

DEEP PALESTINIAN POVERTY IN THE MIDST OF THE ECONOMIC CRISIS

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EXECUTIVE SUMMARY

Three years of *Intifada* and closures have plunged the Palestinian economy into deep crisis, causing dramatic declines in living standards. This report – and indeed much of the attention of the donor community – focuses on the situation of the poorest of the poor. We have chosen this focus because the resources available for poverty reduction are insufficient to meet the needs of all individuals below the official poverty line. In the current context, donors and policy makers are naturally concerned that the resources available reach those who are most dependent on emergency assistance. Their concern is reinforced by two perceptions: (i) that the poorest have exhausted their savings and are increasingly vulnerable to malnutrition and permanent poverty traps should they face further economic shocks and (ii) the poorest will be unable to benefit from economic recovery because they tend to be unskilled or unable to work. Throughout the report, we use a subsistence definition of poverty, which includes individuals whose expenditures are less than 205 NIS per person per month. Using this definition of poverty, we find that 16 percent of the Palestinian population of the West Bank and Gaza cannot afford to consume the minimum caloric intake as established by the FAO and WHO.

WHAT ARE THE FACTORS THAT MAKE SOME PEOPLE POOR BUT NOT OTHERS?

As expected, the composition and size of the household affects the likelihood of being poor. Poverty rates are high among individuals living in households with many children and elderly relative/s to the number of working-aged adults. The reason is simple: children and the elderly are less likely to earning an income than are working-aged adults. Presumably for the same reason, poverty rates for individuals in large households are significantly higher than for individuals in smaller households. Perhaps surprisingly, individuals living in female-headed households are less likely to be poor (7 percent) than are those in male-headed households (17 percent). A large portion of these female-headed households appears to be elderly women who can afford to live alone. The poverty rate among refugee households is slightly higher than non-refugee households (17 percent vs. 15 percent).

The educational level of working-aged members seems to protect individuals against poverty. Fully one quarter of individuals who live in households whose (working-aged) adults have not finished elementary school are poor. By contrast, only four percent of individuals who live in households with (working aged) adults who have completed secondary school are poor. We know that workers with higher levels of education earn higher wages and this is likely to explain a large part of the phenomenon. It may also be the case that poverty results in lower levels of education, as poor individuals are forced to start working at a younger age.

Poverty rates significantly differ from one place to another. Individuals living in the Gaza Strip are far more likely to be poor (23 percent) than individuals living in the West Bank—with individuals living in the middle West Bank the least likely to be poor (6 percent). The

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effect of living in the Gaza Strip appears to be due to the lower earnings of workers in Gaza compared to workers in the West Bank, possibly as a result of lower levels of productive investment and infrastructure in Gaza. It is also possible that part of the seemingly higher poverty rates in the Gaza Strip are actually overestimated because of the lower price levels found in the Gaza Strip relative to the West Bank. Individuals living in refugee camps are more likely to be poor than individuals living in locations categorized as urban or rural. Living in a refugee camp does not directly lead to poverty. Residents of refugee camps tend to have larger families, higher dependency ratios and are more likely to be living in Gaza – all of which increase the probability of poverty.

Employment of household members reduces the probability of being poor. Individuals living in households with many non-working dependents (and few workers) are more likely to be poor. This is as we would expect since it means more mouths to feed with a single salary. This effect is quite strong: where there are more than five dependents per worker, poverty rates are four times as high as in cases where dependency ratios are lower (17 percent vs. 4 percent).

Individuals living in households with one or more unemployed members are more than twice as likely (29 percent) to be poor as other households (11 percent). Because unemployed members count as dependents rather than workers, the effect of having an unemployed member is similar to that of having other types of dependents.

Likelihood of being poor

Household Size	Not poor	Poor	Total
Seven or fewer members	93	7	100
Eight or more members	76	24	100
Ratio of Children and Elderly to Working-Age Members	Not poor	Poor	Total
More working-aged than non working aged	88	12	100
More non-working-aged than working-aged	80	20	100
no working-aged members	96	4	100
Sex of Household Head	Not poor	Poor	Total
At least one working aged man in household	83	17	100
No working aged men present	93	7	100
Refugee Status	Not poor	Poor	Total
Refugee	83	17	100
Non-refugee	85	15	100
Average Education of the Household's Working-Age Adults	Not poor	Poor	Total
Less than elementary	75	25	100
At least elementary but less than secondary	82	18	100
Secondary or more	96	4	100
Location Type	Not poor	Poor	Total
Urban	84	16	100
Rural	85	15	100
Camp	81	19	100
Area	Not poor	Poor	Total
Northern West Bank	84	16	100
Middle West Bank	94	6	100
Southern West Bank	85	15	100
Gaza Strip	77	23	100

Economic Dependency	Not Poor	Poor	Total
Less than 5 dependents per employed person	96	4	100
Five or more dependents per employed person	83	17	100
Unemployment	Not Poor	Poor	Total
No unemployed members	89	11	100
One or more unemployed members	71	29	100

Source: PCBS and World Bank Staff calculations.

HAS THE CRISIS AFFECTED THE POOR DISPROPORTIONATELY?

The poorest segments of the population do not appear to have suffered disproportionately from the crisis. Although the poor have become increasingly vulnerable and liquidity-constrained, they have also benefited more than other groups from emergency assistance.

In the early months of the crisis, the vast majority of the poor reduced their expenditures and also relied heavily on drawing down savings and selling jewelry as strategies to partially compensate for their reduced income. By the end of 2003, the savings of the poor seem to have been exhausted: the majority of the poor were no longer relying on these strategies, while the non-poor continued to do so.

While the exhaustion of savings and the resulting vulnerability has disproportionately affected the poor, emergency assistance has been reasonably successful in preventing widespread malnutrition and other types of humanitarian crises among the poorest. When we subtract out the value of emergency assistance received, we find that 22 percent of the population would fall below the (subsistence) poverty line. In other words, emergency assistance has served to lower the poverty rate from 22 percent to 16 percent – a reduction of almost a third.

Those who are poor or would be poor in the absence of emergency assistance – a group we refer to as the “needy” – have benefited disproportionately from emergency assistance. Whereas only 23 percent of the non-needy receive assistance, fully 68 percent of the needy receive assistance. Moreover, 55 percent of the total value of emergency assistance distributed is received by needy individuals.

Evolution of Coping Strategies of the Poor: 2003 Compared to 2001.

		Friends & relatives	Borrow from individuals	Use savings	Selling jewelry	Reducing expenditures	Work in agriculture
2001	Yes	n.a.	52%	70%	29%	94%	14%
	No	n.a.	48%	27%	70%	7%	80%
	n.a.	n.a.	0%	3%	1%	0%	6%
2003	Yes	34%	60%	13%	17%	46%	13%
	No	66%	40%	68%	70%	54%	49%
	n.a.	0%	0%	19%	14%	0%	38%

Source: PCBS and World Bank Staff calculations. Note: we are comparing the coping strategies of the poorest 16 percent of the population in 2001 with those of the poorest 16 percent of the population in 2003.

*n.a.= not available.

How much of emergency assistance go to the non-needy?

How concerned should we be that some of the emergency assistance goes to the non-needy? Although some of the non-needy who receive assistance have consumption levels well above the poverty line, the majority has very low consumption levels. Because most of the non-needy who receive assistance are close to being needy, there is little cause for concern that

they receive a portion of the assistance. Moreover, an examination of the observable characteristics of non-needy recipients of assistance, does not suggest any simple way to exclude them from benefits.

How serious is under-coverage of emergency assistance?

Whereas 68 percent of the needy receive assistance, a significant portion of the needy – 32 percent -- do not. What are the characteristics of these 32 percent of the needy who are not covered? Needy individuals living in rural areas and in Gaza are much less likely to receive assistance than needy individuals living in other areas. In addition, controlling for other factors, the unemployed and the less educated tend to receive less aid than the employed and the better educated. Interestingly, needy refugees and individuals in female headed-households are more likely to receive assistance than are other needy individuals. This may reflect agencies using refugee status and the gender of the household head as a proxy for need. This is ill advised however, as these households do not have exceptionally high rates of poverty.

Indicators of Targeting Quality

	Not needy	Needy	Total
Do not receive emergency assistance	89	10	100
Receive emergency assistance	55	45	100
Percent of value of emergency assistance received	44	56	100
	Not needy	Needy	
Do not receive emergency assistance	77	32	
Receive emergency assistance	23	68	
Total	100	100	

Source: PCBS and World Bank Staff calculations.

What can be done to reduce poverty?

Because economic hardship has increased with the crisis, it may be hoped that a resolution of the crisis would reduce poverty. Unfortunately, even lifting of closures and a return to pre-Intifada levels of unemployment would do little to reduce poverty. By contrast, structural policies aimed at lowering dependency ratios and improving labor productivity could have much larger impacts on poverty rates. In the short term, a significant portion of the Palestinian population is likely to remain poor – and increasingly vulnerable to further shocks as their savings are exhausted. Direct assistance will remain a crucial component of the consumption of the poor. While reducing leakage would be difficult and have limited benefits, increasing the volume of emergency assistance could be an effective solution to fight poverty, if it can reduce under-coverage and systematic biases. This would, in particular, require implementing new programs designed to reach people from Gaza and rural areas, as well as the inactive, unemployed and less educated.