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# ► Impact of the war in Gaza on private sector workers and businesses in the West Bank





- ▶ **Impact of the war in Gaza on private sector workers and businesses in the West Bank**

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# Acknowledgements

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This study was produced as part of the Review Phase of the Emergency Response Plan (ERP), developed by the International Labour Organization (ILO) to mitigate the impact of the war in Gaza on Palestinian workers and employers across the Occupied Palestinian Territory.

The study was prepared by consultant Samia Al Botmeh, with the technical support of Aya Jaafar, Labour Economist at the ILO Regional Office for Arab States (ILO-ROAS). Consultant Amer Madi also contributed significantly, and developed a background paper on the impact of the war on businesses in the West Bank.

The ILO is grateful for the collaboration with the Palestinian General Federation of Trade Unions (PGFTU), which facilitated data collection on the impact of the war on workers in the West Bank, and with the Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA), which facilitated data collection on the impact of the war on the West Bank businesses.

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# Executive summary

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With the onset of the war in Gaza in October 2023, Israel introduced a set of measures in the West Bank that have had devastating economic repercussions. These measures include the imposition of movement restrictions in the form of checkpoints and roadblocks between and within West Bank governorates; frequent military incursions into Palestinian towns, villages and camps; the revocation of permits for Palestinians working in Israel and the settlements; and the continued withholding of the Palestinian Authority's custom duties revenue. These measures, alongside the intensification of settler attacks on Palestinian lives and livelihoods across the West Bank<sup>1</sup> and a new wave of settlement construction throughout area C and rural areas,<sup>2</sup> have further exacerbated the situation. As a result, the West Bank's economy faces significant contraction, evidenced by a sharp decline in gross domestic product (GDP), reduced production and rising unemployment rates.

Given these dire conditions, **this study aims to provide a diagnostic assessment of the impact of the war in Gaza on private sector workers and businesses in the West Bank**. To this end, this study:

1. offers theoretical and empirical evidence on the impact of wars and conflicts on labour markets globally, including insights from previous conflicts and wars experienced by the Occupied Palestinian Territory;
2. analyses recent labour market trends in the Occupied Palestinian Territory, with a particular focus on the West Bank, such as labour force participation, employment, wages and informality, among others;
3. assesses the impact of the ongoing hostilities on private sector employers and workers in the West Bank, as well as their coping strategies; and
4. investigates the repercussions of the current crisis on the households of surveyed workers and their future coping strategies.

Based on its findings, this study proposes a set of policy recommendations to mitigate the impact of the war on workers and businesses in the West Bank, and to promote the creation of more and better sustainable jobs in the future.

The study employs various assessment methods, including two surveys – one administered electronically to employers, and one conducted through face-to-face interviews with private sector workers. Interviews were also conducted with self-employed individuals and key labour market stakeholders, such as representatives of the Ministry of Labour, the Palestinian Employment Fund and the Palestinian Monetary Authority.

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<sup>1</sup> According to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), "since 7 October 2023 and as of 15 March 2024, OCHA has recorded 646 Israeli settler attacks against Palestinians that resulted in Palestinian casualties (59 incidents), damage to Palestinian-owned property (513 incidents), or both casualties and damage to property (74 incidents)." See: OCHA, *Hostilities in the Gaza Strip and Israel: Flash Update #140*, 15 March 2024.

<sup>2</sup> "Tenders Issued by the Ministry of Housing for Construction in Geva Binyamin and Karnei Shomron", *PeaceNow*, 11 February 2024.



The International Labour Organization (ILO) developed the study's methodology, sampling, questionnaires and focus group interviews, as well as undertaking data cleaning and analysis, while data collection in the field was conducted in collaboration with the Palestinian General Federation of Trade Unions (PGFTU) for the workers' survey, and with the Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA) for the employers' survey.

## Key findings

The findings of the study reveal that the deep-seated structural problems endemic in the West Bank's labour market have been further entrenched and exacerbated by current hostilities.

**Aggregate labour market indicators have deteriorated amidst the private sector's struggles.** This is evident in rising unemployment rates, declining wage levels and growing informality. Projections indicate that, under the scenario that the war persists until the end of June 2024, the unemployment rate will surge to 45.5 per cent in 2024, a significant increase from 30.7 per cent in 2023. A primary catalyst for this uptick in unemployment is the sudden displacement of over 160,000 Palestinian workers from the Israeli labor market as of 7 October 2023. The abrupt influx of nearly 20.0 per cent of the West Bank's employed populace, who have lost their jobs in Israel, into an already saturated domestic labor market has had devastating repercussions on the local economy.

**Private sector workers bear the brunt of the crisis, as revealed by the findings of the workers' survey.** Since 7 October 2023, 33.5 per cent of the workers surveyed have lost their jobs. At the same time, part-time work arrangements have become increasingly prevalent, with the proportion of part-time workers rising from 10.6 per cent before the war to 40.7 per cent after the war began. Disaggregating the findings by gender reveals that men have borne a greater proportion of job losses and transitions to part-time work than women.

Beyond employment losses and job transitions, the workers' survey sheds light on the impact of the war on workers' hours and wages. Over half of the surveyed workers who have remained employed after 7 October have experienced a reduction in their hours of work compared to pre-war levels. This decrease in hours has translated into reduced wages for 39.6 per cent of the workers surveyed. However, not all wage reductions are due to reduced hours of work. More than one-fifth of workers who are still employed are receiving reduced wages despite continuing to work full hours.

Among workers who have lost their jobs, just 31.4 per cent report that they have received their end-of-service entitlements. Another 36.0 per cent have been assured by employers that they will receive these entitlements once the situation improves. The remainder are either still negotiating their entitlements, or are engaged in labour disputes over them.

Due to job losses, reductions in hours of work, and other factors associated with the war, a significant 87.2 per cent of the workers surveyed have experienced a decline in their household income since October 2023. Only 11.1 per cent have been able to maintain their pre-war income levels, and a mere 1.7 per cent of households have experienced an increase in their incomes.

To mitigate the adverse effects of the war, Palestinian households have employed various coping strategies. Primarily, they have reduced their expenditures on entertainment, followed by cutbacks in spending on food, healthcare and education. A significant majority of households have relied on their personal savings (71.1 per cent), deferred loan payments (48.5 per cent) and sold financial assets (26.6 per cent) to navigate the economic downturn. A minority of households have opted for more substantial changes as coping mechanisms.

Some members have pursued training to enter new professions (16.8 per cent), while others have engaged in subsistence farming (9.7 per cent).

**Alongside workers, businesses and employers have also borne the brunt of escalating hostilities, encountering numerous challenges.** An overwhelming 98.8 per cent of enterprises confirm that they have been negatively affected by the war. Major challenges include disruptions in supply chain networks, increased transport costs, disruption to operations, and losses in sales, amongst others.

The employers' survey reveals that the average number of workers per surveyed enterprise has decreased from 16.2 workers before the war to 11.2 workers per enterprise after the war began, indicating a widespread impact on employment across businesses. Enterprises in the construction and tourism sectors have been especially hard hit, experiencing the largest declines in their average workforce.

Across the West Bank, 65.3 per cent of surveyed businesses report a decline in their workforce, 33.0 per cent report no change in employment figures, and 1.7 per cent have increased their workforce. Looking more closely at layoffs methods, 52.7 per cent of surveyed enterprises report temporary dismissals until conditions improve, while 39.9 per cent have resorted to permanent layoffs and provided due entitlements to affected employees. A significant share of businesses (27.5 per cent) have had to dismiss workers permanently without paying them their entitlements because of financial constraints.

Amidst the worsening economic landscape and dwindling demand, 73.3 per cent of surveyed businesses have opted to reduce the hours of work of some employees. Notably, workers in the tourism sector have borne the brunt of this adjustment. Businesses have also curtailed the number of working days per month. Before the war, companies operated for average for 25.1 days per month. This figure has dropped to an average of 17.1 working days since the war began, reflecting an average loss of 8 working days per month among the surveyed businesses.

To cut costs, businesses have also taken measures with respect to over-time work and paid annual leave benefits. Some 37.1 per cent of enterprises that previously provided paid annual leave benefits have ceased such payments for their workers. Similarly, 81 per cent of enterprises that permitted overtime work have discontinued the practice. Self-employed individuals and small businesses with fewer than 10 workers report the most significant reductions in hours of work.

In addition to shedding light on the impact of the war in Gaza on businesses in the West Bank, the employers' survey highlights the strategic responses that enterprises have adopted to address and alleviate its impact. These can be categorized into three main groups:

1. **Maintaining financial integrity:** Companies have aimed to sustain current operations and ensure their future financial stability by reducing expenditure on long-term expansionary projects. This involves halting ongoing long-term development projects initiated before the hostilities began, as well as cancelling supply purchase orders made before the crisis.
2. **Ensuring operational stability:** Businesses have implemented strategies to safeguard operations and their financial flow by ceasing to leverage potential future investments to meet current needs. That is, advances and cash sales are not reinvested, alongside cutting all other investment costs. Other measures taken include discontinuing sales on credit, refraining from renewing licenses and insurance claims, and injecting funds from company owners to maintain activities and prevent insolvency.
3. **Cost reduction and workforce sustainability:** More drastic strategies focus on cutting costs and sustaining the workforce, such as by halting part of a company's operations by shutting down production lines and selling productive assets.

Only a small proportion of surveyed businesses have opted to borrow funds from banks to stay afloat. This cautious approach may stem from their perception that the future is highly uncertain. Borrowing from banks could entail substantial future costs that companies may struggle to meet if the conflict persists.

In terms of the **support that businesses require**, employers underscore their urgent need for assistance from the Palestinian Authority. Just 6.6 per cent of surveyed businesses (45 in total) report receiving any form of aid, either from the Palestinian Authority or from international organizations since the war began. A staggering 88.4 per cent of employers call for various chambers of commerce to advocate for government support on their behalf.

A recurring concern among employers is the perceived inaction and lack of engagement by the Palestinian Authority in assessing the needs of economic entities, and initiating dialogue on strategies to navigate the crisis. Employers outline several areas where intervention by the Palestinian Authority could make a significant difference:

- fiscal measures to alleviate the impact of the war on businesses in the West Bank;
- assistance for procuring production inputs;
- resolving issues around bounced cheques; and
- trade-related interventions with international business partners.

## Policy recommendations

Based on its findings, this study proposes a set of policy recommendations that focus on immediate/short-term strategies to mitigate the impact of the war on the labour market, alongside a longer-term approach focused on enhancing the economy's job creation capacity.

In the **immediate-term**, this study recommends the following interventions.

### 1. Financial assistance and support:

- Implement tailored financial assistance programmes to aid affected Palestinian businesses, encompassing tax relief measures, waivers for licensing fees, and business subsidies in response to the financial constraints identified in this study.
- Activate social protection measures to provide support to workers facing severe economic hardship.

### 2. Intervention by the Palestinian Authority and policy changes:

- Implement immediate policy changes, such as modifications in trade arrangements under the Paris Protocol and changes to monetary and industrial policies, to address the trade barriers and policy limitations hindering business operations identified by business leaders.
- Ensure regular full salary payments to workers, in line with the emphasis placed by business leaders on stimulating demand and supporting businesses.

### 3. Market diversification and increased export opportunities:

- Support initiatives to diversify market channels and explore alternative avenues for goods and services.
- Support businesses to identify new markets, particularly for sectors that are heavily reliant on exports and those facing international supply chain pressures.

- Facilitate networking opportunities and partnerships to expand export capabilities and secure access to new markets.

#### 4. Workforce retention and skills development:

- Develop programmes to retain skilled workers and prevent layoffs, including wage subsidy schemes and job retention incentives.
- Offer training and upskilling opportunities to workers to adapt to evolving market demands and enhance productivity.
- Advocate for policies to safeguard workers' rights and ensure fair treatment amidst economic challenges.

#### 5. Advocacy and stakeholder engagement:

- Foster collaboration among chambers of commerce, agencies of the Palestinian Authority, trade unions and other stakeholders to address the needs of affected businesses and workers.
- Facilitate dialogue and knowledge-sharing forums to enable the exchange of best practices, lessons learned and innovative solutions among businesses, workers and other stakeholders.

The study also recommends **promoting the social and solidarity economy**, using the opportunities provided by the crisis to move the West Bank's economy towards **operationalizing economic principles based on solidarity and sustainability**, consistent with caring for people and planet, equality and fairness, self-governance, transparency and accountability, the attainment of decent work and livelihoods, and, most importantly, away from reliance on employment in the exploitative Israeli labour market. Organizationally, these programmes may encourage the establishment of cooperatives or associations for the many self-employed ventures that are emerging across the West Bank, following the huge loss of employment both in Israel and within the West Bank's local economy.

In the **medium to long-term**, this study recommends the following interventions.

**1. Reduce Palestinian workers' dependence on employment in Israel and settlements.** This is vital to mitigate the impact of politically induced shocks on the West Bank's labour market. Achieving this strategic objective requires collaborative initiatives led by the Palestinian Authority and stakeholders across sectors. These efforts include micro and macroeconomic policies to enhance labour productivity, elevate quality standards, and foster digitization, thereby facilitating smoother economic sector functioning during crises. To this end, the following interventions are needed across sectors, in line with social and solidarity economy principles.

- **In agriculture:** Support crop diversification, invest in branding and packaging, enhance water management systems, and promote recycling and composting, in order to boost the agricultural sector's productivity and job creation potential.
- **In the industrial sector:** Advance coordination among labour market stakeholders, including relevant Palestinian Authority departments, trade unions and chambers of commerce, in order to diversify production to meet local and international market demands. Efforts are needed to reduce shipment delays, address input shortages, and improve output quality.
- **In information technology and communication:** Encourage technologically advanced innovation through capacity building and knowledge-sharing. Expand investment in information communication (IT) training for young people to significantly enhance their skills on IT programming, design and application.

Moving towards digital transformation, working directly with Arab countries and the rest of the world, will add much needed value and growth to the sector.

- **In tourism:** Introduce innovative mechanisms to support the tourism sector's reliance on both domestic and international visitors. Implement policy interventions to encourage the digitization of the tourism sector, the renovation of major tourism sites, and improve quality standards.

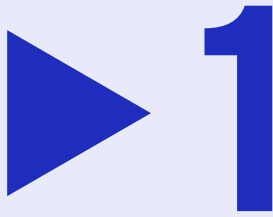
**2. Promote women's and youth engagement in the labour market** to boost the Palestinian economy's growth potential and yield significant social benefits.

**3. Review and enhance labour legislation.** Expand coverage of the Palestinian Labour Law No. 7 to include self-employed individuals, seasonal workers and domestic workers, among others. Introduce provisions on the equal treatment of women and men, as well as penalties for violations, in collaboration with the Ministry of Labour.

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# Chapter 1





# Introduction

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Since 7 October 2023, Gaza has suffered catastrophic losses of lives and livelihoods. The war in Gaza has been “*unparalleled in its intensity, brutality and scope*”, in the words of United Nations Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator, Martin Griffiths.<sup>3</sup>

While war rages in Gaza, Israel has been imposing what can be described as “low intensity hostilities” in the West Bank since 7 October. These include military incursions into cities, villages and refugee camps; mass arrests of Palestinians; the activation of more than 650 checkpoints within the West Bank and across the Green Line; the revocation of work permits for Palestinian workers employed in Israel and the settlements; withholding Palestinian custom duties; and intensified attacks by Israeli settlers on Palestinians and their livelihoods in the West Bank.

Given this precarious context, **the objective of this study is to document and assess the immediate impact of the ongoing hostilities – both in Gaza and the West Bank – on private sector workers and employers in the West Bank.** It aims to identify the challenges that workers and employers face, as well as their specific needs, amidst supply chain disruptions, restrictions on the movement of individuals, goods and services, and the lack of access to the Israeli labour market.

Therefore, this study examines the **immediate impact of the hostilities on businesses from the perspective of employers**, including impacts on business operations, production volumes, profit levels, the functionality of supply chain networks, employment outcomes, hours of work, wages and layoffs. It identifies businesses’ current coping mechanisms and the potential strategies they will adopt in the future in response to severe, adverse political developments. In addition, it looks at enterprises’ access to different forms of assistance, and the role of relevant labour market stakeholders.

The study also **delves into the supply side of the labour market**, analysing how Israeli measures in the West Bank affect labour supply, unemployment and workers’ employment, income, hours of work and mobility across sectors. It considers the impacts on workers’ households and their coping mechanisms in response to the loss of employment, reduced hours of work and/or reduced incomes. It also examines assistance provided to workers’ and their future survival strategies in the face of severe labour market constraints.

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<sup>3</sup> Martin Griffiths, “[The world’s moral failure in Gaza should shame us all: The G20 members must use their political leadership and influence to help end the war in Gaza](#)”, *Aljazeera*, 21 February 2024.

Based on the findings of this analysis – drawing on extensive fieldwork engaging employers in different sectors, self-employed individuals, and private sector workers – the study offers recommendations addressing both businesses’ and workers’ perspectives.

## ► 1.1. Report structure

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CHAPTER

2

Following this introductory chapter, **Chapter 2** outlines the methodology employed for this study and the tools used to examine the impact of the conflict on workers and businesses in the West Bank, including a desk review, surveys of employers and workers, key informant interviews and focus group discussions.

CHAPTER

3

**Chapter 3** briefly reviews theoretical and empirical literature to shed light on the impact of violent conflicts on growth, labour market outcomes and enterprises globally, setting the contextual groundwork for understanding the possible impacts of hostilities on economic growth, workers and businesses in the West Bank.

CHAPTER

4

**Chapter 4** assesses the impact of the conflict on the broader economy and labour market of the West Bank, based on secondary data and information.

CHAPTER

5

**Chapter 5** presents the findings of the employers’ survey conducted for this report in terms of their business operations, employment strategies and results.

CHAPTER

6

**Chapter 6** outlines the findings of the workers’ survey, focusing on the impact of the conflict on workers’ work experience, earnings and the well-being of their households.

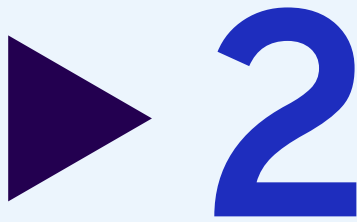
CHAPTER

7

Finally, **Chapter 7** presents the report’s main policy recommendations to promote a more resilient labour market, and support both workers and employers in the West Bank.



## Chapter 2



## Research methodology

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To assess the impact of the war in Gaza on workers and employers in the West Bank, this study is based on a combination of primary and secondary data collection methods.

The International Labour Organization (ILO) developed the study's methodology, sampling, questionnaires and focus group interviews, as well as undertaking data cleaning and analysis. Primary data collection in the field was conducted in partnership with the Palestinian General Federation of Trade Unions (PGFTU) for the workers' survey, and with the Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA) for the employers' survey.

Consultations were also held with the Ministry of Labour, the Palestinian Employment Fund and the Palestinian Monetary Authority to ascertain their views on the impact of hostilities on the Palestinian economy and labour market, and discuss their response strategies and future plans.

Secondary data collection, involved gathering existing data and information from different sources, including data and reports by the Palestinian Central Bureau of Statistics (PCBS), the International Labour Organization (ILO), and other United Nations (UN) sources, and the Palestinian Economic Policy Research Institute's studies and reports, among others.

Primary **data collection tools** used for this report include:

1. **Workers' survey:** 463 workers were surveyed by PGFTU-affiliated members across all governorates in the West Bank. The survey targeted workers across different sectors – agriculture, industry, healthcare, tourism, textiles, transport, schools and nurseries. The categories of workers covered by this survey include private sector employees, workers in the Israeli labour market and settlements, and those without jobs since 7 October 2023. This data was collected between 15 December 2023 and 15 January 2024.

► **Table 1. Distribution of surveyed workers across governorates in the West Bank (%)**

Governorate	Distribution of workers (%)
Hebron	24.5
Nablus	14.3
Ramallah	13.4
Bethlehem	11.4
Jenin	7.6
Tulkarm	7.6
Jerusalem	6.9
Qalqilya	6.5
Tubas	4.1
Jericho	3.7

2. **Employers' survey:** An electronic survey was administered by the Federation of Palestinian Chambers of Commerce, Industry and Agriculture to employers across the West Bank between 15 December 2023 and 30 January 2024. This employers' survey sought to capture variations in geographical coverage, and sectoral distribution, as shown in the table below. Questionnaires were distributed to all business owners registered with the various chambers of commerce in order to maximize response rates. A total of 700 responses were received from employers across the West Bank.

► **Table 2. Distribution of surveyed employers across governorates and sectors in the West Bank**

Governorate	Sector								Totals	
	Construction	Trade	Transport and tele communications	Financial services	Agriculture	Tourism	Manufacturing	Services	Total (number)	Total (%)
Hebron	5	78	4	1	12	6	56	14	176	25.14%
Jenin	10	57	4	1	9	11	22	10	124	17.71%
Nablus	4	32	3	1	0	7	13	13	73	10.43%
Ramallah	4	30	2	1	1	5	6	9	58	8.28%
Bethlehem	6	21	0	1	2	4	16	5	55	7.86%
Qalqilya	4	26	2	1	7	3	10	2	55	7.86%
Tulkarm	2	23	0	0	3	2	13	2	45	6.43%
Jerusalem	4	16	1	0	3	5	5	7	41	5.86%
Tubas	1	11	1	0	8	0	4	3	28	4%
Salfit	4	8	0	0	1	0	14	0	27	3.86%
Jericho	1	9	1	0	1	3	0	3	18	2.57%
<b>Total</b>	<b>45</b>	<b>311</b>	<b>18</b>	<b>6</b>	<b>47</b>	<b>46</b>	<b>159</b>	<b>68</b>	<b>700</b>	<b>100%</b>

3. **Focus group discussions (FGDs) with business/enterprise owners:** In addition to the employers' survey, seven focus group discussions were conducted with business owners across various economic sectors between 10 December 2023 and 10 January 2024. Participants were selected based on consultations with the Federation of Palestinian Chambers of Commerce, Industry and Agriculture. The sectors in which they operate include food production, construction, manufacturing, tourism, retail trade, agriculture and transport. Companies that participated in the focus group discussions are medium-sized and large enterprises from all governorates in the West Bank.

► **Table 3. Focus group discussions by governorates, sectors and subsectors**

Sector	Governorates	Subsectors
Food production	Hebron, Nablus, Ramallah, Jerusalem	Dairy production; soft drinks and beverages; milling; bread and confectionery production; manufacturing meat products; canning, preserving, and processing fruit and vegetables
Manufacturing	Nablus, Bethlehem, Hebron, Salfit	Textile and clothing production; manufacturing wood, wood-based products and furniture; manufacturing basic metals, metal products and fabricated metals; stone manufacturing; plastic manufacturing
Tourism (restaurants, coffee shops, hotels, bakeries)	Ramallah, Jerusalem, Bethlehem, Jericho	Hotels and lodging establishments; food and beverages; restaurants, cafés and other establishments that offer food; travel agencies and tour operators; land transport and other transportation services for tourists
Transport	Ramallah, Jenin, Nablus, Hebron	Land transport (inter-city transport companies); intra-city transport companies (taxis and services); postal and courier services; international shipping services
Retail trade	Ramallah, Hebron, Nablus	Sale of clothing and footwear; sale of other household appliances; sale of pharmaceuticals and medical goods, cosmetic and toiletries; sale of fresh foods and food products
Construction	Ramallah, Hebron, Bethlehem	Construction of buildings for private and public use; civil engineering works for public use; testing and laboratory service providers
Agriculture	Tubas, Jenin, Jericho	Companies engaged in the cultivation of crops and the production of agricultural products such as grain, vegetables, fruit, nuts, seeds, and other crops for local and export markets

4. **Interviews with self-employed individuals:** A total of 18 structured interviews were conducted with self-employed individuals (both women and men) engaged in diverse sectors across the West Bank. These interviews primarily involved individuals who have recently transitioned to self-employment due to job loss as a result of the war's repercussions. These interviews were conducted between 15 and 31 January 2024.
5. **Interviews with key labour market stakeholders:** A number of relevant labour market stakeholders were interviewed to gather their views on the employment and labour market situation in the Occupied Palestinian Territory (OPT), and discuss their interventions to mitigate the impact of the hostilities on workers and employers.



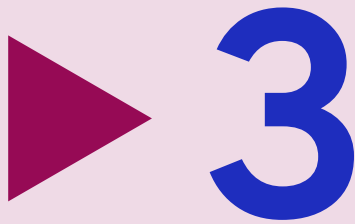
Stakeholders interviewed included representatives of the Ministry of Labour, the Palestinian Employment Fund, the Palestine Monetary Authority, the Palestinian General Federation of Trade Unions, and the Federation of Palestinian Chambers of Commerce, Industry and Agriculture. These interviews were conducted between 1 December 2023 and 15 February 2024.

► **Table 4. Summary of assessment tools used to engage participants**

Categories	Assessment tool	Number of participants
Private sector workers, workers in the Israeli labour market and settlements, workers who lost their jobs after 7 October 2023	Field survey	463
Private sector employers	Electronic survey	700
Self-employed individuals	Structured interviews	18
Private sector employers	7 focus group discussions	65
Individuals without jobs before 7 October 2023	Excluded	-
Public sector employees	Excluded	-
Unpaid family workers	Excluded	-



# Chapter 3



## Theoretical considerations and empirical insights

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Wars, conflict and hostilities affect economic performance in various ways. These include the destruction of resources (both physical and human), the disruption of supply and value chain networks, and increased uncertainty, which influences investment decisions and consumption levels, ultimately affecting economic growth.<sup>4</sup> The impact of wars on the growth of gross domestic product (GDP) often manifests through disruptions to capital stock. In order for capital stock to grow, the level of investment in and expansion of capital stock must outpace the rate of depreciation on existing stock. Conflicts increase the rate of depreciation and reduce investment, resulting in diminishing capital stock. Therefore, conflicts can lead to dramatic reductions in domestic investment, which impacts various economic sectors and stakeholders. The reduction in GDP can have trickle down effects on labour markets, including both workers and employers, as well as on people's standards of living. This brief theoretical and empirical review sheds light on these three components.

From an economic perspective, conflicts can disrupt the equilibrium between labour demand and labour supply in an economy, often through increases in labour supply and decreases in demand for labour, resulting in an excess of available manpower. This, in turn, may increase unemployment levels. In the short-term, high unemployment rates may lead to the depletion of per capita savings and a decrease in per capita real income and aggregate consumption. In the long-term, the consequences may manifest as higher levels of poverty and deprivation, alongside increased informality.

Fernández, Ibáñez and Peña (2014) document shifts in labour supply induced by conflicts, noting a transition from on-farm to off-farm employment.<sup>5</sup> They also find that men reduce the time spent on off-farm agricultural activities and increase off-farm non-agricultural activities, while women decrease their leisure time and increase the time they devote to household chores and childcare.

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<sup>4</sup> For further discussions, see: Paul Collier, "On the Economic Consequences of Civil War", *Oxford Economic Papers* 51, No. 1 (1999): 168–183; Tilman Brück, Wim Naudé and Philip Verwimp, "Business under Fire: Entrepreneurship and Violent Conflict in Developing Countries", *Journal of Conflict Resolution* 57, No. 1 (2013); Mohammad Ajmal Hameed, Mohammad Mafizur Rahman and Rasheda Khanam, "Analyzing the Consequences of Long-Run Civil War on Unemployment Rate: Empirical Evidence from Afghanistan", *Sustainability* 15, No. 8 (2023): 1–21.

<sup>5</sup> Manuel Fernández, Ana María Ibáñez and Ximena Peña, "Adjusting the Labour Supply to Mitigate Violent Shocks: Evidence from Rural Colombia", *The Journal of Development Studies* 50, No. 8 (2014): 1135–1155.

With regards to the impact of conflicts on businesses, Brück, Naudé and Verwimp (2013) argue that hostilities have implications for businesses, such as reduced market size, fewer opportunities for profitable investments, more uncertainty, and higher transaction costs.<sup>6</sup> As a result, businesses experience rising costs which can negatively affect their production, employment, profitability and survival in the market. However, the implications of conflicts on enterprises may also work in the opposite direction. The ILO and the Global Entrepreneurship Monitor (GEM) find that, during wars, there is often a rise in entrepreneurial activities, as evidenced by increased rates of self-employment.<sup>7</sup> This may be because conflicts reduce opportunities for wage employment, prompting individuals to pursue self-employment as an alternative. As such, a rise in self-employment or new micro and small enterprises could indicate a survivalist response in times of conflict.

Smaller firms are often more negatively impacted by hostilities than larger enterprises. First, small businesses may suffer disproportionately from economic downturns due to their limited financial resources and inability to easily access bank lending. In addition, their relatively limited technological, managerial and human capabilities may also reduce their capacity to survive the impact of hostilities intact.<sup>8</sup>

With respect to the impact of conflict on workers and businesses in the Occupied Palestinian Territory, approaches and results vary, depending on the intensity of the conflict cycle. Di Maio and Scibolazza (2023) document the effect of conflict exposure on several labour market outcomes for Palestinians living in the Gaza Strip.<sup>9</sup> They combine individual-level longitudinal employment data and geo-localized information on conflict-related events. Their analysis shows that increased conflict exposure of an individual, while not affecting employment status on average, has a heterogeneous impact on job transitions depending on whether the worker is employed in the private or the public sector. For workers in the private sector, higher conflict exposure reduces labour income and the number of hours worked. For workers in the public sector, the effect of conflict is “null” on both labour income and the number of hours worked, but it has a positive effect on wages. Their evidence suggests that these results are due to the combination of two mechanisms, namely the conflict-induced change in workers’ health conditions (which affect labour supply) and changes in the level of local economic activity (which affect labour demand).

In the context of the West Bank, Adnan (2022) shows that conflict-induced restrictions on workers internal and external mobility, imposed by Israel, have severe negative labour market effects for Palestinian workers.<sup>10</sup> The paper assesses the impact of labour mobility restrictions – such as border closures, physical obstacles, and unequally accessed identity cards and work permits – on the labour flows of West Bank residents. It finds that an increase in the number of border closures per quarter has a positive and significant impact on the odds of facing unemployment for all workers from the West Bank.

<sup>6</sup> Tilman Brück, Wim Naudé and Philip Verwimp, “Business under Fire: Entrepreneurship and Violent Conflict in Developing Countries”, *Journal of Conflict Resolution* 57, No. 1 (2013).

<sup>7</sup> ILO, *Report IV: Small and Medium-sized Enterprises and Decent and Productive Employment Creation*, ILC.2014/IV, 2015; Global Entrepreneurship Monitor, *Global Entrepreneurship Monitor 2022/2023 Global Report: Adapting to a “New Normal”*, 2023.

<sup>8</sup> Celeste Amorim Varum and Vera Catarina Rocha, “Employment and SMEs during Crises”, *Small Business Economics* 40, No. 1 (2013): 9–25.

<sup>9</sup> Michele Di Maio and Valerio Leone Scibolazza, “Conflict Exposure and Labour Market Outcomes: Evidence from Longitudinal Data for the Gaza Strip”, *Labour Economics* 85 (2023): 102439.

<sup>10</sup> Wifag Adnan, “From Economic Integration to Near Elimination: The Economic Consequences of Isolation”, *The Journal of Development Studies* 58, No. 6 (2022): 1160–1180.

Cali and Miaari (2018) have studied the effects of closures and movement barriers on labour markets in the West Bank by using individual-level regression analysis on a large sample of workers spanning the 2000–2009 period.<sup>11</sup> Their research reveals that mobility restrictions have a significant negative impact on employment, wages and days worked in the West Bank, but have a positive impact on the number of hours worked per day. The costs of these restrictions for the West Bank's economy are substantial, amounting to 4.0 per cent of GDP in 2007, according to their findings. Most of these costs are due to lower wages, suggesting that the labour market has adjusted to the restrictions more through prices than quantities. Their findings align with the theoretical model developed by Bulmer (2003), which predicts that, in the short-term, border closures translate directly into spikes in unemployment in the absence of a wage adjustment in the Palestinian labour market.<sup>12</sup> Additionally, Mansour (2010) finds some decline in wages for unskilled workers in the West Bank as a result of increases in the supply of skilled workers expelled from the Israeli labour market, indicating heightened competition for low-skilled jobs in the local economy.<sup>13</sup>

Cali and Miaari (2018) also indicate that the imposition of movement restrictions or closures may increase commuting time, distance and/or cost, thereby making it more challenging for individuals to work outside their residential area and limiting the range of work options available to them. Their study predicts that all localities may experience an expansion of the labour supply following closures. If labour demand stays constant, this expansion could decrease the likelihood of employment in those areas. However, if closures result in decreased demand for labour due to losses incurred by firms, which would ultimately reduce businesses' need for labour, the likelihood of employment across all localities declines. Furthermore, closures and/or movement restrictions are likely to reduce the wages that firms can pay to their workers by impacting production and increasing the cost of the transport of inputs.

In conclusion, theoretical and empirical literature indicates that conflicts have both short-term and long-term impacts on workers and businesses. For workers, in the short-term, hostilities may affect labour supply, unemployment rates, wage levels, working hours and mobility across sectors. In the long-term, impacts include increased informality, sectoral shifts of workers, changes in worker productivity levels, and alterations to decent work standards, all potentially resulting in lower standards of living. For businesses, conflicts can impact levels of production, disrupt supply chain networks, hinder access to technology, reduce profitability, affect demand for labour and, ultimately, threaten the survival of establishments.

<sup>11</sup> Massimiliano Cali and Sami H. Miaari, "The Labour Market Impact of Mobility Restrictions: Evidence from the West Bank", *Labour Economics* 51 (2018): 136–151.

<sup>12</sup> Elizabeth Rupert Bulmer, "The Impact of Israeli Border Policy on the Palestinian Labor Market", *Economic Development and Cultural Change* 51, No. 3 (2003): 657–676.

<sup>13</sup> Hani Mansour, "The Effects of Labour Supply Shocks on Labour Market Outcomes: Evidence from the Israeli-Palestinian Conflict", *Labour Economics* 17, No. 6 (2010): 930–939.



# Chapter 4



# ▶ 4

## Labour market in the West Bank: Before and during the hostilities

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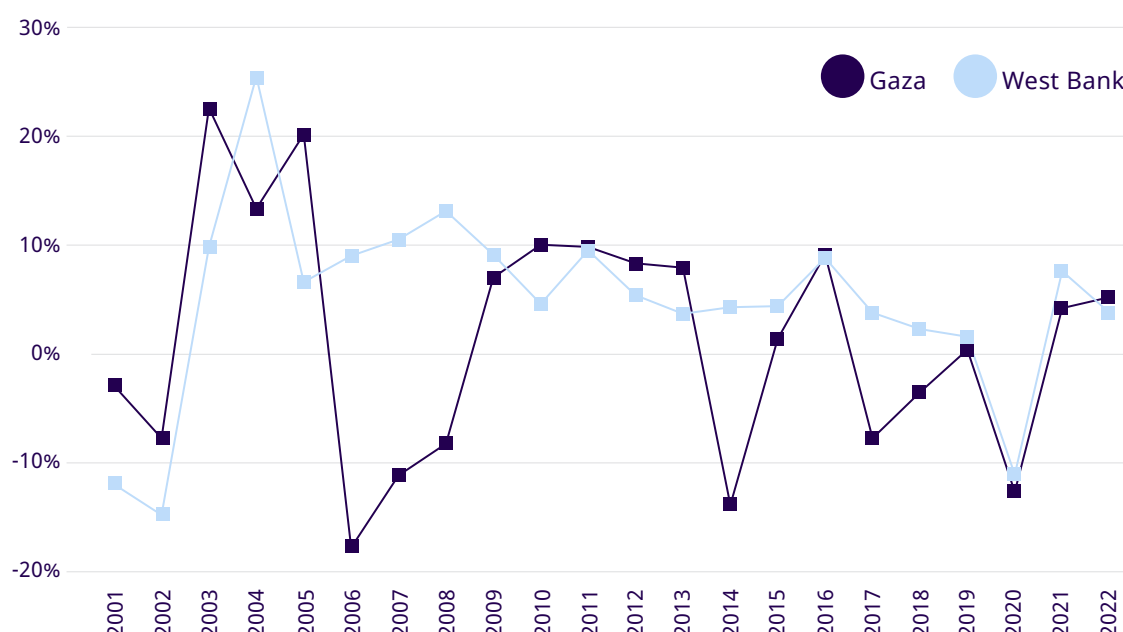
Well before the current war began, the Palestinian economy was functioning under severe constraints. These arose primarily from structural distortions in various economic sectors as a result of measures imposed by the Israeli occupation since 1967. Palestinians lack control over vital domains, such as natural resources, borders, land zoning, and economic policy tools like monetary policy. The West Bank is separated from the Gaza Strip, the latter having endured a tight siege since 2006. Labour markets are fragmented between the West Bank, Gaza, and the Israeli economy. As a result, the Palestinian economy has exhibited severe instability, reflected in highly fluctuating growth rates, as depicted in figure 1 below.

Over the years, the Palestinian economy's productive base has dwindled. Reliance on services has notably increased, while the contributions of the agriculture, construction and manufacturing sectors have all declined. Agriculture's share of GDP plummeted from 12.1 per cent of GDP in 1994 to 6.0 per cent in 2022. In parallel during the same period, manufacturing's share of GDP declined from 22.2 per cent to 12.1 per cent, while construction's share declined from 5.6 per cent to 4.5 per cent. The share of GDP of services, trade, transportation and public administration rose from 60.1 per cent in 1994 to 77.5 per cent in 2022.<sup>14</sup>

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<sup>14</sup> Palestinian Central Bureau of Statistics, "National Accounts 1994–2022", 2023.

► Figure 1. Real GDP growth rates in the West Bank and Gaza Strip, 2001–2022 (%)



Source: Palestinian Central Bureau of Statistics, "National Accounts 1994–2022", 2023.

The precarious performance of the Palestinian economy has been further weakened by the current war in Gaza and its spillover effects on the West Bank. Although the Israeli military attack is focused on the Gaza Strip, "low intensity hostilities" in the West Bank since 7 October 2023 have killed 409 Palestinians and injured nearly 5,000.<sup>15</sup> The Guardian newspaper reports that "Israeli military analysts now refer to the West Bank as a 'third front', after Gaza and the confrontation with Lebanon-based Hezbollah."<sup>16</sup> Israel has instigated a series of measures in the West Bank that are having a detrimental impact on the economy. These include:

1. **Tighter restrictions on the movement of people, goods and services** by setting up barriers within and between governorates, including over 650 road-gates, earth-mounds, roadblocks and checkpoints.<sup>17</sup> These restrictions have disconnected cities, villages and communities from one another, disrupted access to labour markets and basic services, and interrupted trade routes and supply chain networks.
2. **Frequent incursions into Palestinian cities, villages and camps** aimed at arresting Palestinians and intimidating the population at large. According to the Palestinian Prisoners' Club, 9,100 Palestinians have been arrested between 7 October 2023 and 1 April 2024, primarily during incursions into Palestinian communities, as well as through arrests at checkpoints.<sup>18</sup>
3. **Closure of the Israeli labour market to Palestinian workers**, as a result of which more than 160,000 workers from the West Bank have lost their jobs within Israel. This has severe implications for income levels and poverty rates.
4. **The escalation of the demolition of houses and structures**, with 133 homes destroyed during operations by Israeli forces in the West Bank since 7 October. As a result, 853 Palestinians, including 350 children, have been displaced.<sup>19</sup>

<sup>15</sup> OCHA, *Hostilities in the Gaza Strip and Israel: Flash Update No. 130*, 1 March 2024.

<sup>16</sup> Jason Burke, "New Wave of Violence Sweeps West Bank as Israel Launches Series of Raids", *The Guardian*, 18 January 2024.

<sup>17</sup> OCHA, *Hostilities in the Gaza Strip and Israel: Flash Update No. 130*, 1 March 2024.

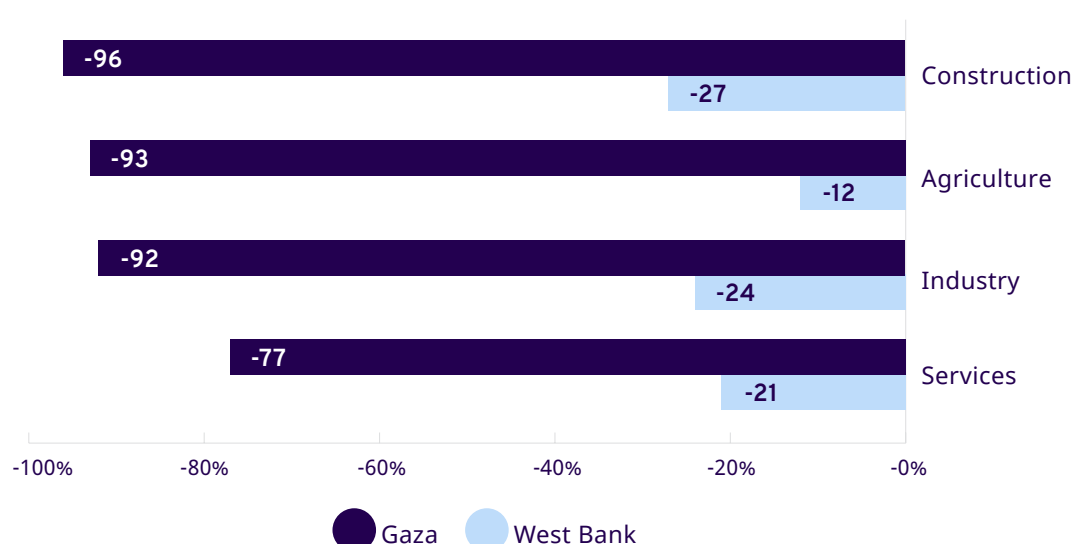
<sup>18</sup> "Palestinian Prisoners Subjected to 'Starvation, Torture, Abuse' – NGO", *The Palestine Chronicle*, 11 March 2024.

<sup>19</sup> OCHA, *Hostilities in the Gaza Strip and Israel: Flash Update No. 132*, 5 March 2024.

5. **The withholding Palestinian custom duties collected by Israel at trade ports.** Under the terms of a deal reached after the Oslo Agreements, Israel collects clearance revenues (taxes and fees on Palestinian imports and exports) on behalf of the Palestinian Authority and makes monthly transfers to the Palestinian Authority subject to the approval of the Israeli Ministry of Finance. Since November 2023, taxes that would ordinarily be sent to Gaza have been frozen by the Israeli Government. As a result, the transfer of custom duties has been disrupted and resources available for public spending jeopardized.<sup>20</sup>
6. **The intensification of attacks on Palestinians by Israeli settlers,** under the guise and protection of the Israeli army. Between October 2023 and 5 March 2024, the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) recorded 615 Israeli settler attacks against Palestinians that resulted in Palestinian casualties (54 incidents), damage to Palestinian-owned property (491 incidents), or both casualties and damage to property (70 incidents).<sup>21</sup>

The implications of the ongoing war in Gaza for the Palestinian economy are grave and clearly reflected in the performance of the overall economy. The Palestinian Central Bureau of Statistics estimated a sharp contraction in the Occupied Palestinian Territory's GDP by 33 per cent during the fourth quarter (Q4) of 2023. This drop in GDP has been driven by a decrease in value added across all sectors, as shown in figure 2 below, with critical repercussions for labour market outcomes, including employment, working hours and incomes. In the fourth quarter of 2023, gross consumption fell sharply by 80 per cent in Gaza and 21 per cent in the West Bank, affecting standards of living and contributing to increased poverty across the Occupied Palestinian Territory.<sup>22</sup> Notably, the largest decline in value added in the West Bank is observed in construction and industry.

► **Figure 2. Percentage decline in value added in the West Bank and Gaza, by sector in Q4 2023 (%)**



**Source:** Data estimated by Palestinian Central Bureau of Statistics and Palestinian Monetary Authority, "Press Release on the Performance of the Palestinian Economy for 2023, and Economic Forecasts for 2024", 30 December 2023.

<sup>20</sup> Palestine Economic Policy Research Institute – MAS, *Gaza War Economy Brief Number 5: Preliminary Findings on the Impacts of the Cessation of Palestinian Labor in Israel on Key Palestinian Macroeconomic Indicators*, 15 November 2023.

<sup>21</sup> OCHA, *Hostilities in the Gaza Strip and Israel: Flash Update No. 132*, 5 March 2024.

<sup>22</sup> Palestinian Central Bureau of Statistics and Palestinian Monetary Authority, "Press Release on the Performance of the Palestinian Economy for 2023, and Economic Forecasts for 2024", 30 December 2023.

The Palestinian Central Bureau of Statistics' estimates indicate that monthly production of economic sectors in the West Bank in the fourth quarter of 2023 lost over 37 per cent of its value compared to the usual monthly production rate, translating into an estimated loss of about US\$500 million per month.<sup>23</sup>

Economic deterioration is likely to worsen the longer the war persists, as highlighted by the Palestinian Central Bureau of Statistics' projections. Under a scenario in which the conflict continues until the end of June 2024,<sup>24</sup> real GDP is projected to decline by 15.3 per cent in 2024, and real per capita income to decrease by 17.2 per cent. Under this scenario, real per capita GDP for 2024 will fall below its 1998 level, reflecting a significant deterioration in economic performance with a severe impact on living standards.<sup>25</sup>

## ► 4.1. Labour force participation, employment and unemployment trends

### 4.1.1. Labour force participation

Labour supply in the West Bank, determined by using the proxy of participation in the labour force, has been low, primarily due to the historically low rates of women's participation. In the third quarter of 2023, the labour force participation rate in the Occupied Palestinian Territory for those aged 15 and above stood at 44.4 per cent, with a 71.0 per cent participation rate among men, which is comparable to global figures, and 17.2 per cent for women, significantly lower than global rates.<sup>26</sup>

In the West Bank, labour force participation rates stood at 76.0 per cent for men and 17.6 per cent for women, both of which exceeded rates in Gaza, where only 62.8 per cent of men and 16.5 per cent of women participated in the labour force in the third quarter of 2023. While women's labour force participation is low by international standards, it has increased from an extremely low rate of 11.0 per cent in 1995. Several studies have looked into the paradox of women's high levels of education and low rates of labour force participation, and have identified the Israeli occupation as major factor contributing to women's low labour force participation.<sup>27</sup>

As a result of the war, the labour force participation rate of men in the Occupied Palestinian Territory is projected to decline from 68.5 per cent in 2023 to 64.9 per cent in 2024, while women's participation is expected to decline slightly to 17.8 per cent in 2024, down from 19.0 per cent in 2023.<sup>28</sup>

<sup>23</sup> Palestinian Central Bureau of Statistics, "Press Release on the Losses of Private Sector in Palestine due to the Israeli Occupation Aggression on Gaza Strip: Production Paralysis in the Majority of Establishments due to the Israeli Occupation Aggression on Gaza Strip", 9 November 2023.

<sup>24</sup> The Palestinian Central Bureau of Statistics' forecasting model has the capacity to forecast outcomes for the Occupied Palestinian Territory as one unit, but not for the West Bank and Gaza Strip separately.

<sup>25</sup> ILO and Palestinian Central Bureau of Statistics, *Impact of the War in Gaza on the Labour Market and Livelihoods in the Occupied Palestinian Territory: Bulletin No. 3*, 18 March 2024.

<sup>26</sup> Palestinian Central Bureau of Statistics, *Labour Force Survey (July–September, 2023) Round (Q3/2023) before the War on Gaza Strip*, 8 November 2023.

<sup>27</sup> For further insight into this issue, see: Islah Jad, *Female Headed Households: The Global Debate and Palestinian Context* (Palestine Economic Policy Research Institute – MAS, 1999); Rema Hammami, "Gender Segmentation in the West Bank and Gaza Strip: Explaining the Absence of Palestinian Women from the Formal Labor Force", in *The Economics of Women and Work in the Middle East and North Africa*, ed. E. Mine Cinar (Amsterdam: Elsevier Science B. V., 2001); Samia Al-Botmeh, *Barriers to Female Labour Market Participation and Entrepreneurship in the Occupied Palestinian Territory*, Centre for Development Studies Birzeit University and the YWCA of Palestine, 2013.

<sup>28</sup> This is under the assumption that the hostilities will last until June 2024.

This trend suggests a “discouraged worker effect” among men, as they opt to withdraw from the labour market amidst the turmoil. The predominantly male Palestinian workers in Israel (96.2 per cent) may also be contributing to this trend, as they wait for an improvement in the political situation before returning to their workplaces, rather than seeking new, potentially lower-paying jobs in challenging economic circumstances.

For women, on the other hand, the slight decline in their labour force participation rate amidst worsening economic conditions is noteworthy. Historically, women have tended to either maintain or even increase their participation in the labour force during challenging periods, experiencing what is known as an “added worker effect”, which is more prevalent among women than men. This trend was evident during the Second Intifada, where men’s labour force participation rates decreased by 3.4 per cent between 1999 and 2003, while women’s participation rates increased by 0.5 per cent. However, the current decline in women’s labour force participation may indicate the severity of the impact of the hostilities on women’s prospects in the labour market.<sup>29</sup>

### 4.1.2. Employment

According to data from the Palestinian Central Bureau of Statistics, total employment in the West Bank stood at some 868,000 in the third quarter of 2023. Of these workers, 64.1 per cent work in the private sector, 19.8 per cent in Israel and the settlements, 14.0 per cent in the public sector, and 2.1 per cent for international organizations and non-governmental organizations (NGOs).<sup>30</sup> The large share of Palestinians working in Israel, comprising one-fifth of the total employed Palestinian population, underscores the enduring dependence of employment in the West Bank on the Israeli labour market, which has been the case since 1967.

In 2024, employment in the Occupied Palestinian Territory is projected to decline by 22.8 per cent, from 1,005,600 overall in 2023 to 776,500 in 2024, under the scenario that the war continues until the end of June 2024. This reduction in employment is expected across all sectors except for agriculture, where employment is projected to remain relatively unchanged (see the table below). This is because the agricultural sector has always played a cushioning role in times of economic crisis.<sup>31</sup> By contrast, all other sectors are projected to lose jobs, with the construction sector hit hardest. In times of military conflict and widespread destruction, engaging in construction is seen as a risky endeavour, as noted by employers interviewed for this study.<sup>32</sup>

<sup>29</sup> See the results of the workers’ survey in chapter 6 of this report.

<sup>30</sup> Palestinian Central Bureau of Statistics, *Labour Force Survey (July–September, 2023) Round (Q3/2023) before the War on Gaza Strip*, 8 November 2023.

<sup>31</sup> ILO and Palestinian Central Bureau of Statistics, *Impact of the War in Gaza on the Labour Market and Livelihoods in the Occupied Palestinian Territory: Bulletin No. 2*, December 2023.

<sup>32</sup> See the results of the employers’ survey in chapter 5 of this report.

► **Table 5. Employment distribution by sector in the Occupied Palestinian Territory's domestic economy, and in Israel and the settlements, 2022–2024**

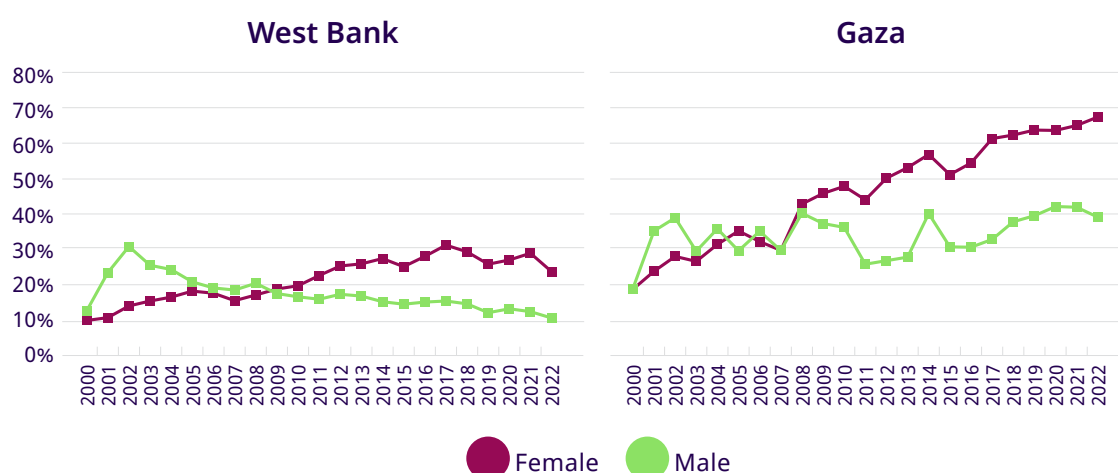
Sector	2022	2023	2024	Percentage change between 2023 and 2024
Agriculture	60,239	60,519	60,321	-0.3%
Manufacturing	120,437	105,843	86,355	-18.4%
Construction	96,912	86,192	57,269	-33.6%
Services	636,271	631,861	543,276	-14.0%
Workers in Israel and the settlements	155,513	121,254	29,372	-312.8%

**Source:** Palestinian Central Bureau of Statistics' forecasting model.

**Note:** Data for 2023 is obtained by first estimating the 4th quarter, based on an assumption that the war will last until the end of the same year. Statistical methods were then used to compute the annual figure for 2023. Data for 2024 is forecast based on the assumption that hostilities will continue until the end of June 2024. Palestinians working in Israel and the settlements are excluded from the sectoral employment distributions and listed as a separate item.

### 4.1.3. Unemployment

Unemployment rates are high in the Occupied Palestinian Territory, with notably differences between the West Bank and the Gaza Strip. In the third quarter of 2023, the unemployment rate in the West Bank (12.9 per cent) was one-third of the rate in Gaza (45.1 per cent). These elevated rates are driven by two main factors: high rates of unemployment among women (24.9 per cent in the West Bank and 67.6 per cent in Gaza), and similarly high rates of youth unemployment (20.1 per cent in the West Bank and 59.9 per cent in Gaza).<sup>33</sup>

► **Figure 3. Unemployment rates in the West Bank and Gaza Strip, 2000–2022 (%)**

**Source:** Palestinian Bureau of Statistics, *Labour Force Surveys, 2000–2022* (various issues).

<sup>33</sup> Palestinian Central Bureau of Statistics, *Labour Force Survey (July–September, 2023) Round (Q3/2023) before the War on Gaza Strip*, 8 November 2023.



The war and related hostilities have further increased rates of unemployment in the Occupied Palestinian Territory. According to the Palestinian Central Bureau of Statistics' forecasting model, and under the scenario that the war continues until the end of June 2024, unemployment is projected to reach 45.5 per cent in 2024 compared to 30.7 per cent in 2023.<sup>34</sup> These anticipated rates are unprecedented. For instance, at the peak of the Second Intifada in 2002, unemployment rates reached 31.2 per cent in the Occupied Palestinian Territory.<sup>35</sup>

## ► 4.2. Labour market segmentation

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Employment in the West Bank is geographically fragmented between the local West Bank economy and the labour market in Israel and the settlements. Workers across these two labour markets face distinct legal structures, different sectoral compositions and differing wage rates. Accessing work in Israel and the settlements requires permits, which typically screen job-seekers based on criteria such as political activism, age and marital status. Economic sectors accessible to Palestinians are also different between the two labour markets. While workers in the West Bank local economy have access to all economic sectors, Palestinian workers in Israel face restrictions on the number of sectors open to them, as dictated by the directives of the Israeli Coordination of Government Activities in the Territories Operations Department (COGAT).

Within the West Bank's local economy, the biggest employer is the services sector. In Israel and the settlements, most Palestinian workers are engaged in the construction sector. The fact that construction is the largest employer of Palestinian workers in Israel reflects the nature of the demand for Palestinian workers, rather than the structure of the labour market in Israel, since employers hire workers through permits issued by the Israeli Government instead of through a bargaining process between Israeli employers and Palestinian workers.<sup>36</sup> Although not all Palestinian workers in Israel hold permits (22.4 per cent of West Bank workers employed in Israel did not hold permits in the third quarter of 2023), they still work in the sectors specified by the Israeli authorities.<sup>37</sup>

<sup>34</sup> ILO and Palestinian Central Bureau of Statistics, *Impact of the War in Gaza on the Labour Market and Livelihoods in the Occupied Palestinian Territory: Bulletin No. 3*, 18 March 2024.

<sup>35</sup> Palestinian Central Bureau of Statistics, *Labour Force Survey Report Series (No. 27): Fourth Quarter of 2002*, 2002.

<sup>36</sup> Sectors specified by COGAT in which permits are granted include home construction, industry and services, agriculture, health institutions, hotels, restaurants and hi-tech. See: Israel, Coordination of Government Activities in the Territories Operations Department, *Status of Authorizations for Entry of Palestinians into Israel, for their Passage from Judea and Samaria into the Gaza Strip, and for their Departure Abroad*, 8 February 2022.

<sup>37</sup> Palestinian Central Bureau of Statistics, *Labour Force Survey (July–September, 2023) Round (Q3/2023) before the War on Gaza Strip*, 8 November 2023.

► **Table 6. Sectoral distribution of Palestinian employment in the West Bank, and in Israel and the settlements, 2023 (%)**

Sector	West Bank	Israel and the settlements
Agriculture, fishing and forestry	5.8	6.7
Mining, quarrying and manufacturing	14.5	13.5
Construction	14.5	64.4
Commerce, restaurants and hotels	24.2	11.5
Transportation, storage and communication	6.3	0.6
Services and other branches	34.7	3.3
Total	100	100

**Source:** Palestinian Central Bureau of Statistics, *Labour Force Survey (July–September, 2023) Round (Q3/2023) before the War on Gaza Strip*, 8 November 2023.

The productive sectors of agriculture and manufacturing contribute modestly to domestic employment and have been suffering from persistent erosion in their contribution to employment since 1967. This is largely due to the impact of the Israeli occupation and related policies that have hindered the development of both sectors.<sup>38</sup>

Since the war began in October 2023, over 160,000 workers from the West Bank who worked in Israel and the settlements have lost their jobs.<sup>39</sup> Only 10,000 labourers continued to work in industrial zones, according to the Palestinian Ministry of Labour. The rest had to abide by GOGAT's directives, which ordered the closure of all crossings until further notice and halted the entry of Palestinian workers to settlements in the West Bank. The closures also affected a number of Israeli checkpoints, dividing Palestinian communities and effectively transforming the West Bank into isolated cantons.

## ► 4.3. Employment status and informality

In the third quarter of 2023, according to the Palestinian Central Bureau of Statistics, more than two-thirds of employed Palestinians in the West Bank were wage employees (70.6 per cent). This high proportion reveals workers' significant dependence on wage employment in both the private and public sectors. Employers accounted for just 6.5 per cent of the employed population in the West Bank, suggesting a significant pressure on this segment in the event of further closures or movement restrictions. Self-employed individuals account for 18.4 per cent of workers, while the remaining 4.5 per cent are unpaid family workers.<sup>40</sup>

These different employment categories afford individuals different benefits, and some categories are more precarious than others.

<sup>38</sup> See various reports by UN Trade and Development (UNCTAD), including: UNCTAD, *Report on UNCTAD Assistance to the Palestinian people: Developments in the Economy of the Occupied Palestinian Territory*, TD/B/58/4, 2011; UNCTAD, "Press Release on the Besieged Palestinian Agricultural Sector", 24 November 2015.

<sup>39</sup> ILO and Palestinian Central Bureau of Statistics, *Impact of the War in Gaza on the Labour Market and Livelihoods in the Occupied Palestinian Territory: Bulletin No. 3*, 18 March 2024.

<sup>40</sup> ILO and Palestinian Central Bureau of Statistics, *Impact of the War in Gaza on the Labour Market and Livelihoods in the Occupied Palestinian Territory: Bulletin No. 3*, 18 March 2024.

As of 2022, informal employment accounted for 52.8 per cent of total employment in the West Bank, with 45.1 per cent of self-employed individuals and employers operating informally, compared to 53.0 per cent of wage employees.<sup>41</sup> This implies a high share of unprotected workers who face higher risks of economic hardship and insecurity.

The ramifications of the war on workers have proven to be severe, a conclusion supported by the findings of two surveys conducted as part of this study. One notable trend is the contraction in the segment of employees, with a notable shift towards self-employment. While this shift may initially appear to be a potential adaptation to the economic landscape, it is crucial to note that jobs for the self-employed involve significant precarity.

The precarious nature of self-employment, as discussed below, is due to several factors. Unlike traditional employment arrangements, self-employment often lacks stability in terms of income and benefits, leaving individuals vulnerable to fluctuations in demand, market conditions and economic shocks. Additionally, self-employed individuals may face challenges in accessing social protection and support systems typically available to wage employees.

## ► 4.4. Wages

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Despite the establishment of a minimum wage in the Occupied Palestinian Territory, a significant proportion of workers earn wages below this threshold. According to data from the third quarter Labour Force Survey of 2023, 12 per cent of wage employees in the private sector in the West Bank received less than the monthly minimum wage of 1,880 new Israeli shekels. This highlights the vulnerability of a sizable group of low-paid workers, particularly impacting women, whose wages are usually lower than those of men.

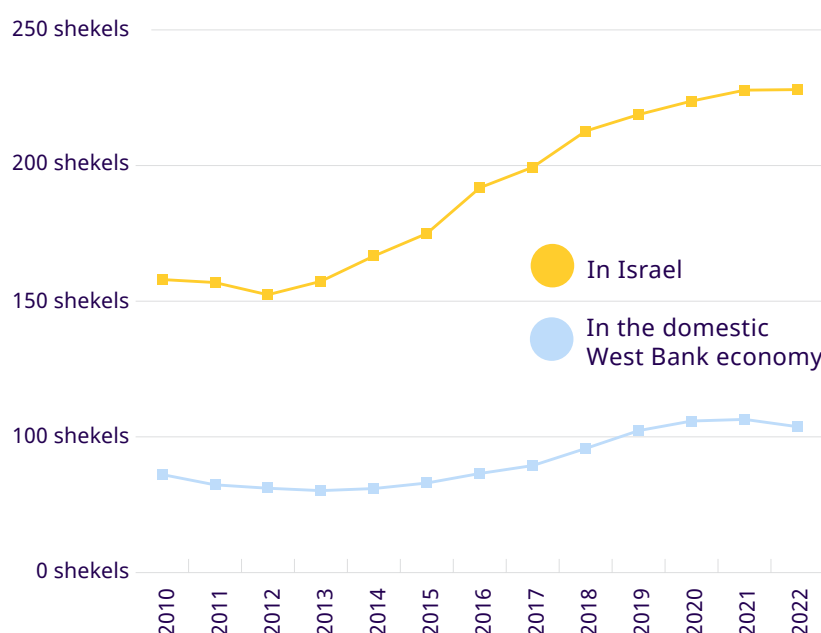
Furthermore, the average daily wage for workers from the West Bank is much lower than the average wage of those working in Israel and the settlements. In the third quarter of 2023, the average daily wage was 139.0 shekels for those working in the local economy, while those working in Israel and the settlements earned an average of 297.6 shekels per day. This substantial difference underscores the economic disparity between workers in the West Bank and those employed in Israel, where wages are more than twice as high as those earned locally.<sup>42</sup>

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<sup>41</sup> Palestinian Central Bureau of Statistics, *Informal Sector and Informal Employment Survey, 2022: Main Findings*, 2022.

<sup>42</sup> Palestinian Central Bureau of Statistics, *Labour Force Survey (July–September, 2023) Round (Q3/2023) before the War on Gaza Strip*, 8 November 2023.

►Figure 4. Real wages for West Bank workers in the local economy and Israel, 2010–2022 (new Israeli shekels, 2010 constant prices)



**Source:** Palestinian Bureau of Statistics, Labour Force Surveys, 2000–2022 (various issues).

Due to the war, real daily wages in the local West Bank economy are expected to decrease. While the Palestinian Central Bureau of Statistics' forecasting model does not offer separate data for the West Bank and Gaza, it still provides valuable insights into the overall economic impact, including the impact on the West Bank. According to this model, the average real daily wage in the local Palestinian economy is expected to decrease by approximately 8.7 per cent in 2024, amounting to an average of US\$21.4 compared to US\$23.4 in 2023. This projection has been calculated under the assumption that the war will continue until the end of June 2024.<sup>43</sup>

In addition to diminished wages in the local economy, the loss of employment in Israel carries significant repercussions for Palestinian incomes. This loss is anticipated to have a detrimental impact on consumption, particularly affecting demand. This, in turn, will exert further pressure on imports and supply chain networks.

<sup>43</sup> ILO and Palestinian Central Bureau of Statistics, *Impact of the War in Gaza on the Labour Market and Livelihoods in the Occupied Palestinian Territory: Bulletin No. 3*, 18 March 2024.



# Chapter 5

# ▶ 5

## Impact of the war in Gaza on businesses in the West Bank: Employers' perspectives

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In response to the economic challenges facing the private sector in the West Bank, the ILO and the Federation of Palestinian Chambers of Commerce, Industry and Agriculture conducted field assessments to better understand the impact of the war in Gaza and its spillover effects on enterprises in the West Bank. The assessments involved focus group discussions with businesses, and a survey of 700 West Bank companies across sectors and governorates. The survey assesses the extent and nature of the immediate impact of Israeli measures, introduced in the West Bank as a result of the war in Gaza, on companies' operations (production, market demand, supply chain networks and profitability) and on workers' situation within these enterprises (their number, hours of work, wages and redundancies), as well as current coping mechanisms adopted by companies and plans for potential future strategies.

As explained above, hostilities affect companies' performance through a number of channels. They may have a negative impact on incumbent businesses' sales, earnings and profitability. As a result, firms may alter their investment decisions. This adversely affects the allocation of inputs and outputs across entire economic sectors.<sup>44</sup> Hostilities may also reduce enterprises' productivity levels through changes in the use of technology, capital, the structure of employment and the composition of workers' skills. Such changes may influence private sector enterprises' contribution to employment and the overall growth of the economy at large.<sup>45</sup>

It is important to note that, although private sector businesses play a major role in job creation, the presence of a large number of businesses in a particular economy does not necessarily imply sufficient, decent and productive job creation.

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<sup>44</sup> Adriana Camacho and Catherine Rodriguez, "[Firm Exit and Armed Conflict in Colombia](#)", United Nations University-World Institute for Development Economics Research Working Paper No. 2010/94, 2010.

<sup>45</sup> Carly Petracco and Helena Schweiger, "[The Impact of Armed Conflict on Firms' Performance and Perceptions](#)", European Bank for Reconstruction and Development Working Paper No. 152, 2012.

Companies may comprise a large number of micro-enterprises and/or informal enterprises that create jobs which are neither productive nor decent. Therefore, while assessing the impact of conflict on businesses, it is important to recall that enterprises are diverse and their capacity to manoeuvre in adverse settings is anything but uniform.

## ► 5.1. Characteristics of surveyed businesses

The businesses that participated in the employers' survey are predominantly small in scale. Before the war began in October 2023, 61.6 per cent of surveyed businesses employed 1–10 workers, while 37.3 per cent employed more than 10 workers. Additionally, self-employed individuals registered with Chambers of Commerce, Industry and Agriculture also completed the survey, although they are not its primary focus. Businesses run by self-employed individuals account for 1.1 per cent of the total number of surveyed enterprises.

A notable portion of the surveyed businesses engage in localized operations, with 40.0 per cent exclusively operating within the West Bank governorate where they are situated. More than one-third of the surveyed businesses reported having connections to the Israeli market, while just over one-tenth engage in the Gaza Strip. Engagement in international markets is less common, with fewer than 10 per cent of the surveyed businesses involved (see the table below).

Family-owned and family-run businesses account for 15.5 per cent of the businesses surveyed, while women-owned businesses (either partially or fully owned by women) account for nearly one-third of the surveyed companies. The majority of surveyed businesses (69.4 per cent) are less than 20 years old. Just 12.3 per cent have been operating for more than 50 years.

► **Table 7. Characteristics of surveyed businesses**

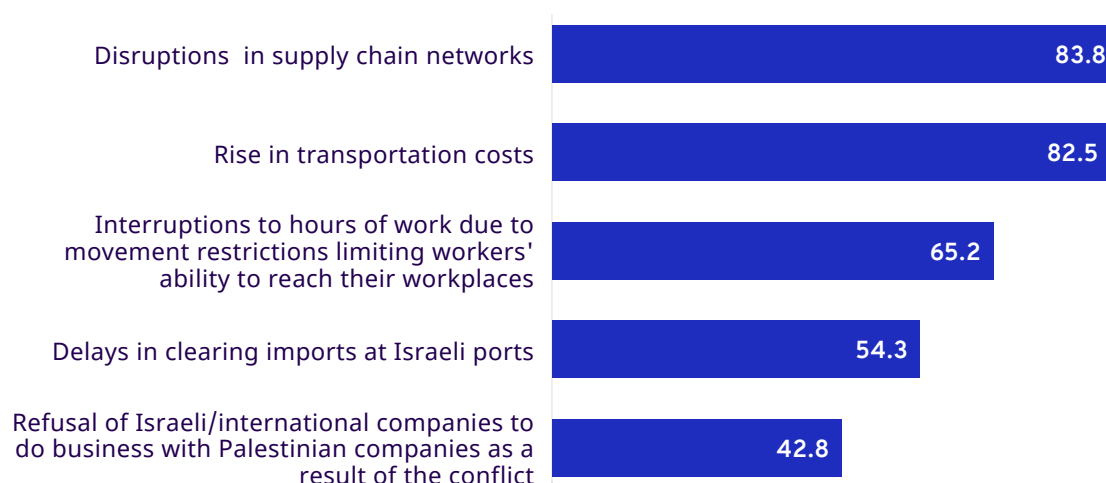
Company ownership	Percentage of total businesses
Family business (owned and run)	15.5
Woman-owned (full or partial)	31.6
<b>Scope of operations beyond the West Bank</b>	
Gaza	11.4
Israeli market	34.2
Arab and international markets	9.2
<b>Percentage distribution of businesses by age</b>	
1–10 years	42.0
11–20 years	27.4
21–50 years	18.2
51+ years	12.3
<b>Mean age of surveyed businesses: 17.4 years</b>	

**Source:** Employers' survey conducted for this study, December 2023–January 2024.

## ► 5.2. Channels through which the hostilities have impacted surveyed businesses' operations

The employers' survey paints a bleak picture of the impact of the war in Gaza and its spillover effects on businesses in the West Bank, with an overwhelming 98.8 per cent of enterprises confirming that they have been negatively affected. The channels through which the hostilities have generated this adverse impact on West Bank businesses include: disruptions to supply chain networks; increased transport costs; interruptions to hours of work due to workers' inability to reach their workplaces; interruptions to imports and extended periods of delay; and the refusal of Israeli and/or international companies to do business with Palestinian firms.

►Figure 5. Channels through which enterprises' activities are impacted by the war and escalating hostilities (%)



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

### 5.2.1. Disruptions to supply chain networks and delays in clearing imports

Since October 2023, 83.8 per cent of surveyed businesses have found it challenging to source and secure goods and production inputs through both local and international supply chain networks, while 54.3 per cent have faced challenges to clearing imports. The recurrent closure and frequent interruptions to the operations of various Israeli air, land and sea ports due to the war, alongside movement restrictions imposed across the West Bank, have contributed to disruptions in regular supply chain network operations and import clearance.





Reduced demand and stockpiles have forced us to scale back production. We have been able to offset losses with exports, but uncertainties loom over export markets, as our buyers expressed concerns about interruptions to supply chains from our end. We have also experienced difficulties in clearing stuff from Israeli ports, given their repeated closure. This has had an adverse impact on our costs. Until now, we have not taken any decisions to reduce our labour costs, but the future remains uncertain.”

– Business owner in the pharmaceutical sector, Bethlehem

### 5.2.2. Rise in transport costs

The vast majority of surveyed businesses (82.5) report being affected by the substantial rise in the transportation costs of shipping production inputs and outputs across the West Bank, as well as between the West Bank and the Israeli economy and internationally. The rise in transport costs is a direct result of the introduction of movement restrictions within the West Bank and closures of checkpoints leading to the Israeli economy, according to the employers surveyed.

Longer waiting times at checkpoints, or having to take longer routes to reach destinations in order to avoid checkpoints, have impacted the transport sector negatively. Demand for transportation has declined as businesses are opting to avoid transporting goods in order to avoid the difficulties now involved in transportation.



Transportation expenses have nearly doubled since the beginning of the war. This is the result of lengthy journeys to avoid check points or long waiting hours to pass through.”

– Owner of a vegetable nursery in the agricultural sector, Jericho



The transport sector isn’t just about moving people; it’s the backbone of our economy. But with the decline in demand and rising transport costs as a result of extended detours to avoid Israeli barriers, we’re struggling to keep our vehicles and drivers on the road.”

– Taxi company owner, Ramallah

### 5.2.3. Interruptions to hours of work due to workers' inability to reach their workplaces

Surveyed businesses (65.2 per cent) report a significant impact on their production levels and overall operations due to disruptions in hours of work, caused by workers' inability to reach their workplaces. Employers attribute these interruptions to movement restrictions in the West Bank.

### 5.2.4. Foreign companies discontinuing operations with Palestinian businesses

Geopolitical factors have come into play, as 42.8 per cent of surveyed businesses report that Israeli and/or international companies are unwilling to engage with Palestinian firms as a result of the war. This illustrates the broader regional economic implications of the war in Gaza.

## ► 5.3. Impact of the hostilities on the operations and performance of surveyed businesses

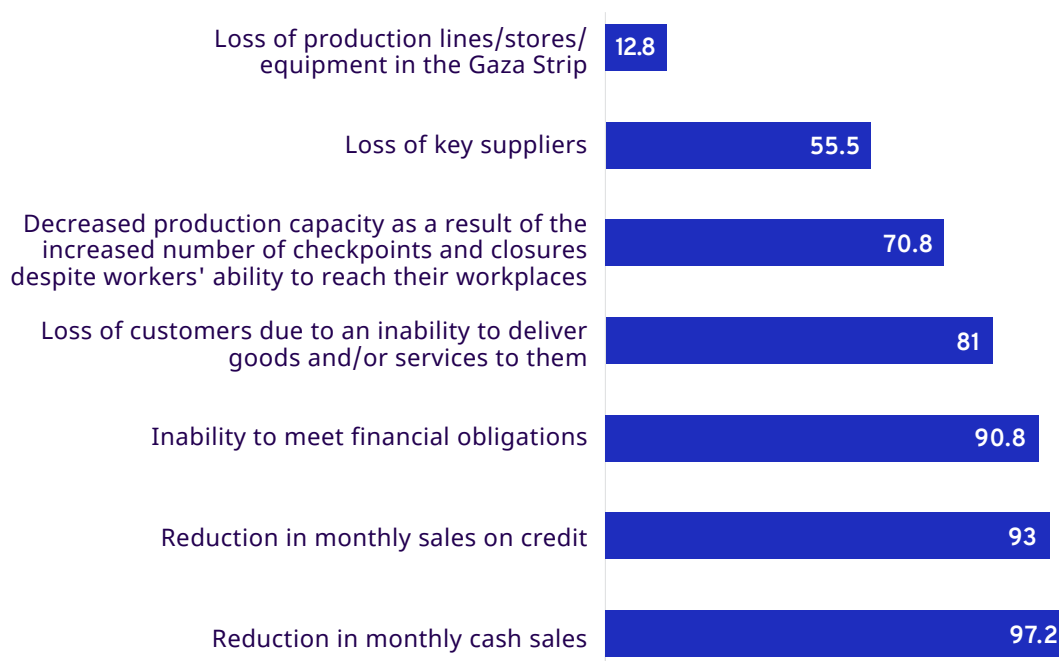
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Through the channels outlined above, the war has prompted a massive scaling down of surveyed businesses' production and sales activities. Almost all companies (97.2 per cent) report a substantial decline in cash sales, while 93.0 per cent report a drop in future orders and sales on credit. Employers cite reduced demand, caused by a sharp decline in consumer purchasing power, as a key reason for this trend.



“We experienced an 11 per cent decline in revenue since October [2023] because of reduced demand, as consumers' purchasing power plummeted. [...] It's been tough. Revenue is down, trucks are idle, and productivity has taken a hit.”

– Employer in the transport sector, Ramallah

► **Figure 6. Impact of the war on surveyed businesses' operations and performance (%)**

**Source:** Employers' survey conducted for this study, December 2023–January 2024.

Closures and movement restrictions have adversely affected production levels for over two-thirds of surveyed businesses (70.8 per cent). Moreover, 81.0 per cent of businesses report a decline in customer numbers due to delays and delivery challenges caused by movement restrictions.

Uncertainty surrounding business operations in the West Bank, coupled with the inability of enterprises to clear supplies at Israeli air and sea ports, has resulted in the loss of suppliers for over half of the surveyed companies. All companies with operations in the Gaza Strip report losses of production lines, stores, or equipment.

Disruption to operations and the decline in sales have had significant financial repercussions, with profits plummeting by an average of 68.5 per cent compared to the same period last year. Sectors hardest hit in terms of profit loss include tourism, construction, and transport and communications, as illustrated in the table below.

Tourism in the West Bank is dependent on international customers, who have been deterred from travelling to the Occupied Palestinian Territory by the war. Employers in the tourism sector report that low occupancy rates, cancelled reservations and growing financial burdens are pushing tourism businesses to the brink of collapse. Employers in the sector also link their mounting financial burdens with their inability to access the funding they need to survive the current crisis.



The war has shattered our [metal] industry. Our Gaza branches have been completely destroyed and our production has been halved. [...] Our Israeli suppliers cut credit lines, and we are fighting to manage our cash flow.”

– Employer in the metal industry, Hebron



Businesses in the [tourism] sector are on the verge of collapse and may not endure beyond a month. Occupancy rates are low, reservations are cancelled and financial burdens are mounting.”

– Employer in the tourism sector, Jerusalem



Restaurants are perceived as risky ventures by banks, so banks avoid extending loans and credit facilities to restaurants. We do not know what to do.”

– Restaurant owner, Jenin

► **Table 8. Percentage loss in surveyed businesses’ sales and profits, November 2023–January 2024 compared to November 2022–January 2023**

Type of loss	Percentage loss
Loss in sales	66.9
Loss of profits	68.5
<b>Loss of profits by sector</b>	
Tourism	81.1
Construction	78.0
Transport and communication	74.6
Other services	70.6
Manufacturing	68.9
Wholesale and retail trade	66.4
Agriculture	56.3
Financial services and banks	43.3

**Source:** Employers’ survey conducted for this study, December 2023–January 2024.

The construction sector has been severely affected by ongoing disruptions to supply chains, as it depends heavily on production inputs sourced from the Israeli economy or internationally. A contractor from Nablus also highlights other possible reasons for the construction sector’s poor performance during the war, including a lack of investment in construction as Palestinians prioritize spending on food and healthcare. This indicates that the construction sector’s activities are highly elastic with respect to deteriorating economic conditions, since families and businesses are increasingly prioritizing other more pressing needs.



Real estate is on hold for the time being. It’s just not rational for anyone to invest during these times. People can wait to build or buy houses. Everyone is prioritizing other expenditure, such as food or healthcare.”

– Contractor in the construction sector, Nablus

According to contractors, additional factors contributing to the decline in the construction sector's operations include the inability of the Palestinian Authority to pay civil servants their full wages and to pay for public sector projects. The prospect of delayed payment has deterred many contractors from bidding for new public construction projects. This is a direct result of Israel withholding Palestinian custom duties collected at trade ports, cutting off critical revenue for the public sector.<sup>46</sup>



Bidding on public construction projects has become unappealing for contractors...It's a losing game for us. Payments may take a long time to materialize."

– Contractor in the construction sector, Jenin

## ► 5.4. Impact of the hostilities on the financial situation of surveyed businesses

As a result of the combined adverse effects of the hostilities on businesses in all sectors, 90.8 per cent of surveyed businesses are unable to meet their financial obligations. Many are facing a surge in returned cheques from clients, thus intensifying liquidity challenges and compromising credit ratings within the financial sector.

These mounting challenges exacerbate the financial strain that businesses in the West Bank are facing, and underscore the need for strategic interventions to help them navigate the liquidity crunch and stabilize their operations.

A close examination of aggregate level financial data provided by the surveyed businesses reveals that companies in the manufacturing and agricultural sectors are bearing the brunt of these financial challenges, emphasizing the urgent need for financial support to safeguard businesses in these sectors from further economic downturns. For the manufacturing sector, the average liquidity gap for the surveyed businesses stands at approximately 351,404 shekels, while surveyed businesses operating in the agricultural sector report a slightly higher liquidity gap of 353,995.90 shekels.



Turkish suppliers and others are now requesting the settlement of outstanding financial commitments before new orders are fulfilled. This adds tremendous pressure on our business cash flow, particularly when combined with the financial strains arising from the fluctuation in the US dollar against the Israeli shekel. We need strategic long-term financial solutions."

– Apparels wholesaler and retailer, Jenin

<sup>46</sup> "Israel Freezes Tax Revenues for Palestinian Authority", *Middle East Monitor*, 30 October 2023.

► **Table 9. Size of the liquidity gap of surveyed businesses by sector (new Israeli shekels)**

Sector	Liquidity gap (shekels)
Agriculture	353,995.9
Manufacturing	351,404.0
Construction	176,102.6
Wholesale and retail trade	96,780.8
Tourism	44,493.6
Transport and communication	29,890.4
Other services	20,870.9
Financial and insurance services	11,250.0

**Source:** Employers' survey conducted for this study, December 2023–January 2024.

According to surveyed employers, the dire situation in the agriculture and manufacturing sectors is due to reduced demand, caused in turn by falling consumer purchasing power, higher transportation costs, and educational establishments with canteens transitioning to online or blended learning. Settler attacks also contribute to losses in the agricultural sector, as explained by a farm owner from Salfit.



Since the war on Gaza started, we have not been able to reach our farm and work the land. Every time we try, we get attacked by settlers. Once we managed to get [there] and were about to start checking the crops, the settlers came and drove us out at gun point. All of this season's produce is lost."

– Farm owner, Salfit



Agricultural markets are experiencing significantly reduced demand. Customer purchasing power is low. Higher transport prices are a huge burden because of movement restrictions. This has reduced our sales and wiped out our profits."

– Fruit and vegetable producer, Jericho



Company sales to Gaza have come to a halt since 7 October. [...] As schools and universities [in the West Bank] have transitioned to online and blended education after the war, sales to school and university canteens have dropped by nearly 70 per cent. We have suffered great losses."

– Food manufacturing producer, Hebron

## ► 5.5. Impact of the hostilities on employment and hours of work

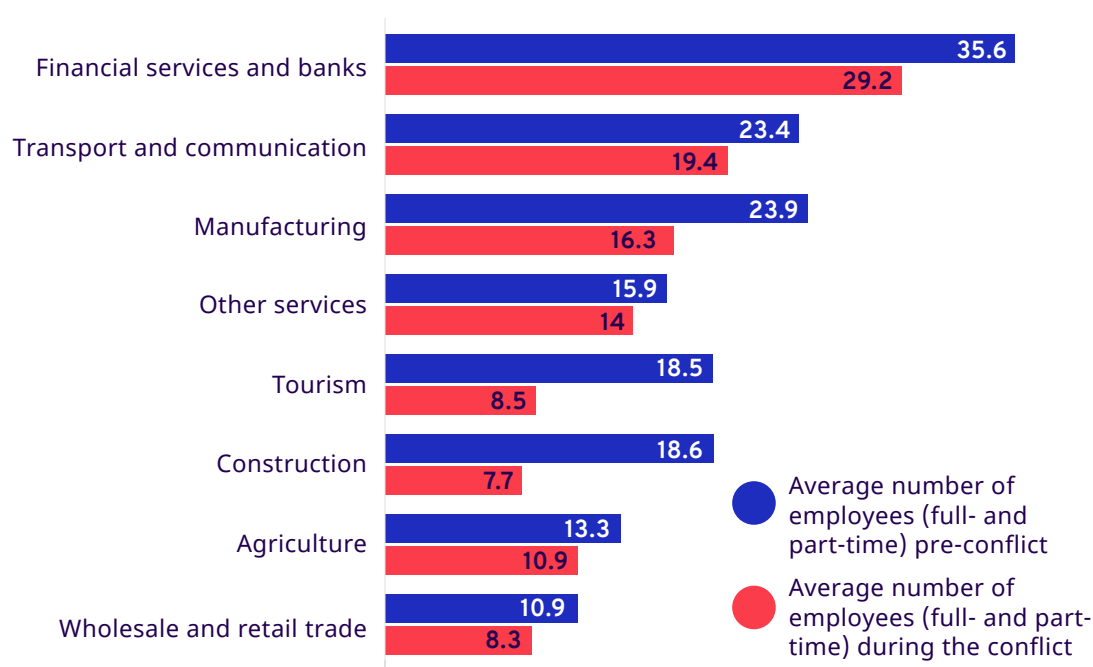
To better understand the variety of coping mechanisms that businesses in the West Bank are adopting, these have been divided into two categories: labour-focused mechanisms to mitigate the impact of the crisis – related to employment levels, hours of work and layoffs – and non-labour oriented strategies, discussed in the next section.

As noted above, the employers' survey clearly reveals that demand for labour has weakened, and sales and profits have plummeted, as a result of the war since 7 October 2023. This has two main implications for labour-related outcomes: a shrinking workforce and layoffs, and reduced hours of work.

### 5.5.1 Shrinking workforce, and the layoff of workers

Analysing the average number of workers across the businesses surveyed sheds light on the impact of the crisis on employment. The total average workforce has decreased by 30.8 per cent, declining from 16.2 workers per firm before the conflict to 11.2 workers per firm after the war began. This reflects the hostilities' widespread impact on average employment across enterprises.

►Figure 7. Average number of employees by sector, before and during the war



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

Among the surveyed businesses, firms in the construction and tourism sectors have been particularly hard hit by the hostilities, as discussed above. The construction sector's reliance on inputs sourced from Israel and internationally exacerbates its challenges, compounded by its inability to provide vital services amidst heightened hostilities across the West Bank. Similarly, the tourism sector has come to a standstill with international tourists cancelling current and future reservations.

A closer look at businesses by employment size reveals that before the war, businesses employing 10 workers or fewer accounted for 61.6 per cent of the surveyed establishments, compared to 37.3 per cent employing more than 10 workers. Self-employed individuals accounted for 1.1 per cent of the surveyed enterprises.

Due to the impact of the conflict, there has been a notable shift in the economic landscape, characterized by a proliferation of self-employment ventures and a rise in the prevalence of small-scale enterprises employing between 1 and 5 workers. Conversely, larger firms have experienced a decline in their market presence, as illustrated in the table below. This trend underscores a fundamental restructuring of the business environment, reflecting a trend of workforce downsizing and a shift towards smaller, more agile enterprises in response to the challenges posed by the war.

► **Table 10. Distribution of surveyed businesses by employment size, before and during the war (%)**

Number of workers	Percentage distribution of surveyed businesses before the war	Percentage distribution of surveyed enterprises during the war
Self-employed	1.1	11.0
1–5 workers	39.1	48.0
6–10 workers	22.5	17.0
11–20 workers	18.6	12.8
21–50 workers	13.9	8.6
51+ workers	4.8	2.6
Average number of workers per business	16.2	11.2

**Source:** Employers' survey conducted for this study, December 2023–January 2024.

While businesses of various sizes have experienced employment restructuring, employers who participated in focus group discussions note that larger companies display slightly more resilience, attributable to their ability to weather shocks. Larger companies benefit from significant investments and improved access to funding, providing them with a greater capacity to withstand challenges compared to smaller firms.



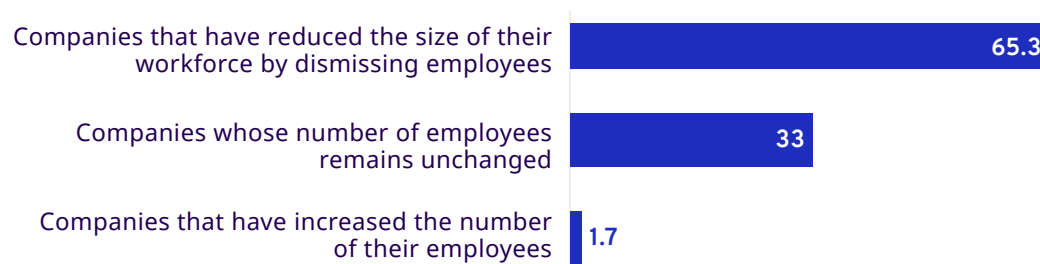
The closure of Al-Jalameh crossing, high transport costs, and slumps in demand have hit us hard. Layoffs and reduced shifts within the stone manufacturing sector are common across all quarries. Despite the very difficult situation, we are doing everything we can to keep our workers employed, since we have access to borrowing. But I can tell you that many of the smaller quarries and stone manufacturers have already laid off all their workers and shut down.”

– Employer in the stone manufacturing industry, Jenin



Businesses are clearly reducing their workforce as a coping mechanism to manage profit losses and navigate future uncertainty. Nearly 65.3 per cent of surveyed businesses report a reduction in their workforce. Meanwhile, only 1.7 per cent of businesses have increased their number of workers, while 33 per cent have not experienced any change in their number of workers (see the figure below).

► **Figure 8. Surveyed businesses' distribution by employment status since the war in Gaza (%)**



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

Breaking down these results reveals that 52.7 per cent of surveyed businesses report temporary dismissals until conditions improve, while 39.9 per cent have resorted to permanent layoffs while providing entitlements due to affected employees. A significant 27.5 per cent of surveyed businesses have had to dismiss workers permanently without paying them their entitlements due to financial constraints.

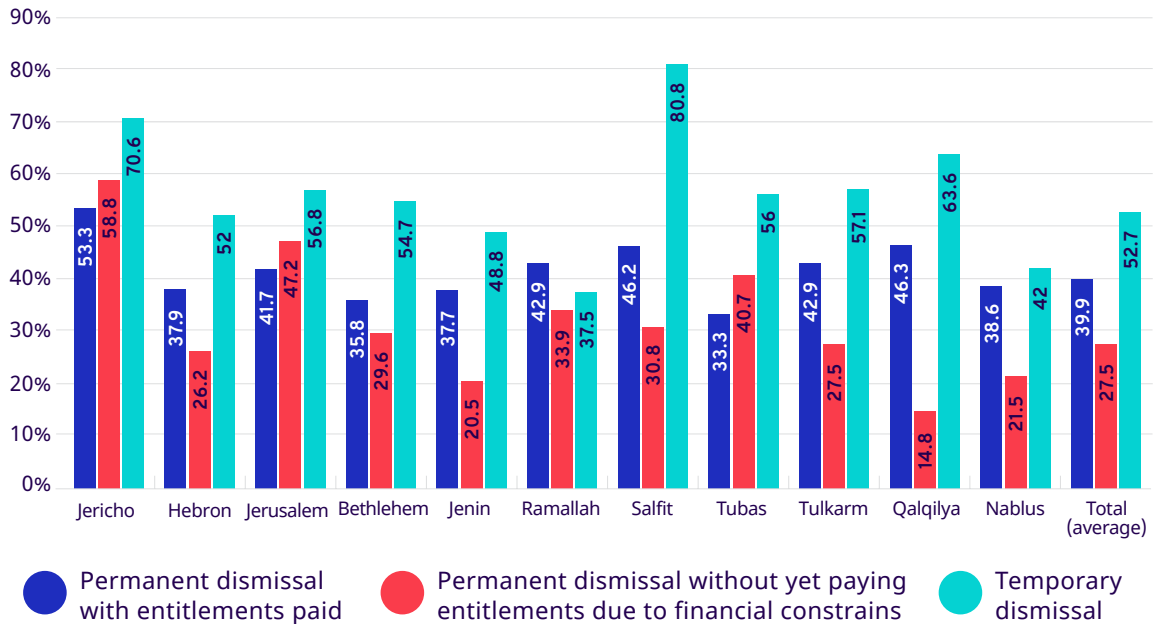
Jericho, situated in the economically challenged Jordan Valley region, is home to the highest proportion of surveyed businesses that have dismissed workers without fulfilling employees' entitlement payments. According to an employer in the footwear and leather sector in Hebron explains, underlying reasons for layoffs in his sector are reduced sales and a lack of finance, forcing enterprises to reduce production and lay off workers.



Our footwear and leather sector, hit hard by reduced sales and bounced cheques, is facing an unprecedented set of problems. Many of the companies [have] shut down or reduced production to levels that are barely covering costs, and hundreds of workers – who are paid by piece – have been dismissed. We are all fighting in this sector to survive.”

– Employer in the footwear and leather sector, Hebron

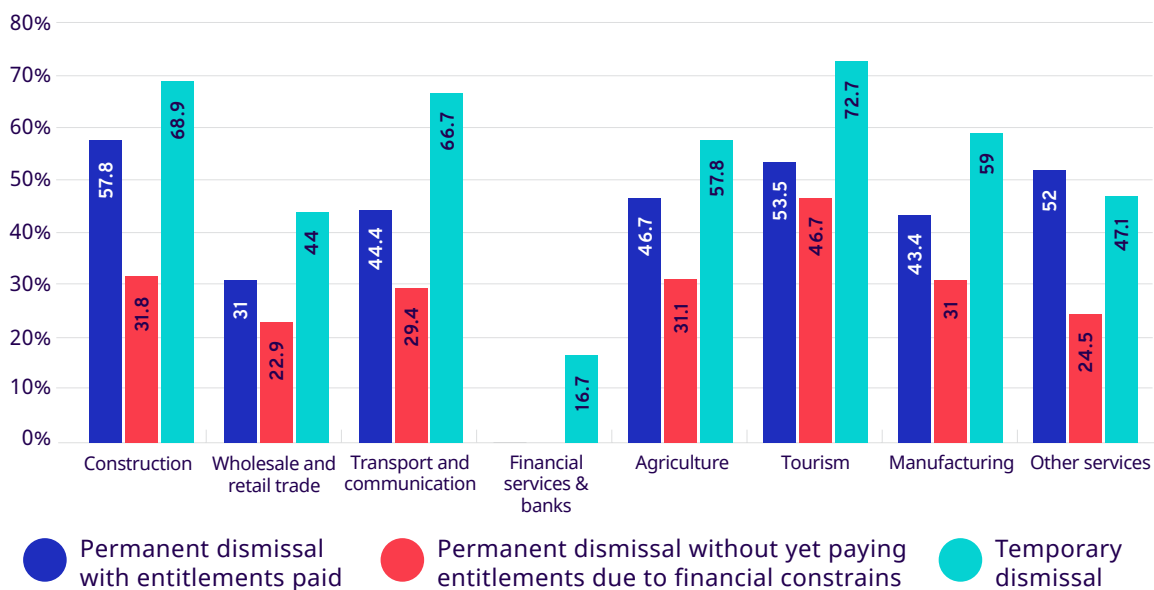
► **Figure 9. Distribution of surveyed businesses that have resorted to the temporary and permanent layoffs of workers, by governorate (%)**



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

Examining dismissals across sectors reveals that the tourism sector exhibits the highest percentage of permanent layoffs without the payment of entitlements. This is largely due to the sector's current standstill, as a result of the absence of tourists.

► **Figure 10. Layoffs by sector as a percentage of surveyed businesses (%)**



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

## 5.5.2. Reduced hours of work

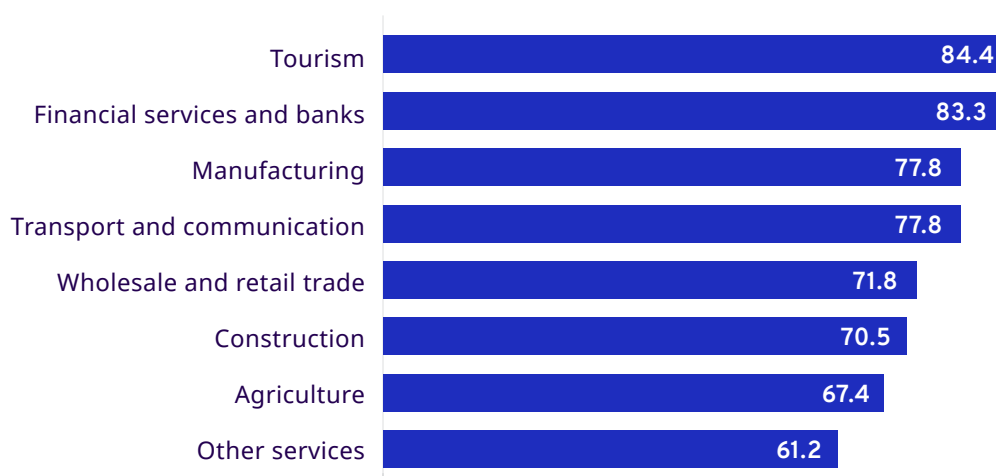
In response to deteriorating economic conditions and declining demand, 73.3 per cent of surveyed businesses have reduced the hours of work of at least some of their employees. Across sectors, the highest reduction in workers' hours of work is evident in the tourism sector.



Occupancy rates dropped below 10 per cent in [my] hotel. I had no choice but to either let some employees go, or reduce their working hours and salaries. I chose to reduce their working hours and salaries. We hope things will pick up again soon; otherwise, I [will] have to let go of my staff.”

– Hotel owner, Bethlehem

► **Figure 11. Share of surveyed businesses that have reduced the hours of work of some or all of their employees, by sector (%)**



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

Businesses have also reduced their number of working days per month. Before the war, companies worked 25.1 days per month, on average. Since the war began, this has fallen to an average of 17.1 working days – reflecting an average loss of 8 working days per month.

To reduce costs further, businesses have taken measures related to over-time work and paid annual leave benefits. Among companies that previously offered paid annual leave, 37.1 per cent have discontinued such payments. Additionally, 80.8 per cent of businesses that permitted overtime work have ceased the practice.

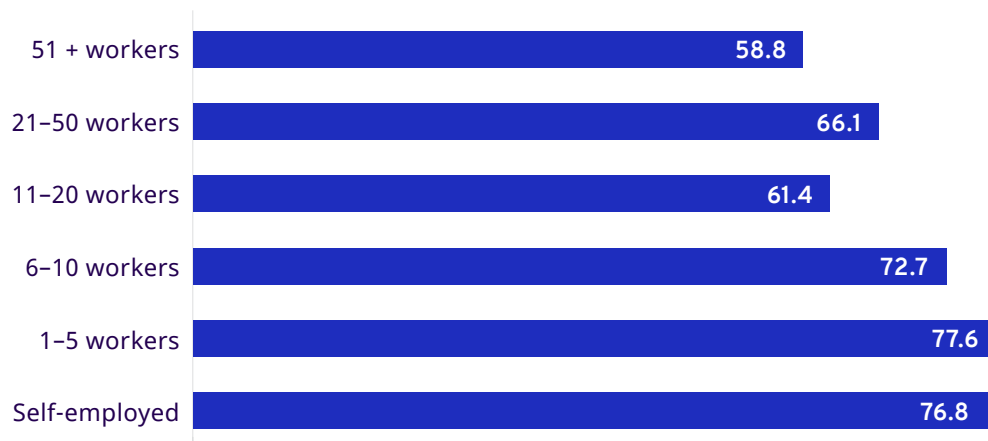


The drop in demand forced us to reduce our production, and as a result we rearranged shift-work [and] redistributed tasks among our workers, including a reduction in work days to cut costs.”

– Business owner in the food manufacturing sector, Nablus

The greatest reduction in hours of work is evident among self-employed and small businesses with fewer than 10 workers. As noted above, business owners interviewed for this research study that, although all enterprises are experiencing economic hardship, larger companies are more resilient to shocks. Some large businesses have been able to continue with their regular hours of work, even if this means operating at a loss.

► **Figure 12. Share of surveyed businesses that have reduced the hours of work of some or all of their employees, by business employment size (%)**



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

## ► 5.6. Measures taken by surveyed businesses to mitigate the impact of the war

The employers' survey reveals a range of further strategic responses adopted by businesses in the West Bank to cope with and mitigate the impact of the war in Gaza, reflecting their resilience and adaptability in the face of adversity.

These strategies can be divided into three main categories:

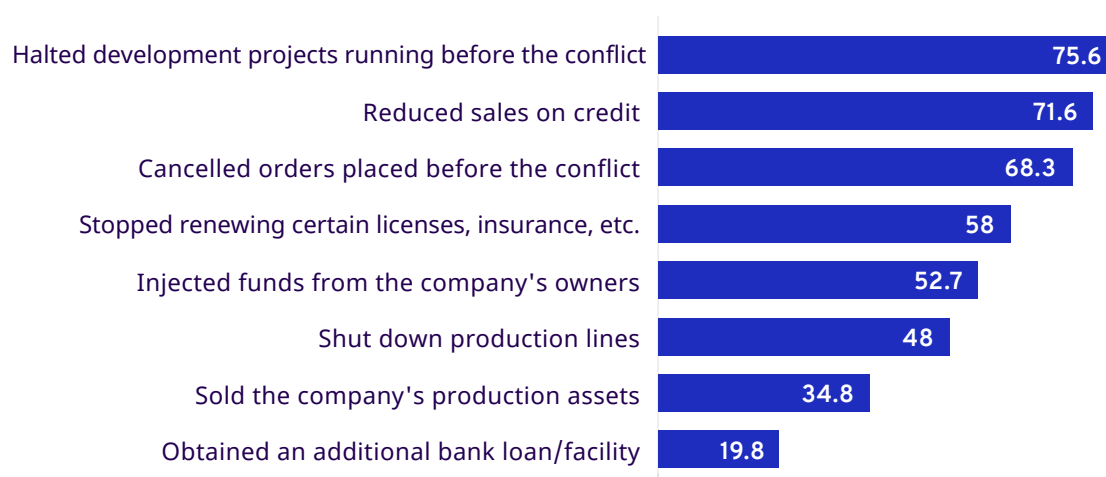
1. Strategies that focus on sustaining the business' current operations and future financial integrity by downsizing expenditure on long-term expansionary projects and plans.

This includes mechanisms such as halting ongoing long-term development projects that were initiated before the crisis, and cancelling purchase orders for supplies lodged before the crisis. These disruptions to future development plans will have negative repercussions for the growth of employment in all sectors of the economy.

2. Strategies concerned with safeguarding the business' operations and current financial flow by discontinuing the practice of leveraging potential future investments to meet current needs. That is, advances and cash sales are not being reinvested, alongside cutting all other investment costs. Other measures taken include discontinuing sales on credit, and not renewing licenses or insurance claims in order to cut costs and minimize the risks of insolvency in the future. To stabilize their operations, businesses are also injecting company owners' funds into the businesses to maintain activities and remain afloat.

3. More radical strategies in terms of cutting costs and sustaining workers. These focus on halting part of a business' operations by shutting down production lines and selling its productive assets. Employment has declined substantially as companies downsize their workforce, as discussed above.

► **Figure 13. Share of surveyed businesses that have reported to non-labour oriented coping mechanisms to mitigate the impact of the war, by type of intervention (%)**



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

Only a small percentage of businesses involved in the employers' survey have sought to borrow from banks to inject funds into their enterprises. Companies may be acting in this risk-averse manner because they consider the future highly uncertain. Borrowing from banks would imply high future costs that the business may not be able to meet if the war continues for a longer period.

## ► 5.7. Future coping strategies amidst prolonged war

Potential future coping mechanisms considered by the businesses surveyed are presented in two categories: labour-related coping strategies, and coping strategies related to the companies' general operations.

### 5.7.1. Labour-related future survival strategies

Cutting labour costs is a primary survival strategy for companies. As a result, if the economic situation continues to deteriorate, companies will act by cutting costs further, including by reducing employees' working hours/days, suspending paid annual and sick leave benefits, and cancelling all paid overtime work.

Temporary layoffs of workers seem to be a strategic coping mechanism, not only in the immediate-term, but also in the future, should the economic situation worsen. Companies are also willing to negotiate wage reductions for workers to keep their businesses afloat. All of these measures have implications for workers' incomes and labour rights.

►Figure 14. Share of surveyed businesses considering future labour-related coping mechanisms, by type of intervention (%)



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

### 5.7.2. Businesses' future coping strategies: Moving beyond narrow, labour-specific measures

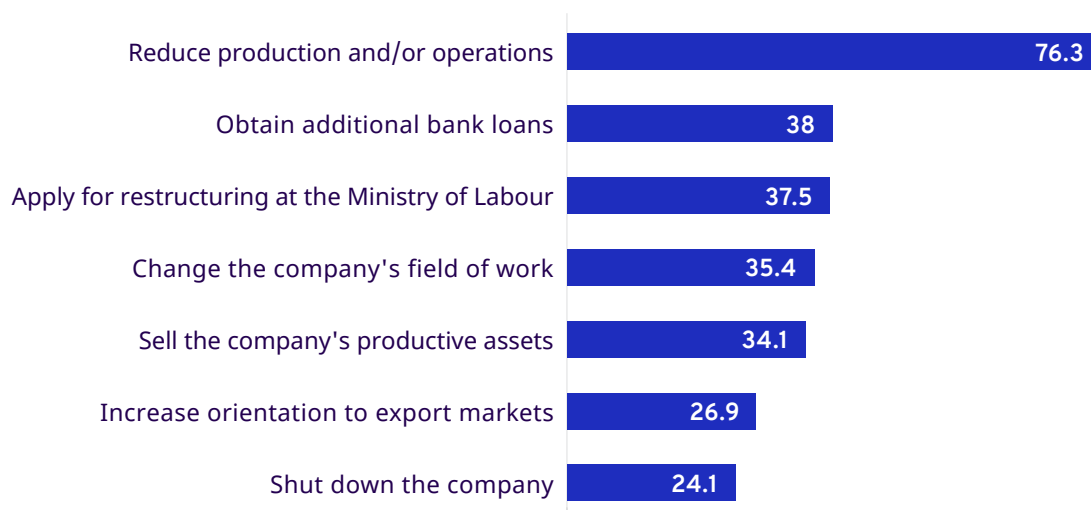
As the political and economic situation continues to decline, surveyed businesses are considering drastic measures, including reducing production and scaling down operations, as well as selling productive assets. Such measures have implications for productivity and profitability which, in turn, impact companies' ability to retain workers.

Despite the harsh economic climate, some surveyed businesses are adopting a more optimistic outlook by considering a shift in their field of work or reorienting their production and sales activities towards export markets. This significant upheaval underscores the depth of desperation in the West Bank, as businesses consider abandoning familiar markets in pursuit of economic survival.

Furthermore, many businesses are looking to explore external financial lifelines. A striking 38 per cent of surveyed businesses will likely request additional bank loans or credit facilities, indicating heightened desperation compared to current coping measures, which have not included bank loans as an option.

One-quarter of the businesses surveyed are willing to contemplate completely shutting down if the situation deteriorates further. This signals that a significant number of companies are willing to cease activities if alternative solutions fail to materialize. This would have drastic, far-reaching effects on labour, production and future investments within the West Bank's economy.

► **Figure 15. Surveyed businesses' possible future coping mechanisms beyond labour-specific strategies (%)**



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

More than one-third of the businesses surveyed report that they may apply for restructuring at the Ministry of Labour. This is usually done by businesses that want to shut down entire branches, units or the company as a whole. The directives for this measure are stipulated in Article 41 of the Palestinian Labour Law, which states that companies may lay off workers in case of restructuring while guaranteeing workers' rights. The process of restructuring is usually undertaken in cooperation with the Ministry of Labour, especially if the number of workers involved is large. However, restructuring is sometimes undertaken in agreement with workers, without the ministry's involvement.

Since the war began in October 2023, the Ministry of Labour has received 22 restructuring applications, compared to eight applications received during the same period in the previous year. This indicates that employers are opting for restructuring either to reduce costs, or to fully shut down their businesses.<sup>47</sup>

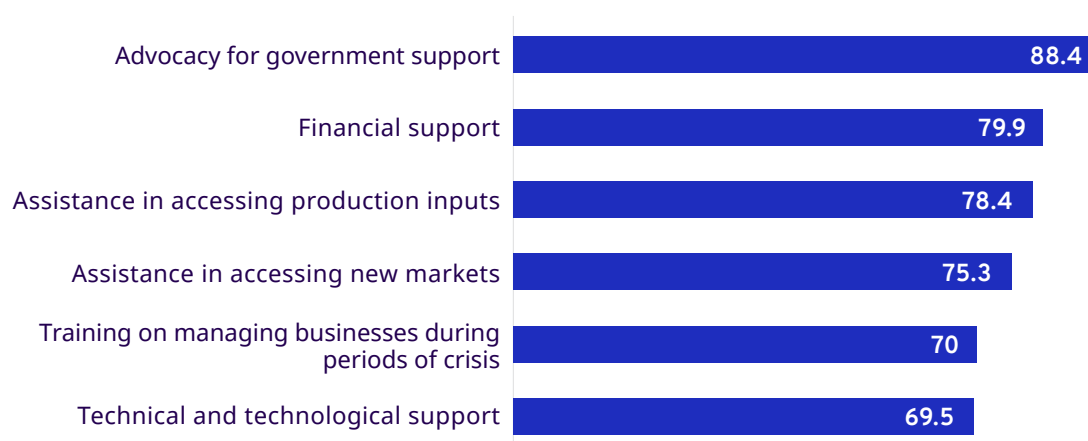
## ► 5.8. Assistance and support required by surveyed businesses

Overall, the employers' survey highlights multifaceted demands for comprehensive support from chambers of commerce and the Palestinian Authority. From financial assistance and advocacy, to market exploration and technical guidance, companies are signalling an urgent need for collaborative efforts to navigate the complexities of the current economic landscape. The role of chambers of commerce emerges as especially pivotal for providing the support structures that businesses need to survive current challenges.

<sup>47</sup> Based on an interview with Mr Waleed El-Bayed, Director of the Labour Relations Section at the Ministry of Labour.

Discussions with employers regarding the assistance they require, in addition to the results of the employers' survey, reinforce the desperate need for support from the Palestinian Authority and the Federation of Palestinian Chambers of Commerce, Industry and Agriculture (see the figure below).

►Figure 16. Type of assistance that businesses need (%)



**Source:** Employers' survey conducted for this study, December 2023–January 2024.

### 5.8.1. Support from the Palestinian Authority

Only 45 companies (6.6 per cent of the businesses surveyed) have received some form of assistance from either the Palestinian Authority or international organizations since the war began. Some 88.4 per cent of employers surveyed indicate that they want the various chambers of commerce to advocate for government support.

A recurrent theme in all of the focus group discussions conducted to inform this study is the consensus among employers that government support has been insufficient. They report inaction and a lack of engagement by the Palestinian Authority in terms of assessing the needs of economic units and initiating dialogue on strategies for navigating the crisis.



The Government is not taking any active role in helping us in any way. We are totally left to fend for our survival on our own.”

– Hotel owner, Bethlehem



Drivers used to make 150–200 shekels per day before the war, now they are making only 20–30 shekels per day. [...] Drivers are barely making ends meet. We’ve pleaded for government support, but it’s falling on deaf ears.”

– Employer in the transport sector, Qalqilya



The Ministry of Labour sees its pivotal role as preventing labour disputes in these turbulent times, rather than providing solutions for companies' survival. As such, the ministry has held a number of meetings with workers' and employers' representatives, and reactivated National Tripartite Social Dialogue Committees across all West Bank governorates.<sup>48</sup> These committees are endowed with the responsibility of resolving labour disputes, as well as encouraging employers to retain as many workers as possible through agreed-upon measures, such as wage reductions due to reductions in working hours and moving to working in shifts, among others.

### 5.8.2. Financial assistance and support

In addition to the need for stronger, more engaged interventions by the Palestinian Authority, 79.9 per cent of surveyed employers highlight the need for direct financial assistance to help them survive the crisis. One avenue through which employers have access to some funding is the Palestinian Employment Fund. Discussions with the Director of the Palestinian Employment Fund<sup>49</sup> reveal that the fund provides assistance for individual companies as part of a scheme that has been running for several years. However, this scheme is small in scope and has focused on supporting companies identified before the war. Therefore, its impact on enterprises affected by the war has been minimal.

According to the Director, negotiations with a number of donors are underway to set up programmes to support businesses and workers. Although providing financial assistance to employers can help in the short-term, the Director highlights the need for more strategic policies, such as macroeconomic policies to strengthen productive sectors. Overall, the Palestinian Authority and employers agree on the need for micro and macro level interventions to enable businesses to survive the current crisis. Employers consider that the Palestinian Authority's role goes beyond protecting workers, while the Palestinian Authority's current policies focus on resolving labour disputes.

The Palestinian Monetary Authority (PMA) has called upon businesses and workers to reduce their dependence on cheques as a mechanism for future payments, given the precarious financial situation in the West Bank. In November 2023, it launched the "Istidama Plus" Fund, valued at 500 million shekels, to provide financing for various economic sectors. It aims to inject liquidity into the Palestinian market and assist businesses affected by the impact of the war in their recovery and financial sustainability. The fund has been accessed by a number of companies.

### 5.8.3. Assistance in accessing production inputs

Businesses are facing immense challenges in terms of their supply chain networks. As this disruption is the result of political factors, 78.4 per cent of employers express a need for support from the Palestinian Authority to resolve problems related to inward and outward supply chain networks. They highlight how vital this is to facilitate their access to production inputs.

### 5.8.4. Access to new markets

The majority of employers surveyed (75.3 per cent) identify access to new markets as an area with which they require support, in order to find alternative avenues for their goods or services. This underscores a strategic pivot in response to market challenges, reflecting a proactive approach to explore opportunities beyond current constraints. Chambers of commerce are poised to facilitate this exploration, serving as conduits for market diversification and resilience.

<sup>48</sup> These committees were set up during the COVID-19 pandemic.

<sup>49</sup> Mr Abdel Kareem Daraghme, Director of the Palestinian Employment Fund.



The interventions needed should be wide-reaching and focus on broad macroeconomic policies, including trade, fiscal and industrial measures and policies. The productive sectors should be targeted to improve their performance and protect local produce. There should also be improvements to infrastructure to improve business productivity.”

– Director of the Palestinian Employment Fund

### **5.8.5. Training on how to manage during periods of economic and political stress**

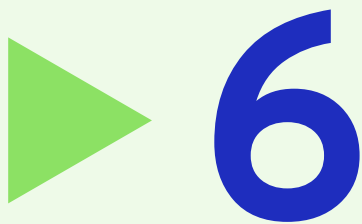
Most employers surveyed (70 per cent) highlight the need for training on how to manage during periods of economic and political stress. This reflects a collective acknowledgment of the unique demands posed by the current environment. Demand for such training also indicates a thirst for knowledge and strategic guidance, positioning chambers of commerce as instrumental partners in fortifying businesses against the multifaceted impacts of economic and political uncertainties.

### **5.8.6. Technical assistance and technological support**

The majority of surveyed employers (69.5 per cent) report a need for technical assistance and technological support. This indicates that they recognize how important it is for Palestinian businesses to adapt to evolving circumstances. In a landscape marked by economic and political stress, the call for technical guidance underscores a commitment to equipping businesses with the tools and knowledge needed to navigate complex challenges. The role of chambers of commerce in providing this support will become paramount for fostering resilience and adaptability.



# Chapter 6



# Impact of the war in Gaza on private sector workers and their families in the West Bank

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Before the outbreak of war on 7 October 2023, Palestinian workers in the West Bank operated within an already precarious economy, characterized by fragility and vulnerability to volatile fluctuations due to continuous uncertainty grounded in Israel's occupation policies. Political decisions have historically carried substantial economic ramifications for Palestinians, particularly workers. Israeli policies, including the blockade of the Gaza Strip, the division between the West Bank and Gaza, and the segmentation of the West Bank into distinct governance areas (A, B, and C), have all adversely impacted the structure and outcomes of the labour market over recent decades.<sup>50</sup> The events and aftermath of 7 October have further complicated an already complex economic reality, involving additional limitations on Palestinian workers in the West Bank.

Within this complex context, this section examines the impact of the war since 7 October on workers in the West Bank and the welfare of their families. The assessment is based on a small workers' survey of 463 waged employees across the West Bank governorates and 18 structured interviews with self-employed workers. The survey aims to capture the situation of workers of different sexes, age groups and educational levels, covering different geographical areas, as summarized in the table below.

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<sup>50</sup> Cristobal Ridao-Cano, Friederike Rother and Javier Sanchez-Reaza, *Enhancing Job Opportunities for Palestinians* (World Bank, 2019); ILO, *The Situation of Workers of the Occupied Arab Territories: Report of the Director-General Appendix*, ILC.111/DG/APP, 2023.

► **Table 11. Characteristics of surveyed workers (%)**

Characteristics	%	Characteristics	%
<b>Age</b>		<b>Governorate</b>	
18–30 years old	38.5	Jericho	3.7
31–50 years old	50.4	Hebron	24.6
Over 50 years old	11.1	Jerusalem	6.9
<b>Education</b>		Bethlehem	11.4
Less than high school	25.5	Jenin	7.6
High school – Tawjihi	31.5	Ramallah	13.4
Bachelor's and diploma	43.0	Tubas	4.1
<b>Sex</b>		Tulkarm	7.6
Female	32.3	Qalqilya	6.5
Male	67.7	Nablus	14.3
<b>Household size</b>		<b>Other household members working</b>	
1-2 persons	6.5	None	15.1
3-5 persons	47.7	1 person	43.4
6 and more	45.8	2 persons	27.2
<b>Marital status</b>		3 or more persons	14.3
Single	30.6		
Married	62.5		
Other	6.9		

**Source:** Workers' survey conducted for this study, December 2023–January 2024.

## ► 6.1. Employment, unemployment and precarious work

Current hostilities in the West Bank are amplifying pre-existing high levels of unemployment, through three main channels:

1. Over 160,000 Palestinian workers suddenly lost their jobs in Israel and the settlements, as closure measures have been implemented to prevent Palestinian workers from accessing employment in Israel.
2. The local economy has experienced a widespread loss of employment as a result of movement restrictions, with workers facing increased barriers to reaching their regular jobs across different governorates in the West Bank.
3. The widespread loss of employment has also occurred as a result of shrinking production and declining work volumes because of reduced market demand, disruptions in supply chain networks, and rising transport costs.

These trends are clearly reflected in the results of the workers' survey.

Before the war began, 22.2 per cent of surveyed workers worked in Israel and the settlements. By January 2024, this percentage declined to 2.3 per cent. The sudden influx of Palestinian workers formerly employed in Israel and the settlements into the West Bank's local economy has substantially increased the domestic labour supply. This adverse supply side shock, compounded by reduced demand for workers in the West Bank's domestic economy, has created significant challenges.

The workers' survey indicates that 29 per cent of workers interviewed have lost their jobs and become unemployed after 7 October 2023, while another 4.5 per cent have lost their jobs but indicate that they are not searching for work anymore.<sup>51</sup> Therefore, in total, 33.5 per cent of workers have lost their jobs since 7 October. In the meantime, 58.5 per cent of surveyed workers have managed to hold on to their pre-war jobs with the same employer. Additionally, 8 per cent of workers have transitioned to new jobs, possibly as workers previously engaged in Israel or in the local economy have lost employment due to worsening economic conditions (see the figure below).

►Figure 17. Impact of the war on surveyed workers (%)



Source: Workers' survey conducted for this study, December 2023–January 2024.

Crucially, the substitution of part-time for full-time work is clear. Part-time arrangements have become a more prevalent mode of work, with the share of part-time workers increasing from 10.6 per cent before the war to 40.7 per cent after the war started.

►Table 12. Distribution of surveyed workers across full-time/part-time employment and unemployment (%)

Type of worker	Before 7 October 2023 (%)	After 7 October 2023 (%)
Full-time workers	88.8	25.8
Part-time workers	10.6	40.7
Unemployed individuals	0	29.0
Workers who have lost their jobs and moved outside the labour force	0	4.5

Source: Workers' survey conducted for this study, December 2023–January 2024.

<sup>51</sup> These workers have essentially moved out of the labour force because they are no longer searching for work. They may be labelled as "discouraged" workers.

The loss of employment in the local West Bank economy as a result of the hostilities is not surprising. During the Second Intifada, movement restrictions and Israeli incursions into Palestinian towns had a strong negative impact on labour market indicators in the West Bank. Unemployment rates of 8.2 per cent before the outbreak of the Second Intifada rose rapidly, reaching 28.3 per cent in 2002.<sup>52</sup> An ILO study, *The Dis-employment Impact of the 2014 Conflict in Gaza: An ILO Damage Assessment and Recovery Strategy*, examines how sustained Israeli military operations in Gaza in 2014 caused labour displacement, or “dis-employment”, in the private sector through the destruction of productive assets. This caused unemployment rates in Gaza to rise from an average of 32.6 per cent in 2013 to an estimated 36.9 per cent following in 2014.<sup>53</sup>

The current hostilities appear to be impacting the Palestinian labour market more profoundly. A number of developments can be deduced from the workers’ survey regarding labour market outcomes after 7 October 2023:

1. There has been a substantial increase in the number of unemployed workers as a result of the loss of employment in Israel and the settlements, alongside the contraction in demand for labour within the West Bank’s economy.
2. The structure of employment in the West Bank has become more precarious. The proportion of employees working full-time has decreased, while the proportion of those working part-time has increased.

The loss of employment and rise in part-time work has negative implications for workers’ incomes and the welfare of their households. In terms of gender, shifts in the labour market since the hostilities began have affected men more than women. That is, more men have lost their jobs and/or switched to part-time work than women (see the figure below). This is expected as 63.5 per cent of women workers in the West Bank are employed either within the job-secure work categories – of legislators and senior officials, and professionals and clerks – compared to just 25.4 per cent of men. In other words, the presence of women as paid employees in the private sector in the West Bank is limited (17.8 per cent) compared to the presence of men.<sup>54</sup> This is in addition to the fact that most Palestinian workers in Israel and the settlements, and who have entirely lost their jobs, are predominantly men.<sup>55</sup>

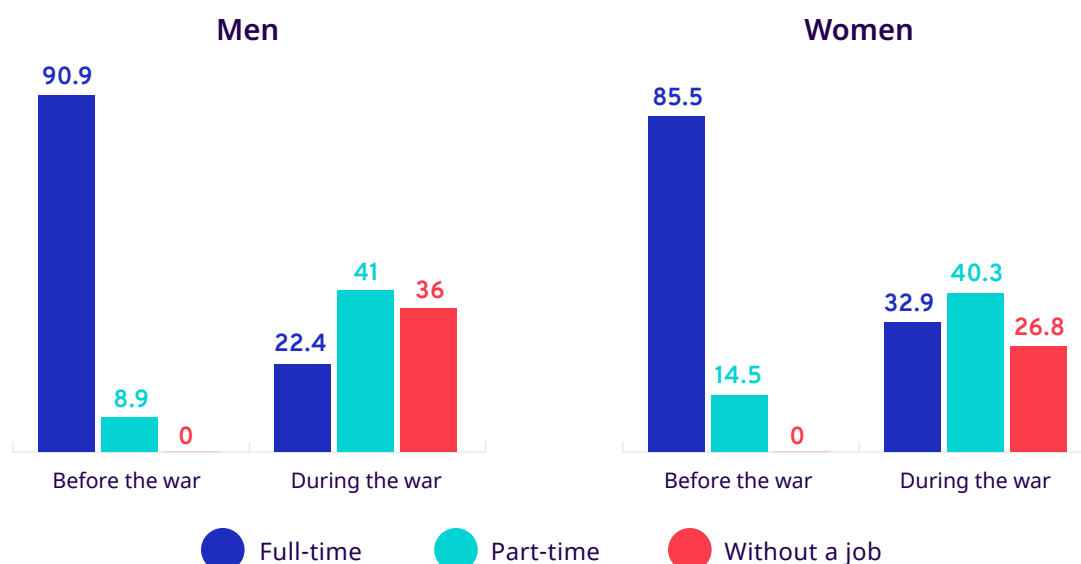
<sup>52</sup> Sami Miaari and Robert Sauer, “The Labor Market Costs of Conflict: Closures, Foreign Workers, and Palestinian Employment and Earnings”, *Review of Economics of the Household* 9, No. 1 (2011): 129–148.

<sup>53</sup> ILO, *The ‘Disemployment’ Impact of the 2014 Conflict in Gaza: An ILO Damage Assessment and Recovery Strategy*, 2015.

<sup>54</sup> Palestinian Central Bureau of Statistics, *Palestinian Labour Force Survey: Annual Report 2022*, March 2023.

<sup>55</sup> According to the Labour Force Survey 2022, women account for 4 per cent of Palestinian workers in Israel and the settlements. See: Palestinian Central Bureau of Statistics, *Palestinian Labour Force Survey: Annual Report 2022*, March 2023.

►Figure 18. Distribution of men and women workers across full/part-time work and unemployment, before and during the war (%)



Source: Workers' survey conducted for this study, December 2023–January 2024

However, it is noteworthy that many women have taken the initiative to start new businesses to compensate for their families' lost income, despite navigating a patriarchal context.



My husband used to work in Israel and lost his job in October last year [2023]. I have taken up preparing molasses, pickles and dried fruits to make up for the lost income. My husband cannot engage in home food production; as a man, he feels ashamed to do this work because it brings such a meagre income. Yet, he helps me with the production process and household chores, and I handle the marketing. So it seems like it is entirely my work.”

– Worker (woman), Dura, Hebron

The workers surveyed identify two primary reasons for their loss of employment and/or having to change their jobs or the sectors in which they work: movement restrictions and the closure of the Israeli labour market to Palestinians. They also note that employers are increasingly resorting to layoffs due to the loss of profits and reduced demand for their products.



## ► 6.2. Sectoral employment shifts and deepening informality

The structure of the labour market in the West Bank has always been disproportionately skewed towards services, reflecting decades of erosion in the employment capacity of productive sectors.<sup>56</sup> The workers' survey confirms that the ongoing war has re-enforced this trend. Its results show that the largest loss of employment has occurred in the construction sector, while the share of employment in the services sector has risen significantly (see the table below).

Well before the current war began, investment and job creation were concentrated in the services sector, which is also characterized by low levels of productivity. According to the World Bank, structural change in the labour market has contributed positively, albeit modestly, to productivity growth because *"the typical productivity-enhancing effect of moving labour away from less productive agricultural activities into more productive sectors of the economy was offset partially by the intersectoral reallocation of labour to low-productivity services."*<sup>57</sup> Thus, more workers moving into the services sector may imply more losses in productivity and further informalization in the labour market.

► **Table 13. Distribution of surveyed workers across sectors (%)**

Sector	September 2023 (%)	January 2024 (%)
Agriculture	6.9	5.6
Manufacturing	12.3	13.7
Construction	23.4	14.1
Trade/hotels	14.7	15.0
Transport and communication	5.4	6.9
Other services	37.2	44.8

**Source:** Workers' survey conducted for this study, December 2023–January 2024.

Key informant interviews with individuals who have lost their jobs since 7 October 2023 indicate that most of these workers have either taken up self-employment or become unpaid family workers within the services sector. Small businesses started by men largely focus on activities that require small investments and minimal skills, such as petty peddling activities (fast food stalls, fruit and vegetables stands) or small coffee shops. Women, on the other hand, have started "home kitchens" and embroidery/knitting activities. None of these new small businesses have been registered, nor do their owners intend to register their businesses with any official party, according to the key informants interviewed. Moreover, these newly established businesses involve limited earnings and precarious conditions of work.

These labour market shifts, from regular employment to petty forms of self-employment, indicate a rise in informal employment. The nature of work in these new ventures falls outside any form of organization, earnings are at a subsistence level, work is unprotected, and competition over a small market is intense.

<sup>56</sup> See chapter 3 for a discussion of the erosion of employment in the productive sectors (agriculture and manufacturing).

<sup>57</sup> Cristobal Ridao-Cano, Friederike Rother and Javier Sanchez-Reaza, *Enhancing Job Opportunities for Palestinians* (World Bank, 2019).

This competition has also led to a reduction in the prices of the goods and services provided by these new small enterprises. Low prices are intended to stimulate demand for their products, but have led to devastating outcomes. One respondent from Battir village in Bethlehem, for example, set prices in his coffee shop so low that he has been unable to cover his costs and has, instead, depleted his savings.



I lost my job in Israel and started a small coffee shop in the village since we get a few local tourists. Many villagers who lost their jobs in Israel have nowhere to go during the day, so they come and spend time in my coffee shop. In order to compete and attract more customers, I set my prices lower than other coffee places in the village. However, I have not been able to cover my costs, and instead consumed my savings. [...] My wife and children now blame me for losing our savings and increasing our financial burden.”

– Worker (man), Bethlehem

The interviews also reveal a gender divide between workers who are likely to continue these new self-employment ventures after the war, and those who are not. Men who have become self-employed or unpaid family workers are largely waiting to return to their previous jobs. More women, by contrast, want to continue to work in their newly started businesses. A number of interviewed women note that their new enterprises allow them more flexible time compared to their previous regular jobs, as they are more easily able to perform dual roles as income earners and caretakers within their families. As men’s aim is to maximize their income, they are eager to return to their old jobs, given the small earnings afforded by petty self-employment ventures.

Although most newly established self-employment ventures are in the services sector, a small proportion of workers are engaging in production, including farming and poultry-raising.



I waited for two months after I lost my job, thinking that the war would end and I would go back to my work in Israel. I worked on my family’s land for two months, but that does not provide income, just some vegetables. I then decided to start poultry-raising. The project is doing well and I am making some profits. I might not go back to my work in Israel even if the closure is lifted.”

– Worker (man), Tulkarm

## ► 6.3. Wages and hours of work

The workers' survey reveals that, among the workers interviewed who have continued to work after 7 October 2023, more than half now work fewer hours than they did before the war (see the figure below). Reduced hours of work, combined with deteriorating economic conditions, may have a severe impact on labour productivity.

►Figure 19. Distribution of surveyed workers by changes in their hours of work (%)



**Source:** Workers' survey conducted for this study, December 2023–January 2024.

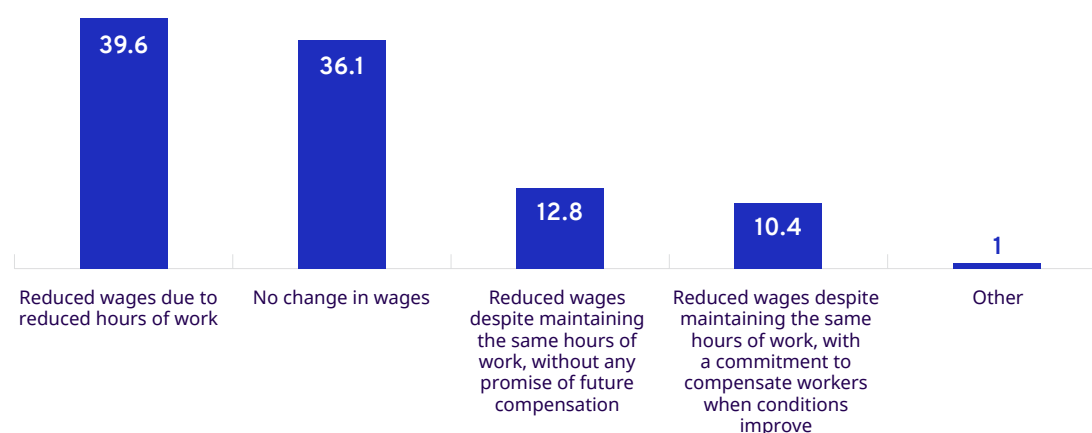
The loss in work hours comes at the expense of wages, with 39.6 per cent of workers who have continued to work after 7 October reporting reduced wages due to their reduced hours of work. It is worth noting, however, that the decline in wages has not occurred solely because of reduced working hours. More than one-fifth of workers who are continuing to work the same number of hours have had their wages reduced, as shown in the figure below.



A number of my co-workers have been laid off. The rest of us accepted to continue working with reduced wages because that is better than losing our jobs fully. Our employer has made it clear that we won't receive compensation for the lost wages, but we unanimously decided to persevere through these challenging times. Currently, we feel there are no other viable options, but we remain hopeful that conditions will improve, and we will soon be able to return to earning our full wages."

– Worker (man), Tubas

►Figure 20. Distribution of surveyed workers by wage payment status (%)



Source: Workers' survey conducted for this study, December 2023–January 2024.

The reduction in wages in the private sector is exacerbated by the partial payment of wages for public sector workers, who are still owed more than four times their salaries since November 2021. The Palestinian Authority has not been able to fulfil its financial obligations towards civil servants because Israel continues to withhold Palestinian custom duties, which account for two-thirds of the Authority's revenues and, therefore, are the prime source for public sector wage payments.<sup>58</sup>

Partial payments for public sector workers and forgone/compressed wages for private sector workers have implications for reduced income levels and higher poverty rates in the West Bank, as discussed in the next section. Moreover, forgone incomes also imply lower purchasing power for households, thus impacting demand for goods and services. This vicious circle of shortfalls is expected to lead to further declines in GDP growth through compression in consumption, with possible longer-term effects on aggregate demand and investment.<sup>59</sup>

## ► 6.4. Labour relations and workers' rights

Palestinian Labour Law No. 7 organizes labour relations in the Occupied Palestinian Territory, including individual work contracts, collective labour relations, work conditions, layoffs and redundancies. In times of conflict, the legal regulation of any type of social relations, including labour relations, is subject to the interference of many unpredictable factors. Conflicts result in a disruption of labour relations that may prove to compromise workers' rights.

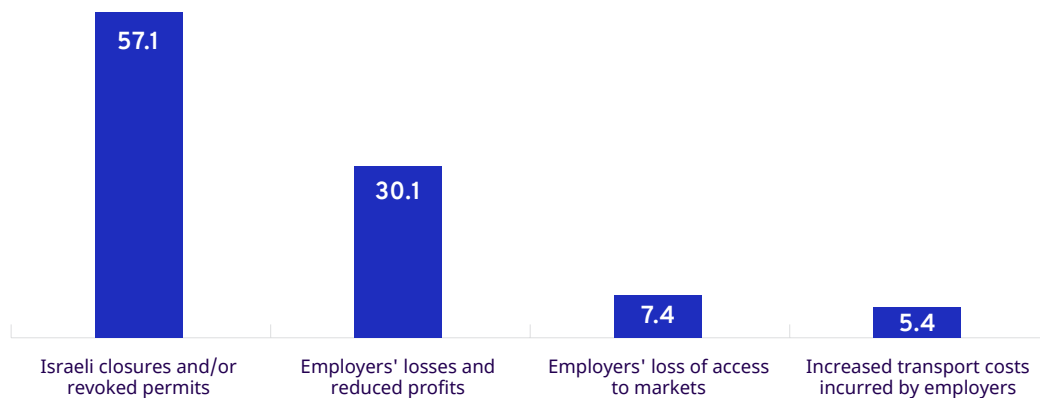
Interviews with employers reveal stronger resilience among larger companies across economic sectors in terms of their commitment to retaining workers. This commitment to workforce stability contrasts with the challenges that smaller traders and retailers may be facing, which force them to resort to labour cost-cutting measures.

<sup>58</sup> Palestine Economic Policy Research Institute - MAS, Palestinian Central Bureau of Statistics, Palestine Monetary Authority and Palestine Capital Market Authority, *Economic Monitor No. 64*, 2020.

<sup>59</sup> As noted in chapter 3, see: Paul Collier, "On the Economic Consequences of Civil War", *Oxford Economic Papers* 51, No. 1 (1999): 168–183.

More than half (57.1 per cent) of the workers surveyed who have lost their jobs cite closures imposed by Israel as the prime reason for job losses, which have affected workers in the Israeli labour market as well as workers in the West Bank. The rest cite losses faced by local businesses – such as losing access to markets, reduced sales as a result of declining demand, and rising transport costs – as the reason for their dismissal from their jobs (see the figure below).

► **Figure 21. Reasons cited by surveyed for the loss of their jobs (%)**



**Source:** Workers' survey conducted for this study, December 2023–January 2024.

Workers report that their employers have tried to retain jobs, but have been ultimately unable to do so in the rapidly deteriorating economic conditions. According to the workers surveyed, businesses' coping strategies include reducing work hours and/or salaries, switching to working in shifts, and reducing product prices to stimulate demand. These measures have proven ineffective for many enterprises, as a result of which workers have been made redundant. However, some workers who have lost work believe that their employers did not do enough to keep their jobs intact.

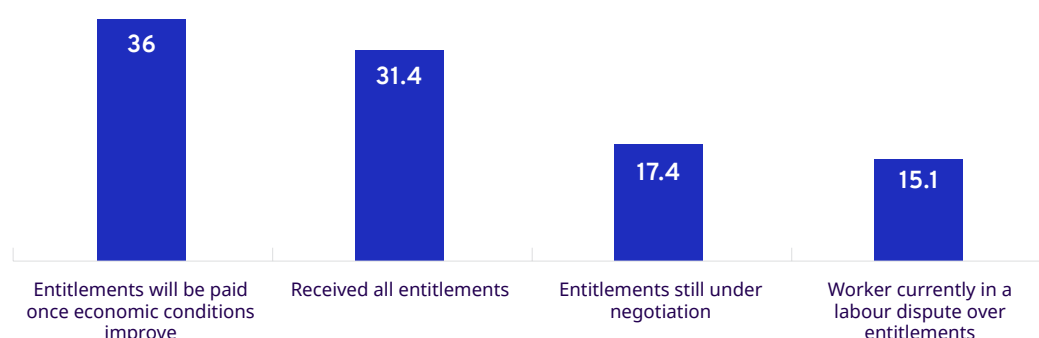


I tried to negotiate with my employer and was willing to accept any form of payment in order to continue working and earn[ing an] income, but my employer refused to communicate and even closed his phone.”

– Worker (man), Qalqilya

Slightly more than one-third of surveyed workers who have been laid off have not yet received their end-of-service entitlements. Most appear to have reached agreements with their employers to receive these payments once the economic situation shows signs of improvement. Approximately 15.1 per cent of workers are engaged in labour disputes over their entitlements. While these workers have not directly been denied their rights, they report that their employers are not engaging with them on these rights.

►Figure 22. Situation of redundancy entitlements for surveyed workers who have been laid off (%)



Source: Workers' survey conducted for this study, December 2023–January 2024.

## ► 6.5. Impact on households

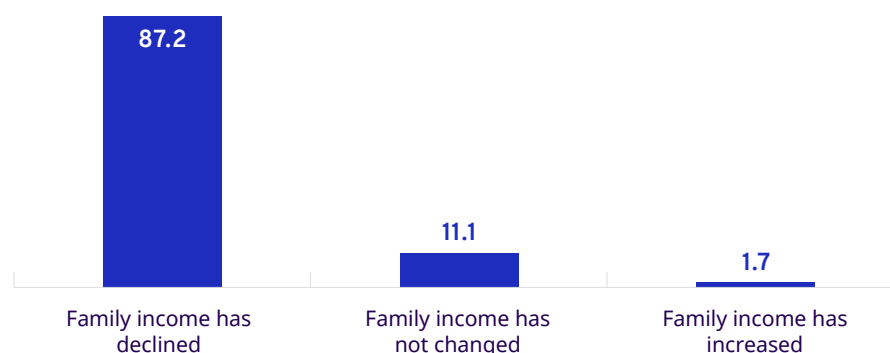
Economic assessments of the impact of conflicts and wars tend to focus on households because these are the smallest collective analytical unit of production and consumption.<sup>60</sup> Conflicts impact households through a number of channels, including limiting households' livelihoods through the loss of employment or the reduction in working hours and/or wages. Such losses usually cause hardship for families, including by placing pressure on income and consumption levels. Nearly all empirical studies have found that the impact of hostilities undermine the average level of income within households.<sup>61</sup>

This assessment of the war's impact on households centres on two key indicators. First, whether other household members, besides the interviewed workers, have lost their jobs or experienced a reduction in working hours or days. Second, whether households' disposable income has declined due to disruptions in employment or other factors, such as business closures or price increases. Nearly 44.3 per cent of surveyed workers report that other members of their households have lost their jobs due to the war. Of these respondents, the majority (61.4 per cent) indicate that only one other household member has lost work or experienced reduced work hours, while over one-fifth (20.5 per cent) report that two of their household members have been affected.

Due to job losses or reductions in hours of work, alongside other war-related factors, 87.2 per cent of surveyed workers report that their household income has declined since October 2023. Only 11.1 per cent of surveyed workers' households have managed to maintain their pre-war income levels, and very few households (1.7 per cent) have experienced an increase in their income (see the figure below).

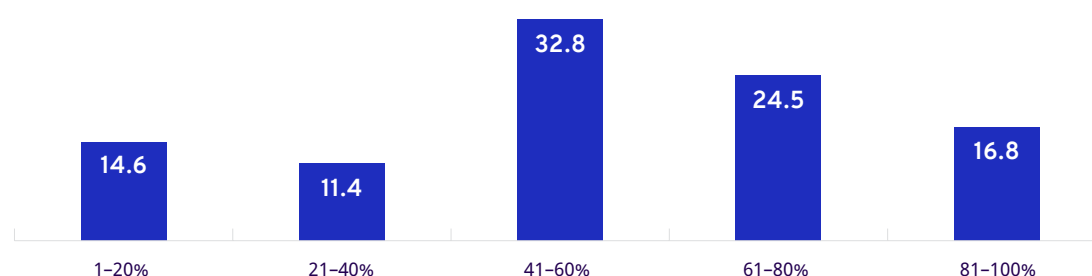
<sup>60</sup> Tilman Brück and Kati Schindler, "The Impact of Conflict and Fragility on Households: A Conceptual Framework with Reference to Widows", WIDER Research Paper No. 2008/83, 2008.

<sup>61</sup> Frances Stewart and Valpy FitzGerald, "Introduction: Assessing the Economic Costs of War", in *War and Underdevelopment, Volume 1: The Economic and Social Consequences of Conflict*, ed. Frances Stewart and Valpy FitzGerald (Oxford: Oxford University Press, 2001), 1–20.

► **Figure 23. Distribution of surveyed workers' households by type of income change (%)**

**Source:** Workers' survey conducted for this study, December 2023–January 2024.

Among the households that have lost income, nearly one-third have experienced a reduction in income of between 41 and 60 per cent, while another one-quarter have experienced a loss of income ranging from 61 to 80 per cent (see the figure below).

► **Figure 24. Distribution of surveyed workers' households experiencing a decline in income (%)**

**Source:** Workers' survey conducted for this study, December 2023–January 2024.

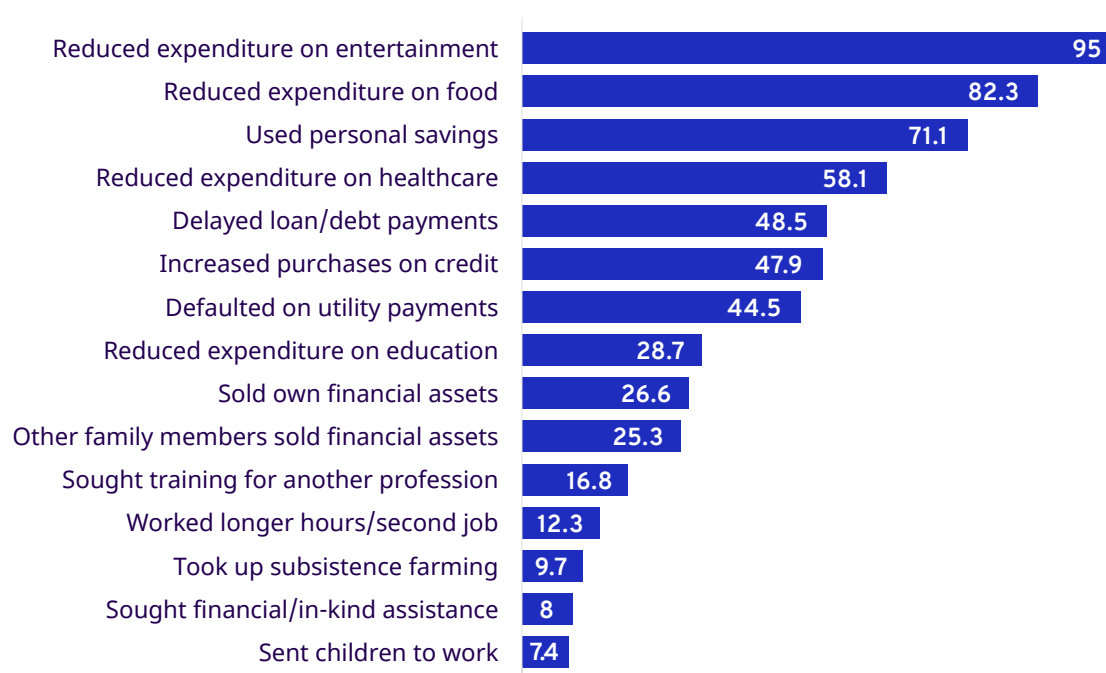
Losses in employment and income are likely to exacerbate poverty and inequality. They may potentially lead to long-term multidimensional poverty, affecting education and health outcomes, among other indicators. This aligns with the United Nations Economic and Social Commission for Western Asia's (ESCWA) computable general equilibrium (CGE) model simulations, which forecast an increase in poverty rates for the Occupied Palestinian Territory due to the war. In November 2023, ESCWA's simulations projected three scenarios on the impact of the war on poverty. The baseline poverty rate of 27.1 per cent for 2023 is expected to rise to 32.3 per cent in the one-month conflict scenario, 36 per cent in the two-month scenario, and 39 per cent in the three-month scenario. Given that the war is still ongoing in May 2024, eight months after it began, it is likely that poverty rates have exceeded the projected 39 per cent, considering the significant impact on employment and incomes observed in the workers' survey.<sup>62</sup> The workers interviewed highlight the harsh conditions facing families as a result of the hostilities – many are desperate, struggling to cover costs, and unsure where to turn for help.

<sup>62</sup> ESCWA and UNDP, *Gaza War: Expected Socioeconomic Impacts on the State of Palestine, Preliminary Estimations until 5 November 2023*, 2023.

## ► 6.6. Household coping mechanisms and resilience

People who live amidst enduring conflict display various degrees of resilience, as some have better coping mechanisms than others. Levels of resilience depend on a series of factors both within and beyond of the control of those affected by the conflict. These factors depend on the magnitude and duration of the effects of the conflict; the type of coping strategies that people are able (or allowed) to access; and the effectiveness of the coping strategies they adopt. Empirical evidence worldwide suggests five broad types of economic coping strategies adopted by individuals and households in contexts of conflict: using savings and selling assets (including land), resorting to subsistence agriculture and other low-risk activities, engaging in informal markets, the intra-household allocation of labour, and (non-forced) migration.<sup>63</sup> Within the context of the West Bank context, all these strategies, among others, have been utilized (see the figure below).

► **Figure 25. Coping mechanisms adopted by surveyed workers' households since October 2023 (%)**



**Source:** Workers' survey conducted for this study, December 2023–January 2024.

Palestinian households have heavily relied on cutting back expenses to cope with job losses and declining incomes. Among surveyed workers' households, entertainment expenditures – known for their elasticity to income fluctuations – have nearly universally been reduced. Additionally, families have tightened spending on essential needs, such as food, healthcare and education. To weather the economic downturn, a significant majority have relied on their personal savings (71.1 per cent), postponed loan payments (48.5 per cent) and sold financial assets (26.6 per cent). These strategies seem geared towards short-term relief, suggesting an expectation among Palestinian households of a swift resolution to the conflict and a return to normalcy, where losses can be recouped.

<sup>63</sup> Patricia Justino, "Resilience in Protracted Crises: Exploring Coping Mechanisms and Resilience of Households, Communities and Local Institutions", Food Security in Protracted Crises High-Level Expert Forum Paper, September 2012.





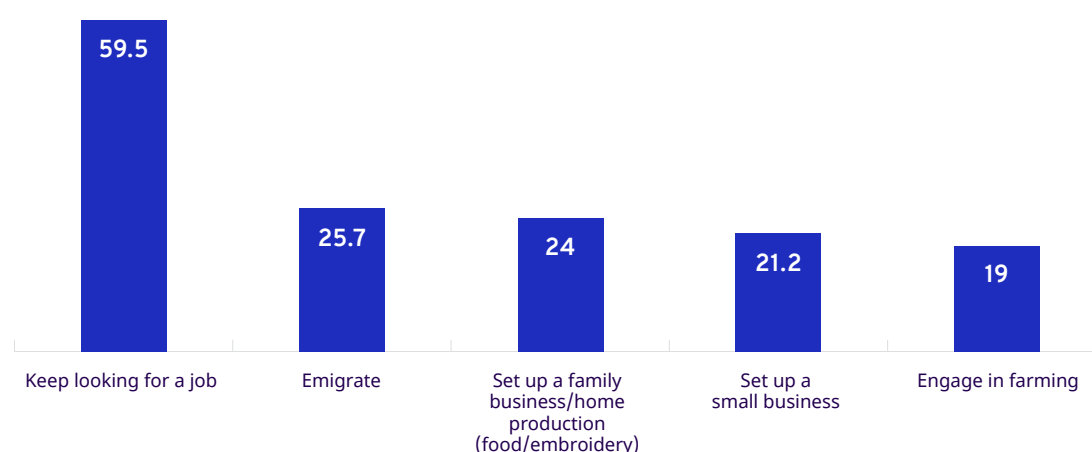
I have been working in the garment industry for a few years now. I have just decided to sell all of my shop's stocks, even at a loss because I need to empty the storage to reduce the cost of renting the space. No one now thinks of making profits; instead, [we think of] just cutting losses. The war has been devastating for my income and disastrous for my family since my husband also lost his work. I do not know what to do or who to ask for help."

– Self-employed worker (woman), Nablus

A small proportion of surveyed workers' households have opted for more structural changes as coping mechanisms. Some household members have taken up training to access other professions (16.8 per cent), while others have taken up subsistence farming (9.7 per cent). What is of particular concern is the share of households (7.4 per cent) resorting to child labour. This is a dangerous phenomenon that requires swift and urgent attention to safeguard the well-being and rights of vulnerable children.

Looking forward, the choice of coping mechanisms appears to be influenced by the perceived duration and severity of the conflict. More than half (59.5 per cent) of surveyed workers report that they will continue to look for employment to weather the consequences of the war as it continues, while around one-fifth are willing to explore entrepreneurship ventures in various sectors. Notably, 25.7 per cent of workers report that they will consider emigration if the war persists.

►Figure 26. Surveyed workers' future coping mechanisms in case conflict persists (%)



**Source:** Workers' survey conducted for this study, December 2023–January 2024.



# Chapter 7



## Policy recommendations

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The conflict in Gaza has, once again, highlighted the Palestinian labour market's heavy reliance on the Israeli economy, both for job opportunities and for sustaining overall demand in the West Bank. Although Palestinians who hold permits to work in Israel are seen as privileged due to high levels of unemployment and low wages in the West Bank, this dependence leaves the Palestinian economy vulnerable to compounded shocks. The war has resulted in an immediate loss of more than 160,000 jobs for Palestinian workers in Israel and an additional 144,000 jobs lost within the West Bank's local economy due to the spillover effects of the crisis.<sup>64</sup>

Given this precarious situation, the interventions proposed by this study focus on two main objectives: (1) mitigating the immediate impact of the current shock caused by Israeli occupation measures on the Palestinian labour market in the West Bank, and (2) reducing the dependence of the Palestinian labour on the Israeli economy for job creation in the long-term. These objectives can be pursued through various interventions, as outlined below.

### ► 7.1. Immediate-term: Mobilize immediate international aid and government support

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In light of the severity of current hostilities, there is an urgent need for financial support by the international community, both during and after the war in Gaza. Given a fiscal gap of US\$516 million in 2023,<sup>65</sup> exacerbated by the severe deterioration of economic conditions and increasing humanitarian needs, continued aid is essential. This support is vital for the effective recovery of Palestinian enterprises and workers, including the self-employed. To achieve this, the implementation of the following short-term programmes and measures are recommended.

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<sup>64</sup> ILO and Palestinian Central Bureau of Statistics, *Impact of the War in Gaza on the Labour Market and Livelihoods in the Occupied Palestinian Territory: Bulletin No. 3*, 18 March 2024.

<sup>65</sup> World Bank, *World Bank Economic Monitoring Report: Notes on the Impacts of the Conflict in the Middle East on the Palestinian Economy*, February 2024.

### 7.1.1. Financial assistance and support

- Introduce tailored financial assistance programmes to aid affected Palestinian businesses, encompassing tax relief measures, waivers for licensing fees, and business subsidies in response to the financial constraints identified in this study.
- Activate social protection measures to provide support to workers facing severe economic hardship.

### 7.1.2. Intervention by the Palestinian Authority and policy changes

- Implement immediate policy changes, such as modifications in trade arrangements under the Paris Protocol and changes to monetary and industrial policies, to address the trade barriers and policy limitations hindering business operations identified by business leaders.
- Ensure regular full salary payments to workers, in line with the emphasis placed by business leaders on stimulating demand and supporting businesses.

### 7.1.3. Market diversification and increased export opportunities

- Support initiatives to diversify market channels and explore alternative avenues for goods and services.
- Support businesses to identify new markets, particularly for sectors that are heavily reliant on exports and those facing international supply chain pressures.
- Facilitate networking opportunities and partnerships to expand export capabilities and secure access to new markets.

### 7.1.4. Workforce retention and skills development

- Develop programmes to retain skilled workers and prevent layoffs, including wage subsidy schemes and job retention incentives.
- Offer training and upskilling opportunities to workers to adapt to evolving market demands and enhance productivity.
- Advocate for policies to safeguard workers' rights and ensure fair treatment amidst economic challenges.

### 7.1.5. Advocacy and stakeholder engagement

- Foster collaboration among chambers of commerce, government agencies, trade unions and other stakeholders to address the needs of affected businesses and workers.
- Facilitate dialogue and knowledge-sharing forums to enable the exchange of best practices, lessons learned and innovative solutions among businesses, workers and other stakeholders.

## ► 7.2. Immediate-term: Promote the social and solidarity economy (SSE)

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ILO defines the social and solidarity economy as encompassing:

*“enterprises, organizations and other entities that are engaged in economic, social, and environmental activities to serve the collective and/or general interest, which are based on the principles of voluntary cooperation and mutual aid, democratic and/or participatory governance, autonomy and independence, and the primacy of people and social purpose over capital in the distribution and use of surpluses and/or profits as well as assets.”<sup>66</sup>*

- Use the opportunities provided by the current crisis to move the West Bank’s economy towards operationalizing economic principles based on solidarity and sustainability, consistent with caring for people and planet, equality and fairness, self-governance, transparency and accountability, the attainment of decent work and livelihoods, and, most importantly, away from reliance on employment in the exploitative Israeli labour market. Organizationally, these programmes may encourage the establishment of cooperatives or associations for the many self-employed ventures that are emerging across the West Bank, following the huge loss of employment both in the Israeli economy and within the West Bank’s local economy.

## ► 7.3. Medium to longer-term: Reduce dependence on the Israeli labour market, engage women and youth, and strengthen labour legislation

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### 7.3.1. Reduce Palestinian workers’ dependence on employment in Israel and the settlements

Enhance the productive capacity of the Palestinian economy across various sectors in order to reduce workers’ dependence on employment in Israel and the settlements and, thereby, mitigate the impact of politically induced shocks on the West Bank’s labour market. Enhance collaboration between the Palestinian Authority and stakeholders to implement micro and macroeconomic policies aimed at bolstering labour productivity, quality standards and digitization to withstand repeated crises.

- **In agriculture:** Support crop diversification, invest in branding and packaging, enhance water management systems, and promote recycling and composting. These policies are urgently needed to boost the agricultural sector’s productivity and job creation potential.
- **In the industrial sector:** Advance collaborative interventions and coordination among labour market stakeholders – such as relevant departments of the Palestinian Authority, trade unions and chambers of commerce – focusing on the objective of diversifying production to meet both local and international market demands, while maintaining quality standards.

<sup>66</sup> ILO, [Resolution concerning decent work and the social and solidarity economy](#), International Labour Conference, 110th Session, 2022.

Devise mechanisms to reduce shipment delays and streamline shipments by improving storage facilities, addressing challenges related to insufficient and costly inputs, and enhancing product quality along social and solidarity economy principles. Engage with international actors to loosen Israel's control over trade and expand external trade links – a strategic move to enhance the marketability of Palestinian products globally.

- **In information technology and communication:** Encourage technologically advanced innovation through capacity building and knowledge-sharing. Expand investment in increasing the capacity of young people for information and technology (IT) programming, design and use. IT is a sector that can transcend physical borders, but Israel currently dominates the sector and subcontracts IT work cheaply within the West Bank, thereby limiting the development of the Palestinian IT sector. Breaking out of this dependent relationship, and working directly with Arab countries and the rest of the world, will add much needed value and growth to the sector.
- **In tourism:** Introduce innovative mechanisms to support the tourism sector's reliance on both domestic and international visitors. Implement policy interventions to encourage the digitization of the tourism sector, the renovation of major tourism sites, and improve quality standards around social and solidarity economy principles.

### 7.3.2. Promote women's and youth engagement in the labour market

The greater mobilization of women and young people into the workforce would have a pivotal impact on economic growth and social benefits in the West Bank. The challenge is that women's low levels of labour force participation, and the high youth unemployment rate, have been a sign of weak demand rather than supply constraints. Therefore, unless jobs are created in sufficient numbers to absorb both men and women workers entering the labour force, it is difficult to see how the youth unemployment rate will decline, or women's participation will rise. Interventions to overcome these challenges include:

- Improve the absorptive capacity of productive sectors – with a view to spurring a massive increase in public and private sector investment – and deploy employment policies to encourage a steady increase in women's labour force participation and a steady decline in youth unemployment rates.
- Increase the number of vocational education opportunities available throughout the West Bank, in order to encourage women to engage in the productive sectors beyond the services sector (in which they are currently overrepresented) and broaden the options available for unemployed young people. This may be done by setting up an incentive system for girls and boys to take up vocational education, and running campaigns to raise awareness about vocational education's importance in enhancing labour market prospects.
- Introduce different forms of credit guarantees to improve access to debt financing for small businesses, and put models in place that target women-owned and youth-owned businesses. A credit guarantee is a commitment by the guaranteeing agency to reimburse a lender all or part of a loan in the case of default. Eligibility criteria vary depending on the objectives of the guaranteeing agency. The borrowing firm usually receives the guarantee in exchange for a fee. Credit guarantee agencies can be operated by the public or the private sector, with a particular focus on youth and women.

- Support collectively-run economic ventures along social and solidarity economy principles, including cooperatives and credit cooperatives. These are important to navigate competition within the market, and empower individual economic actors. It is, therefore, all the more necessary to avoid saturating the informal economy in the West Bank. Instead, it is vital to build more sustainable economic forms of economic empowerment, with collectively-run enterprises as one such strategy, to strengthen Palestinian resilience as a whole.

### 7.3.3. Review and enhance labour legislation

Since Palestinian Labour Law No. 7 was issued in 2000, it has been significantly modified and improved by the Palestinian Authority. More than 30 bylaws have been issued to support the implementation of the law, or to make amendments where needed. These span various aspects, including the enactment of minimum wage legislation, the authorization of foreign worker permits, addressing specific occupational concerns, ensuring workplace and general safety standards, and introducing additional anti-discrimination provisions. Nevertheless, there remains a need to expand and review the law's coverage. Recommended interventions to this end include:

- Broaden the coverage of Palestinian Labour Law No. 7 to include self-employed individuals, seasonal workers, unpaid family workers, domestic workers, and those involved in unpaid domestic care and reproductive work at home.
- Review the law to include a clear clause requiring the equal treatment of men and women, as well as penalties for employers who violate this article of the law. In this regard, more work needs to be undertaken with the Ministry of Labour to issue instructions on addressing workplace violations.

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## **Impact of the war in Gaza on private sector workers and businesses in the West Bank**

This study provides a diagnostic assessment of the impact of the war in Gaza on private sector workers and businesses in the West Bank. In addition to drawing on theoretical and empirical evidence on the impact of wars and conflicts on labour markets globally, it analyses recent labour market trends in the Occupied Palestinian Territory, with a particular focus on the West Bank, such as labour force participation, employment, wages and informality, among others. It specifically assesses the impact of the ongoing hostilities on surveyed private sector employers, workers and workers' families in the West Bank, as well as their coping strategies. The findings of this study reveal that the deep-seated structural problems endemic in the West Bank's labour market have been further entrenched and exacerbated by the hostilities. Based on its findings, the study proposes a set of policy recommendations to mitigate the impact of the war on workers and businesses in the West Bank, and to promote the creation of better and more sustainable jobs in the future.

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