West Bank and Gaza

Jobs in West Bank and Gaza

Enhancing Job Opportunities for Palestinians

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Social Protection and Jobs
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Executive Summary

**Jobs are critical for economic growth, poverty reduction, peace and social stability in the Palestinian Territories.** The current economic situation in the Palestinian Territories (PT) has gone from bad to worse, reaching a critical stage before it becomes a true humanitarian crisis, particularly in Gaza. Real GDP growth contracted by 1.3 percent in the second quarter of 2018—the Gaza’s economy shrank by 6.1 percent. Close to one third of the population live below the poverty line, but poverty already affects half of the population in Gaza. And the PT continues to be affected by conflict, both internal as well as with Israel. Creating more and better jobs is central to the strategy to boost economic growth, reducing poverty and achieving peace and stability in the PT.

**This report aims to provide policy options to create more and better jobs for Palestinians.** The report provides a comprehensive diagnostic of the job challenge in the PT. It does so by (i) analyzing recent trends in labor market outcomes (employment and wages) and the implications for growth, poverty and social stability; (ii) linking labor market outcomes to the relative demand for labor, the types of jobs being created, as well as the underlying productive structure and spatial dimension of the economy; and (iv) looking at the external (Israeli-imposed restrictions) and internal factors limiting and distorting economic activity and job creation in the PT. Based on the diagnostic, the report then provides policy options to create more and better jobs for Palestinians. While recognizing that any long-term sustainable solution to the jobs challenge in the PT must involve the relaxation of Israeli-imposed restrictions, the focus of this report is on identifying opportunities and options for the Palestinian Authority to create more and better jobs in the PT. The policy discussion is organized around four key areas that the PA has some control over: (1) boosting technology-based services; (2) exploiting local specialization in traditional sectors by strengthening value chains; (3) connecting youth to jobs and removing barriers to female employment; and (4) building a partnership with the private sector, civil society and the international community for job creation.

**Rampant joblessness and informality and stagnant wages are constraining economic growth, poverty reduction and social stability in the PT—this calls for immediate action.** Labor force participation rates are stubbornly low, particularly among women—only 1 out of 10 women of working age are either working or looking for a job. Unemployment is rising and now affects one third of the labor force, highest point in two decades. The situation is especially alarming in Gaza, where more than half of those in the labor force are unemployed. More generally, there are large differences across regions, indicating a high degree of geographic segmentation of the labor market. Unemployment hits youth and women particularly hard. About 7 out of 10 young Gazans are unemployed (8 out of 10 young women). And more than 6 out 10 of those who do find employment work in informal jobs, undermining worker protection and labor productivity. Wages have stagnated in the private sector but have increased in the public sector and for Palestinians working in Israel.

**The labor market is performing poorly because the private sector is creating few jobs and in the wrong places.** During the 1994-2017 period, the Palestine economy needed to create 821,000 new jobs just to absorb the flow of new entrants into the labor force, but it only created 574,000 jobs, a deficit of 247,000 jobs. This is mainly due to the weak demand for labor in the private sector. And job creation in the private sector has been concentrated in low-productivity non-tradable services like retail trade, reducing overall labor productivity. This inefficiency is the result of a productive structure centered around small, low-productivity, and often informal firms geared towards the domestic market. Another source of inefficiency
is the segmentation of economic activity. The Palestinian economy is essentially an ‘archipelago’ economy with poor economic links between ‘islands.’ The lack of competition between firms within the same sector across regions creates large productivity differences across regions: firms in East Jerusalem are 55 percent more productive than firms in West Bank, while Gaza firms are 15 percent less productive. The geographic segmentation of economic activity has also contributed to local specialization which, as discussed later, can be an important source of job creation is adequately exploited.

The private sector is creating few jobs and doing so in low-productivity activities mainly because of external factors, but internal factors also play an important role. These external factors include (i) Israeli-imposed restrictions on trade, mobility, and access to land and other natural resources; and (ii) repeated cycles of conflict. These factors are intertwined and generate a vicious cycle of economic, social and political instability. Israeli-imposed restrictions on trade severely limit the prospects for export-led growth, which is particularly damaging for a small economy like the one in the PT. Restrictions on access to resources, particularly those in Area C, and on movement of goods and people within the West Bank are also major limitations to economic activity. And the Gaza’s economy has been suffering for years now due to a blockade that was imposed in 2007. Relaxing those constraints would have a large impact on growth and unemployment (World Bank 2017b). But the impact of external factors is exacerbated internal factors such as burdensome and fragmented business regulations, poor governance, limited financing for small firms, and inadequate infrastructure. Fiscal reforms and reforms to improve the business climate would have a particularly large impact on growth and unemployment.

Any long-term sustainable solution to the jobs challenge in the PT must involve the relaxation of Israeli-imposed restrictions on economic activity in the PT and employment of Palestinians in Israel. This includes restrictions on trade, mobility, and access to land and other natural resources that limit and distort economic activity in the PT. Being a small economy, restrictions on trade are particularly damaging. Key measures in the short term include the revision of the special goods and dual-items goods lists and processes. In the longer term, Israel could consider a reformed trade regime with the PT, where the Palestinian Authority (PA) would have effective control over its customs territory. This would allow the Palestinian economy to integrate better with the rest of the world, without losing its many ties with Israel. The relation of restrictions on employment of Palestinians in Israel is by no means a first best solution from a state-building perspective, but it would help reduce unemployment and improve household welfare more directly, and thus faster, than the relaxation of restrictions on economic activity in the PT. In practice this would mean an increase in the number of work permits issued by Israel, but also ensuring the flow of Palestinian workers into Israel is stable, predictable, and coordinated with the Palestinian Authority (PA).

But there are opportunities to create more and better jobs in the PT within the limits imposed by Israeli restrictions. There is no magic bullet, but this report argues that such opportunities do exist and provides policy options to exploit them. The discussion is organized around four policy areas that the PA has some control over, while recognizing that even there Israel still plays an important role in many cases.

1. **Boosting technology-based services.** The previous analysis showed that the jobs challenge in the PT is mainly a labor demand issue. Given the small size of the economy and the restrictions on physical trade, the best option to create more and better jobs in the PT is to boost tradable services, particularly those based on digital technologies, such as information and communication technology (ICT) services, whose global demand is rapidly growing. Doing so requires
improvements in business regulations and competition, entrepreneurship financing, skills as well as supporting services and infrastructure.

2. **Exploiting local specialization in traditional sectors by strengthening value chains.** It will take time for technology-based services to deliver quality jobs for a large number of Palestinians, as they currently account for a small share of output and employment. This is why parallel efforts are needed to bring firms in traditional sectors closer to the production possibility frontier, so they can deliver more and better jobs. Some of the above reforms, particularly in business regulations and competition, will help. But the PT could also exploit better the potential of the existing local specialization in goods and services. This requires identifying and addressing constraints along the value chain in the local economies.

3. **Connecting youth to jobs and removing barriers to female employment.** The PT’s biggest asset is its large talent pool of young people. To tap into this great asset, more and better job opportunities need to be created, particularly digital jobs. But dedicated efforts are also needed to better connect youth to job opportunities and to remove barriers to female employment.

4. **Building a partnership for job creation.** The PA cannot do it alone, nor should it. While the PA has regulatory power, it has a very limited fiscal space. The PA needs to reach out to the private sector and civil society to create a National Alliance for Jobs to develop and implement solutions within an integrated jobs strategy. Development partners should support this partnership and provide financial support to the initiatives that come out of it.

**Boosting technology-based services**

**Technology-based services hold the promise, but they need to be nurtured.** Data-based and technology-enabled services, such as ICT and business services, can get around physical-trade restrictions. And there is a growing global demand for these services. There is an incipient but rapidly growing ICT sector in the PT, with most startups being this sector. But growth in this sector is constrained by burdensome business regulations, insufficient financing, and inadequate supporting services and infrastructure. Online freelancing also offers a great opportunity for Palestinian youth, particularly in Gaza. There is small but growing number of online freelancers in the PT, particularly in Gaza, but growth is constrained by limited skills training and mentorship opportunities, restrictions to online payments, and limited access to high-speed internet. Key policy options to address these constraints are

- **A ‘Big Bang’ regulatory reform to signal to the business community that the PT is open for business.** The Big Bang reform would be broad-ranging but prioritize reforms that support the digital economy (e.g. adoption of the Companies Law, regulations on digital payments and telecommunications), harmonize business regulations across the PT, ensure a level playing field for businesses, and actively involve the private sector.

- **Increasing financing for promising startups and small firms.** Business angel investing—involving high net worth individuals and investors investing their own capital into startups/early-stage businesses, has the potential to emerge as an effective form of capital to bridge the equity gap for Palestinian early-stage enterprises. It could be supported through the development of angel networks and catalytic grants. Remittances could be tapped into more effectively to help finance productive investments through matching investments.

- **Improving the supporting services for entrepreneurs and online freelancers.** There are a number of incubators and accelerators operating in the PT. Donor funding going into these institutions could be used to increase the capacity of managers and mentors, attract experienced mentors, and to better
connect these institutions with international peers. Support to online freelancing exists but coverage is very limited. Given the high social returns to investing in this type of work in the PT, there is a clear case for increasing public support, including donor funding, to attract more service providers, increase the coverage of these programs, and expand the types online freelancing skills that are supported.

- **Equipping youth with relevant skills for the digital economy.** Ongoing efforts to improve the quality of preschool and basic education need to be accelerated, focusing on improving teaching practices. Job market relevance of higher education programs can be improved by scaling up ongoing initiatives to support partnerships between higher education institutions and employers. For the short run, a private sector-led skills training system can be supported by scaling up ongoing initiatives to leverage private investment into skills training or through the establishment of a skills training fund to support coalitions of employers and training providers in key sectors like IT to provide training. It is also important to tailor these solutions to the specific needs of women (S4YE, 2019).

- **Improving digital infrastructure.** Improving the speed, reliability, and affordability of broadband internet requires Israeli authorities to allow the operation of 4G technology and to release more mobile spectrum, but also reforms to improve competition and oversight in the telecom industry. The establishment of a National Payments Company and the implementation of the laws for e-transactions and cyber security are key priorities to develop a secure and diversified online payment system.

**Exploiting the potential of local specializations**

**Local specializations can be better exploited by strengthening local value chains.** Local specializations are supported through a value chain of producers and service providers. But bottlenecks in the value chains prevent the full realization of the local specialization potential in terms of scale, productivity, and job creation. The PA could partner with local governments and the private sector to identify local specializations and bottlenecks along the value chain—using existing jobs in value chain methodology—and to develop solutions.

**Connecting youth and women to jobs**

**The PT’s large youth talent pool represents its biggest asset, but efforts are needed to tap into it by connecting youth to jobs and removing barriers to female employment.** Palestinian young people are well-educated, creative, and tech savvy—they are active on social media and are heavy users of mobile phones. But the lack of job opportunities is making youth increasingly frustrated, risking the possibility of turning this great asset into a liability. To avoid that, more and better jobs opportunities need to be generated in the private sector, particularly digital jobs—the previous sections provided some policy options to do that. But dedicated efforts are also needed to help connect youth to these jobs opportunities and to reduce barriers to female employment. Key policy options include:

- **Developing digital platforms to help connect youth to job opportunities.** Digital platforms can facilitate job-matching, provide online jobs search assistance, connect the self-employed and online freelancers to clients, and refer job seekers to employment support services. There are a few small-scale platforms operated by the private sector in the PT. The PA can facilitate the scale-up of such private initiatives and learn from them to develop, in partnership with social enterprises and NGOs, a platform to refer vulnerable youth to jobs and employment support services. This could be
complemented by job counselors that use the information from the platform to provide advice, work out a plan with job seekers, and follow up with them.

- **Enhancing employment support to vulnerable youth.** The digital platform would refer vulnerable youth to support services that meet their needs. Services can either be financed directly by the government (with donor support) or by the social enterprises and NGOs. Good targeting is essential: vulnerable youth includes youth that are either unemployed or working informally, but given limited resources, support can focus on less educated youth and give preferential access to youth in poor families. It is important to pick support services that have a demonstrated high impact on jobs, like online freelancing support. In Gaza, where job opportunities are very limited and social needs are daunting, cash for work can have a high social impact.

- **Removing administrative barriers to female employment and improving their safety in the workplace.** Labor laws and regulations need to be revised to make them gender neutral and explicitly prohibit discrimination in the hiring, promotion, and pay of women versus men. Another priority is to introduce legislation against sexual harassment in the workforce and to allow women to prosecute claims in court. All these legislative changes need to be accompanied by strong enforcement and awareness raising. The removal of existing regulatory barriers to formalize home-based businesses would also increase female employment.

- **Access to safe transportation and affordable child care.** Female-only minibuses along popular routes after dark could be a viable option. Options to increase access to child care services include simplifying the licensing of nurseries, enabling community nurseries run by mothers, and incentivizing employer-funded child care (e.g. through subsidized vouchers).

**Building a partnership for job creation**

A partnership between government, private sector, and civil society is needed to develop solutions to create more and better jobs for the PT. This report shows that there are good opportunities to create more and better jobs within the limits of imposed by Israeli restrictions. It also provides policy options to exploit those opportunities, building on the wealth of knowledge on what has worked and what has not in the PT and focusing on practical solutions to address the jobs challenge in a more integrated way. But the PA cannot do it alone, nor should it. While the PA has regulatory power, it has a very limited fiscal space. The PA needs to reach out to the private sector and civil society to create a National Alliance for Jobs to develop and implement solutions within an integrated jobs strategy. International evidence shows that countries where governments actively engaged with the private sector and civil society around a comprehensive jobs strategy were able to successfully develop and implement comprehensive jobs strategies that ultimately resulted in more and better jobs.

Development partners should support this partnership and provide financial support to the initiatives that come out of it. Development partners have supported many job-related initiatives over the years. Some of these initiatives have had limited success, leading to some donor fatigue. But there are also many successful initiatives. This report builds on these experiences. The report also argues that, to be successful, these initiatives should be part of an integral plan to address the jobs challenge, a plan that should come out of the National Alliance for Jobs.
Limited job opportunities constrain growth and threaten social stability

Rampant joblessness and informality and stagnant wages are constraining economic growth, poverty reduction and social stability in the PT. Labor force participation rates are stubbornly low, particularly among women. Unemployment is now at the highest point in two decades. The situation is especially alarming in Gaza. Unemployment hits youth and women particularly hard. Most workers are informal, undermining worker protection and labor productivity. Wages have stagnated in the private sector but have increased in the public sector and for Palestinians working in Israel. The labor market is performing poorly because the private sector is creating few jobs and in the wrong places. Limited job creation is mainly due to the weak demand for labor in the private sector. And job creation in the private sector has been concentrated in low-productivity non-tradable services. The Palestinian economy is essentially an ‘archipelago’ economy with poor economic links between ‘islands’. The lack of competition between firms within the same sector across regions creates large productivity differences across regions. The private sector is creating few jobs and doing so in low-productivity activities mainly because of conflict and Israeli restrictions, but internal factors also play an important role.

A dire picture of the labor market: Rampant joblessness and informality, stagnant wages, and geographic segmentation

Labor force participation rates are dismally low, particularly for women. In 2017, over 2.8 million Palestinians were of working age, but fewer than 1.3 million were active in the labor force (World Bank, 2018a). Labor force participation (LFP) rates have historically been low and unable to break the 30 percent mark until 2013.¹ This is mainly driven by the very low female labor force participation rate, which has been increasing slowly since 2002 but stood at just 11 percent in 2017—only Jordan and Iran have lower rates in the MENA region (Figure 1). The LFP rate of men is much higher than for women, yet it is still only slightly above 50 percent, and not much different from the rate in 1990.²

Activity rates have reached critically low levels in some governorates with large cities. Participation rates across governorates range from 30 to 51 percent. The lowest levels of labor force participation are located in the governorates of Jerusalem (30 percent), Qalqiliya and Jericho (40 percent each), North Gaza (43 percent), and the governorates of Ramallah and Al Bireh, Gaza, and Tulkarm (44 percent each). Some of these governorates host large cities such as Jerusalem, Ramallah, and Gaza (governorates with the same name), or Jabalia (in North Gaza). Still, some governorates with large cities such as Hebron show higher participation rates (Figure 2).

¹ Labor force participation rate for ages 15-24 is the proportion of the population ages 15-24 that either employed or actively looking for work.
² World Bank (2018) data in the World Development Indicators used in this text are estimates and projections by the International Labour Organization’s (ILOSTAT database) early release of the 2017 ILO Labor Force Estimates and Projections (retrieved in November 2017). The WDI figures used here contrast in magnitude with national estimates, but the trend is similar. In 2015, national estimates by the Palestinian Central Bureau of Statistics (PCBS) show that overall labor force participation stood at nearly 46 percent, with male LFP just short of 72 percent and female LFP at just over 19 percent.
Unemployment is rising and it is now at the highest point in two decades. Between 1994 and 2017, unemployment grew at an annual average rate of 5.1 percent, but the unemployment rate has grown even faster since 2010: nearly 8 percent yearly, up from a 1.3 percent annual average between 2002 and 2010 (World Bank 2018). The unemployment rate peaked at 32.4 percent in the second quarter of 2018, about 5 percentage points higher than its average in 2017 and the highest rate in two decades. The

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And by the same token, employment expanded by only 4.2 percent.
increase is due to a strong jump in Gaza, where 53.7 percent of those in the labor force were unemployed in the second quarter of 2018.\textsuperscript{4}

**Unemployment runs rampant for women and youth, particularly in Gaza.** Between 2000 and 2015, while female LFP rates only rose by six percent, female unemployment rates increased drastically from 12 to 39 percent (PCBS 2016). In contrast, males’ unemployment rate declined after 2008. This trend holds true in both the West Bank and Gaza, but in Gaza the gender unemployment gap became even larger following the blockade. By 2015, the unemployment rate among women and men in Gaza reached 60 percent and 36 percent, respectively. More than 41 percent of youth were unemployed in 2015, with young females being hit the hardest (61 percent). In the second quarter of 2018, unemployment amongst Gaza’s youth exceeded 70 percent, and was even higher among young females (78 percent).

**Many young people are inactive, especially young females.** The share of young workers who are neither in employment, training, nor education (NEET) is already high but is also rising. In 2013, the NEET ratio in West Bank and Gaza for youth aged 15-24 was one of the highest in the world, and by 2015 it had further risen to about 30 percent. Once again, the share of NEETs in Gaza was higher than in the West Bank. As with LFP rates, the NEET has a strong gender dimension with women being worse off compared to men (Figure 3). NEET ratios are higher for the older cohort of the youth population who left compulsory secondary school (18-24) compared to the younger cohorts (aged 15-17).

**Figure 3. NEETs by gender, 2015**

![Figure 3. NEETs by gender, 2015](image)


**Large differences in unemployment rates across regions indicate a high degree of labor market fragmentation.** Unemployment rates in the PT range from less than 11 percent to as high as 48 percent. Although the gap is enlarged by governorates in Gaza, some governorates in the West Bank can

\textsuperscript{4} Nevertheless, it is likely that high unemployment rates significantly reflect underemployment (i.e. some workers might be involved in occasional small and low-productivity activities), rather than being truly unemployed in strict sense.
experience unemployment rates twice as high as those in the lowest end. Spatially, higher unemployment rates concentrate in Gaza and, to a lesser degree, Bethlehem (Figure 4).

**Figure 4. Unemployment rates by governorate, 2015**

![Unemployment rates map](image)

*Source: Own calculations based on PCBS (2018).*

*Note: Maps were produced using a statistical software (GeoDa) for purely analytical objectives. The boundaries, colors, denominations, and any other information shown on maps do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.*

The labor market is geographically fragmented. Using cluster analysis, five different labor markets realities emerge (see Box 1). Most of the West Bank (Jenin, Tubas, Tulkarm, Nablus, Salfit, Ramallah, Bethlehem, and Hebron) can be grouped in a cluster of governorates that are characterized by relatively high LFP and relatively moderate unemployment (relative to the Palestinian context). Another cluster includes two non-contiguous governorates (Jericho and Qalqilya) that face lower LFP and lower unemployment (Figure 5). Jerusalem seems to perform differently than any other governorate, with the lowest LFP and relatively moderate unemployment. Although Gazan governorates demonstrate much worse conditions than others in the West Bank, governorates within Gaza are themselves different in their unemployment situations. On the one hand, Gaza and North Gaza governorates experience very high levels of unemployment at high levels of LFP. On the other hand, the remaining three governorates (Deir El Balah, Khan Younis, and Rafah) suffer from extremely high unemployment rates but relatively lower LFP.

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5 Cluster analysis refers to a multivariate statistical technique that aims at classifying subjects or objects on the basis of a set of measured variables into a number of different groups such that similar subjects are placed in the same group (see Box 1 for a fuller discussion).
Figure 5. Clusters of unemployment rates and LFP by governorate, 2015

Source: Own calculations based on PCBS (2018).
Note: Maps were produced using a statistical software (GeoDa) for purely analytical objectives. The boundaries, colors, denominations, and any other information shown on maps do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

Box 1. Cluster Analysis

Cluster analysis is a technique that makes it possible to identify individuals similar to each other given a range of variables. Among the different tools within cluster analysis, K-Means Clustering was chosen, as a relatively small number of clusters were desired. An added advantage of the clustering approach used in this note, is that the researcher can use this tool when the number of clusters is known in advance.

Two variables were also chosen as the parameters by which regions would be similar or different: labor force participation rates and unemployment rates. All variables were standardized before the cluster analysis was performed. In the case of the PT, five clusters in a hierarchical method were calculated. The results were the following clusters: (1) Jerusalem; (2) Jenin, Tulkarm, Tubas, Nablus, Safit, Ramallah, Bethlehem, and Hebron; (3) Qalqilya and Jericho; (4) Gaza and North Gaza; and (5) Deir El Balah, Khan Younis, and Rafah

Job informality is persistently high, especially among young workers, undermining worker protection and labor productivity. In 2012, ILO indicators showed that informal employment was around 60 percent of non-agricultural employment (World Bank 2013). The 2016 Labor Force Survey conducted by PCBS shows that 62 percent of workers are informal (PCBS 2016). Sabra, Eltallar, and Alfaro (2015) found that during the 1995-2012 period, the shadow economy—composed of informal activities—accounted for 58 to 89 percent of GDP. Informal jobs are dominant in informal firms, but formal firms also hire informally. Job informality is exceptionally high among youth: ILO (2014) estimated that over 94 percent

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6 Informal employment is defined as jobs without legal and social protection, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period. The informal sector is broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labor and capital as factors of production and on a small scale. Labor relations - where they exist - are based mostly on casual employment, kinship, or personal and social relations rather than contractual arrangements with formal guarantees.
of workers aged 15 to 29 were employed informally. The situation is likely to be worse in Gaza today following the closing of borders.

**Wages have stagnated in the private sector but have increased in the public sector and for Palestinians working in Israel.** Since 2010, real wages in the private sector have stagnated in the West Bank and declined in Gaza (after 2012) (Figure 6). Public sector wages have increased in the West Bank but did not change in Gaza. Overall, real wages in the West Bank increased from 2012, largely driven by increasing wages for Palestinians working in Israel and the settlements.

A **large public-sector wage premium drives the strong reliance on the public sector for employment, particularly in Gaza.** Over 2010-2015, the public sector steadily accounted for one-third of total employment (Figure 7). This share is higher in Gaza (40 percent), where public jobs also play the role of safety net. One reason people are attracted to public-sector jobs is because those jobs pay better: the wage premium is over and above that which can be explained by differential skills and education levels of the public-sector workforce. Decomposing the gap between public and private monthly wages in 2015 using LFS data demonstrates that a substantial part of the gap between these two cannot be explained by differences in workers’ skills: this unexplained wage premium in favor of public jobs is independent of personal attributes and human capital endowments. As such, it indicates an important distortion in the labor market, as it artificially limits job creation in the private sector.

**The large and growing wage gap between Palestinians working in the territories and those working in Israel and the settlements reflects a segmented labor market for Palestinians.** Although the share of West Bank workers employed in Israel and the settlements has increased since 2012 to about 17 percent, it is yet far from the pre-Intifada level of 1999 (23 percent). And the flow of Gazan workers into Israel was stopped after the blockade in 2007. West Bank workers employed in Israel and the settlements are mostly employed in low-skill occupations in construction (more than half), agriculture, as well as low-tech industries and services, where the Israeli labor supply falls short of demand. The number of Palestinians working in Israel and the settlements is well below the demand for Palestinian labor in Israel and the settlements and the number of Palestinians willing to work there attracted by significantly higher wages. This is mainly due to the restrictions on work permits and security controls at checkpoints imposed by Israel for West Bank workers. The number of and conditions for issuing work permits often change from one year to the next, and the security controls at the checkpoints change even more frequently and unpredictably. These restrictions have resulted in more than one third of Palestinians working illegally in Israel and, particularly, the settlements.

**Given the high level of unemployment in the West Bank, employment in Israel and the settlements is only pushing up wages in domestic sectors with high labor demand, such as construction.** While restrictions would prevent the equalization of wages across markets, employment in Israel and the settlements can theoretically push up wages in the West Bank. However, Agbahey et al (2018) show that even a significant increase in the number of West Bank workers in Israel and the settlements (from the level in 2011 to the pre-Intifada level in 1999, a 36 percent increase) would only drive up wages in the construction sector (by 15 percent). This is because 97% of new workers in Israel would come from the unemployment pool, and the increase in domestic labor demand resulting from higher household incomes

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7 The difference in geometric means across national government and other monthly wages in 2015 was 41 percent. A decomposition analysis showed that 17 points out of 41 cannot be explained by differences in personal attributes and human capital endowments between public and private sector employees. The wage premium is even higher in Gaza.
would also come from that pool. In construction, however, the labor market is already tight, and so the combined effect of some construction workers leaving for Israel and the increase in labor demand would result in higher wages, as they would not be enough qualified candidates in the unemployment pool.

Figure 6. Wages, public vs. private, West Bank, Gaza, Israel and Settlements, 2015

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<th>West Bank</th>
<th>Gaza</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.png" alt="Graph of wages" /></td>
<td><img src="image2.png" alt="Graph of wages" /></td>
</tr>
</tbody>
</table>


Figure 7. Structure of employment in the West Bank and Gaza regions during 2010-2015, %

<table>
<thead>
<tr>
<th>West Bank</th>
<th>Gaza</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image3.png" alt="Graph of employment" /></td>
<td><img src="image4.png" alt="Graph of employment" /></td>
</tr>
</tbody>
</table>

Source: LFS 2010-2015 from PCBS.

Note: Employment shares are calculated for population 15+.

Persistently low levels of employment and labor productivity are constraining economic growth. High job informality and low wages in the private sector are manifestations of low labor productivity. Between 1994 and 2017, the Palestinian economy grew at an annual average rate of 3.6 percent, but only 0.6 percent in per capita terms. This modest growth performance is the result of two forces acting in opposing directions. While demographic change and participation rates contributed positively to growth, negative productivity gains and employment rates slowed growth (Figure 8). The 1994-2002 period saw negative growth, mainly driven by losses in employment rates and productivity. Demographic change during that period was insufficient to compensate for losses in the rest of the components. This trend was reversed in the 2002-10 period, with the employment rate playing the most important role, followed by
demographic change and productivity. The experience during the most recent period (2010-17) mimics that for the entire period (1994-2017).

**Figure 8. Value added per capita growth decomposition, 1994-2017 and subperiods**

![Value added per capita growth decomposition](image)


**Beyond growth, the lack of good job opportunities is threatening social stability, particularly in Gaza.** Job creation is not only important for economic growth, but also for poverty reduction and social stability. When employment prospects are dim, creating jobs may lower the risk of violence by helping redress community grievances and raising the opportunity cost of joining rebellions or criminal organizations. Over the period 2004-2011, labor earnings and a demographic dividend were the key factors behind the observed reduction in poverty in the West Bank (World Bank 2017a). In contrast, a weak labor market contributed to an increase in income poverty in Gaza over this period. Data from PCBS shows that the share of population below the poverty line has increased from 26 percent in 2011 to 29 percent in 2017. However, while the poverty rate in the West Bank declined from 18 to 14 percent during that period, it increased dramatically from 39 to 53 percent in Gaza. And one-third of the poor in Gaza are living in deep poverty and cannot cover their most basic needs for food, clothing, and housing.

The labor market is performing poorly because the private sector is creating few jobs and in the wrong places

**The private sector is creating few jobs.** Between 1994 and 2017, 600,000 new jobs were created, mostly after 2002 (Figure 9). This is well below what is needed just to keep up with new labor market entrants. In 1994, the size of the labor force (LF) was only 478,000 people, but it grew at an annual average rate of

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8 The JobStructures Tool is a WB tool that pools WDI data and other country data and decomposes GDP per capita into L-related components.
4.4 percent in the following 23 years. By 2017, the LF was nearly 1.3 million people. In other words, during the 1994-2017 period, the Palestine economy needed to create 821,000 new jobs for new entrants into the LF, but the market only created 574,000 jobs, a deficit of 247,000 jobs. In the past 23 years, one in every three new workers was never a waged employee.

The weak demand for labor stems from low private investment, underpinned by low savings and low levels of Foreign Direct Investment (FDI). At around 15 percent of GDP, recent private investment levels have remained much lower than in other middle-income economies. Over the last decade, yearly FDI inflows have stood at around 1 percent of GDP while domestic savings rates remain negative (World Bank, 2017a).

**Figure 9. Employment creation, 1994-2017**

![Image](image.png)


**Investment and job creation have been concentrated in low-productivity services.** Over the period 1994-2017, structural change contributed positively, albeit modestly compared to other MENA countries (World Bank 2015), to productivity growth (Figure 10). This is because the typical productivity-enhancing effect of moving labor away from less-productive agricultural activities into more-productive sectors of the economy was offset partially by the intersectoral reallocation of labor to low-productivity services. In most countries, structural change starts with the movement of labor from agriculture to manufacturing. In the PT, some industrialization has been visible since 2010, but the structural change in employment has largely involved the movement of labor into services (Figure 10).

**Thus, structural change is not leading to productivity gains.** Within-sector labor reallocation from 1994 to 2017 has actually reduced productivity levels, resulting in an overall negative impact from labor reallocation on productivity growth (World Bank 2015). Only one other MENA country, Egypt, experienced negative within-sector productivity growth. Since 2010, within-sector productivity gains in industry are noteworthy and, to a much lesser extent, also in agriculture, but those gains have been offset by within-

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9 Labor productivity growth can be decomposed into within-sector change and reallocations “across” sectors or structural change.
sector productivity losses in services – the sector towards which the reallocation of labor is directed. Retail trade is, by far, the sector with the highest rate of job growth (Figure 11).

**Figure 10. Productivity changes: within and between sector effects, 1994-2017**

![Chart showing productivity changes](chart1.png)

**Figure 11. Total employment by sector, 1994-2017**

![Chart showing employment by sector](chart2.png)

These trends mimic a structure of the economy where private-sector activity has lost steam and is increasingly focused on low value-added non-tradeable services. The manufacturing sector, a key driver of export-led growth, dropped its share of GDP from 19 percent in 1994 to 10 percent (World Bank 2017a). The share of agriculture in GDP fell even more sharply, while services lost share relative to GDP but gained relative to other private sector activities, particularly in retail and wholesale trade, where most service-sector activity is concentrated. The loss in private sector activity was mirrored in a gain by public-sector services (e.g. health, education, social assistance, policing), which increased its GDP share from 19 to 30 percent, mainly funded by donors’ budgetary support. The declining share of productive and tradeable sectors in the economy is undermining export performance: the share of exports in GDP remained low at around 18 percent during the past two decades.

Allocative inefficiencies are the result of a productive structure centered around small, low-productivity, and often informal firms geared towards the domestic market. The share of workers in micro firms (fewer than 10 workers) remained steady at around 60 percent (Figure 12). Only 25 percent of workers are employed in firms with 20 or more employees (medium and large firms)—in fact, only about 1 percent of establishments have 20 or more workers. This is important because micro and small firms are less productive than medium and large firms, although the differences are not large. Most micro and small firms operate in retail and wholesale trade (almost 60 percent) and only serve the domestic market. Micro and small firms are also prevalent in non-service sectors and in Gaza. Micro and small firms tend to be informal; in the PT, these informal firms employ about 1 in 5 informal workers and are mostly subsistence-type activities functioning within an isolated market (World Bank 2014b). The small scale and low productivity of most Palestinian firms limit their ability to compete in international markets.¹⁰

**Figure 12. Employment shares by firm size, 2010-16**

![](image)


¹⁰ However, the high degree of informality may impinge on the quality of the firm-level data that underpins this analysis.
Most micro firms stay small or exit the market, and many exiting firms are new. Only 15 percent of micro firms grew between 2007 and 2013—although just 2 percent grew enough to become a small firm (10-19 employees), while 44 percent exited by 2013 (World Bank 2015). Larger firms have lower exit rates but are even less likely to grow than micro firms. New firms (startups) enter the market each year, and in greater numbers than exiting firms, but they struggle to survive beyond one year. More generally, contrary to the situation in most countries in MENA and elsewhere, young Palestinian firms (up to five years old) struggle to stay in the market and grow and contribute little to job creation. In fact, their share in employment has declined (Figure 13).

Israeli-imposed restrictions have generated what is essentially an ‘archipelago’ economy with poor economic links between ‘islands.’ Gaza is both geographically and economically disconnected from the West Bank. Area C is a contiguous land mass accounting for 61 percent of the Palestinian territory and most of its natural resources. Current restrictions preclude Palestinian businesses from investing there and severely limit access to fertile land, water, and mineral resources. Areas A and B are scattered around Area C and Israeli settlements and operate more like economic islands. Most firms in each region can only hope to reach economies of scale within their region.

Such geographic segmentation of economic activity results in allocative inefficiencies. There are large productivity gaps between top performing firms and the average firm within most sectors (but particularly evident in garments), a source of inefficiency that may indicate lack of competition. This is partly explained by the lack of competition between firms within the same sector across regions, as illustrated by the large regional differences in productivity: relative to the West Bank, firms in East Jerusalem are 55 percent more productive, while Gaza firms are 15 percent less productive (World Bank 2014b).

Figure 13. Employment shares by firm age, 2014-16

Source: Own calculations based on PCBS (2014, 2015, and 2016).
Barriers to the movement of goods and factors of production have contributed to local specialization. A specialization index (SI) based on regional share of employment per industry relative to the national was applied to the Palestinian economy (see Appendix A for all calculations for all governorates and industries). The SI calculated at the level of governorates was the level of government for which data on industry employment was available. Some governorates in the East show strong specialization in crops, animals, and hunting (Figure 14 Panel A), while most of the Gaza governorates show significant specialization in fishing and aquaculture (Figure 15 Panel B), and some regions in the northwest display strong specialization in textiles (Figure 14 Panel C). Other industries show up at various degrees of specialization across the country (see Figure 14 Panels D, E, and F). Regions in the PT often present more than one industrial specialization (see Appendix B for a full mapping per industry). Some regional specialization may reflect inefficiencies arising from the lack of competition. But regional specialization also stems from history and tradition and, as discussed later in the report, can be an important source of opportunity for job creation.

Regional specialization can be leveraged for job creation through the strengthening of value chains. A value chain represents an industry-level aggregation of value added by linking parts of the production process, from raw materials to delivered final goods. Regions across the world have focused on maximizing that value added. In North Lebanon, local specializations were used by Farole and Konishi (2017) to identify viable value chains. Such analysis of value chains is novel in that it maximizes jobs outcomes just as much as it seeks value creation. The analysis will highlight bottlenecks along the value chain. Policies can focus on the resolving those obstacles so that firms can exploit the opportunities and develop strategies to meet new levels of demand. For example, firms may choose to simply hire more workers to expand production using the same technology, but they can also choose to invest in newer technologies, leading to new hires, upskilling of current workers, or labor substitution. The outcome would depend on the relationship between economic unit’s size, the output-labor relationship, and the capital-labor ratio. This is the type of analysis that Farole and Konishi (2017) carried out for North Lebanon.

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11 The Specialization Index was calculated for each governorate and economic activity using $SI_{ij} = \frac{k_{ij}}{k_{i/L}}$, where i is industry, j is the region, and L stands for employment.
Figure 14. Specialization indices for a sample of industries

A. Crops, animals and hunting

B. Fishing and aquaculture

C. Textiles

D. Pharmaceuticals

E. Construction of buildings

F. Wholesale trade

Source: Own calculations based on PCBS (2017).

Note: Maps were produced using a statistical software (GeoDa) for purely analytical objectives. The boundaries, colors, denominations, and any other information shown on maps do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.
The main constraints are external, but exacerbated by domestic factors.

The private sector is creating few jobs and doing so in low-productivity activities mainly because of external factors. These external factors include (i) Israeli-imposed restrictions on trade, mobility, and access to land and other natural resources; and (ii) repeated cycles of conflict. These factors are intertwined and generate a vicious cycle. The harmful effects of security restrictions lead to conflict, which further deters investment and aggravates the economic, social, and political situation in the PT. Most Palestinian businesses cite political instability as the top obstacle to their business operations (World Bank, 2014b). As a result, investment tends to be more concentrated in sectors that are more resilient to political risk, such as internal trade activities and residential constructions.

Israeli-imposed restrictions on trade severely limit the prospects for export-led growth. This is particularly damaging for a small economy like the PT’s. These restrictions include administrative, logistical, and security measures that block or slow trade between the PT and other countries. For example, all Palestinian imports and exports suffer from long waits at Israeli-controlled commercial crossings (due to limited working hours, long inspections, and pervasive security checks, particularly for goods getting in and out of Gaza) and are required to be moved from/to a Palestinian truck to/from an Israeli truck (or a Jordanian one if the goods are going through the Allenby bridge). These restrictions generate significant transaction costs (Figure 15). Controls over the import of goods that can be used for civilian and military purposes (the so-called dual-use items) further impede the development of key economic sectors such as agriculture, manufacturing, and ICT, particularly in Gaza. Additionally, restrictions on visas for foreign investors discourages foreign investment into productive activities for export; the issuance of visas for foreign investors to enter the PT is controlled by the GoI, which has been sparing in issuing such travel permits. Lack of easy access to investments discourages potential foreign investors from exploring business opportunities in the PT.

Figure 15. Trade Costs in the Palestinian Territories Compared

![Trade Costs in the Palestinian Territories Compared](image)


Restrictions on access to resources, particularly those in Area C, and on movement of goods and people within the West Bank are also major limitations to economic activity. Area C represents 61 percent of the West Bank and is under Israeli civil and security control. Access to Area C is restricted for most kinds

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12 The dual-use list for the West Bank includes six fertilizers, two pesticides, and 23 chemicals in their pure form in addition to 26 types of materials, machinery, and equipment. Gaza has a more extensive dual-use list that covers many more items including reinforcing steel, cement, aggregates, insulating panels, and timber for furniture manufacture, among others. In fact, traders report that nearly any item can be deemed “dual use” at the entry to Gaza, even if it has been imported previously by the same importer with no special controls.
of economic activity by Palestinians. Part of the economic significance of Area C lies in the fact that it is the only contiguous territory in the West Bank, while Areas A and B represent 227 isolated islands. Restricted access to Area C thus limits the movement of goods and people within the West Bank and impedes the development of connective infrastructure. Also, Area C accounts for most of the natural resources in the West Bank, including water, a critical resource in any area of the Middle East. Lack of access to these resources severely constrains the development of key sectors for the Palestinian economy, such as agriculture, stone and mineral processing, cosmetics, construction, tourism, and telecommunications. The lack of access to Area C also affects the security situation of large parts of the West Bank, where Palestinian policy cannot operate effectively, resulting in a negative impact on investment.

Gaza’s economy has been suffering for years now due to a blockade that was imposed in 2007. After the takeover of Gaza by Hamas, the GoI imposed a land, air, and water blockade on the strip prohibiting the movement of goods and people from/to it. The blockade had an immediate negative impact on Gaza’s economy, which shrank by an annual average of 10 percent between 2006 and 2008, while per capita incomes declined by an annual average of 14 percent over the same period. Exports out of Gaza are extremely low: the monthly average of truckloads leaving Gaza in 2016 represented 17 percent of what it used to be before the blockade, and exports to East Jerusalem and the West Bank are mostly not allowed. The GoI allows imports of consumer products and some construction material for donor-supervised projects, but the inflow of materials remains much below the needs. Gaza has close to 2 million inhabitants that are not allowed to leave the Strip without special exit permits that Israel has been limiting, mostly to humanitarian cases. The isolation of Gazans has been exacerbated by additional constraints imposed by Egypt on the Rafah crossing. Years of blockade have undermined the living conditions in Gaza and fragmented the economic and social fabric of the PT.

Internal factors further constrain the ability of the Palestinian economy to generate more jobs in productive sectors. Business regulations are spatially fragmented and burdensome and create an unequal playing field for firms across the PT (World Bank 2014b). The de jure legal and regulatory environment and de facto administrative practices and competitive environment for Palestinian firms differ between the Gaza Strip, parts of the West Bank under PA security and administrative control (Areas A and B), and West Bank areas where security and administration of land and resources are under full Israeli control (Area C and East Jerusalem). Delayed land registration reforms in Areas A and B have resulted in a small portion of land being registered and titled, preventing real estate from being developed, sold, and collateralized. Business elites are able to navigate better through complex and burdensome business regulations, while many small firms prefer to be informal. Limited competition and contestability of markets further renders the state susceptible to capture by vested interests. All this generates an unequal playing field for firms across the PT.

Poor governance also undermines the environment for private-sector development. According to the Worldwide Governance Indicators, since 2010 the PT’s governance performance has worsened in key areas like rule of law, government effectiveness, control of corruption, and regulatory quality. There are major weaknesses in the rule of law, including well-functioning and fair courts and clearly defined and enforced property rights. Furthermore, significant distortions arise from an economy dominated by

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13 More than half of formal small enterprises cite competition from the informal sector as a severe obstacle to business (World Bank, 2014b).
consumption of public services, a large and ineffective civil service, an unsustainable public-sector wage bill, weak institutions, and lack of transparency and accountability. These distortions are compounded by further distortions in the labor market (public-sector wage premium), a non-transparent and archaic legal and regulatory framework, and public finances that are neither adequately oriented to inclusive growth nor financially sustainable (World Bank 2017b).

Other key internal constraints are the limited access to finance for startups and small firms and inadequate infrastructure. Access to finance does not appear to be a binding constraint for medium and large firms, but it is for small firms. Only 4 percent of small firms have loans or lines of credit, and report 15 percent of loan applications being rejected, with collateral requirements set for them at 200 percent of loan value (World Bank 2014b). Inadequate infrastructure in land, energy, water, and transport constrains private investment, private sector activity, and social progress. Infrastructure investment, operation, and maintenance have become entangled in the dysfunctional intergovernmental fiscal transfers between the PA and municipalities, with the result that these critical sectors lack creditworthy players who can attract private investment.

Relaxing Israeli-imposed restrictions would have a large impact on economic growth and job creation. The removal of the Israeli restrictions on Area C could bring about a cumulative growth for the West Bank economy equal to 33 percent by 2025 (World Bank 2017b) (Figure 16). As for Gaza, lifting the blockade would open it up for critical trade needed to rebuild its infrastructure and economy, and could lead to additional cumulative growth in the range of 32 percent by 2025. Similarly, relaxing the dual-use list alone would bring about additional cumulative growth of 6 percent to the West Bank economy by 2025, with a bigger impact of about 11 percent in Gaza. Unemployment rates would also fall significantly following the relaxation of Israeli restrictions (Figure 17).

Relaxing the restrictions on Palestinian employment in Israel would significantly reduce unemployment. The relaxation of restrictions Palestinian employment in Israel would reduce the unemployment of Palestinians both directly and indirectly through the increase in domestic labor demand resulting from higher household incomes. Agbahey et al (2018) estimate that a 36 percent increase in the number of West Bank workers in Israel and the settlements (from the level in 2011 to the pre-Intifada level in 1999) would reduce the number of unemployed people in the West Bank by 45 percent. About 46 percent of those would people who find employment in Israel, mostly low-skill workers, while 54 percent would be people who find employment in the domestic labor market, mostly high-skill workers (including women). The latter is explained by the higher domestic labor demand resulting from higher household incomes (from employment in Israel).

There is also much to be gained from PA actions, particularly reforms to improve the business climate and fiscal reforms. On the business climate front, improving Doing Business indicators and accelerating land registration to fully release this factor of production into the economy are key reform areas. On the fiscal side, rationalizing employment in the public sector, making tax collection more effective and efficient, removing price distortions (notably in energy and water), and providing adequate infrastructure are all areas that need improvement. Such reforms would significantly reinforce the positive impact of relaxing Israeli restrictions, generating additional cumulative growth in the range of 24 percent for the West Bank and 30 percent in Gaza by 2025 (World Bank 2017b) and significant reductions in unemployment.
Creating more and better jobs for Palestinians

Any long-term sustainable solution to the jobs challenge in the PT must involve the relaxation of Israeli-imposed restrictions on economic activity in the Palestinian Territories, particularly trade restrictions... This includes restrictions on trade, mobility, and access to land and other natural resources that limit and distort economic activity in the PT. Being a small economy, restrictions on trade are particularly damaging. Based on its size, income and proximity to large markets such as Israel, Italy and the Gulf States, Palestinian exports could be twice their current levels (World Bank 2017c). To start moving toward realizing this potential, some key measures, mostly in the hands of or require collaboration with Israeli authorities, are needed: reducing the burden of existing restrictions within the Customs Union (especially the revision of the special goods and dual-items goods lists and processes), improving trade logistics infrastructure and processes through border crossings (e.g. containerization), as well as fostering the capacity and transparency of trade-related institutions (World Bank 2017c). Beyond these measures, and looking longer term, Israel should also be open to a reformed trade regime with the PT, where the
Palestinian Authority (PA) would have effective control over its customs territory. This would allow the Palestinian economy to integrate better with the rest of the world, without losing its many ties with Israel.

…but also restriction on the employment of Palestinians in Israel. The relation of restrictions on employment of Palestinians in Israel is by no means a first best solution from a state-building perspective, but it would help reduce unemployment and improve household welfare more directly, and thus faster, than the relaxation of restrictions on economic activity in the PT. In practice this would mean an increase in the number of work permits issued by Israel, but also ensuring the flow of Palestinian workers into Israel is stable, predictable, and coordinated with the Palestinian Authority (PA), and the easing of security restrictions at checkpoints.

However, there are opportunities to create more and better jobs in the PT within the limits imposed by Israeli restrictions. There is no magic bullet, but this report argues that such opportunities do exist and provides policy options to exploit them. The discussion is organized around four policy areas that the PA has some control over, while recognizing that even there Israel still plays an important role in many cases.

5. **Boosting technology-based services.** The previous analysis showed that the jobs challenge in the PT is mainly a labor demand issue. Given the small size of the economy and the restrictions on physical trade, the best option to create more and better jobs in the PT is to boost tradable services, particularly those based on digital technologies, such as information and communication technology (ICT) services, whose global demand is rapidly growing. Doing so requires improvements in business regulations and competition, entrepreneurship financing, skills as well as supporting services and infrastructure.

6. **Exploiting local specialization in traditional sectors by strengthening value chains.** It will take time for technology-based services to deliver quality jobs for a large number of Palestinians, as they currently account for a small share of output and employment. This is why parallel efforts are needed to bring firms in traditional sectors closer to the production possibility frontier, so they can deliver more and better jobs. Some of the above reforms, particularly in business regulations and competition, will help. But the PT could also exploit better the potential of the existing local specialization in goods and services. This requires identifying and addressing constraints through the value chain in the local economies.

7. **Connecting youth to jobs and removing barriers to female employment.** The PT’s biggest asset is its large talent pool of young people. To tap into this great asset, more and better job opportunities need to be created, particularly digital jobs. But dedicated efforts are also needed to better connect youth to job opportunities and to remove barriers to female employment.

8. **Building a partnership for job creation.** The PA cannot do it alone, nor should it. While the PA has regulatory power, it has a very limited fiscal space. The PA needs to reach out to the private sector and civil society to create a National Alliance for Jobs to develop and implement solutions within an integrated jobs strategy. Development partners should support this partnership and provide financial support to the initiatives that come out of it.

**Boosting technology-based services**

**Moving toward a technology-based economic model could generate enormous opportunities for Palestinian youth.** Technological change is accelerating, as automation of previously unimagined tasks and the increasing use of artificial intelligence and digital technologies stand to revolutionize activities in
all economic sectors. While automation can be disruptive for workers in occupations that are more intensive in routine tasks, new technologies also generate new job opportunities for workers with skills that complement technology, including cognitive and socio-emotional skills. Recent work shows that countries that invest more in these skills and ensure a supportive environment for firms to do business, innovate, and adopt new technology stand to gain the most from technological changes, while those who do not risk falling behind (Ridao-Cano and Bodewig 2018).

But technological change is not exogenous to national policies. Policies that shape opportunities for people and firms to thrive also influence the adoption of new technology by firms: competition and labor policies, support for firms’ technology adoption, and the skills of the workforce. The small size of the economy, the Israeli-imposed restrictions on physical trade, and the large pool of talented youth make new technologies particularly beneficial for the PT. This paper argues that job opportunities for Palestinian youth would be greatly expanded by embracing and supporting the adoption of new technologies, and by undertaking policy reforms to seize the benefits of technological change for all youth.

Digital technologies provide a great opportunity to boost trade in services in the Palestinian Territories. Data-based and technology-enabled services, such as ICT and business services, can get around physical-trade restrictions and provide the Palestinian economy with a wider market, thus increasing employment opportunities. The WTO (2015) points out that in the past 20 years, trade in services has become the most dynamic segment of world trade, thanks in large part to new digital technologies. Tradable services can be divided into four types: (1) services supplied from one country to another (e.g. Palestinian ICT firms and online freelancers providing services to clients in other countries), (2) consumers using services in another country (e.g. international tourism), (3) foreign firms setting up operations in another country to provide services there (e.g. banking), and (4) individuals travelling to provide services in another country (e.g. IT consultants). Although there is room to grow tourism, the most promising form of trade in services for the PT are services provided by Palestinian firms and online freelancers to clients in other countries.

Tourism has growth potential in the West Bank, but ongoing conflicts create a hard ceiling. During the first half of 2017, nearly 3.3 million tourists visited the West Bank, including 1.4 million international visitors (PCBS and MOTA 2017). However, the vast majority of those visits were day trips originating from Israel—only 260,000 hotel guests stayed in the West Bank. The entire tourism sector represents only 5 percent of jobs, most of them in food and beverage services. Establishing international tourist circuits across the border with Jordan, Lebanon, Egypt, and Israel may be the easiest way to tap into travelers that are tempted to go to the Palestinian Territories. Increased cooperation with international tour operators and authorities in those countries could help increase the number and spending per capita of visitors. The increased use of digital technologies can also help boost the sector. However, it will continue to be hard to sell the West Bank as a tourist destination for as long as tourists perceive it to be unsafe.

The incipient but rapidly growing ICT sector holds the promise. Entrepreneurship culture is growing in the PT, with the startup business ecosystem focused on ICT. The tech startup ecosystem is an early stage ecosystem, but it is still far from maturity (Mulas et al. 2018). On average, each year, 19 more startups are created than in the previous year, resulting in a 34 percent compounded growth rate in startup creation since 2009. The growing global demand for ICT services, the digitally-based trading of these services, and

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14 These figures exclude the Governorate of Jerusalem.
the good talent pool among Palestinian youth make early investors focus on digital entrepreneurs. A few high-growth companies, such as the online accommodation booking website ‘Yamsafer,’ are demonstrating that this is a potential career path for youth. The growth of this sector is, however, constrained by burdensome business regulations, insufficient financing, and inadequate supporting services and infrastructure. Options to address those constraints are discussed below.

Online freelancing also offers a great opportunity for Palestinian youth, particularly in Gaza. Digital technologies have enabled large projects awarded to firms in some part of the world to be broken down into small parts and tasks, which are outsourced to firms and individuals in other parts of the world. Tasks can be complex (e.g. software development, graphic design, media production, content development, website design, e-marketing, translation) or simple (e.g. labelling photos or videos, describing products, data gathering, answering calls), providing opportunities for high-skill and low-skill youth alike. The global online freelancing business is growing, and there are more than 120 platforms for online freelancing, including a small but growing number of platforms serving the Arab world. Social media platforms are also an important marketing channel for freelancers. A recent study found a small but growing number of online freelancers in the PT, particularly in Gaza (Palestinian Market Development Programme 2016). Beyond individual online freelancers, there are also some small outsourcing firms that provide services to other countries, such as cloud-based call centers. The study concluded that online freelancing has great potential in the PT, particularly in ICT, and identified some key constraints: level of freelancing and technical skills, awareness about online freelancing, limited skills training and mentorship opportunities, restrictions to online payments, and limited access to high-speed internet (especially in Gaza).

A Big Bang regulatory reform

A ‘Big Bang’ regulatory reform is needed to signal to the business community that the Palestinian Territories are open for business. Given the external constraints, the PT cannot afford to be ranked 116 out of 190 countries in the Doing Business (DB) ranking (2019 Doing Business Report). Business regulations are a big deterrent to entrepreneurship. In the PT, the process of registering a business is complicated, lengthy, and unclear. There is no automated business registration system and lawyers provide inconsistent information to entrepreneurs. Registration categories are confusing, and entrepreneurs often register their businesses under incorrect categories or choose to register in foreign countries. As a result, many businesses choose to operate informally. While there have been some important recent reforms, such as the streamlining of municipal business licensing and the registration of business property, the reform process has been slow, piecemeal, uncertain, and with limited input from the private sector. This approach has done little to gain the trust of the business community regarding the government’s regulatory reform efforts. A Big Bang regulatory reform would send a clear signal to the business community that the PT are open for business. The following are some guiding principles for this Big Bang reform:

1. It should be broad-ranging but prioritize reforms that particularly support the digital economy. For example, the growth of the ICT sector is particularly constrained by burdensome regulations to start a business—the PT rank 171 out of 190 countries in this dimension, the worst among all DB dimensions. Business entry will be greatly enhanced by the adoption and implementation of the new Companies Law. Other key regulatory reform areas for the ICT sector include digital payments and telecommunications (discussed below). Although some reforms will be prioritized,
it is important to lay out a comprehensive reform agenda at the onset, including clear timelines, in order to send a powerful signal to the business community.

2. It should also include reforms to **ensure a level playing field for businesses**, particularly the adoption and implementation of the draft Competition Law.

3. It should also **harmonize business regulations across the PT**.

4. It should **actively involve the private sector**. This could be done by reviving the dormant dialogue between the private sector and the government. Putting a Big Bang regulatory reform in the agenda of the government will most certainly bring businesses to the negotiating table and open the door to dialogue around other key topics, such as PPPs for infrastructure and business financing. An open dialogue with broad participation from the private sector is also likely to dilute some of the influence of business elites and lead to a more leveled playing field.

There is evidence that this type of reform works; for example, Australia and Japan used Big Bang regulatory reforms to deregulate different sectors, while other countries have placed more focus on reforms that empower entrepreneurs. A Big Bang regulatory reform implies policy changes of an extensive magnitude, so large that the net effect is transformative for the whole economy (Atlantic Council 2016).

**Entrepreneurship financing**

**More financing needs to be made available to promising startups and small firms.** Access to finance does not appear to be a binding constraint for medium and large firms, but it is for small firms and startups. Financing for startups and SMEs is increasingly available from institutional investors like the Bank of Palestine, the IBTIKAR Fund, and the Palestinian Investment Fund. There is also a nascent but active ecosystem of venture capital firms (e.g. Ibtikar, Sadara Ventures, Siraj Fund Management Company) and angel investors. But all this funding remains limited and hard to access, particularly for startups at an early stage. On the other side of the market, financiers often complain about weak demand and the low quality of projects.

**Business angel investing has the potential to emerge as an effective form of capital to bridge the equity gap for Palestinian early-stage enterprises.** Angel investing involves high net worth individuals, typically successful entrepreneurs, industrialists, corporate/business executives, and investors investing their own capital into startup and early-stage businesses. Angel investors play a key role in bridging the ‘equity gap’ between the entrepreneurs’ financial resources (their own funds plus those of friends and family) and growth financing from venture capitalists, private equity, or debt finance, and often provide non-capital strategic value to entrepreneurs. But angel investment needs to be better organized by supporting the development of new angel groups/networks in the PT while potentially linking in regional ecosystems and the Palestinian diaspora. Catalytic grants, including donor-funded, could also be provided to startup and early-stage enterprises that help stimulate private investment by first-time angels.

**Remittances could be tapped into more effectively to help finance productive investments.** According to Saad (2015), remittances from outside of the PT come to about US$2.3 billion, making the PT the world’s seventh-largest recipient of remittances relative to GDP. Ninety percent of remittances in the PT stem from workers’ compensation in Israel. According to Saad (2015), an increase in remittances of US$ 1 would increase consumption by US$ 0.55, investment by US$ 0.25 and income by US$ 1.23, as the impact of remittances on investment could have a multiplier effect through production and jobs. The PT can
choose to provide incentives to invest a larger proportion of remittances. Mexico’s 3X1 Program was established in 2002 precisely to provide that type of incentive to investment. Although in the case of Mexico, the investment was channeled to communal work with higher social return, the approach can be adapted to other investments. In Mexico, recipients of remittances in Mexico could choose to use part of their funds for social investments (towards a 25 percent of the costs), while the state or municipal government would match that amount and the federal government would complete the investment (50 percent). This may be a model worth exploring for the PT.

Supporting services for entrepreneurs and online freelancers

There are quite a few incubators and accelerators available to support startups in the PT, but efforts are needed to improve the quality of these services. Incubators and accelerators support startups selected through a competitive process by providing: (i) intensive mentorship and networking; (ii) a platform for collaborative work among startups through cohort or classes of startups; (iii) office space and administrative support; and (iv) small amounts of seed investment. There are about 20 such institutions providing support to Palestinian startups, some located in the PT (heavily supported by donor funding) and some abroad—a large number for the small size and limited maturity of the entrepreneurship ecosystem. A recent report found that many of these incubators and accelerators provide modest quality support to entrepreneurs (Mulas et al. 2018). They are not producing the quantity of startups that might be expected, and the quality of startups they produce is often not enough for investors to finance these projects. A big part of the problem is the low capacity of domestic institutions, which are unable to provide quality services and network connections. Going forward, some of the donor funding going into these institutions could be used to increase the capacity of their managers and mentors, to attract mentors with startup and practical entrepreneurship and business experience (including from abroad), and to better connect these institutions with international accelerator programs.

Support to online freelancing exists but it is limited. There are a few not-for-profit organizations providing support to young Palestinians to access digital jobs, particularly online freelancing opportunities, including Work without Borders, Gaza Sky Geeks, Gaza Gateway, and Palestinian Information Technology Association (PITA). Most of these organizations have some international connection and do outsourcing work themselves. Most graduates from these programs end up as independent freelancers, employees, or entrepreneurs. Programs are mostly specialized in ICT, including coding. Support programs typically include some initial training (technical and business skills), followed by incubation support for a specified period that typically includes co-working space, IT support (computer, internet), payments, mentorship, and networking. Although the quality of these services tends to be good, the number of people benefiting from these programs is very small, and programs are too narrowly focused on a few areas and do not always follow best practices. Although some support is financed by the organizations themselves, most of the support is financed by donors.

More public support, including donor funding, is needed to increase the coverage, scope, and quality of programs supporting online freelancing. Given the high social returns to investing in this type of jobs in the PT, there is a clear case for increasing public support, including donor funding, to attract more service providers, increase the coverage of these programs, and expand the types online freelancing skills that are supported. One way to go about it is to use public money/donor funding to finance this support from existing service providers, focusing on unemployed youth, as in the Gaza Emergency Cash for Work and Self-Employment Support Project. Another complementary option is to support the establishment of
social enterprises through catalytic grants. Social enterprises are not-for-profit companies that invest profits from the regular ‘business arm’ into the ‘social arm’ of the enterprise. In this case, the social arm would be support to unemployed youth to become online freelancers. The advantage of this model, particularly given the tight fiscal space of the PA, is that public money is only used for the initial ‘investment,’ while subsequent support to unemployed youth is financed by the private sector, thus supporting a sustainable private sector solution to a social challenge. The Digital Jobs Africa initiative, supported by the Rockefeller Foundation, has successfully led to the establishment of sustainable social enterprises that provide outsourcing services to global clients and support to vulnerable youth.

Equipping youth with relevant skills for the digital economy

Educational attainment is high, but the education system does not equip youth with the skills needed to succeed in a digital economy. As discussed earlier, there are limited job opportunities in the private sector and those tend to be concentrated in low-to-medium skill occupations. But even when high-skill job opportunities come up, and despite the large pool of college-educated labor, employers complain about how hard it is to find candidates with the right skills, particularly for ICT-related jobs (World Bank, 2014). Inadequate skills are also perceived to be an impediment to entrepreneurship activity (Palestine Economic Policy Research Institute 2013). The skills shortage is explained by three main factors: (1) the low levels of foundational cognitive and socio-emotional skills acquired through basic education; (2) the mismatch between the fields of study in vocational and higher education that students choose and the fields of occupation that are demanded in the labor market (particularly among female students); and (3) the inadequate quality of the vocational and higher education programs to equip students with job-relevant technical skills (including digital skills).

Ongoing efforts to improve the quality of preschool and basic education need to be accelerated, focusing on improving teaching practices. The first objective to equip youth with relevant skills for the digital economy is to ensure they all have foundational cognitive and socio-emotional skills. These skills are formed through preschool, primary, and secondary education. The quality of teaching has been identified as a key driver of student learning in the PT (World Bank 2014c). The government has undertaken important reforms in pre- and in-service teacher education as well as in the curriculum; for example, the Teacher Education Improvement Project (TEIP) has developed a successful training model to improve the competencies, skills, and classroom practices of primary school teachers. With donor support, the government could implement this model throughout the PT.

Making more informed choices about fields of study. A study by the Palestine Economic Policy Research Institute found that the choice of field of study is disconnected from labor market considerations and mostly based on personal preferences (El-Jafari and Lafi 2004). In the case of women, these preferences are also shaped by social norms that dictate that women should work on occupations that are compatible with household responsibilities and are safe, such as teaching—55 percent of working college-educated women are employed in the education sector, and preferences are constrained by legislation and regulations that limit the occupations women have access to (World Bank 2018c). Providing better information about the career paths and labor market implications of different fields of study will not resolve all these challenges, but it will lead to more informed choices. This information could be provided through career counselors in schools and digital platforms and could include the projected demand for different skills generated by the Skills Forecasting Model, a new tool developed by UNESCO in partnership
with the Palestine Economic Policy Research Institute, the Ministry of Labor, and the Ministry of Education and Higher Education.

**Improving the job market relevance of higher education programs.** This comes down to improving the linkages with the private sector. One way to do that is by expanding initiatives like the ongoing Education to Work Transition Project, which supports partnerships between higher education institutions and employers to make higher education study programs more relevant to the needs of the labor market. Another option is to promote dual study programs, such as the one supported by German Development Cooperation (GIZ), where higher education students combine classroom instructions with on-the-job training in firms.

**Strengthening the skills training system.** Education reforms will take some time to yield results, while there is a need to start addressing the skills gap in the short term. Also, new technologies will require continuous upgrading of skills. Thus, a strong private sector-led skills training system is needed. The current system is very fragmented, including some poor-quality public training and a multiplicity of donor-funded initiatives, and has weak quality assurance. The Government could focus on building a credible quality assurance system and financing (with donor support) of training for vulnerable youth. Otherwise, skills training should be demand-driven and privately provided. One way to support this is through skill-focused Development Impact Bonds (Finance for Jobs Project), which aim to leverage investment into skills training by reimbursing (with a return) that investment against the achievement of job targets. Another option is to establish a skills training fund (a la Chile Califica), a publicly-funded (with donor support) but privately driven autonomous institution to support demand-driven skills training, where coalitions of employers and training providers in key sectors like IT would seek support, on a competitive basis, to provide on-demand and competency-based training.

**Supporting infrastructure**

**Improving the quality of and access to broadband internet.** A fast, reliable, and affordable broadband internet is required to support the digital economy. Mobile and fixed broadband penetration have been growing fast but they are still relatively low: The mobile subscriber penetration stood at 50 percent in 2017 (63 percent in MENA), while about 40 percent of households had access to broadband internet (45 percent in MENA). However, the speed and reliability of broadband internet is very low. All fixed broadband relies on old technology (copper wires) as opposed to the faster and more reliable fiber optic. And 3G mobile networks were only introduced in 2018 (in the West Bank) and suffer from insufficient mobile spectrum, while faster and more reliable networks already exist in the market (4G and 5G). Addressing the low quality of broadband internet requires, first and foremost, reaching out to Israeli authorities to allow the operation of 4G technology and to release more mobile spectrum. But it also requires institutional and regulatory reform to improve competition and oversight in the telecom industry. The creation of an independent telecom regulator should be a top domestic priority, with the setting up of a regulatory framework in line with international best practices.

**Setting up a secure online payment system.** The digital economy requires a secure online payment system, which is currently underdeveloped in the PT. The Palestine Monetary Authority (PMA) has been modernizing the National Payment System (NPS). But these efforts need to be accelerated to expand mobile payment methods. A key priority is the establishment of a National Payments Company (NPC) to institutionalize the interoperability of all electronic payment modalities. The recently adopted E-
Transactions Law and Cyber Security Law need to be implemented, including critical regulations establishing rules for all participants in the electronic payments system.

**Ensuring a reliable supply of electricity.** This requires the finalization of the long-term Power Purchase Agreement (PPA) with the Israeli Electricity Company (IEC), which is expected to reduce the overall cost of electricity to Palestinian consumers and improve the quality and reliability of power supply. But it also requires institutional and regulatory reforms as well as public-private partnerships (PPPs) to address the significant investment needs. Key institutional and regulatory reforms that have yet to be fully implemented include Palestine Electricity Transmission Limited (PETL)’s role as the bulk provider; the consolidation of remaining local distributors into existing or new Distribution Companies (DISCOs) to improve the efficiency and quality of service; and strengthening the regulator’s (PERC) ability to monitor sector performance, approve tariffs, license and regulate DISCOs, and protect consumer interests. More investment in renewable energy is needed, particularly solar PV systems. Despite the potentially high returns, private investment in this sector has been limited due to issues related to land ownership, grid availability, and off-taker confidence. Public investments in enabling infrastructure services are crucial to attract private sector interest in renewable energy, including simplified licensing, securing land titles, site preparation, and facilitating grid readiness.

**Exploiting the potential of local specializations**

**The Palestinian Territories could do more to exploit local specializations.** Spatial fragmentation and trade restrictions limit the economies of scale of local firms in traditional sectors. Spatial fragmentation, along with other factors, have resulted in some degree of local specialization in certain goods or services. Figure 15 (and Appendix B) provides a categorization of strong, moderate and above-average specializations in each governorate. These local specializations are supported through a value chain of producers and service providers. But bottlenecks in the value chains prevent the full realization of the local specialization potential in terms of scale, productivity, and job creation. The analyses in Appendices A and B at the governorate and the 2-digit industry levels can be used as the basis for identifying value chains that would need to be strengthened. The PA could partner with local governments and the private sector to expand the analysis to identify local specializations and bottlenecks along the value chain—using existing jobs in value chain methodology (see Box 2), and to develop solutions.

**Building partnerships to analyze local value chains and to develop solutions to strengthen them.** Strengthening local specializations requires, first and foremost, a mapping of the linkages across the value chain at the industry and regional levels. It is also important that such mapping be done using a jobs lens (see Box 2). A local jobs value chain mapping could use the region-specific specializations identified in this report and provide a map of the industry in the region, showing the commercial links and employment levels across the value chain. Such mapping would be the basis for identifying bottlenecks that hamper further economies of scale in the region-specific industry. To be most effective, this analysis and the subsequent development of solutions to strengthen value chains should be done in partnership between the PA, local governments, private sector, civil society, and think tanks/universities.
Table 1. Categorization of Level of Specialization by Gobernorate

<table>
<thead>
<tr>
<th>Region</th>
<th>Specialization</th>
<th>Jenin</th>
<th>Tubas</th>
<th>Tulkarem</th>
<th>Nablus</th>
<th>Qalqilia</th>
<th>Salfit</th>
<th>Ramallah</th>
<th>Jericho</th>
<th>Jerusalem</th>
<th>Bethlehem</th>
<th>Hebron</th>
<th>North Gaza</th>
<th>Gaza City</th>
<th>Deir Al Balah</th>
<th>Khan Younis</th>
<th>Rafah</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate</td>
<td></td>
<td>Tobacco</td>
<td>Textiles</td>
<td>Pharmacetical</td>
<td>Compounding</td>
<td>Forestry &amp; logging</td>
<td>Office administration</td>
<td>Food products</td>
<td>Paper</td>
<td>Coca &amp; petrol</td>
<td>Metal prod</td>
<td>Motor veh.</td>
<td>Forestry</td>
<td>Fire services</td>
<td>Insurance</td>
<td>Office administration</td>
<td>Gloucester</td>
</tr>
</tbody>
</table>
Box 2. Jobs in Value Chain Analysis: Overview and Methodology

Value chains include a range of activities that enable firms to produce and bring a product or service to the market. These activities range from the design, production, and marketing of products, to logistics, distribution, and support. A given value chain can be said to be global when some of these activities take place across national borders. In a Global Value Chain (GVC) a firm, or group of firms, organizes and manages a network of activities spread across multiple countries, which is designed to take advantage of specific places’ comparative advantage.

Policymakers in developing countries are increasingly interested in joining GVCs to attract investment, increase exports, and create jobs. However, reaping the benefits of GVC integration does not come automatically, and the dynamics shaping the emergence and development of GVCs may also represent a threat to sustainable, quality employment, particularly for those without portable skills or who face labor market segmentation. GVC integration is also likely to have distributional impacts, both through employment effects, as well as through effects on wages and working conditions.

The impacts on jobs can be thought of in four dimensions: (i) the number of jobs; (ii) the returns to jobs, including both job-specific wages and upgrading potential; (iii) the distributional impacts of jobs and wage effects; and (iv) the working conditions prevalent in GVC-linked jobs.

Understanding those impacts on jobs requires estimating how investments and other interventions in the value chain will impact jobs (level, quality, inclusiveness), including investments at the sector or value chain level as well as investments on specific firms in the value chain. The World Bank has developed a Jobs in Value Chain Analysis that estimates those impacts employing surveys to firms and producers. The approach involves six phases (background research, value chain mapping, structured surveys, semi-structured interviews/focus groups, analysis, and reports). The activities in each phase range from selecting a VC, developing a sampling strategy, conducting quantitative surveys, implementing qualitative surveys, and developing jobs growth scenarios among others (see chart below).

Connecting youth and women to jobs

The Palestinian Territories’ large youth talent pool represents its biggest asset, but efforts are needed to tap into it by connecting youth to jobs and removing barriers to female employment. Palestinian young people are well-educated, creative, and tech savvy—they are active on social media and are heavy users of mobile phones. But the lack of job opportunities is making youth increasingly frustrated, risking the possibility of turning this great asset into a liability. To avoid that, more and better job opportunities need to be generated in the private sector, particularly digital jobs—the previous sections provided some policy options to do that. But dedicated efforts are also needed to help connect youth to these jobs opportunities and to reduce barriers to female employment. Priority policy areas for connecting youth to jobs include skill readiness, information, and targeted employment support. Priority policy areas to increase access of women to jobs include removing administrative barriers to employment, improving safety in the workplace, employment support programs tailored to women’s needs, and increased access to child care services (World Bank 2018c).

Connecting youth to jobs

Developing digital platforms to help connect youth to job opportunities. Digital platforms can help connect youth to job opportunities through job-matching. For example, Souktel has been developing mobile solutions to match youth with jobs in many MENA countries, including for the financial sector in the PT. Digital platforms can also provide online jobs search assistance, career guidance, and e-learning. One example of that is the Palestine Ta3mal Youth Employability Portal, an initiative co-founded by Silatech and Microsoft, and Ta3mal. Digital platforms can also be used to connect the self-employed to clients. For example, Silatech and the Talal Abu-Ghazaleh Organization (TAG-Org) developed Khadamati, a portal that connects craftsmen with customers in the PT. There are also multiple global and regional platforms that connect online freelancer to clients, such as Upwork. Some of these platforms specialize in low-skill digital tasks (also called microwork), such as Samasource. The government should focus on supporting vulnerable youth (in partnership with social enterprises and NGOs) and facilitating private sector-led digital platforms to serve the needs of high-skill youth.

Supporting vulnerable youth. In addition to serving the needs of the general youth population, digital platforms can be used to refer vulnerable youth to jobs and employment support services that fit their profiles and preferences. This could be complemented by job counselors that use the information from the platform to provide advice, work out a plan with job seekers, and follow up with them. Again, given the tight fiscal space, the Ministry of Labor (MOL) could consider partnering with social enterprises and NGOs to develop such a platform and to provide job counseling services for vulnerable youth. Referral services should have adequate capacity and quality to serve the special needs of vulnerable youth. MOL is responsible for ensuring quality, but provision of services should be left to the private sector, including social enterprises and NGOs. Services can either be financed directly by the government (with donor support) or by the social enterprises and NGOs. Good targeting is essential: vulnerable youth includes youth that are either unemployed or working informally, but given limited resources, support can focus on less educated youth (e.g. high school dropouts) and give preferential access to youth in poor families.

Focusing on high impact support services for vulnerable youth. It is important to pick support services that have a demonstrated high impact on jobs, like online freelancing support, rather than traditional vocational training. In Gaza, where job opportunities are very limited and social needs are daunting, cash
for work can have a high social impact. There are some cash for work initiatives in Gaza,\textsuperscript{15} but given the rapidly deteriorating situation and the increasing frustration among youth, this support should be significantly expanded with the help of donors.

Increasing access of women to jobs

Women need dedicated policies to improve their access to jobs. It is not just that female labor force participation is dismally low, but also that the unemployment rate among high-educated women (47 percent) is more than double than that for high-educated men. Women only earn between 68 and 76 percent of what men, with the same education qualifications and experience, make. The above policy options to connect youth to jobs will particularly benefit young women, in some cases disproportionately. For example, informing the choice of field study is likely to benefit young women more, given the high concentration of female students in education, health, and social studies, and the low concentration in science, technology, engineering, and math (STEM) fields, particularly in key STEM fields like ICT studies (only 3 percent of students are females). Information would need to be accompanied by awareness-raising campaigns to change norms, and the setting of specific targets to increase the participation of female students in STEM fields. Likewise, online freelancing support is likely to benefit women more because this type of work can be more easily combined with household responsibilities. However, women face constraints in the labor market that are specific to them, requiring specific policies.

Removing administrative barriers to female employment and improving their safety in the workplace. There are some laws and regulations that restrict women’s access to jobs, particularly in certain sectors and occupations. For example, married women may not be able to get a job without permission from their husbands and may not be free to travel to work (or be limited to work in the same district where they live); in addition, women are restricted from working during night shifts. Under current regulations, parental leave and benefits are restricted to women, which effectively discourages employers from hiring them. Labor laws and regulations need to be revised to make them gender neutral and explicitly prohibit discrimination in the hiring, promotion, and pay of women versus men. Another priority is to introduce legislation and a code of conduct against sexual harassment in the workforce and to allow women to prosecute claims in court. All these legislative changes need to be accompanied by strong enforcement and awareness raising, including among employers and husbands/fathers. Although not specific to women, the removal of existing regulatory barriers to formalize home-based businesses would mainly benefit women.

Employment support tailored to women’s needs. Online freelancing support programs for vulnerable youth can be designed to cater to the needs of young women and ensure that at least 50 percent of beneficiaries are females. For example, these programs can focus on online freelancing tasks that are adequate to the skill profile of young females. At the same time, skills training programs can be made more relevant for women by including social-emotional skills (such as the ability to engage with and cooperate with others) and on-the-job training—particularly beneficial for women, as it helps to change employers’ perceptions about working women. Employment support could target unemployed young female graduates more. This is because (i) compared to men, female graduates are more likely to be unemployed than young females with less education; (ii) their education qualifications are more in tune

\textsuperscript{15} UNRWA’s Job Creation Program, Gaza Emergency Cash for Work and Self-Employment Support Project, Municipal Development Program.
with the digital economy; and (iii) increasing the employment of female graduates will have a demonstration effect on female employment more generally.

**Access to safe transportation and affordable child care.** Access to safe and affordable transportation is an important consideration for women to work. Female-only minibuses along popular routes after dark could be a viable option. Several countries, such as the Arab Republic of Egypt, Japan, and Mexico, provide public transportation for women only. Child care, too, is important in increasing the number of women in work. Options to increase access to child care services include simplifying the licensing of nurseries; enabling community nurseries run by mothers (mothers would receive training and subsidies to provide care to children in their homes, as in Colombia’s *Hogares Comunitarios*); and incentivizing employer-funded child care (e.g. through subsidized vouchers), particularly in areas where many employers are clustered.

**Women are active entrepreneurs in the PT, but the number is still small and they face more constraints than their male counterparts.** While the number of female employers is still small—1.7 percent of college educated women are employers, compared with 4.7 percent of college educated men (World Bank 2018c) - over 20 percent of entrepreneurs are women (Mulas et al. 2018). The lower percentage of female entrepreneurs (compared to men) is partly due to the lower share of women with education degrees relevant to entrepreneurship, including STEM and business, but female entrepreneurs also face more constraints than their male counterparts. Current female entrepreneurs tend to have less management experience and to be less educated than male entrepreneurs (Mulas et al. 2018), and women tend to have less access to credit than men.

**Supporting female entrepreneurship.** One successful example is Gaza Sky Geeks, a seed accelerator that was founded in 2011 to provide mentorship and support to start-ups in Gaza, particularly female-led startups. About half of the founders of the startup companies that Gaza Sky Geeks mentors are women, but the goal is to reach 80 percent (Stuart 2016). Moreover, the organization has been supporting efforts to introduce young women to coding and web development skills. Another promising example is a joint project by the Bank of Palestine and the International Finance Cooperation (IFC) to boost access to finance for women entrepreneurs and advance the potential of women-led businesses. The ‘Mini MBA program,’ a six-month course that started in October 2015, aims to develop the business and leadership skills of established women entrepreneurs and offers a range of financial products for women, from collateral-free and gold loans to financial literacy programs and online knowledge toolkits.

**Social enterprises and community networks can promote teleworking and home-based work for mothers.** In Malaysia, eHomemakers is a community network set up for women who wish to balance work life and home responsibilities, by providing its online members with a platform to generate income and cultivate entrepreneurship though home-based ICT activities. Examples of such projects include selling online hand-made baskets from recycled paper. In 2010, it had 17,000 members, of which 70 percent are women. It also provides training for women on the use of ICT to set-up tele-trading sites from home (World Bank, June 2017). A similar program could be tested among Palestinian women to determine its success as an employment mechanism.

**Communication efforts are also needed to change norms that restrict women’s access to the labor market.** The most powerful way to change perceptions (of men, women, and employers) about women’s participation in the labor force is to get more women into the labor force. The above policy options can help with that. But these policies need to be complemented by media campaigns. The PA could set and
communicate clear targets for female employment as well as legislative changes and programs to support these targets. This could be accompanied by targeted campaigns to gradually change “hearts and minds.” In Spain, a national campaign called “Being a Mother Is a Plus” gained significant traction among the public. It highlighted the story of a hard-working and highly ambitious mother named Laura, who has the resumé needed to successfully rise to a managerial position, but still faces significant challenges as she reattempts to enter the labor market: employers are reluctant to hire her because of her care responsibilities at home.

**Building a partnership for job creation**

A partnership between government, private sector, and civil society is needed to develop solutions to create more and better jobs. The jobs challenge in the PT is daunting. Any long-term sustainable solution must involve the removal of Israeli-imposed restrictions, but this report shows that there are good opportunities to create more and better jobs within the limits of those restrictions. It also provides policy options to exploit those opportunities, building on the wealth of knowledge on what has worked and what has not in the PT and focusing on practical solutions to address the jobs challenge in a more integrated way. But the PA cannot do it alone, nor should it. While the PA has regulatory power, it has a very limited fiscal space. The PA needs to reach out to the private sector and civil society (including knowledge institutions) to create a National Alliance for Jobs to develop and implement solutions within an integrated National Jobs Strategy. International evidence shows that countries where governments actively engaged with the private sector and civil society around a comprehensive jobs strategy were able to successfully develop and implement comprehensive jobs strategies that ultimately resulted in more and better jobs (Box 3).

Development partners should support this partnership and provide financial support to the initiatives that come out of it. For example, the World Bank, in partnership with local think tanks and development partners, has supported some of these efforts by helping to convene stakeholders, inform the dialogue with relevant knowledge, and frame jobs strategies as well as by providing technical assistance and capacity building (Box 3). The World Bank, and other development partners, should also provide financial support to the implementation of a national jobs strategy. Development partners have supported many job-related initiatives over the years. Some of these initiatives have had limited success, leading to some donor fatigue. But there are also many successful initiatives. This report builds on these experiences. The report also argues that, to be successful, these initiatives should be part of an integral plan to address the jobs challenge, a plan that should come out of the National Alliance for Jobs.

This report aims to inform the work of the National Alliance for Jobs to develop and implement a National Jobs Strategy for a by Palestinians. It does so by (i) providing a diagnostic of the jobs challenge, so as to help the stakeholders in the National Alliance for Jobs reach out an agreement about the problem; and (ii) identifying key policy options to address it that are fully or partially under the control of Palestinians. Some of these options can be implemented in the short run, other would require more time (see Table 2). The purpose of these recommendations is not to be prescriptive or to preempt the work of the National Alliance for Jobs but rather to inform this work.
In the late 1980s, Ireland was experiencing high unemployment, low productivity, and conflictive industrial relations. The government revamped the social partnership with businesses and unions to reach consensus on broad job reforms that included pro-business reforms to ease business regulations, boost trade and foreign investment, and moderate wage increases, but also added pro-worker reforms to reduce personal income tax rates and expand skills development. As a result, unit labor costs fell, productivity rose faster than wages, and unemployment dropped significantly. South Korea faced similar challenges in the late 1990s. The government worked with business and unions on a grand bargain that included pro-business reforms to reduce hiring and firing costs and moderate wage increases, but also implemented pro-worker reforms to increase business compliance with the minimum wage, expand skills development, and introduce unemployment insurance.

The World Bank has spearheaded similar efforts in developing countries like the Philippines and Indonesia. In the Philippines, the new Aquino administration laid out an ambitious jobs reform agenda and reached out to businesses, unions, and civil society to build consensus around it. The World Bank informed the jobs strategy with a comprehensive diagnostic of the situation and key policy recommendations. It also used its convening power to help build consensus among stakeholders. In Indonesia, the World Bank worked with the new Jokowi administration to develop a comprehensive jobs strategy (through studies, hands-on technical support, and capacity building) and to build consensus around it. Although the strategy is still in the making, significant progress has been made in areas like minimum wages and skills development, and a healthy dialogue with stakeholders has been created through the Employment Policy Forum.
Table 2: Policy options to create more and better jobs for and by Palestinians

<table>
<thead>
<tr>
<th>POLICY AREAS</th>
<th>CHALLENGES</th>
<th>SHORT-TERM POLICY OPTIONS</th>
<th>MEDIUM- AND LONG-TERM POLICY OPTIONS</th>
</tr>
</thead>
</table>
| BOOSTING TECHNOLOGY-BASED SERVICES    | Burdensome (particularly for startups) and fragmented business regulations; lack of level-playing field | Adoption and implementation of the Companies Law and the Competition Law  
Set up a forum with the private sector to discuss, agree and review the implementation of a Big Bang regulatory reform program | Implement the Big Bang regulatory reform program  
Harmonization of business regulations across the PT |
|                                       | Limited access to finance for startups and small firms                      | Develop a framework to increase the access of entrepreneurs and small companies to finance  
Support the development of angel networks in the PT with links with regional ecosystems | Catalytic grants for startup and early-stage enterprises to leverage first-time angels  
Introduce incentives to channel some remittances into productive investments |
|                                       | Inadequate supporting services for ICT entrepreneurs and online freelancers  | Increase the capacity of managers and mentors in existing incubators; attract experienced mentors; connect incubators with international peers  
Use public money/donor funding to purchase online freelancing support for unemployed youth from existing providers (particularly in Gaza) | Facilitate entry of new quality incubators/accelerators  
Facilitate entry of new providers of online freelancing support  
Support the establishment of social enterprises that provide online freelancing support to vulnerable youth |
|                                       | Inadequate skills for the digital economy                                   | Use digital platforms and career counselors to provide better information to high school students (especially female students) about career paths, including STEM fields  
Scale up ongoing initiatives that promote partnerships between higher education institutions and employers to make the curriculum of study programs more relevant for the labor market and to combine classroom instructions with on-the-job training in firms (dual study programs)  
Scale up ongoing initiatives to leverage private investment in digital skills training through Development Impact Bonds | Accelerate efforts to improve teaching practices in preschool and basic education  
Strengthen quality assurance system for skills training  
Consider establishing a skills training fund to support demand-driven and competency-driven skills training, particularly digital skills |
|                                       | Inadequate supporting infrastructure for the digital economy  
• Broadband internet                                                               | Creation of an independent telecom regulator                                                | Regulatory reform to improve competition and oversight in the telecom industry |
<table>
<thead>
<tr>
<th>POLICY AREAS</th>
<th>CHALLENGES</th>
<th>SHORT-TERM POLICY OPTIONS</th>
<th>MEDIUM- AND LONG-TERM POLICY OPTIONS</th>
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<tr>
<td>• Online payment system</td>
<td>Establishment of a National Payments Company (NPC); implementation of the E-</td>
<td>Establishments of a National Payments Company (NPC); implementation of the E-Transactions Law and Cyber Security Law</td>
<td>Expand mobile payment methods&lt;br&gt;Implement solutions to constraints identified through the VC analysis, e.g. investment in producer organizations; technical and financial assistance to improve product quality/ productivity; expand access to finance through risk sharing facilities, connect; smallholder producers to buyers in value chains; investment in logistics</td>
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<tr>
<td>EXPLOITING LOCAL SPECIALIZATION IN TRADITIONAL SECTORS</td>
<td>The potential of existing local specialization in goods and services is not well exploited due to constraints in the value chains to produce them</td>
<td>Identify key value chains in selected local economies&lt;br&gt;Conduct value chain (VC) analysis to identify key constraints and options and options to address them.</td>
<td>Implement plans to strengthen job counselors&lt;br&gt;Facilitate facilitating private sector-led digital platforms to serve the needs of high-skill youth</td>
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<tr>
<td>CONNECTING YOUTH TO JOBS AND REMOVING BARRIERS TO FEMALE EMPLOYMENT</td>
<td>Limited knowledge about job opportunities and employment support services</td>
<td>Develop a digital platform to refer vulnerable youth to jobs and employment support services&lt;br&gt;Develop plan to strengthen Ministry of Labor job counselors to provide advice to job seekers (based on the referral recommendations from the digital platform), as well as to work out a plan and follow up with job seekers</td>
<td>Implement plans to strengthen job counselors&lt;br&gt;Facilitate facilitating private sector-led digital platforms to serve the needs of high-skill youth</td>
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<td></td>
<td>Inadequate support to vulnerable youth, including young females</td>
<td>Use public money/donor funding to purchase high impact support services for vulnerable youth, especially online freelancing support and cash-for-work opportunities in Gaza, and ensuring that at least half of the beneficiaries are women</td>
<td>Expand the supply of high impact support services for vulnerable youth; tailor these programs to the needs of women (e.g. socio-emotional and on-the-job skills training) and target them</td>
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<td>Barriers to female employment, particularly legislation that limits women’s choices in careers, sectors, and occupations; sexual harassment in the workplace</td>
<td>Make Minister of Labor-level regulations and directives gender neutral</td>
<td>Revise Labor Law and regulations to make them gender neutral and to explicitly prohibit discrimination in the hiring, promotion, and pay of women versus men</td>
<td>Support establishment of social enterprises and community networks that promote teleworking and working from home&lt;br&gt;Introduce legislation against sexual harassment in the workplace, including to allow women to prosecute claims in court</td>
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<td>Limited access to safe transportation and affordable child care</td>
<td>Introduce Code of Conduct for women to feel safe to use public transportation</td>
<td>Consider public transportation for women only&lt;br&gt;Incentivize employer-funded child care (e.g. through subsidized vouchers),</td>
<td>Introduce Code of Conduct for women to feel safe to use public transportation</td>
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<tr>
<td>POLICY AREAS</td>
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<td>Enable community nurseries run by mothers</td>
<td>particularly in areas where many employers are clustered</td>
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<td>Female entrepreneurs face more constraints than their male counterparts in terms of access to finance, skills and experience</td>
<td>Scale up ongoing initiatives to provide dedicated support to female-led startups, e.g. Gaza Sky Geeks, Bank of Palestine’s Mini MBA program, Business Women’s Forum</td>
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<td>Social norms restrict women’s access to the labor market</td>
<td>Set and communicate clear targets for female employment as well as legislative reforms and programs to support these targets</td>
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<td>A targeted communication campaign (using, for example, role models) to gradually change perceptions about women’s work</td>
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<td></td>
<td>Awareness raising, including among employers and husbands/fathers, about legislative reforms to remove barriers to female employment</td>
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<td>BUILDING A PARTNERSHIP FOR JOB CREATION</td>
<td>The jobs challenge in the PT is daunting</td>
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<td>The PA has some regulatory power but a very limited fiscal space</td>
<td>Set up a National Alliance for Jobs (NA4J), a partnership between the PA, businesses and civil society for job creation</td>
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<tr>
<td>Limited collaboration between the PA, businesses and civil society</td>
<td>• Agree on the diagnostic of the jobs challenge</td>
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<td>Donor ‘fatigue’ and declining support</td>
<td>• Identify priorities and sequence of reforms to create more and better jobs (National Jobs Strategy, NJS)</td>
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<td>• Communicate the NJS to the public</td>
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<td>Development partners support the establishment of the NA4 and the development of the NJS, and commit financial resources to its implementation</td>
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<td>Implementation and review of the NJS (and communication of progress to the public)</td>
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<td></td>
<td>Development partners provide financial support to the implementation of the NJS</td>
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</tbody>
</table>
References


UNESCO (2017), Cracking the code: Girls’ and women’s education in STEM, United Nations Educational, Scientific and Cultural Organization.


World Bank (2018b), World Development Indicators, World Bank.


World Bank (2017c), “Unlocking the Trade Potential of the Palestinian Economy”.


WTO (2015), Trade in Services: The most dynamic segment of international trade, World Trade Organization.
Appendix B: Mapping Specialization

Figure B1. Specialization index in crops, animals and hunting

Source: Own calculations based on PCBS (2017)

Figure B2. Specialization index in forestry and logging

Source: Own calculations based on PCBS (2017)
Figure B3. Specialization index in fishing and aquaculture

Source: Own calculations based on PCBS (2017)

Figure B4. Specialization index for extraction of crude petroleum and natural gas

Source: Own calculations based on PCBS (2017)
Figure B5. Specialization index for other mining and quarrying

Source: Own calculations based on PCBS (2017)

Figure B6. Specialization index for manufacturing of food products

Source: Own calculations based on PCBS (2017)
Figure B7. Specialization index for manufacturing of beverages

Source: Own calculations based on PCBS (2017)

Figure B8. Specialization index for manufacturing of tobacco

Source: Own calculations based on PCBS (2017)
Figure B9. Specialization index for manufacturing of textiles

Source: Own calculations based on PCBS (2017)

Figure B10. Specialization index for manufacturing of apparel

Source: Own calculations based on PCBS (2017)
Figure B11. Specialization index for manufacturing of leather

Natural Breaks: LEATHER
- < 0.143 (12)
- [0.143, 0.203] (1)
- [0.203, 0.507] (2)
- (0.507, 7.297] (1)
- > 7.297 (0)

Source: Own calculations based on PCBS (2017)

Figure B12. Specialization index for manufacturing of wood

Quantile: WOOD
- [0 : 0] (3)
- [0.106 : 0.287] (3)
- [0.345 : 0.496] (4)
- [0.707 : 0.769] (3)
- [1.801 : 6.950] (3)

Source: Own calculations based on PCBS (2017)
Figure B13. Specialization index for manufacturing of paper

Source: Own calculations based on PCBS (2017)

Figure B14. Specialization index for printing and reproduction of recorded media

Source: Own calculations based on PCBS (2017)
Figure B15. Specialization index for manufacture of coke and refined petroleum

Source: Own calculations based on PCBS (2017)

Figure B16. Specialization index for manufacture of chemicals

Source: Own calculations based on PCBS (2017)
Figure B17. Specialization index for manufacture of pharmaceuticals

Source: Own calculations based on PCBS (2017)

Figure B18. Specialization index for manufacture of rubber and plastics

Source: Own calculations based on PCBS (2017)
Figure B19. Specialization index for manufacture of non-metallic minerals

Source: Own calculations based on PCBS (2017)

Figure B20. Specialization index for manufacture of metal products excluding machinery

Source: Own calculations based on PCBS (2017)
Figure B21. Specialization index for manufacture of computers, electronics and optical

Quantile: COMPELECT
- [0 : 0] (0)
- [0 : 0] (0)
- [0 : 0] (14)
- [0 : 0] (0)
- [7.632 : 7.939] (2)

Source: Own calculations based on PCBS (2017)

Figure B22. Specialization index for manufacture of basic metals

Quantile: BASICMETAL
- [0 : 0] (0)
- [0 : 0] (0)
- [0 : 0.385] (10)
- [1.037 : 1.361] (3)
- [3.679 : 6.851] (3)

Source: Own calculations based on PCBS (2017)
Figure B23. Specialization index for manufacture of electric equipment

Source: Own calculations based on PCBS (2017)

Figure B24. Specialization index for manufacture of machinery and equipment

Source: Own calculations based on PCBS (2017)
Figure B25. Specialization index for manufacture of motor vehicles

Source: Own calculations based on PCBS (2017)

Figure B26. Specialization index for manufacture of other transport equipment

Source: Own calculations based on PCBS (2017)
Figure B27. Specialization index for other manufacturing

Source: Own calculations based on PCBS (2017)

Figure B28. Specialization index for repair and installation of machinery and equipment

Source: Own calculations based on PCBS (2017)
Figure B29. Specialization index for construction of buildings

Source: Own calculations based on PCBS (2017)

Figure B30. Specialization index for wholesale and retail trade and repair of motor vehicles

Source: Own calculations based on PCBS (2017)
Figure B31. Specialization index for retail trade (except motor vehicles)

Source: Own calculations based on PCBS (2017)

Figure B32. Specialization index for wholesale trade (except motor vehicles)

Source: Own calculations based on PCBS (2017)
Figure B33. Specialization index for land transport and transport via pipelines

Source: Own calculations based on PCBS (2017)

Figure B34. Specialization index for water transport

Source: Own calculations based on PCBS (2017)
Figure B35. Specialization index for warehousing and support activities for transportation

Source: Own calculations based on PCBS (2017)

Figure B36. Specialization index for warehousing and support activities for transportation

Source: Own calculations based on PCBS (2017)
Figure B37. Specialization index for food and beverage services

Source: Own calculations based on PCBS (2017)

Figure B38. Specialization index for publishing activities

Source: Own calculations based on PCBS (2017)