Territory; Statistical Indicators," August 2008.

This phenomenon had to motivating factors. First, increasing levels of educational effort among youth reduced their proclivity to actively seek work. Second, increasingly high rates of unemployment led youth to withdraw from, or postpone participation in, the labour market. (This has not been true of young women who, despite far lower participation rates than young men, have sustained their labour force participation.)⁵

In 2010 there was an estimated average of 215,000 youth participating in the labour force in the OPT, about 25.7 percent of the youth population and about 22 percent of the aggregate labour force. Of these, about 131,500 were employed and 83,500 or 38.8 percent were unemployed according to the standard ILO definitions. This compared to a 28 percent average youth unemployment rate in 1997.

When defined more broadly to include discouraged workers, i.e. those who have given up on searching for work because they believed none can be found, the youth unemployment rate reached 47.7 percent in 2010 (about 39 percent in the West Bank and an incredible 70 percent in Gaza). This was the highest rate of unemployment of any labour force demographic segment in the OPT and among the very highest rates in the world.⁶

The radical disruptions in the Palestinian economy over the past two decades were the backdrop to the emergence of hyper-unemployment among the young. Principal among these has been the progressively more restrictive closure, permit and separation policies of the Israeli authorities beginning in 1991, policies that ruptured more than a quarter century of labour market integration with the OPT. There was also the damage caused by freer trade with the rest of the world made possible by the economic agreements signed between Israel and the PNA. Finally, there was the internal dynamic of the Palestinian political economy undergoing rapid public sector employment growth.

4. Structural Changes in the Economy

In addition to raising the average youth unemployment rates, these wrenching changes were reflected in the economic activity distribution of the Palestinian labour force (refer to Table 4). In the aggregate, 51.6 percent of respondents with work experience in 1997 were, or had been, employed in what can be called productive activities (i.e. agriculture, quarrying, manufacturing, production of utilities and construction). Another 13.7 percent reported commerce as their main working activity and 36.3 percent were or had been in private and public services (i.e. hotels and restaurants, transport and communications, finance, real estate and business services, public administration, education and health and social work). By 2007, those who had experience in productive activities had declined to 36.3 percent; those in commerce had expanded to 17 percent and those in public and private services surged to 46.7 percent.

It is noteworthy that strategic private sector activities such as manufacturing, agriculture, construction and hotels and restaurants (a barometer of tourist activity in the country) declined in importance. Simultaneously, activities associated with the public sector and external donor aid, e.g. public administration and defence, education, health and social work, community and social services (including local NGOs) and employment in foreign organizations (i.e. multilateral organizations and foreign NGOs), increased in importance.

⁵ PCBS *Labour Force Survey Annual Report: 2009*, April, 2010, p. 65.

⁶ Unemployment rates in the OPT are among the highest in Middle East and North Africa which, as a region, has the highest unemployment rates in the world. See ILO *Key Indicators of the Labour Market, Chapter 4*, 2010.

These rather stark developments are indicative of the repeated and layered external shocks to the Palestinian economy. Thus, the decline in construction employment was a direct result of the enforced reduction of Palestinian labour in Israel under the separation policy. The resulting decline in incomes reduced domestic demand for goods and services dampening employment further. The free trade agreement with Israel and the latter's more open trading relations regionally and globally unleashed greater competition with domestic Palestinian agricultural and manufacturing. Meanwhile, the significant rise in public employment (i.e. public administration and defence, education and health and social work) reflected the growth of the PNA supported by significant amounts of external assistance.

These developments, as well as the changes in educational attainment, were also reflected in the *occupational structure* of the working population. As defined by the ILO, occupation refers to the kind of work done, the level of education and skills required and the degree of responsibility involved in specific jobs. Occupations are grouped together on the basis of the similarity of education, skills and responsibilities required to fulfil the duties of the job.⁷ The evidence from the censuses indicates 42.1 percent of employment experience gains occurred in the top three occupational groupings, those with the highest implied levels of education and skills; 41.4 percent occurred in the middle three groupings and; only 16.4 percent of gains were in the bottom third of the occupational distribution where education levels are presumed to be the lowest. (There was a significant drop in the proportion of the working population engaged in elementary occupations at the bottom of the distribution.) The impression is that the labour market in the decade between the censuses put a premium on greater levels of education and skills. These changes correlate with the changes in the activity distribution of the labour force outlined above.

5. Education and Future Labour Demand

In assessing employment growth for the future, the experience of the decade after 1997 is instructive. Changes in labour demand in the OPT were driven largely by external factors, rather than an internal dynamic. Thus, Israel's system of mobility restrictions had fundamental effects on the size and composition of the GDP and the resulting activity distribution of employment. The response of donors to Israeli restrictions and the ensuing socio-economic crisis was to significantly boost assistance to the PNA, thereby validating the growth of the public sector in the preceding years. This also generated employment in those activities catering to the public sector or its employees and to those related to donor activities.

For its part, the domestic private sector has focused most investment mainly in real estate and construction, an activity that is unable to sustain significant amounts of employment in the long run. Foreign direct investment has likewise been scant and outflows of investment funds have exceeded inflows in recent years.⁸ The commercial banking system has extended a disproportionately great share of lending for commerce, real estate and construction activities, with only small amounts of lending for

⁷ Occupational groupings are classified according to the International Standard Classification of Occupations (ISCO 1988) and include, from top to bottom: legislators and managers; professionals; technicians and associate professionals; clerks; services and sales workers; skilled agricultural and fishery workers; crafts and related workers; plant, machine operators and assemblers and; elementary occupations.

⁸ According to UNCTAD, there was about USD 29 million in new foreign direct investment in the Palestinian economy in 2008, equal to about 2.2 percent of the value of gross fixed capital in the country. At the same time, Palestinian residents made USD 45 million in direct investments in foreign economies in the same year. UNCTAD *World Investment Report 2009*, p. 262 and UNCTAD *World Investment Report Country Fact Sheet*. See <http://www.unctad.org/fdistatistics>.

manufacturing, agriculture and tourism development.⁹ Strategic activities, such as agriculture, manufacturing and the tourist-related activities experienced declines in employment under the weight of land and water confiscation and competition from lower cost Israeli and foreign products.

Thus, the strategic political and security considerations of Israel and the politically driven character of donor support for the PNA, shaped economic developments to a large extent. In this context, the labour market repercussions in the prolonged socio-economic crisis after 2000 reflected these developments as noted above. The politically determined character of these outcomes highlights the exceptional situation faced by the Palestinian people. A continuation of the status quo would likely deepen these trends; more employment opportunities in commerce and services of all types – including public sector employment – can and should be anticipated in the short term.

The problem here is that the public sector cannot generate significant additional employment given large budget deficits, inconsistent donor assistance and an uncertain political horizon. The fiscal constraints, in addition to a PNA divided between the West Bank and Gaza, remain fetters to recovery from the prolonged socio-economic crisis and to the strategic, long-term and sustainable development of the Palestinian economy.

This could be compared to a different scenario in which: a) the Israeli occupation is ended implying the end of the regime of movement restrictions on people and goods; b) an independent and sovereign Palestinian government is established and; c) policies are adopted to rehabilitate and expand agriculture, manufacturing, tourism and related activities, encourage maximum private investment in such activities, and that would take advantage of the natural and human resource base.

Longer term employment prospects for Palestinian youth will depend largely on the ability of the Palestinian private sector to generate jobs. For the most part, this depends on the extent of capital accumulation that can be achieved. Even under optimal conditions, this would be a very difficult task given the lack of productive, job-creating investment in the OPT.

Ultimately, growing and sustainable employment and income require policy independence. This presupposes a sovereign Palestinian government capable of furthering a course of socio-economic development that takes maximum advantage of existing and developing natural and human resource advantages and strengths. Perhaps the most important of these are the upgraded levels of education and skills among youth, and especially those of women who have both developed human capital at particularly rapid rates and have sustained labour market participation in recent years.

Conclusions

The upgrading of the educational and skill levels of youth in the in the decade after 1997 implies a work force with greater employment and income-generating potential. In addition to supplying more teachers for the system of education and skilled personnel to the public sector, a better-educated and better-skilled labour force will be critical for generating a more productive economy capable of generating and sustaining growth in employment and income.

But the basic obstacle for generating employment and an adequate level of living for youth in the OPT is not a lack of education. As the evidence suggests, in quantitative terms, the educational system

⁹ Moreover, the banking system has channelled more than half of Palestinian deposits into foreign investments. See UNRWA *Socio-Economic Developments in the Occupied Palestinian Territory, First-Half 2009*, February 2010.

and Palestinian youth have made important gains with regard to diffusing education more broadly. The evidence further suggests that the educational system has been relatively successful in matching education and labour market needs. Employed graduates of vocational schools, colleges and universities report in sizeable majorities that their educations were appropriate to the skills needed for their jobs.¹⁰

Rather the main obstacle is the very weak absorptive capacity of the labour market or, put differently, weak employment generation in the Palestinian economy. This in turn is attributable to abnormal circumstances generated by a condition of occupation. Under more normal conditions, with free movement of people and goods within its defined territory and between that territory and the rest of the world, one would expect significantly higher levels of productive private investment and more rapid employment generation. Such conditions would boost the demand for labour in general and would positively impact youth in the labour market.

Investing in education has paid off and will continue to pay off in terms of preparing young people for productive employment and in effective participation as citizens of their country. But creating macroeconomic stability and growth is an even better investment for youth as this would provide them opportunities to realize more fully the potential of their higher educational achievements.

¹⁰See the excellent study by Edward Sayre and Samia Al-Botmeh *Youth Exclusion in the West Bank and Gaza Strip: The Impact of Social, Economic and Political Forces* (Middle East Youth Initiative Working Paper, Dubai School of Government, November 2009) in which they provide evidence and analysis from the PCBS *Conditions of Graduates Survey, 2006*.

APPENDIX

Table 1**Population by Key Demographic Groupings
in the OPT, End-1997 and End-2007¹¹**

OPT	End-1997	End-2007	Absolute Growth
Children (0-14)	1,223,196	1,506,028	23.12%
Pupils (5-19)	1,017,775	1,352,374	32.88%
Youth (15-24)	510,007	699,129	37.08%
Working-Age (15-64)	1,286,947	1,789,017	39.01%
Retired (65+)	90,219	105,956	17.44%
Total Population	2,601,669	3,443,579	32.36%
West Bank			
Children (0-14)	720,292	835,289	15.97%
Pupils (5-19)	608,546	783,590	28.76%
Youth (15-24)	318,221	419,601	31.86%
Working-Age (15-64)	817,436	1,109,268	35.70%
Retired (65+)	61,237	69,163	12.94%
Total Population	1,600,100	2,056,298	28.51%
Gaza Strip			
Children (0-14)	502,904	670,739	33.37%
Pupils (5-19)	409,229	568,784	38.99%
Youth (15-24)	191,786	279,528	45.75%
Working-Age (15-64)	469,511	679,749	44.78%
Retired (65+)	28,982	36,793	26.95%
Total Population	1,001,569	1,387,281	38.51%

¹¹ The sources of data in all tables are the censuses of 1997 and 2007, both conducted by the Palestinian Bureau of Statistics (PCBS).

Table 2

**Relative Distribution of Key Demographic Groupings
in the OPT, End-1997 and End-2007**

OPT	End-1997	End-2007	Relative Change
Children (0-14)	47.02%	43.73%	-6.98%
Pupils (5-19)	39.12%	39.27%	0.39%
Youth (15-24)	19.60%	20.30%	3.57%
Working-Age (15-64)	49.47%	51.95%	5.03%
Retired (65+)	3.47%	3.08%	-11.27%
West Bank			
Children (0-14)	45.02%	40.62%	-9.76%
Pupils (5-19)	38.03%	38.11%	0.20%
Youth (15-24)	19.89%	20.41%	2.61%
Working-Age (15-64)	51.09%	53.94%	5.60%
Retired (65+)	3.83%	3.36%	-12.11%
Gaza Strip			
Children (0-14)	50.21%	48.35%	-3.71%
Pupils (5-19)	40.86%	41.00%	0.35%
Youth (15-24)	19.15%	20.15%	5.23%
Working-Age (15-64)	46.88%	49.00%	4.52%
Retired (65+)	2.89%	2.65%	-8.35%

Table 3

**Educational Attainment of OPT Population
10 Years and Over by Region,
End-1997 and End-2007**

OPT	End-1997	End-2007	Relative Change
Illiterate	11.62%	5.66%	-51.30%
Can Read and Write	16.93%	13.23%	-21.87%
Elementary	26.15%	24.03%	-8.09%
Preparatory	22.84%	27.82%	21.84%
Secondary	13.29%	17.80%	33.94%
Associate Diploma	4.25%	3.80%	-10.67%
Bachelor	3.91%	6.69%	71.33%
Higher Diploma	0.07%	0.16%	120.29%
Master	0.35%	0.52%	50.74%
Ph.D	0.11%	0.17%	49.81%
Total	100.00%	100.00%	

West Bank	End-1997	End-2007	Relative Change
Illiterate	11.80%	5.76%	-51.20%
Can Read and Write	17.00%	13.31%	-21.68%
Elementary	27.60%	24.53%	-11.13%
Preparatory	23.10%	28.49%	23.32%
Secondary	11.20%	16.09%	43.69%
Associate Diploma	4.40%	4.16%	-5.51%
Bachelor	3.70%	6.59%	78.19%
Higher Diploma	0.10%	0.12%	24.48%
Master	0.40%	0.60%	49.99%
Ph.D	0.10%	0.17%	65.58%
Total	100.00%	100.00%	

Gaza Strip	End-1997	End-2007	Relative Change
Illiterate	11.30%	5.48%	-51.50%
Can Read and Write	16.80%	13.08%	-22.15%
Elementary	23.60%	23.16%	-1.88%
Preparatory	22.30%	26.65%	19.50%
Secondary	16.90%	20.82%	23.20%
Associate Diploma	4.00%	3.16%	-20.88%
Bachelor	4.20%	6.86%	63.45%
Higher Diploma	0.10%	0.22%	117.52%
Master	0.30%	0.38%	27.56%
Ph.D	0.10%	0.17%	73.22%
Total	100.00%	100.00%	

Table 4**Employment Distribution in the OPT (10 Years and Above) Who Ever Worked by Economic Activity, End-1997 and End-2007¹²**

Economic Activity	End-1997	End-2007	Relative Change
Agriculture, Hunting and Forestry	10.6%	8.6%	-18.64%
Fishing	0.2%	0.3%	87.89%
Mining and Quarrying	0.4%	0.3%	-22.47%
Manufacturing	14.8%	11.2%	-24.25%
Electricity, Gas and Water Supply	0.2%	0.3%	55.92%
Construction	25.6%	15.7%	-38.69%
Wholesale and Retail Trade	13.7%	17.0%	23.59%
Hotels and Restaurants	1.7%	1.5%	-8.27%
Transport, Storage and Communication	4.5%	5.9%	31.15%
Financial Intermediation	0.8%	0.8%	-1.21%
Real Estate, Renting and Business Activities	1.4%	1.7%	20.26%
Public Administration and Defence	12.0%	17.0%	42.37%
Education	8.0%	10.5%	30.99%
Health and Social Work	3.0%	3.3%	11.00%
Other Community, Social and Personal Services	1.8%	3.1%	73.82%
Private Households with Employed Persons	0.0%	0.1%	38.90%
Extraterritorial Organizations and Bodies	0.5%	0.9%	91.75%
Not Stated	1.0%	2.0%	86.70%
Total	100.0%	100.0%	

¹² This table is based on the census questionnaire which asks about the work experience of those working and/or those who have ever worked aged 10 years and above. This is different from the standard quarterly labour force survey which asks only about *current* employment of those 15 years and above. Thus, the results offer a broader and longer-term picture of changes in the work activity.