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**PALESTINE ECONOMIC POLICY
RESEARCH INSTITUTE (MAS)**

**The Capacity of the Construction Sector in the West Bank
to Absorb Palestinian Workers Laid off from the Israeli Labor Market
Following the War on the Gaza Strip**

2025

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**The Capacity of the Construction Sector in the West Bank to Absorb Palestinian Workers Laid off from the Israeli Labor Market
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Foreword

This study comes at an exceptionally critical juncture for the Palestinian people, amid the ongoing genocidal war against the Gaza Strip and the severe humanitarian and economic crises that have accompanied it. This is taking place alongside the stringent movement restrictions, repeated closures and unprecedented economic decline facing the population of the West Bank. These conditions are the cumulative reflection of Israeli occupation policies, which have tightened control over economic resources, commercial crossings and natural resources, weakening the Palestinian economy's capacity for self-driven growth and sustainable development.

The entry of Palestinian workers into the Israeli labour market has served as a partial safety valve for the Palestinian economy, providing employment opportunities for thousands of families and relatively easing unemployment. Over time, however, this dependency has become one of the most significant structural vulnerabilities, as the occupation has used it as a tool of political and economic pressure, alongside the clearance revenues over which it maintains control. With the dismissal of Palestinian workers from the Israeli labour market, unemployment rates in the West Bank rose to unprecedented levels, reaching around one-third, the highest rate since the establishment of the Palestinian Authority following the Oslo Accords. Among those affected, workers in the construction sector account for more than two-thirds of those dismissed from the Israeli labour market.

The importance of this study lies in its focus on analysing the repercussions of the crisis on the construction sector and exploring ways to revive it as a driver of economic recovery in the short and medium term. It also presents a set of practical recommendations for decision-makers and policymakers, aimed at mitigating the impact of this shock on the national economy as a whole, and on the construction sector and its workers in particular. Despite the major challenges involved in implementing these recommendations, given the Palestinian Government's financial constraints and the scarcity of development funding, they open important avenues for rethinking the future of this sector by developing infrastructure, promoting a shift towards green building, and keeping pace with technological transformation in building and construction processes. This would help reduce dependency on the Israeli economy and strengthen the foundations of the Palestinian economy's self-reliance and resilience.

In closing, we extend our sincere thanks and appreciation to the research team for their efforts in preparing this study, and to the Arab Fund for Economic and Social Development for its generous funding of this work. We hope that this study will be a first step towards preparing similar sectoral studies that help diagnose the strengths and weaknesses of the Palestinian economy and offer realistic solutions for its advancement. We also call for concerted efforts among government institutions, the private sector, donors and researchers to build a national economy that is more resilient in the face of challenges and better prepared to turn recurring crises into opportunities for development and economic independence.

Raja Khalidi
Director General

Summary

The building and construction sector is one of the key drivers of the Palestinian economy, serving as a major source of employment and a catalyst for growth across linked economic sectors. However, this sector faces structural, political, and financial challenges that undermine its capacity to absorb labor. This became even more profound following the war on the Gaza Strip during the fourth quarter of 2023, and the accompanying comprehensive closure of the West Bank, denying the entry of approximately 150,000–200,000 Palestinian workers to work inside the Green Line. Most of them had been employed in the building and construction sector, making up two-thirds of Palestinian workers in Israel and its colonies. This led to an unprecedented rise in unemployment rates in the West Bank, from 13% in the third quarter of 2023 to 32% in the fourth quarter. The building and construction sector was the most affected, with the unemployment rate rising from 15% in the fourth quarter of 2022 to 68% in the corresponding quarter of 2023, alongside a sharp contraction in economic activity and a decline in the sector's value added by 27% in 2023 compared to 2022, followed by a larger decline of 38% in 2024 compared to 2023.

The study examines the situation of Palestine's construction sector under the current political and economic situation, while assessing its capacity to absorb workers laid off from the Israeli labor market, who have become part of the ranks of the unemployed, in the local labor market in the West Bank, which already suffers from high unemployment rates. The study also aims to analyze the capacities, policies, and available means to strengthen the sector's ability to absorb labor within the present conditions and restrictions. It should be noted that the study does not aim to present a comprehensive development plan for the construction sector, nor to estimate the scale of destruction in the Gaza Strip or the scenarios for reconstruction; rather, it focuses on the West Bank over the short and medium terms, given the continuation of the war and the profound uncertainty it imposes on the Palestinian economy.

The sector's operational structure relies heavily on low-skilled labor. Labor force data indicate that 72% of the sector's workers in the West Bank have a preparatory level of education, while only 11% have attained formal vocational qualifications. This reality increases the sector's vulnerability to crises and limits its capacity to reintegrate laid-off workers. Moreover, the ability of the financial and banking system to support the sector through financing has declined, as contractors face difficulties in obtaining loans for new projects. Meanwhile, the rate of bounced checks has risen, reflecting weakened liquidity and a contraction in effective demand.

Despite the government's efforts through initiative programs such as "Bader" and "Tmher", and digital employment platforms, the response remains largely relief-oriented with limited impact, and has yet to evolve into a structured developmental approach capable of generating employment at scale or stimulating private sector activity. Furthermore, the absence of integrated labor market policies that link laid-off workers with large-scale projects, combined with weak coordination between the public and private sectors, continues to widen the gap between the magnitude of the crisis and the available absorptive capacity.

The study reveals that the construction sector in the West Bank suffers from weak effective demand for building and housing projects, despite strong latent demand driven by population

growth and the unmet needs to improve housing conditions. This imbalance between supply and demand is primarily attributed to high construction costs, limited household purchasing power, and the absence of affordable housing programs or adequate financing instruments.

An assessment of infrastructure conditions further points to a pronounced development gap affecting all sectors, including water, electricity, transport, and solid waste management. These gaps simultaneously constitute both challenges and opportunities. Despite the urgent need to expand water networks, develop treatment plants, rehabilitate roads, and invest in solar energy facilities, public and private investment in infrastructure and housing projects remains constrained. This is largely due to the fiscal crisis facing the PA, as well as Israeli restrictions on construction—particularly in Area C, which hinder the implementation of projects capable of generating substantive demand for labor.

The study indicates that absorbing laid-off workers requires a strategic shift that goes beyond reliance on market dynamics alone, toward proactive policies aimed at generating effective demand. This can be achieved through the expansion of housing and infrastructure projects, the provision of investment incentives to contractors and real estate developers, and the activation of the banking sector's role through providing guarantees and credit facilities for large-scale projects. The study also calls for the integration of the construction sector into national development plans, alongside the adoption of large-scale vocational training and capacity-building programs to enhance workforce efficiency and equip workers with advanced skills, including green construction technologies, 3D printing, and digital design. Such measures would strengthen the sector's competitiveness and its ability to generate sustainable employment. The study concludes that the sector's capacity to absorb laid-off workers from the Israeli labor market remains limited in the short term due to financial and political challenges, as well as restrictions on economic activity. However, this capacity can gradually improve if comprehensive investment and regulatory strategies are adopted to address the root causes of the crisis. Fostering partnerships among the government, the private sector, and international donors, directing financing toward productive and strategic projects, and implementing legislative reforms that enhance the business environment could form the basis for increasing the sector's contribution to GDP and restoring its role as a driver of economic growth, as well as a mechanism for mitigating rising unemployment in the West Bank.

Nevertheless, under these constraints, reliance on the construction sector alone is insufficient. Therefore, the importance of retraining the unemployed workforce and redirecting them toward other sectors with a greater capacity to absorb unskilled labor, such as agriculture and industry, becomes evident. This should be accompanied by a focus on developing value chains and sub-sectors capable of overcoming occupation-related constraints, meeting domestic demand, and expanding into regional markets.