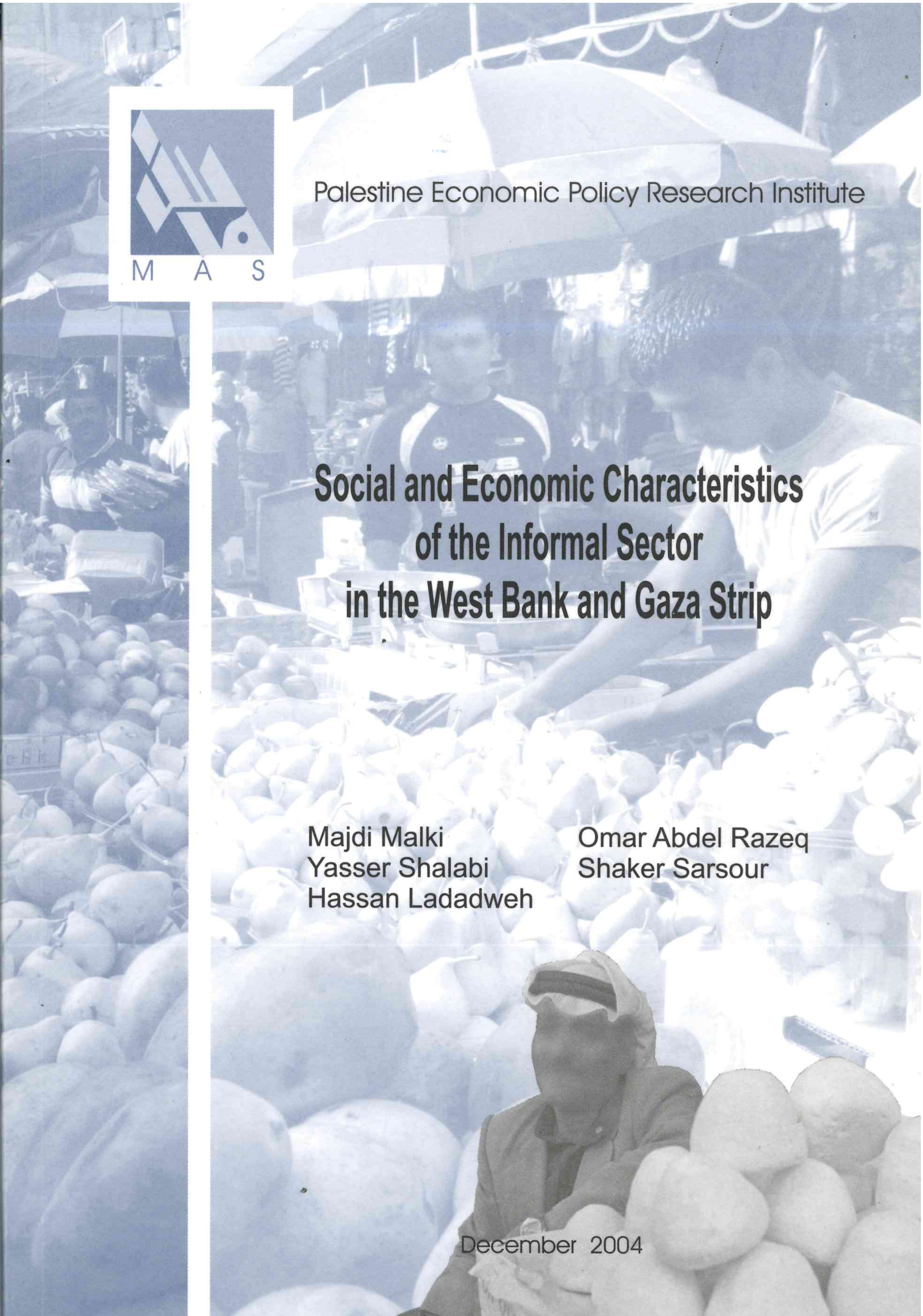

Palestine Economic Policy Research Institute

MAS

Social and Economic Characteristics of the Informal Sector in the West Bank and Gaza Strip

Majdi Malki
Yasser Shalabi
Hassan Ladadweh
Omar Abdel Razeq
Shaker Sarsour

December 2004

M A S

Palestine Economic Policy Research Institute

Social and Economic Characteristics of the Informal Sector in the West Bank and Gaza Strip

Majdi Malki
Omar Abdel Razeq
Yasser Shalabi
Shaker Sarsour
Hassan Ladadweh

December 2004

The Palestine Economic Policy Research Institute (MAS)
Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

Mission

MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

Strategic Objectives

- Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- Disseminating up-to-date socio-economic information and research results.
- Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- Strengthening economic and social policy research capabilities and resources in Palestine.

Board of Trustees

مؤسسة التعاون
WELFARE ASSOCIATION

Special thanks to The Welfare Association for their support of this study

P.O. Box 19111, Jerusalem and P.O. Box 2426, Ramallah
Tel: ++972-2-2987053/4, Fax: ++972-2-2987055, e-mail: MAS@mas.org.ps
Web Site : http://www.MAS.org.ps

Palestine Economic Policy Research Institute

Social and Economic Characteristics of the Informal Sector in the West Bank and Gaza Strip

Majdi Malki
Yasser Shalabi
Hassan Ladadweh
Omar Abdel Razeq
Shaker Sarsour

December 2004

Social and Economic Characteristics of the Informal Sector in the West Bank and Gaza Strip

Researchers: **Social Part:**

Majdi Malki: Research Fellow at MAS, and Assistant Professor at BirZeit University

Yasser Shalabi: Researcher at MAS

Hassan Ladadweh: Researcher at MAS

Economic Part:

Omar Abdel-Razeq, Research Fellow at MAS, and Associate Professor at Al-Najah National University, Nablus

Shaker Sarsour: Research Assistant at MAS

Editorial Assistants: Ibrahim Mousa (Arabic)
Simon Boas (English)

Translated to English:

Layout: Lina Abdallah

Funding: This Study was funded by The Welfare Association.

Palestine Economic Policy Research Institute (MAS)
Jerusalem and Ramallah

December, 2004

Foreword

The completion of the study of the economic Informal Sector in the West Bank and Gaza Strip was the Palestine Economic Policy Research Institute's (MAS) final activity for 2004. It is a study that aims at investigating the size of problems faced by this important sector of the Palestinian economy, as well as its role and important characteristics. It was natural that because this sector combines both economic and social activities and behaviour, that social and economic researchers should work side by side to form a comprehensive picture. Examination and discussion of the study by scores of specialists showed that it succeeded in achieving its desired objectives, providing valuable additional information about the Palestinian reality while also demonstrating the need for further in-depth study of its components. Most important is the fact that the research and analysis provides developmental policy makers with vital information to help them improve the business and social environment in this sector. Mechanisms to raise the level of productivity and promote quality can improve the quality of life of those dependent on this sector, who constitute a sizeable and important part of Palestinian society.

We would like to express our sincere gratitude to our partners in the accomplishment of this important scientific work - the researchers of the Palestinian Central Bureau of Statistics - for their unflagging cooperation in undertaking field surveys and statistical analysis of the research data. We would also like to thank the Welfare Association (Al-Ta'awon) for its support of our Institute in undertaking and publishing this study, and for its support of scientific research and Palestinian developmental work in general. We also thank the researchers and research assistants who contributed to the study, the experts who participated in its evaluation and refinement, and all those who offered observations and presented amendments during the public debate of the study.

Dr. Samir Abdullah
Director General

SUMMARY

The Informal (or 'Unorganised') Sector in developing countries enjoys ever-increasing attention by researchers and agencies engaged in the development field, stemming from the important role it plays in their economies. It greatly contributes to income formation, to absorption of the labour force and reducing the burden of unemployment, and to alleviating the severity of poverty.

This study is part of a research project evaluating the Informal Sector in the West Bank and Gaza Strip, concentrating especially on its contribution to employment and GDP, and its role in absorbing economic shocks. It also aims to discover the sector's structure, characteristics, and features, and those of the people who operate within it.

The first phase of the research project was concluded in 2000, and consisted of a review of theories and literature relating to the Informal Sector. A preliminary study within the framework of the project, based on a qualitative examination of selected Informal Sector projects, was conducted and published in 2000. The present study was undertaken after the conclusion of the second phase of the research project, a survey done in 2003.

This study seeks to draw a general picture of the Informal Sector in the West Bank and Gaza Strip by analysing the results of this 2003 survey, conducted by the Palestinian Central Bureau of Statistics in cooperation with MAS. It consisted of two parallel surveys: one of a randomly-selected representative sample of informal-sector enterprises, and one of randomly-selected families in the West Bank and the Gaza Strip. A special form for each of the two categories was prepared. The study took into account the seasonal nature of the Informal Sector and was thus conducted in four seasonal cycles. Because of the sector's special characteristics the agricultural sector was excluded from the survey.

Variations in the characteristics of the Informal Sector were monitored on three levels, the first being the geographic dimension. The Palestinian Territories were divided into four areas: the West Bank - north, centre and south, and the Gaza Strip. The second was the type of population grouping, examining differences between projects in urban and rural areas, and refugee camps. Also monitored were the differences between the

activities of this sector, which were divided into four main categories: industrial, construction, domestic commerce and services.

A- Social Characteristics

1. General Characteristics of Persons Engaged in the Informal Sector

The results of the survey of the Informal Sector in the West Bank and Gaza Strip conducted in 2003 revealed that 70.3% of those engaged in the Informal Sector excluding enterprises (i.e. the household survey) were in the West Bank and 29.7% in the Gaza Strip. The biggest percentage of those engaged in this sector in the West Bank came from the south; they constituted 29.6%, followed by the north with 26.7% and the centre with only 14.0%. The majority of those engaged in this sector lived in urban centres (52.6%) while 36.8% came from rural areas and 10.5% from refugee camps. The results also showed that the majority of the sample engaged in the Informal Sector were non-refugees (65.4%) and male (91.6%). The data showed that the majority were young people (54.5%), although children constituted only 2.9%. Likewise only 2% were above 65 years old. The majority (approximately three quarters) of those engaged in this sector had not gone beyond the basic level of education, and very few had surpassed secondary level.

The majority (65.8%) of those surveyed stated that work in this sector assures them sufficient income to cover the expenses of basic family needs. The data showed the importance for those engaged in this sector of the family and of the network of family relations in inheriting a profession. 30.2% stated that they landed their professions through the family or a relative. It is a percentage similar to those who stated that their profession does not require special training or education. It was noted, in this respect, that the role of the Israeli labour market is marginal in teaching those surveyed their professions. Only 8.1% of them stated that they learned their trade in the Israeli labour market. More than 38.5% of those surveyed considered that their work in the Informal Sector was the result of the Israeli closure of the Palestinian Territories.

As for those working in the informal enterprise sector, 69.6% work in the West Bank. The highest percentage was in the northern provinces of the West Bank (31.3%), followed by the southern provinces

(25.3%), and the centre (13.0%). The highest percentage of informal-sector enterprises was concentrated in domestic commerce (65.0%), followed by the service sector (17.5%), and the industry sector (16.9%), while it declined in the construction sector to 0.1%. The majority of owners of such enterprises (70%) said they established their enterprises to create a job.

2. Operators in the Informal Sector (excluding enterprises)

Differences appeared with regard to the characteristics of operators in the Informal Sector excluding enterprises between the Gaza Strip and the different regions of the West Bank. The ratio of operators holding middle-level education certificates and above was higher in the West Bank than in the Gaza Strip, while the percentage of illiterates or those barely able to read and write was higher in the south of the West Bank than in the remaining areas. As regards the type of population grouping, the data revealed differences in the education of operators in favour of the refugee camps. The percentage of operators in the sector having middle-level certificate and higher was 9.0% in the refugee camps and 7.3% and 6.9% in rural and urban areas respectively. Examined by economic activity, operators in the industry sector had a lower educational level than others, while operators in the services sector came top.

The percentage of those who employ children was higher in the Gaza Strip (1.7%) than that in the West Bank (0.9%), where it was highest in the north. They were concentrated in urban areas and in domestic commerce activities. The percentage of senior-citizen operators in this sector in the West Bank (3.1%) exceeds that of the Gaza Strip (1.8%). They are concentrated in rural areas and in domestic commerce activities.

The percentage of female operators in the Gaza Strip (10.7%) exceeds that of the West Bank (8.3%). There is also a small difference in this ratio between the different regions of the West Bank, where it was 8.6% in the north, 7.8% in the centre and 8.2% in the south. As regards the type of population grouping, the data reveals that the percentage of female operators was higher in the refugee camps (9.5%), compared to the countryside (9.0%) and urban areas (8.7%). They were represented more in industry and handicrafts than in other activities.

It became apparent that the percentage of operators among refugees in this sector is less than their ratio to the population as a whole in the

West Bank and Gaza Strip (34.4%). The percentage of refugees in domestic commerce activities is highest, followed by industry and handicraft activities.

The data revealed that a higher percentage of activities were carried out at home or at a client’s place in the West Bank than in the Gaza Strip. As regards the different regions of the West Bank itself, the data revealed that the percentage of home-based activities was higher in the south and north than in the central region. The percentage of those who carry out their activities in a separate place outside the home was higher in the refugee camps (36.7%) than in rural communities (31.7%) and urban communities (25.4%). Industry and handicraft activities were concentrated in the home and its environs, while construction activities were confined to building sites and clients' homes.

Israel's closure of the West Bank and the Gaza Strip was the stated reason for two fifths of operators of activities in the informal sector excluding enterprises to conduct their work. This ratio was higher in the West Bank than in the Gaza Strip, and higher in the north of the West Bank (53.3%) than the centre (20.5%) and the south (39.3%). This reason was more commonly given in rural areas (43.6%) than in refugee camps (41.7%) and urban communities (33.9%).

The data showed that around half (50.2%) of the informal activities excluding enterprises had been set up with capital taken from family savings or the operator’s personal savings. The ratios of the West Bank as a whole and the Gaza Strip were almost equal in this regard, although they differed in the West Bank's various regions with 61.9% in the centre, 49.1% in the north, and 42.8% in the south. The data revealed that more than one quarter of these activities required zero or insignificant capital to set up. The percentage of construction and industry activities that required no capital was, as expected, higher than other activities. It is apparent that the majority of informal activities are not financed officially and regularly. The percentage of informal activities excluding enterprises that were established by loans from banks or non-profit organisations was just 2.9%. Official financing constituted the main source of financing of a small percentage of all projects, ranging from 0.8% of construction activities to 5.3% of services activities. This demonstrates the weak influence of official financing institutions: banks and non-profit lending institutions.

The data reveal differences between the various regions with regard to the ways in which the operators of informal-sector activities, excluding enterprises, learned their professions and skills. The percentage of those who learned them from family members was lower in the West Bank than in the Gaza Strip, while those who learned in the Israeli labour market or from academic studies was markedly higher. Examined by type of population grouping, the percentage of those who learned their skills from a family member was highest in the refugee camps compared to the urban and rural communities.

The survey results reveal big sectoral differences in the way those involved in different activities learnt their profession. More than half of industrial-activity operators inherited their profession from their families or learned it from a relative. One in five learned it through courses at work, while a small percentage learned it at industrial schools or through employment in the Israeli market. Family and relatives constitute the main sources of learning in construction activities, but a big percentage also learned their professions while employed in the Israeli market. As for commercial activities, over 70% of operators stated that their professions do not require skills, and a big percentage of them inherited them from their families. Half of the service activities' operators acquired their skills through courses at work.

3. Operators of Informal Sector Enterprises

Data showed that the percentage of first-level university degree holders and higher among operators of unorganised enterprises amounted to 13.5% in the West Bank and 10.8% in the Gaza Strip. Within the West Bank, the data reveal that operators in enterprises in the centre and north enjoy a higher educational level than in the south. Those in urban areas had a better educational level in comparison with those in refugee camps and rural areas.

Data also revealed a difference in the age grouping of enterprise operators in the various regions. A higher percentage of young and middle-aged persons are found in Gaza than in the West Bank, where it was lower in the centre compared to the north and south. Old people constituted an important percentage of operators in commercial activities.

The percentage of female operators was higher in the West Bank (5.9%) than the Gaza Strip (2.7%). Within the West Bank the data revealed that the north had the highest percentage (7.8%). The percentage of female operators was higher in rural communities (13.7%) than in urban communities and refugee camps, and was concentrated in services and domestic commercial activities. The data also shows the existence of differences between the West Bank and the Gaza Strip with regard to the location of activity of informal-sector enterprises. Those conducted in a place outside the home constituted 88.5% in the West Bank but only 73.7% in the Gaza Strip. As for the West Bank regions, the majority of enterprises in the centre (95%) operated in a separate place from home, compared to 88.4% in the north and 85.3% in the south.

The data revealed that the highest percentage (70%) of operators of enterprises in the Informal Sector set up these enterprises in order to create jobs for themselves. That includes those who established their enterprises because of Israeli closures and those who entered the labour market by directly setting up an enterprise of their own. The percentage in the Gaza Strip (78.8%) was higher than the West Bank (66.1%). These percentages varied in the regions of the West Bank, where it was higher in the north than the centre and south. 82.4% of operators in refugee camps had set up their enterprises to create jobs for themselves, while the figure was 68.7% in urban communities and 64.9% in rural communities.

4. Comparison of the Characteristics of Operators of Informal Sector Enterprises with those engaged in Other Activities in the Sector (excluding enterprises)

The data obtained by the survey reveals differences in the relative importance of economic activities in both Informal Sector enterprises and the Informal Sector excluding enterprises. In the former, domestic commercial activities dominate the operators' activities. In contrast, the biggest percentage of operators in the Informal Sector excluding enterprises are involved in services activities (32.4%) followed by the construction sector (29.7%). Only 28.0% are engaged in domestic commercial activities and 9.9% in industrial and handicraft activities. Informal-sector business operators enjoy a higher educational level than those in other activities excluding enterprises. Such operators in the informal enterprise sector have an average of 10.3 years of education, compared to 8.8 years for operators in the sector excluding the unorganised enterprise sector. The data indicates that the educated tend to set up enterprises, while the less-educated tend to conduct other informal activities.

Differences appear in the ages of operators of informal-sector enterprises and those of other unorganised activities, with the former tending to be older. The reason could be the need for more experience or capital in the case of enterprises, or it could be that some enterprises were originally just informal activities and were later transformed into businesses after a certain degree of success.

The survey results also showed the existence of differences in the percentage of women in Informal Sector enterprises and in other Informal Sector activities excluding enterprises. The percentage of female operators of informal-sector activities, excluding enterprises, totalled 8.9% of all operators in this sector, higher than the percentage of female operators in informal enterprises, who comprised just 5%.

The data showed differences between informal enterprises and other informal activities with regard to the site of operation. It revealed that 6.8% of informal activities excluding enterprises are carried out inside the home but without a specific space assigned for them. However, such a situation is non-existent in the case of the enterprises as the definition of an enterprise includes, among other variables, assigning a specific place for the activity.

The data also revealed the existence of a big difference between the Informal Sector excluding enterprises and the informal enterprise sector regarding employment. The majority of projects in the Informal Sector excluding enterprises depended on the work of the operator himself. But in informal-sector businesses the majority of operators employ others with them. The latter averaged 1.8 persons (including the employer himself), while the former employed 1.5 persons per project.

The results of the survey reveal the existence of a big difference in life-span between the projects of informal-sector activities excluding enterprises and the informal enterprise sector. It became apparent that most operators in domestic commerce and services activities in the Informal Sector excluding enterprises set up their projects during the present *Intifada*, whereas in the informal enterprise sector most projects were set-up before the creation of the Palestinian National Authority. These ranged between half the informal enterprises in construction activities and more than four fifths of those involved in industry.

These results indicate that the Informal Sector excluding enterprises is the most capable of absorbing unemployment, especially in commerce and services activities, which are mostly of low income and do not require skills.

B. Economic Characteristics

1. Distribution of Enterprises Operating in the Informal Sector, Geographically and According to Economic Activity

The size of the enterprise sample was 6,168 enterprises, with 1,542 enterprises surveyed in each of the four seasons of the year. The family sample was 12,720 families, also distributed on a quarterly basis. 52,487 enterprises were found to be operating in the Palestinian Informal Sector in 2003, constituting approximately 69% of the total number of enterprises in the Palestinian economy. They were distributed between the West Bank (68.5%), and the Gaza Strip (31.5%). The enterprises were divided between domestic commerce (65.0%), services (17.7%), and industry (16.6%), in addition to an insignificant presence in construction (0.1%), and transport, storage and communications (0.6%). The Palestinian Informal Sector is centred on enterprises where three persons or fewer work (94%). The highest percentage in this indicator was in domestic commerce (96%), and the lowest in construction (78%). The biggest enterprises of the Informal Sector are situated in the central provinces of the West Bank.

2. General Characteristics of the Palestinian Informal Sector

i. Size of Capital:

The average size of the capital of a single enterprise was US$7,221. Enterprises in the south of the West Bank were the biggest in terms of capital, which at US$13,639 per enterprise was higher than the average in the West Bank by 54%. However, the average capital of an enterprise in the central provinces was 67% less, and in the north approximately 18% lower. Looking at different economic activities, the transport, storage and communication enterprises had the biggest capital (around five times the general average), while industrial enterprises had the smallest.

ii. Number of Employees:
    It was found that the general average of those employed per enterprise in Gaza (1.96 persons) exceeds that in the West Bank (1.73 persons) by 13%. It was also noted that the northern provinces of the West Bank employ 42.4% of those employed in the enterprises of the Informal Sector of the West Bank, while the southern provinces employ 26.1% of them and centre 21.5%. As expected, the domestic commerce sector was the biggest employer (61.6% of the total number of those employed), despite the small size of its enterprises, followed by the industry sector (19.8%) and services (17.7%). It was apparent that the overwhelming majority of employees in informal sector enterprises (94.6%) were males.

iii. Value Added:
    The total value added by Informal Sector enterprises in 2003 amounted to nearly US$115 million (approximately 67% of the total production). It was divided between the West Bank (68.4%) and the Gaza Strip (31.6%). The central, southern and northern provinces occupied first, second and third place respectively in generating the total value added of the West Bank. As for the economic sectors, the industrial sector was the leader in generating value added, contributing nearly 43%. The service sector contributed around 13% of the total.

iv. Productivity:
    A worker's productivity in the Informal Sector amounted to US$1,107, with productivity in the West Bank (US$1,163) higher than in the Gaza Strip (US$984) by nearly 18%. The highest productivity was in the central provinces (121% higher than the general average), followed by the southern provinces (13% lower than the general average), and the northern provinces (32% lower than the general average). The construction sector was the most productive (US$2,463 per worker), followed by the industrial sector (US$2,406 per worker). The domestic commerce sector was the least productive (US$825 per worker).

v. Wages:
    The average wage in 2003 in enterprises of the Informal Sector was around US$800 annually per worker. However, wage-earners constituted only around 15% of those employed in the enterprises of the Informal Sector. The average wage in the West Bank (US$878) was higher than that in the Gaza Strip (US$641) by 37%. The highest wages were in the central provinces (US$1,161), followed by the northern provinces (US$813) and the southern provinces (US$751).

Examined by sectors, the transport and storage sector paid the highest wages (US$1,305), followed by the domestic commerce sector (US$857), the industrial sector (US$807), and the service sector (US$686).

vi. Ratio of Capital to Labour:
The general average of the ratio of capital to labour in the informal enterprise sector was around US$4,141, but was 25% higher than that in the West Bank. It was noted that the southern provinces were the more capital-equipped for workers (US$8,800 per worker), followed by the northern provinces (US$3,623), and the central provinces (US$1,560 per worker). As for the economic sectors, it transpired that the transport, storage and communications sector was the most capital-equipped for employment, where the average capital per worker is higher than the general average by 363%. The average in the service sector was higher than the general average by 31%. It was lower than the general average in the other economic sectors – by around 8% in domestic commerce, around 15% in industry and around 2% in construction.

3. Characteristics of Enterprises with Capital Exceeding US$50,000

This group constitutes 2.4% of the total number of enterprises in the Informal Sector. It accounts for 3.6% of the total employment in the sector and contributes 10.3% of the total value added. It numbers 1,243 enterprises divided between the West Bank (94%) and the Gaza Strip (6%).

Its average production amounted to around US$13,200, which was 404% of the average production of an enterprise in the Informal Sector as a whole. The average value added per enterprise within this group amounted to around US$9,572, which represents 437% of the average value added per enterprise in the Informal Sector. The average productivity of a worker in this group was around US$3,325, around three times a worker's productivity in the enterprises of the Informal Sector as a whole. However, the average wage of a worker in this group was around US$803, which is almost the same (101%) as the average worker's wage in the sector.

4. Economic Characteristics of the Informal-Sector Activities, Excluding Enterprises

The total number of those above 10 years of age employed in the Informal Sector excluding enterprises amounted to 84,118 persons, 67% of whom were employers and 33% employees. As is the case with the enterprises in the Informal Sector, the northern provinces of the West Bank provided the most employment – 43% of the total, whereas the southern provinces employed 33% and the centre 24%. Construction was the leading employer in informal-sector activities excluding enterprises (37%), domestic commerce came second (29%), followed by the transport sector (17%). The rest were divided between industry (around 10%) and services (around 7%).

The total value added by informal-sector activities excluding enterprises amounted to nearly US$109.8 million, with the West Bank contributing 68% and the Gaza Strip around 32%. This is equivalent to 94% of the value added by the enterprises of the Informal Sector. It was divided between construction (36.2%), transport and storage (29.3%), domestic commerce (24.6%), industry (5.9%), and services (3.9%). Labour productivity in the Informal Sector excluding enterprises amounted to US$1,424, with the Gaza Strip (US$1,478) higher than the West Bank (US$1,403) by approximately 5.3%. The transport, storage and communications sector occupied first place in terms of productivity (US$2,289), exceeding the general average by 61%, while productivity in the construction sector was nearly equal to the general average (US$1,418). However, productivity in the industry sector (US$721) was around half the average, and in the services and domestic commerce sectors it was less than the general average by 43% and 22% respectively. As for the relationship between productivity and the number employed in a single activity, it appeared that the highest productivity (US$1,897) was in those activities that employed two persons and the lowest (US$284) in activities that employed four persons.

Wage-earners constituted 19% of the total number of those employed in activities in the Informal Sector excluding enterprises, numbering 15,950 persons. Their average annual wage was approximately US$809, which is nearly the same (101%) as the annual wage of a worker in an enterprise in the Informal Sector. The West Bank's share of wage-earners in informal-sector activities excluding enterprises was 70%. The average wage of one of them was nearly US$941 per annum, which exceeds by 86% the average wage of a worker in the Gaza Strip (around US$506). The highest wages outside enterprises were in industrial activities (US$992). Construction wages averaged US$876, while transport and storage wages averaged US$855.