

This quarterly socio-economic bulletin published by the Democracy and Workers' Rights Center in Palestine aims to inform workers about the latest economic and social developments in the occupied Palestinian territory.

Inflation, wages and standard of living; labor market conditions; the role of MFIs

3rd Edition 2013

Consumer prices increase faster than nominal wages: is there a decline in the standard of living of workers and their families?

The purchasing power of wages in the Palestinian territories is affected by two main factors, changes in prices of goods and services, and currency fluctuations. A large number of employees are paid their wages and salaries in Jordanian Dinars (JD) or U.S. Dollars (USD), which means that fluctuations in the exchange rates of these currencies against the New Israeli Shekel (NIS) will affect the purchasing power of wages and salaries in a positive or negative manner. There is an inverse relationship between the purchasing power of wages and the general price level, and it is directly proportional to JD or USD exchange rate against NIS.

Inflation is measured by the Consumer Price Index (CPI), which is a statistical tool for measuring relative price change between two periods. The CPI in the Palestinian territories is measured in Israeli shekel, and is affected by two main factors. The first is the level of prices in Israel, which is transmitted via imports, also known as imported inflation. The second is the level of domestic demand. When calculating the standard of living, it is real wages that matter for workers, not nominal wages. Nominal wages are defined as the total cash received by a worker during a certain period of time (a month, week, or day). Real wages are the amount of goods and services that can be purchased with nominal wages over a certain period of time in light of prevailing prices.

The inflation rate is reflected directly on the purchasing power of the nominal wage. If nominal wages increase at the same rate as inflation, the purchasing power of nominal wages does not change if other relevant

factors remain stable. However, if nominal wages increase less than the inflation rate, their purchasing power decreases. Real wages become lower resulting in a lower standard of living for workers and their family members. The contrary is true of nominal wages increase more than the inflation rate.

For most years during the period 2000–2012, the inflation rate as measured by CPI has increased more than nominal wages in the Palestinian territories. Furthermore, it can be noted that in some years, nominal wages have decreased, while inflation rates were high. Thus, in 2003 nominal wages decreased by 0.62%, while the inflation rate was 5.71%. This means that the purchasing power of nominal wages (or real wages) has fallen by 6.33%, and that workers' standard of living has decreased. The same trend can be noted for the years 2007, 2010 and 2011. Nominal wages declined by 2.26%, while at the same time the Palestinian CPI rose by 3.75%, which means that real wages fell by 6.37%. In some years, such as 2000, 2004, 2006 and 2009, the annual change rate of nominal wages was higher than the inflation rate (see Table 1). However, it should be noted that the inflation rate has reached a dangerous level in 2008, reaching 9.9% due to the effect of the global rise in food and fuel prices (Palestinian Monetary Authority, Annual Report 2008 : 39). It should be noted that the Palestinian Monetary Authority used to compare the inflation rate in the occupied Palestinian territory with inflation rates in some Arab countries and Israel. However, this comparison was meaningless in the absence of a linkage between inflation rates and change rates for nominal wages.

Table (1)

Annual variation of CPI and median daily nominal wage in NIS in the Palestinian territories (Year of reference is 2004=100)

(Does not include workers in Israel and Israeli settlements)

Inflation rate	Annual variation in nominal wages	Year
2.8	4.95	2000
1.22	0.63	2001
5.71	1.4	2002
4.4	0.62-	2003
3	3.57	2004
4.11	2.99	2005
3.84	7.12	2006
1.86	0.68-	2007
9.89	4.37	2008
2.75	4.32	2009
3.75	2.26-	2010
2.88	0.13-	2011
2.78	2.57	2012

Sources:

1. Palestinian Central Bureau of Statistics, Labor Force Survey, Annual report 2010, and data-base for labor force surveys of the years 2007-2011
2. Palestinian Central Bureau of Statistics, Consumer Price Index and annual variation according to area for the years 1996-2012
3. Palestinian Central Bureau of Statistics, 2013, data-base for the labor force 2012, Ramallah-Palestine

$$\text{Inflation rate} = 100 \times I - (Pt + Pt-1)$$

Pt: General price level for period of comparison

Pt-1: CPI in previous period

Chart (1)

Annual variation of CPI and median daily nominal wages in NIS in the Palestinian territories (Year of reference 2004 = 100)

(Does not include workers in Israel and Israeli settlements)



In both West Bank and Gaza Strip, inflation rates were higher than increases in median nominal wages. In 2008, in the wake of the Israeli military aggression on Gaza and the blockade, the inflation rate reached around 14% in the Gaza Strip, compared with 10% in the West Bank. In 2007, when Hamas seized power in the Gaza Strip, variations in nominal wages decreased significantly by -5.65%, while the inflation rate was 1.56%. This means that real wages have decreased by 7.21%. In 2010, nominal wages also decreased by 7.84%, while the average inflation rate was 1.72%. In consequence, real wages decreased by 9.56%. In 2011 and 2012, the inflation rate was very low, which may be due to an increase of trade with Egypt through the tunnels under Rafah. In the West Bank, we can note that nominal wages decreased in 2010 and 2011, while inflation rates increased, and thus real wages and the standard of living of workers and their families decreased.

Table (2)

Annual variation of CPI and daily nominal wages in NIS in the West Bank (Year of reference 2004 = 100)

(Does not include workers in Israel and Israeli settlements)

Inflation rate	Annual variation in nominal wages	Year
3.2	6.2	2000
2.63	1.14-	2001
6.07	2.31	2002
4.3	1.41	2003
2.89	0.28	2004
4	1.25	2005
5.02	4.65	2006
0.75	0.92	2007
9.81	5.83	2008
0.57	5.14	2009
4.24	0.12-	2010
3.54	0.93-	2011
4.08	2.47	2012

* Does not include the part of Jerusalem governorate that was forcibly annexed by Israel after its occupation of the West Bank in 1967

1. Palestinian Central Bureau of Statistics, Labor Force Survey, Annual report 2010, and data-base for labor force surveys of the years 2007-2011
2. Palestinian Central Bureau of Statistics, Consumer Price Index and annual variation according to area for the years 1996-2012

Table (3)

Annual variation of CPI and daily nominal wages in NIS in the Gaza Strip (Year of reference 2004 = 100)

Inflation rate	Annual variation in nominal wages	Year
2.96	2.74	2000
1.02-	3.24	2001
2.08	1.48	2002
2.48	2.91-	2003
3.18	9.18	2004
2.44	6.35	2005
4.64	11.29	2006
1.56	5.65-	2007
13.98	6.45-	2008
4.42	2.96	2009
1.72	7.84-	2010
0.57	5.84	2011
0.48	4.38	2012

Sources :

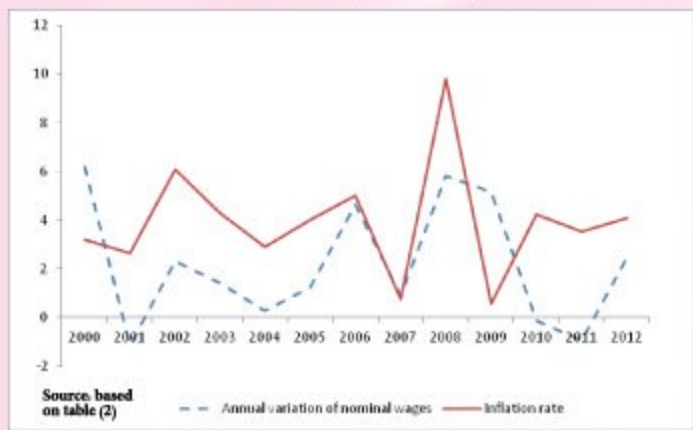
1. Palestinian Central Bureau of Statistics, Labor Force Survey, Annual report 2010, and data-base for labor force surveys of the years 2007-2011
2. Palestinian Central Bureau of Statistics, Consumer Price Index and annual variation according to area for the years 1996-2012

Improving Palestinian labor market conditions is a key element for addressing the increasing number of Palestinian workers in Israeli settlements

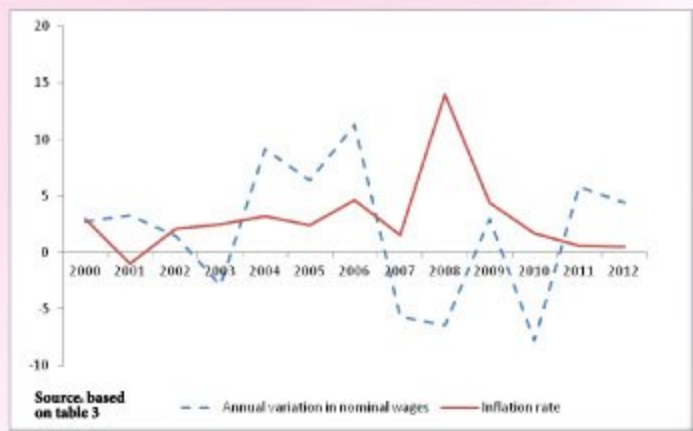
Findings of the Labor Force Survey for the second quarter of 2013

Chart (2)

Annual variation of CPI and median daily nominal wage in NIS in the West Bank

**Chart (3)**

Annual variation of CPI and median daily nominal wage in NIS in the West Bank



Concluding remarks:

1. During the period 2000 to 2012, inflation rates for most years were noticeably higher than the increase of median nominal wages, which caused a decrease of real wages, and a decline in the standard of living of workers and their families. Thus, trade unions should conduct struggles to link wages to the increase of living costs.

2. The inflation rate in the Palestinian territory mainly follows increases of the prices of food, housing and transportation. Combined total spending on these items constitute about 58% of the total weight of the CPI for the Palestinian consumer basket. During the years 2004-2012, prices for these items have evolved dramatically (PCBS, Consumer Price Index, April 2013):

- Food and refreshments increased by 51.25%
- Housing increased by 36.10%
- Transportation increased by 29.26%

(April-June 2013 round) showed that the number of Palestinian workers employed in Israeli settlements increased from 16,000 in the first quarter of 2013 to 20,000 in the second quarter. During the same period, the number of Palestinian workers from the West Bank employed in Israel decreased.

Table (4)

Number of workers aged 15 and over in Palestine working in Israel and Israeli settlements, January-March 2013 and April-June 2013

Place of work	First quarter of 2013	Second quarter of 2013	Difference between quarters	Comments
Israel	76,900	76,400	500-	Decrease of the number of workers in Israel
Israeli settlements	16,100	19,500	3,400	Increase of the number of workers in Israeli settlements
Total	93,000	95,900	2,900	

Source: Palestinian Central Bureau of Statistics, 2013, Labor force survey data, first and second quarters of 2013, Ramallah-Palestine

Factors that attract workers to the Israeli labor market and draw them away from the Palestinian labor market:

1. High unemployment rates in the Palestinian labor market

In the second quarter 2013, the unemployment rate among labor force participants according to ILO standards reached 20.6%, which is equivalent to 234,000 unemployed people, of whom 126,000 in the West Bank and 108,000 in the Gaza Strip. Although the unemployment rate diminished between the first and second quarters of 2013, it remains high, especially among young people of the age group 20-24 years, for whom it reached 37.2%. It is highest among women, who have completed 13 years of schooling and above, at 45.2%. In terms of gender, the unemployment rate reached 17.6% for men and 33.6% for women. As for the general unemployment rate, it is higher in the Gaza Strip (27.9%) than in the West Bank (16.8%).

2. High wages in the Israeli labor market

The average daily wage for wage workers in the West Bank is 88.6 NIS compared to 172.1 NIS for Palestinians working in Israel and Israeli settlements. In other words, the average daily wage of Palestinian workers in Israel and Israeli settlements is 94% higher than the average daily wage of wage employees in the West Bank. Higher wages in Israel and Israeli settlements are a key factor attracting the Palestinian labor force to work in Israel and Israeli settlements. The average daily wage reached 101.7 NIS in the Palestinian governmental sector in the West Bank, 80.8 NIS in the private sector, and 112.5 NIS in other sectors.

3. Lax implementation of the minimum wage

The Labor Force Survey for the second quarter of 2013 showed that 38.7% of the wage employees in the private sector in Palestine are

This means that the boycott of work in the settlements launched by the Palestinian Authority has not progressed past the stage of a declaration. Creating appropriate conditions for the actual implementation of such policies is of the highest importance. Between the first and second quarters of 2013, the number of Palestinian workers employed in the local economy increased from 768,000 workers to 801,000 workers. This means that the local labor market provided 33,000 jobs, of which 19,000 were created in the West Bank and 14,000 in the Gaza Strip. However, in the same quarter, the Israeli labor market in Israel and Israeli settlements absorbed 10.7% of the total number of employees in the Palestinian territory, or the equivalent of about 96,000 workers in the West Bank. This indicates that the Palestinian labor force is still highly dependent on the labor market in Israel and Israeli settlements for the provision of employment opportunities. Those who cannot find a job opportunity in the Israeli labor market end up joining the ranks of the unemployed.

The Labor Force Survey for the second quarter of 2013 showed that 38.7% of the wage employees in the private sector in Palestine are paid less than the monthly minimum wage (1450 NIS). 25.5% of wage employees in the West Bank are in this situation, i.e. the equivalent of 54,700 workers, who are paid an average monthly wage of 1054 NIS. A simple calculation allows to determine that their wage losses reach about 21.7 million NIS per month $(1450 - 1054) \times 54,700$, and that they reached a total of 65 million NIS in the second quarter of 2013. In the Gaza Strip, 66.5% of wage employees in the private sector, i.e. 68,100 workers, are paid a monthly wage that is lower than the minimum wage. Their average monthly salary amounted to 819 NIS. This means that their wage losses reached 43 million NIS per month $(1450 - 819) \times 68,100$ and a total amount of 129 million NIS on average for the second quarter of 2013.

4. The majority of wage workers in the private sector in Palestine do not obtain their basic rights

findings of the Labor Force Survey for the second quarter of 2013 showed that 56.2% of these workers do not have employment contracts, while only 26% of wage employees have employment contracts and 17.8% are employed under a collective or oral agreement. Only 20.6% of wage employees in the private sector obtain their severance pay or pension benefits, 21.2% have access to paid annual leave, 22.4% obtain paid sick leave, and 41.6% of women workers obtain a paid maternity leave.

Strangely, rights violation of private sector employees continues to prevail, while official union affiliation rates are high. In the second quarter of 2013, the affiliation rate to trade unions and professional unions was 32.3%, 16.4% in the West Bank and 67.55% in the West Bank. This raises many questions about the role of the Ministry of Labor and trade unions in the implementation of the minimum wage, as well as the role of trade unions in conducting struggles for defending workers' rights that have been guaranteed by the Palestinian labor law, and in demanding salary raises matching the increase of living costs, which should not be less than the annual inflation rate in order to maintain the living standard of workers and their families.

Micro-finance institutions (MFIs): great challenges and high interest rates

MFIs in Palestine are classified as financial institutions, the majority of whom are non-profit. They aim at reaching out to the poor and low-income categories, which cannot obtain financing from commercial banks because they do not have the required collaterals, such as real estate deeds, bank guarantor, securities, a salary transferred to a bank account, etc. They respond to the simple economic capacity of these societal groups by facilitating their access to loans. They also contribute in a way or another to providing employment and income-generating opportunities for large segments of the Palestinian society in the West Bank and the Gaza Strip. Thus, they contribute in reducing the problems of unemployment and poverty. They also contribute to a certain extent in achieving economic and family development through supporting self-employment projects of families that help them in improving the educational and health situation of their members. Some of these institutions also contribute in strengthening the steadfastness and resistance of Palestinian citizens by providing loans to farmers, free prisoners and women entrepreneurs living beside the annexation wall, in seam zones and areas affected by Israeli settlement expansion. The experiences of these institutions in the field of lending indicate many success stories in various sectors of

production, including agriculture, fishing and handicrafts. Data of the Palestinian Network for Small and Microfinance (Sharakeh), which represents eleven MFIs, indicates that the amount of active loans in Palestine reached 84.2 million US\$ at the end of 2012. There were around 49,000 male and female beneficiaries of active loans, 57% of them women. These figures are based on data from eight Palestinian MFIs, which are Asala, Faten, ACAD, UNRWA program, Ryada for Lending and Financial Services, Reef inance, the Palestinian Development Fund, and Islamic Relief.

Great challenges: MFIs are facing many challenges and difficulties that hinder their work, and limit their growth and development. Foremost among these challenges is the Israeli colonial occupation and its practices, particularly the blockade, Israeli settlements and military checkpoints, which have cut towns, villages and regions from each other as is the case between the West Bank and Gaza Strip, between the West Bank and Jerusalem, and between the north, central and south West Bank. In addition, attacks of Israeli settlers against Palestinian agricultural land in the West Bank have a negative effect on the ability of small businesses to grow and develop. On top of everything else, internal division has resulted in the formation of two governments for one people, one in the Gaza Strip and one in the West Bank, as well as a duplication of procedures due to the

divergences between the two governments. MFIs also face the problem of a lack of liquidity due to the reduction or interruption of donor assistance, which had a negative impact on the ability of these institutions to expand their loans' portfolio. In fact, many of them have been forced to decrease their personnel or resort to part-time work contracts, because of the high proportion of administrative expenses. Since MFIs operate in the field of small-size investment, these institutions bear comparatively high fixed costs, especially wages and salaries. As a result of the small size of their investments, they cannot benefit from economies of scale. Small-size investments, high fixed costs and the fact that some MFIs have resorted to borrowing from commercial banks have exposed these institutions to what is known in financial management as operational and financial risks. These difficult conditions and all the risks surrounding the work of MFIs will necessarily be reflected on the interest rates charged by these institutions. This raises several questions regarding the level of interest rates, collaterals that are required, and whether these interest rates are higher, lower or equivalent to those charged by commercial banks operating in Palestine.

Overview on interest rates for small and microfinance

A review of the interest rates and commissions charged by MFIs (see examples in table 5) indicates that these rates are high compared with the rates that commercial banks operating in Palestine charge (see table 6).

Table (6)

Average annual bank interest rates charged for loans in USD in Palestine

Average interest rate (%)	Year
7.47	2008
6.19	2009
6.33	2010
6.79	2011
6.97	2012

Source: Palestinian Monetary Authority, Annual Report 2012, Ramallah-Palestine

Table (5)

Interest rates and commissions charged by credit and micro-credit organizations (in USD)

Organizations	Annual interest rate	Commission rate
Asala	7% - 24%	3% - 4%
International Relief	15%	0
YMCA	8% - 12%	1%
PDF	7%	1%
Ryada for Lending and Financial Services	8% - 21%	0% - 1%
ACAD	7% - 18%	0% - 1.5%
Reef Finance	2.5% - 12.0%	0
Faten	5% - 18%	0
UNRWA program	9% - 26%	0
Islamic Relief	12% - 16%	0

Source: Palestinian Network for Small and Microfinance (Sharakeh) credit products provided by specialized credit organizations

1 - The interest rates charged by MFIs are variable and depend on the size and type of loan. They are high for micro-loans, and can reach up to 24% per year for a loan of a 1000 US\$ in some MFIs. It can also be noted that a high proportion of the loans provided by these MFIs are not of a productive nature, such as personal or family consumption loans, and marriage loans. Such loans do not contribute in providing employment and income-generating opportunities.

2 - The main collaterals that MFIs require are personal guarantors, promissory notes, guarantee checks and salary transfer. Some of them require personal guarantors (two at least), who are wage employees and whose salaries are transferred to a bank. These collaterals are not very different from the ones required by commercial banks.

Some may say that collaterals are necessary to ensure the repayment of the loan, and thus allow MFIs to achieve financial sustainability, which is true. However, financial sustainability and expansion in the volume and type of lending requires some organizational changes as well. This may entail administrative restructuring in order to reduce administrative expenses, and giving serious thought to moving towards integration to achieve economies of scale, especially since many lending institutions offer similar products, although under different denominations.

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