

**PALESTINIAN INFORMAL ENTERPRISES: KEY
CHARACTERISTICS, CONSTRAINTS TO GROWTH, AND
DEVELOPMENT OPPORTUNITIES**

PREPARED FOR:

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Abbreviations and Acronyms

ASALA	Palestinian Businesswomen’s Association
GDI	Gross Domestic Income
GDP	Gross Domestic Product
GS	Gaza Strip
IQC	Indefinite Quantity Contract
ISAMI	Building a Microfinance Industry in the West Bank and Gaza
ISIC	International Standard Industry Codes
MAS	Palestine Economic Policy Research Institute
MFI	Microfinance Institution
MSE	Micro and Small Enterprises
NGO	Nongovernmental Organization
PCBS	Palestinian Central Bureau of Statistics
USAID	United States Agency for International Development
WB	West Bank
WBGS	West Bank and Gaza Strip

Executive Summary

Introduction

This study aimed at exploring the dynamics of the informal sector in Palestine. It is the first study of its kind that provide for the first time empirical information about the informal sector. The ultimate objective of this study is to provide information about the informal sector that may help policy makers, donors and institutions to better strategize and plan to help the sector improve and develop.

A multistage sampling technique was used and a total sample size of 1,698 informal enterprises was selected, distributed between West Bank (WB) 62.5 percent and the Gaza Strip (GS) 37.5 percent. In order to identify this number of enterprises, more than six thousand households were randomly visited. A summary of the main survey results is presented below.

Informal sector development

- The results suggest that the informal sector in the has been growing in numbers overtime and was substantially increased in the last three years of political instability and violence. The tightened closures and the extremely constraints (checkpoints and road blockade) on mobility between cities, villages and camps have forced people to search for a living through small and micro productive activities.
- The results suggest that the scope of employment growth in the WB enterprises is insignificant and that they tend to remain unchanged and little growth has been realized. In the last three years and during the *Intifada*, employment in the WB informal enterprises almost did not change reflecting the difficulties of the current situation facing businesses across all sectors.
- The capital investment in the informal enterprise is generally small and the average capital investment in an informal enterprise in the WB tends to be higher than its counterpart in the GS.
- The informal sector may have had increased in numbers over the last decade, but the enterprise itself remained unchanged with no real growth in its employees, capital and sales turn over. Although the informal enterprise is flexible and has a great maneuver to adapt to changes and absorb chocks, it is static with little chances of growth and transformation.
- The results show that the total number of informal enterprises is unexpectedly substantial. About 110 thousand informal enterprises (with an error of 10 thousands below or above this figure) exist in the WBGS, most of which are in the WB. About 50 percent of these informal enterprises were established in years 2000-2002 as indicated in earlier sections.
- Most informal businesses in the WB (42.5 percent) and the GS (49 percent) are in trade activities. The second largest segment of informal businesses in the WB is found in animal husbandry activities with concentration in rural areas. The second largest segment of informal businesses in the GS is found in service activities.

Characteristics of the entrepreneur

- In general, the owner of the enterprise is male. Females in the WB are more engaged in informal business activities (20 percent) than their counterparts in the GS (7.5 percent).

- The overwhelming majority of managers of the informal enterprises are male indicating that owners are usually managers of the business.
- Almost all age categories are engaged in informal business activities. However, the majority of owners/managers of informal enterprises in both the WBGS are young between 26 and 40 years of age.
- The overwhelming majority of entrepreneurs are married with children.
- Significant proportion of entrepreneurs is illiterate. Slightly less than half of entrepreneurs had low level of education, primary and elementary school education. Furthermore, a significant proportion of university graduates is involved in informal activities indicating for a certain extent the difficulties that university students face in finding a job.

Characteristics of the enterprise

- On average, slightly more than two thirds of informal enterprises in the WBGS do not have employees. The tendency to have only the owner as the sole employee is greater in the camps of the WB and cities of the GS. The rural informal enterprise is relatively more inclined to have employees other than the owner.
- More than half of informal enterprises in the WB (52 percent) that has employees other than the owner employ one person. One quarter of informal enterprises with employment has an average of two employees.
- About 75 to 85 percent of employees are direct family to owners. About 17 percent and 16 percent of employees are children with less than 16 years of age in the WB and the GS respectively. Furthermore, about 21 percent and 13 percent of total work force in the informal sector are females in the WB and the GS respectively.
- The results indicate that more than two thirds of informal enterprises in the WB operates on fulltime bases where owners and employees spend more than six hours at work. This percentage increases in camps of the WB where about 53 percent of informal enterprises work for more than 8 hours a day.
- Informal enterprises with employees do not pay much attention to upgrading the skills of employees. Less than three percent of these enterprise stated that they provided some type of training to employees.
- A large segment of the population depends on their informal enterprise as the sole source of income. About two thirds of owners of informal enterprises in the WB generate more than half of their income from the enterprise compared to three quarters in the GS.
- Most informal enterprises operate from home; about half of the WB informal enterprises have the home as their place of business compared to 55 percent in the GS. A significant proportion of enterprises operate on streets; 28 percent in the GS and 18 percent in the WB, most of which are found in cities. More enterprises in the WB (23 percent) operate in marketplaces than in the GS (9 percent). Enterprises operating from stalls are more found in the WB than in the GS. Mobile enterprises are found in the GS more than in the WB.
- In the WB, around 85 percent of enterprises have more than 90 percent individual customers compared to 83 percent in the GS. The remaining targets are retailers, wholesalers and contractors.
- The informal enterprises highly depend on domestic sources for raw material and goods. The vast majority (88 percent) of enterprises buy from formal enterprises in the local market.

- About two thirds of enterprises does not use a phone or a fax in the daily operations. About one third uses telephone at work and insignificant or almost nil proportion of enterprises use telephone and fax.
- The majority of enterprises (61 percent in the WB and 69 percent in the GS) primarily use simple manual tools and machinery in their operations.
- The average capital investment in WB enterprise is about \$2,500 while it is about \$1,700 in the GS. However, the average capital investment significantly varies from enterprise to another and from sector to another.
- The average annual sales revenue for the informal enterprise is relatively low with less than \$800 value of sales per month. Sales in cities are higher than sales in rural areas and camps and sales in the WB is higher than in the GS. Return on sales (net profit margin is relatively high (range from 34 to 64 percent). Profits are usually withdrawn from the enterprise and used for private consumption, which limits the potential for accumulation of capital and expansion. The results suggest that over 90 percent of informal enterprise owners use profits for private consumption. The remaining 10 percent uses profits for other investments and or reinvest in the enterprise. The average return on investment (annual profits divided by capital investment) for an informal enterprise in the WBGS is about 130%, in the WB is about 114 % and in the GS is about 159%.
- In the WB, the informal sector employs about 98,000 individuals including owners and partners. The trade sector is the largest employer among all where about 40 percent of total employment is in this sector. More than 60 percent of these employees are in rural informal enterprises. In the GS, the informal sector employs about 90,000 individuals including owners and partners. The trade sector is the largest employer among all where more than one third of total employment is in this sector. Slightly less than 50 percent of these employees are in refugee camps informal enterprises. Over all, an average of 188,000 employees work in informal enterprises.
- The added value of the informal sector is about 316 million dollars constituting about seven percent of Gross Domestic Income (GDI).

Credit and financing

- The majority of informal enterprises in the WB (71 percent) and the GS (63 percent) used their own saving to finance the business when started. The second largest two sources of financing were loans from family and friends (19 percent in the WB and 26 percent in the GS). Only one percent obtained loans from banks in the WB and three percent in the GS. Only one percent obtained loans from credit organizations/NGOs in the WB and two percent in the GS. Overall, only two percent in the WB accessed formal credit sources and five percent in the GS.
- About one third of informal enterprises would ask for a loan in the WB without significant differences between urban, rural and refugee camps. In the GS, the potential demand for loans tends to be lower than the WB. On average about one fourth of informal enterprises would demand a loan, mostly in cities and camps.
- The average loan amount required in the WB (\$4,000) is significantly higher than the average required in the GS (\$2,300). The amount of loan required in villages and refugee camps in the WB tends to be lower than what is required in cities. While in the GS, the loan amount in all locations is almost similar with more tendencies to be lower in refugee camps.

- The estimated total potential demand for of loans is about 105 million dollars distributed between the WB (about 80 million) and the GS (about 25 million). More than half of the demand will come from villages in the WB and from cities in the GS.
- Loan duration: the majority (about two thirds) preferred loans with more than 18 months loan term. About one quarter asked for loans with duration of less than one year, mostly in the GS.
- Repayment schedule: the majority in the WBGS (83 percent) preferred monthly payments. About eight percent preferred quarterly payments and six percent preferred semiannual payments.
- Interest rate: most respondents in the WB felt that an average of 1.74 percent per month would be acceptable while most of the GS respondents stated that an average of 1.9 percent per month would be reasonable.

Conclusion and recommendations

This survey provides empirical evidence supporting the importance of the informal sector in Palestine. About 50,000 informal enterprises have been established in the last three years, doubling the number of informal enterprises existing previously. The informal sector is significant both as a source of employment generation and income. On average, it contributes more than 50 percent of the monthly income of about 100 thousand households, around 25 percent of the Palestinian population. Given the significance of the informal sector, the challenge is to create the required enabling environment for their smooth transformation into small businesses and eventually larger, registered ones.

Three main areas of intervention can be identified to support the development and transformation of the sector. First, integration of the informal sector into the development process which requires intervention in policy formulation and assistance programs to specifically target this sector not only to keep it surviving but also to support its transformation into more sound businesses with higher potential for growth and development. Second, financing and credit that is a crucial area to address in the development process. The results show that credit penetration is still far from covering thousands of informal enterprises throughout the WBGS. Credit programs might be designed to focus on informal enterprises with flexibility in the design and requirements. Moreover, the legal environment of microlending should be developed and policies must be formulated in order to build a microfinance industry that also helps support this significant sector in Palestine. Finally, demand-driven training and technical assistance programs primarily focusing on upgrading the skills of entrepreneurs and the structure of the enterprise may help in sustaining these businesses and assisting their transformation process.

I. Introduction

Through the Financial Services Indefinite Quantity Contract (IQC) Task Order No.802, “Building a Microfinance Industry in the West Bank and Gaza” (ISAMI Project), USAID is supporting a program of technical assistance and training to the Palestine Monetary Authority, private commercial banks, and non governmental organizations (NGOs) to develop a sustainable microfinance industry in the West Bank and Gaza Strip (WBGS). Micro and small enterprises (MSEs)¹ conduct approximately 95 percent of the business in WBGS (USAID 2001). Chemonics International and its partners are implementing the ISAMI Project to enhance the potential for rapid growth of MSEs and to promote the development of a sustainable microfinance industry.

The informal economic sector in WBGS is a hidden sector, which is not accounted for in the economy’s GDP measurement; thus, no formal development policies exist to support its growth and transformation. The literature on the sector is very limited and little has been done to explore its potential, however the few available reports suggest that the sector is large, economically significant, and contributes substantially to the welfare of poor Palestinians. For example, a recent survey by Massar Associates (Demand and Supply of Micro Credit, March 2002) suggested that there are about 50,000 informal MSEs² in the WBGS and that they contribute significantly to the economic survival of the poor.

Because of the importance of informal MSEs, particularly in these difficult economic times when the formal sector is faltering, a comprehensive study of informal MSEs is essential to assist policy makers, development agencies, and microfinance institutions (MFIs), in their efforts to alleviate poverty and stimulate private sector economic opportunities.

A. Objectives

The purpose of this study is to provide a comprehensive quantitative and qualitative assessment of Palestinian informal MSEs, so that actionable information can be made available to policy makers, donor agencies, private commercial banks, NGOs, and other forms of MFIs, to better enable them to make informed decisions and design appropriate interventions to support the development of informal sector. *The Scope of Work for this study is provided in Annex 1.* With proper support, informal MSEs may gradually transform into formal business and in doing so, create increased business opportunities and additional employment.

This study addresses the following issues:

- Definition and criteria of the Palestinian informal economic sector.
- Evolution of the informal economic sector.

¹ Microenterprises in the context of WBGS generally refer to small-scale, informal businesses usually run by a poor owner-operator and employing up to five persons each, whereas small enterprises in WBGS can be commonly considered as predominantly informal businesses with between 5-10 workers and \$10,000 working capital. The acronym MSEs is used herein to refer to all businesses employing up to 10 persons and sharing many similar characteristics as described above.

² Informal MSEs” in the context of WBGS and this study means MSEs unregistered with the relevant authority. The MSEs normally employs fewer than five persons, mostly family members with less than \$1,000 working capital.

- Informal sector size, characteristics, management, structure, distribution, business types, sector concentration.
- Contribution to the welfare of households.
- Contribution to the Palestinian Gross Domestic Product (GDP).
- Sector employment contribution.
- Sector capital investment.
- Sources of inputs and markets for outputs.
- Total revenues, cash flow and return on investment.
- Sources of finance, demand for credit and preferences, challenges and constraints, needs and requirements.
- Trends, growth potential, and possibilities for transformation into formal sector small businesses.
- Recommendations for interventions.

Focusing on these issues, this study is organized as follows. This introductory chapter continues with a summary of the methodology and sampling techniques employed and an overview of the sample size, distribution, and other attributes. Chapter 2 provides an overview of the evolution of the informal sector, highlights key characteristics of informal MSEs, and assesses their contribution to poor households and to the WBS economy. Chapter 3 analyzes the main internal and external constraints inhibiting the growth of informal MSEs and presents opportunities for future growth and transformation of the sector. Particular attention is paid to capital constraints and opportunities to promote increased access to microfinance as a means to mitigate them. Chapter 4 summarizes the main conclusions of this study and recommends specific policies and assistance programs to promote the growth and transformation of informal MSEs and their increased access to sustainable microfinance products and services.

B. Methodology

The sample unit of this study is the informal MSE in a population called the informal sector. The informal sector consists of home-based enterprises, permanent establishments with physical structure, kiosks, mobile businesses such as street vendors and others. These enterprises produce products and services for the purpose of commerce and not for private consumption. Characteristics of informal business may include: small businesses with limited capital, businesses with five employees or less with low wages, long work hours and poor working conditions, individually or family-operated businesses, businesses in which the owner also serves as the business manager, lack of official registration with government institutions and simple organization and lack of bookkeeping.

Since the sample frame of informal enterprises is not clearly defined and in order to locate and access the elementary units (informal MSEs) a series of numeration units were used. The number of households was used as the base for sampling and served as the final numeration unit for selecting sample elementary units. Multi-stage sampling is the most practical technique for a large population where there is no need to list all the households in the population. The applied multi-stage sampling methodology consists of three main stages: first, the population is divided into stratum of cities, villages, and camps. Second, the population of each stratum is divided into *clusters of households* and then a simple random

sample of clusters is selected. Third, a systematic random sample of households is then selected from within each selected cluster.

The process started with listing of governorates in the WBGS. Cities, villages, and camps within each governorate were then listed. Each location was divided into neighborhoods and neighborhood-based “clusters” were selected to serve as the base for household field visits. In order to determine the standard random sample size of informal enterprises, the applied method is set to accept a bound error of about 3% with a confidence level of 95%, and the expectation of the population proportion at 50% for any variable under the study. Using the distribution of households in the WBGS as the sample frame, the sample size was 1,108 households. This sample size is used and adjusted as the base of the sample size required for cluster sampling. The adjusted sample size was 1,698 informal enterprises. In order to interview the total number of sample, 9,512 households had been interviewed.

The questionnaires were administered to informal enterprise owners or managers (sample unit). The field workers were trained in and tested on conducting interviews and filling in the questionnaire. In WB and GS, two survey managers coordinated the fieldwork with the help of one fieldwork coordinator in each governorate in the WBGS. Survey managers and coordinators managed and followed-up with the field workers on a daily basis through meetings, visits and telephone calls. All the received questionnaires are audited and feedback was sent to the field workers. The Project Manager randomly checked and ensured that all questionnaires were completed properly and according to the established procedures.

In order to estimate the percentage of informal enterprises per household and thereby determine the approximate number of informal enterprises in the WBGS, the sample analysis applies a two-stage cluster analysis formula at the level of each stratum, and a stratified sampling formula at the level of the entire WBGS.

More details on the methodology employed can be found in Annex 2.

C. Sample Size and Distribution

The sample size and characteristics were selected to ensure representation of the population of the informal MSEs in WBGS. The distribution of the sample was also designed to reflect the distribution of households in urban, rural, or camp areas. The following tables show the sample distribution by location, gender, age, marital status, education, and occupation of respondents.

i. Location

Table 1: Sample distribution by location

Location	Frequency /percentage	Location Type ³			Total
		City	Village	Camp	
WB	Frequency	321	657	80	1,058
	Percentage	19.0	38.5	4.5	62.5
GS	Frequency	290	90	260	640
	Percentage	17.0	5.0	15.5	37.5
Total	Frequency	611	747	340	1,698
	Percentage	36.0	44.0	20.0	100.0

- The total sample size of 1,698 informal MSEs is distributed between the WB 62.5 percent and GS 37.5 percent. This distribution reflects the percentage of households distribution in the WBGS.
- The majority of the sample in WB is in rural areas (62 percent) due to the relatively large population in these areas. In contrast, the sample size in GS rural areas is about 14 percent.
- The sample size in the WB camps is relatively small (7.5 percent) compared to the sample size in GS refugee camps (40 percent).

Sample distribution between districts in WBGS is detailed in Appendix 2.

ii. Gender

Table 2: Percentage of sample distribution by gender

Location	Gender	Location Type			Total
		City	Village	Camp	
WB	Male	88	78	76	81
	Female	12	22	24	19
	Total	100	100	100	100
GS	Male	94	81	81	87
	Female	6	19	19	13
	Total	100	100	100	100

- Respondents were predominantly male in both WB (81 percent) and GS (87 percent).
- There are a greater number of female respondents in the WB (19 percent) than their counterparts in GS (13 percent)

Male dominance in the informal businesses is unexpectedly high, contrary to the prevailing belief that Palestinian women are usually engaged in informal businesses at home so they are not exposed to the open market male dominance. This might be explained by the fact that more men are indulged in informal business activities due to the current political situations and its consequences on the economy. It is believed that more than 100,000 Palestinian workers have lost their jobs in Israel; the overwhelming majority are men. It is, therefore, not surprising to notice that more men are going to informal business activities as they are perceived secured and suitable to fit the volatile economic situation.

³ The type of location whether city, village or camp is based on a list of all cities, villages and camps as defined by the Palestinian Central Bureau of Statistics (PCBS).

iii. Age Groups

Table 3: Percentage of sample distribution by age

Location	Age	Location			Total
		City	Village	Camp	
WB	18 to 25	16	13	9	13
	26 to 32	23	25	21	24
	33 to 40	23	27	25	26
	41 to 48	17	14	20	16
	49 to 56	11	10	13	10
	Above 56	11	11	13	11
	Total	100	100	100	100
GS	18 to 25	13	12	12	13
	26 to 32	29	17	22	25
	33 to 40	27	34	36	31
	41 to 48	12	19	18	15
	49 to 56	11	10	8	10
	Above 56	8	8	4	6
	Total	100	100	100	100

- About two thirds (66 percent) of respondents in the WB are between 26 and 48 years of age compared to 71 percent in GS.

This age groups form the core of the work force in Palestine. However, these age groups are expected to be employed in formal business activities. Again, the political situation and its consequences have forced these people to seek job of any kind. Since job opportunities are very rare at this time, the only way to secure minimum income is to find a self-employment endeavor.

iv. Marital Status

Table 4: Percentage of sample distribution by marital status

Location	Marital status	Location			Total
		City	Village	Camp	
WB	Married with children	73	74	79	74
	Married without children	5	8	3	7
	Single	17	15	15	16
	Widow	3	2	3	2
	Divorced	1	1	1	1
	Total	100	100	100	100
GS	Married with children	77	81	77	78
	Married without children	7	3	2	4
	Single	0	13	15	14
	Widow	2	2	6	3
	Divorced	0	0	1	0
	Total	100	100	100	100

- Respondents who are married with children constitute the largest proportion of the sample in both WB (74 percent) and GS (78 percent).
- The second largest segment is singles (16 percent in the WB and 14 percent in GS). There were no singles interviewed in the GS.

These results again support the argument that the majority of informal MSEs may be formed after the loss of formal sector employment (i.e. mainly men might have finished their

education, got a job, started a family, lost their job, then started an informal MSE to support their family).

v. Education

Table 5: Percentage of sample distribution by education

Location	Education	Location			Total
		City	Village	Camp	
WB	No formal school	10	9	10	10
	Primary School	23	18	14	19
	Elementary school	30	26	33	28
	Secondary School	21	27	25	25
	High school or technical school	9	11	11	10
	University	7	8	6	7
	Other	1	1	1	1
	Total	100	100	100	100
GS	No formal school	8	6	5	6
	Primary School	13	8	10	11
	Elementary school	27	32	18	24
	Secondary School	30	38	39	34
	High school or technical school	10	9	15	12
	University	10	8	12	10
	Other	1	0	2	1
	Total	100	100	100	100

- The majority of respondents (72 percent) in WB had formal education ranging from primary, elementary to secondary school education compared to 69 percent in GS.
- More university graduates were found in GS (10 percent) compared to seven percent in WB.

II. Key Characteristics of Informal Enterprises

A. The Informal Sector in Palestine

This chapter provides insights about the significant informal economic sector in general and informal MSEs in particular. Although there is a lack of research and studies to understand the evolution of the sector, this study highlights features that may provide preliminary indicators of recent developments concerning informal MSEs.

i. Introduction

The literature on the Palestinian informal economic sector is not only scarce, but also limited with regard to its focus on certain sectoral attributes. The study team is not aware of any comprehensive study that laid the groundwork for future research to understand the development and dynamics of the informal sector. A few studies focused on the role of women in MSEs in general and the financial aspects in particular. Examples of these studies include: “Woman’s Work in Agricultural Projects Within the Informal Sector” *Palestinian Agricultural Relief Committees (1993)*, “Credit Needs in Household Economy”, *Bisan Center for Research and Development (1993)*, “Micro & Small Scale Entrepreneurial Activities Of Palestinian Women” *OXFAM/QUEBEC (1996)*, “The State of Women’s Institutions Working in Establishing and Managing Small Income Generating Projects”, *ESCWA and Bir-Zeit University (1997)*, “Loan Policies and Equal Opportunities for Women and Men in Accessing Loans” *PNA Ministry of Planning and International Cooperation (2000)* and “Women in Business in Palestine In-Depth Study”, *Palestinian Businesswomen’s Association (Asala) (2001)*.

Two other studies have contributed to better understanding of the informal economic sector. The first was published in December 2000 by the Palestine Economic Policy Research Institute (MAS) titled, “The Informal Sector Enterprises in the West Bank and Gaza: Case Studies” and the second was a survey conducted and published in March 2002 by Massar Associates, “The Demand and Supply of Credit for Small and Micro Enterprises”. In addition another study was conducted in 1999 by Weidemann Associates, a US consulting firm, which was awarded a contract from USAID to assess the demand for and supply of MSE credit in the WBGS.

The study conducted by MAS provided a definition for the informal sector and described its basic characteristics on the basis of literature review, ILO publications and results of case studies. The study aimed at exploring basic features of the informal sector and its operational dynamics. It also utilized a questionnaire for surveying informal sector businesses. The methodology employed was based on Maximum Variation Sampling and Snow Ball techniques. Analysis was based on 64 cases (40 in WB and 24 in GS) distributed among seven economic activities such as vocational activities and workshops, small stores and street sellers, fishing, agriculture, unorganized drivers and peddlers, household businesses and workshops.

The MAS study reported two types of unorganized businesses; the first has an established place of business but is not licensed and therefore not subject to taxation or labor regulations and the second does not have a physical place of business either inside or outside the home. It

concludes that informal enterprises include businesses with or without established places of business. Two parameters are also defined by the study to categorize informal businesses. The first is the number of workers, which is normally fewer than five employees (i.e. microenterprise), and the second parameter is the degree of commitment towards registration requirements, tax laws, and labor regulations. The study also adds two other parameters: the type of ownership (family or individual) and tools and means of production. The study concludes that the major characteristics of informal sector enterprises include:

- Enterprises are small and can be easily operated from the home with a high degree of business flexibility.
- Products and services produced are for selling to others and not for private consumption.
- Capital investment is relatively small (no figures were provided).
- Lack of modern technologies in production and operations.
- Individual or family owned informal enterprises generally have fewer than five workers whom usually are family members, relatives, or salaried individuals. Workers usually have low level of education and expertise. However, the study did not provide numerical definitions or explanations to what meant by low.
- Labor costs vary according to the nature of business, gender, and age (again the study did not provide numerical explanations).
- In most cases, the owner of the informal enterprise is also the manager.
- Dependence on domestic sources for raw material.
- Absence of enterprise registration (entailing lack of tax payments and avoidance of labor regulations).

As one of the first studies, if not the first, to specifically analyze informal enterprises, the MAS study is undoubtedly important. However, it did not provide statistically significant results on the sector nor did it provide usable information on the size, distribution, and nature of informal sector activities. Perhaps the most useful element of the MAS study was the survey methodology it employed, which served as an important reference for the design of the survey used for this study.

The other important survey was focused on informal MSEs and it provided additional statistics concerning their sizes and financial needs. However, the study was limited in terms of its small sample size (addressing only about 100 informal MSEs) and its limited sampling locations (which included only the cities of Gaza and Jenin). As such, it was not representative of the population of informal MSEs in WBGS. In addition, the study focus was limited to estimate the demand for microcredit and the nature of that demand. The results of the that survey proposed that there are about 50 to 60 thousand informal enterprises in the WBGS and that the potential demand for credit from the informal sector may reach about 37 million dollars. By gleaning this data, the Massar study provided important preliminary information used to design the survey used in the current study.

ii. Evolution of Palestinian Informal MSEs

It is widely recognized that informal MSEs play an important role in the economy by generating employment and income for a majority of marginalized groups in Palestinian society. The exceptional political, economic, and social circumstances facing Palestinian society since 1967 have made informal MSEs especially important. Palestinians believe that

the Israeli occupation policies and regulations have been deliberately aiming at confining the development of Palestinian economy in order to make WBGS totally dependent on the Israeli economy. According to the Bisan Center for Research and Development,⁴ Israeli policies have forced Palestinians to adopt economic development strategies focusing on MSEs because these types of businesses are considered the most appropriate forms for resistance and development under constraints (Bisan, 1999). Assisted by the microfinance operations of NGOs from the 1980s, establishment of informal MSEs continued to spread to urban, rural, and refugee camp areas as a sources of income. No studies have tracked the evolution of this sector concerning its magnitude or characteristics; however, the overriding opinion is that while the number of informal MSEs is widely perceived to have increased over time, they have not fundamentally changed in terms of their management and operations.

There is no evidence to show that MSEs, in total or individually, have been naturally transforming into larger businesses. On the contrary, the sector is widely believed to be in a cycle of growth due to the deterioration of the security situation and increased instability in the region. From the first *Intifada*, which lasted from December 1987 through September 1993, to the second *Al-Aqsa Intifada*, which started in September 2000 and continues through the present, informal MSEs have been playing an increasing role in securing minimum income for living. The flexibility of informal MSEs and the ability to maneuver around constraints such as closures and curfews have encouraged individuals and groups to enter this sector. Informal MSEs have been and continue to be viewed as vehicles for survival and resistance. There is an argument within Palestinian society, as the case in many other places, about the informal businesses being a problem and constraint for real economic development and growth versus others who believe that this sector was and still is part of the solution to the specific political and economic features of Palestine. Nevertheless, the research results suggest that this sector is vital and significant source of employment given the fact that this region has been under political instability for almost the last 50 years. It appears that this type of business will continue as long as the region does not enjoy political and economic stability.

The following section provides some general observations about the evolution of informal MSEs in the last decade.

Table 6: Percentage of informal MSEs by year of establishment

Year	WBGS		Total
	WB	GS	
<= 1995	31	27	29
1996 thru 1999	22	23.5	23
2000 thru 2002	47	50	48
Total	100	100	100

- About 29 percent of informal MSEs in WBGS were established in and before 1995.
- Between 1996 and 1999, which is a period of relative peace and hope of finding solutions, informal enterprises continued to grow in numbers where 23 percent of today's total informal enterprises were established.
- Notably, slightly less than half of total number of informal enterprises was mostly established during the *Al-Aqsa Intifada*.

⁴ Bisan Center is a non-governmental organization based on Ramallah working on donor funded development programs including training and capacity building programs.

These results suggest that the number of informal MSEs has been growing in numbers overtime and was substantially increased in the last three years of political instability and violence. The tightened closures and the extremely constraints (checkpoints and road blockade) on mobility between cities, villages and camps have forced people to search for a living through small and micro productive activities.

The overwhelming majority of these informal enterprises were established because of three main reasons as stated by respondents:

1. The informal business is a substitute for the loss of job.
2. The type of business fits my knowledge and personal interest.
3. Increase income.

The majority of these enterprises (59 percent) faced serious financing problems when started. About 20 percent of respondents indicated that finding a place for the business was a serious constraint. Only 12 percent stated that there was no problem of starting the business.

Table 7: Average growth of employment according to year of establishment

WBGs	Year of establishment	Number of employees at the start	Number of employees at present	Percent change
WB	<= 1995	0.63	0.71	13
	1996 thru 1999	0.58	0.61	4
	2000 thru 2002	0.44	0.46	3
	Total	0.53	0.57	7
GS	<= 1995	0.41	0.71	76
	1996 thru 1999	0.32	0.54	71
	2000 thru 2002	0.52	0.51	(1)
	Total	0.44	0.57	30
Total	<= 1995	0.54	0.71	33
	1996 thru 1999	0.46	0.58	25
	2000 thru 2002	0.48	0.48	0
	Total	0.49	0.57	16

- For every 100 informal enterprise established in and prior to 1995 in the WB, there was about 63 employees excluding owners. The number of employees increased to 71 in year 2002.
- For every 100 informal enterprise established in 1996 through 1999 in the WB, there was about 58 employees excluding owners. The number of employees increased to 61 in year 2002.
- For every 100 informal enterprise established in 2000 through 2002 in the WB, there was about 44 employees excluding owners. The number of employees increased to 46 in year 2002.

These results suggest that the scope of employment growth in the WB enterprises is insignificant and that they tend to remain unchanged and little growth has been realized. In the last three years and during the *Intifada*, employment in the WB informal enterprises almost did not change reflecting the difficulties of the current situation facing businesses across all sectors. In the GS, there was some differences compared to the WB.

- For every 100 informal enterprise established in and prior to 1995 in the GS, there was about 41 employees excluding owners. The number of employees increased to 71 in year 2002.
- For every 100 informal enterprise established in 1996 through 1999 in the GS, there was about 32 employees excluding owners. The number of employees increased to 54 in year 2002.
- For every 100 informal enterprise established in 2000 through 2002 in GS, there was about 52 employees excluding owners. The number of employees decreased to 51 in year 2002.

Overall, the growth in employment in the GS was relatively higher than its counterpart in the WB until the break of the *Al-Aqsa Intifada* in year 2000 where the average employment in the GS remained unchanged if not decreased. Overall, the relative growth in employment of the informal sector in the WBGS over the last decade is insignificant, an indicator of insignificant growth and lack of transformation process from informal enterprises to small businesses.

The following table shows the average growth in employment according to economic sector.

Table 8: Average growth of employment according to business sector

WBGS	Sector	Number of employees at the start	Number of employees at present	Percent change
WB	Animal Husbandry	0.69	0.76	11
	Manufacturing of food	0.49	0.57	15
	Manufacturing of other product	0.91	0.81	(11)
	Trade	0.44	0.49	11
	Services	0.35	0.38	9
	Total	0.53	0.57	7
GS	Animal Husbandry	0.53	0.62	19
	Manufacturing of food	0.54	0.74	36
	Manufacturing of other product	0.87	1.01	16
	Trade	0.35	0.43	22
	Services	0.29	0.54	86
	Total	0.44	0.57	30
Total	Animal Husbandry	0.64	0.72	13
	Manufacturing of food	0.51	0.64	24
	Manufacturing of other product	0.89	0.91	2
	Trade	0.40	0.46	16
	Services	0.32	0.46	44
	Total	0.49	0.57	16

The growth in employment varied from sector to sector as depicted in the above table. In the GS, it was noted that the service and manufacturing of food sectors were the sectors that witnessed relative higher growth in employment compared to other sectors. Overall, the growth in employment is marginal.

Another indicator of change or transformation of the informal enterprise is the growth in capital investment overtime.

Table 9: Average capital investment at the start and present (USD)

WBGS	Year of establishment	Total capital investment at the Start	Total capital investment at present	Percentage change
WB	<= 1995	1,800	2,837	58
	1996 thru 1999	1,813	2,527	39
	2000 thru 2002	1,855	2,411	30
	Average	1,829	2,568	40
GS	<= 1995	1,488	2,156	45
	1996 thru 1999	1,299	1,825	40
	2000 thru 2002	1,363	1,534	13
	Average	1,382	1,770	28
WBGS	<= 1995	1,671	2,555	53
	1996 thru 1999	1,577	2,205	40
	2000 thru 2002	1,627	2,005	23
	Average	1,629	2,211	36

- The capital investment in the informal enterprise is generally small.
- The average capital investment in an informal enterprise in the WB tends to be higher than its counterpart in the GS.
- The growth in the capital investment is related to the year of establishment. The older the informal business the higher is the growth of capital.
- The annual growth of capital investment is relatively small given the real value of money today compared to several years ago and the fact the above percentage change reflects accumulated change over years. The annual growth is even less than the total change divided by the number of years in the period of comparison.

Assuming that a small business in Palestine requires \$10,000 capital investment including working capital, the informal enterprise will need so many years (more than 10) to become a small business, if it succeeds to sustain and survive. Given that most people form a micro informal enterprise as a substitute to unemployment, one could assume that the owner would leave his/her enterprise once he/she finds a new job opportunity or at best, keep it as another secondary source of income.

Another indicator of change or transformation of the informal enterprise is the growth in sales overtime.

Table 10: Average monthly sales at the start and at present (USD)

WBGS	Year of establishment	Monthly sales at the start	Monthly sales at present	Percent change
WB	<= 1995	942	802	(15)
	1996 thru 1999	953	778	(18)
	2000 thru 2002	845	720	(15)
	Average	899	759	(16)
GS	<= 1995	902	701	(22)
	1996 thru 1999	836	737	(12)
	2000 thru 2002	504	536	6
	Average	690	627	(9)
Total	<= 1995	926	760	(18)
	1996 thru 1999	898	759	(15)
	2000 thru 2002	687	634	(8)
	Average	805	699	(13)

- Almost all informal enterprises suffered decrease in monthly sales due to the current political situation. The decrease in sales is relatively lower than other categories of small, medium and large businesses which other reports suggested a significant decrease in sales (about 40 to 50 percent).

In conclusion, the informal sector may have had increased in numbers over the last decade, but the enterprise itself remained unchanged with no real growth in its employees, capital and sales turn over. Although the informal enterprise is flexible and has a great maneuver to adapt to changes and absorb shocks, it is static with little chances of growth and transformation.

B. Size, Nature, and Distribution of Informal MSEs

Until this research was completed, no one with proven evidence was able to estimate the total number of informal enterprises and its distribution in Palestine. It is as such that this report gains importance for the type of information presented in the following section.

Based on the results of the survey and the use of multi-stage sampling technique, the research team was able to extrapolate the results to the whole population and come up with an estimate of the number and distribution of informal enterprises.

Table 11: Estimated number of informal enterprises as of August 2002

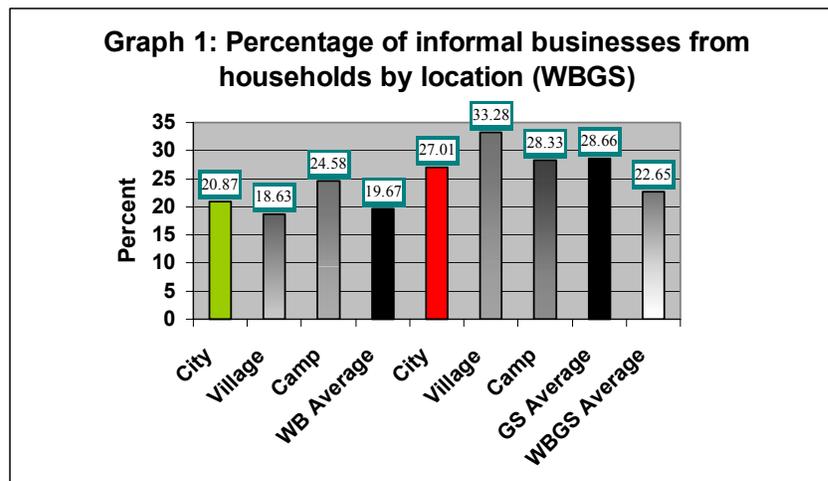
WBGS	Location Type	Population households ⁵	Percentage of informal sector	Error at interval of 95%	No. of informal enterprises	Error in number of enterprises
WB	1- City	88,141	20.87	5.13	18,392	4,518
	2- Village	192,153	18.63	4.30	35,800	8,271
	3- Camp	19,860	24.58	9.26	4,882	1,839
	Total	300,153	19.68	2.92	59,077	8,768
GS	1- City	80,997	27.01	4.10	21,880	3,320
	2- Village	23,498	33.28	7.47	7,821	1,755
	3- Camp	77,586	28.33	5.17	21,981	4,013
	Total	182,081	28.38	2.83	51,668	5,156
Total		482,234	22.92	2.17	110,530	10,447

Unlike speculations and reports of previous studies about the size of the informal sector, the results show that the total number of informal enterprises is unexpectedly substantial. About 110 thousand informal enterprises (with an error of 10 thousands below or above this figure) exist in the WBGS, most of which are in the WB. About 50 percent of these informal enterprises were established in years 2000-2002 as indicated in earlier sections. According to the PCBS sources, the number of formal establishments in the WBGS is about 80,000. These figures indicate that the number of informal sector enterprises far exceeds its counterparts in the formal sector.

⁵ The current number of households in the West Bank and Gaza Strip is based on the Palestinian Central Bureau of Statistics (PCBS) census of 1997 and estimated compounded growth of 24.4 percent since then as proposed by PCBS. Although this might seem a high growth rate, it is still realistic given that the annual population growth rate is about 4.2 percent.

However, the number of enterprises relative to household population indicates that the spread of informal sector in GS measured by its percentage (28.5 percent) from the number of household population is significantly higher than the WB (19.5 percent). The majority of enterprises in the WB are concentrated in the rural areas while in GS informal enterprises are concentrated in cities and camps.

The large number of informal enterprises explains the economic hardship of Palestinians who found that an informal business could help alleviate part of the poverty and secure some source of living. This is true given that 48 percent of these enterprises are established in the last three years, which is characterized by extremely hard economic conditions expressed by high unemployment rate (50 percent) and increasing poverty (60 percent).



The distribution of informal enterprises among economic sectors is shown in the following table:

Table 12: Percentage of informal enterprise by economic sector

WBGS	Line of Business	Location			Total
		City	Village	Camp	
WB	Animal Husbandry	9.4	21.8	8.2	19.2
	Manufacturing of food	11.3	12.7	9.0	12.3
	Manufacturing of other product	16.0	9.0	9.0	10.4
	Construction	0.0	0.5	0.0	0.4
	Trade	45.9	41.3	63.6	42.5
	Services	17.3	14.7	10.0	15.2
	Total	100	100	100	100
GS	Animal Husbandry	7.0	20.5	14.5	9.2
	Manufacturing of food	9.6	13.3	13.6	10.6
	Manufacturing of other product	8.6	14.5	14.0	10.0
	Construction	2.8	0.0	0.0	2.0
	Trade	52.8	36.0	37.6	49.0
	Services	19.0	15.7	20.2	19.0
	Total	100	100	100	100

- Most informal businesses in the WB (42.5 percent) and GS (49 percent) are in trade activities.

- The second largest segment of informal businesses in the WB is found in animal husbandry activities with concentration in rural areas.
- The second largest segment of informal businesses in GS is found in service activities.
- It was noticed that about half of the manufacturing of other products in the WB shown above is engaged in sewing and textile activities, mostly in apparel products, while about 70 percent of manufacturing of other products in GS is engaged in apparel and wearing products.

Annex 3 depicts in more details lines of businesses according to the International Standard Industry Codes (ISIC).

C. Characteristics of the Entrepreneur and the Enterprise

This section highlights the main important features and characteristics of the entrepreneur and the informal enterprise. It presents the results of the survey and addresses important questions about entrepreneurs and the dynamics of the enterprise.

i. Characteristics of the Entrepreneur

1. Gender of owner

Table 13: Percentage of gender of the owner of informal enterprise

WBGS	Gender	Location			Total
		City	Village	Camp	
WB	Male	90.5	77	77.5	80
	Female	9.5	23	23	20
	Total	100	100	100	100
GS	Male	97	81	79.7	92.5
	Female	3	19.5	20.5	7.5
	Total	100	100	100	100

- In general, the owner of the enterprise is male. The majority of enterprises (80 percent) in the WB are owned by males compared to 92.5 percent in the GS
- Females in the WB are more engaged in informal business activities (20 percent) than their counterparts in the GS (7.5 percent).
- Females in rural areas and camps of the WB are more engaged in informal business activities than their counterparts in the cities. This is also the case in the GS.

2. Gender of manager

Table 14: Manager of the informal enterprise

WBGS	Gender	Location			Total
		City	Village	Camp	
WB	Male	89	75.5	79	78
	Female	11	23.5	20	21
	Female and Male	0.2	1	1	1
	Total	100	100	100	100
GS	Male	95.5	78.5	80	91.5
	Female	3	21.5	20	7.5
	Female and Male	1.5	0	0	1
	Total	100	100	100	100

- The overwhelming majority of managers of the informal enterprises are male indicating that owners are usually managers of the business.
- It is also notable to say that there are some informal enterprises in the WB that are owned by males and managed by females or by the two together (2 percent). While in GS, it was found that only one percent of informal enterprises are managed by male and female together. None of the enterprises, which are owned by males, are managed by females. The same applies to the enterprises owned by females. However, this phenomenon can be mostly found in cities.

3. Age of owner/manager

Table 15: Age of owner/manager

WBGS	Age	Location			Total
		City	Village	Camp	
WB	18 to 25	15.5	13.5	9	13.5
	26 to 32	23.5	24.5	21	24
	33 to 40	24	27.5	24.5	26.5
	41 to 48	17.5	14	18	14.5
	49 to 56	10	9.5	12	10
	Above 56	10	11.5	15.5	11.5
	Total	100	100	100	100
GS	18 to 25	16	17	12	15
	26 to 32	28	15.5	23.5	26.5
	33 to 40	21.5	30.5	36	25
	41 to 48	12.5	18	18	13.5
	49 to 56	12.5	11	7	11.5
	Above 56	9.5	8.5	3.5	8.5
	Total	100	100	100	100

- Almost all age categories are engaged in informal business activities.
- About half of the owners/managers of informal enterprises in both the WBGS are young between 26 and 40 years of age.
- There is a significant proportion of young people between 18-25 years of age who are involved in informal business activities.

4. Marital status of entrepreneur

Table 16: Marital status of entrepreneurs

WBGS	Marital status	Location			Total
		City	Village	Camp	
WB	Married with children	73.5	74	80	74
	Married without children	4.5	8	2	7
	Single	18	15.5	14.5	16
	Widow	2.5	2	2	2.5
	Divorced	1	0.5	2	0.5
	Total	100	100	100	100
GS	Married without children	80	78	76	79
	Married with children	6	3.5	1.5	5
	Single	13.5	17.5	15.2	14
	Widow	0.5	1	6.5	2
	Divorced	0	0	1	0.2
	Total	100	100	100	100

- The overwhelming majority of entrepreneurs are married with children.
- There is a significant proportion of single entrepreneurs (16 percent in the WB and 14 percent in GS).

5. Education of entrepreneurs

Table 17: Education of entrepreneurs

WBSG	Education	Location			Total
		City	Village	Camp	
WB	No formal school	8.5	11	11.5	10.5
	Primary School	24	17.5	12.5	19
	Elementary school	32.5	25.5	31.5	27
	Secondary School	19	27	27	25.5
	High school or technical school	8.5	10.5	10	10
	University	6.0	7.5	5.5	7.5
	Other	1.5	0.5	1.8	0.5
	Total	100	100	100	100
GS	No formal school	8.5	4	4.5	7.5
	Primary School	16.5	5.5	9	14.5
	Elementary school	28	29	17	25.5
	Secondary School	29	43	39.5	31.5
	High school or technical school	8	10.5	16	9.5
	University	9	8	12	9.5
	Other	1.5	0	2.5	1.5
	Total	100	100	100	100

- Significant proportion of entrepreneurs is illiterate (10.5 percent in the WB and 7.5 percent in the GS).
- Slightly less than half of entrepreneurs had low level of education, primary and elementary school education.
- A significant proportion of university graduates is involved in informal activities indicating for a certain extent the difficulties that university students face in finding a job.

6. Occupation of entrepreneurs

Table 18: Occupation of entrepreneurs

WBSGS	Occupation	Location			Total
		City	Village	Camp	
WB	Government	3.5	4.5	0	4.5
	Companies and institution	1.5	2.5	3.5	2.5
	Self-employed	81.5	64	66.5	67.5
	Farmer	0.3	7.5	2.5	6
	House keeper	6.5	11	14.5	10
	Unemployed	6	8.5	12.5	8
	Other	0.5	1.5	0	1.5
	Total	100	100	100	100
GS	Government	5.5	5.5	6.5	5.5
	Companies and institution	2	5	1.5	2
	Self-employed	79.5	57.2	72.5	77
	Farmer	1	0.5	0	1.5
	House keeper	4	4	10.5	5.5
	Unemployed	5.5	24	8.5	7
	Other	2.5	3.5	0.5	2
	Total	100	100	100	100

- The overwhelming majority of entrepreneurs is self-employed (67.5 percent in the WB and 77 percent in GS) and considers their informal enterprise as their source of employment, in cities and camps in particular.
- The housekeepers are mostly females with dual responsibility, the house and the business.
- The unemployed entrepreneurs are mostly those who lost their jobs recently and as a result they established informal businesses while they still consider themselves unemployed.
- The remaining segments are those with full time jobs at government, institutions and private firms.

7. Ownership of other enterprises

Table 19: Own or partially own any other enterprise

WBSGS	Own other enterprises	Location			Total
		City	Village	Camp	
WB	No	92.5	86.5	93.5	88
	One other	7	12	5.5	11
	Two others	0.1	1	0	0.7
	More than two	0.5	0.2	1	0.2
	Total	100.0	100	100	100
GS	No	95	93.5	92.5	94.5
	One other	5	6.5	7.5	5.5
	Two others	0.0	0.3	0	0
	Total	100	100	100	100

- Informal enterprise entrepreneurs tend to have only his/her informal business. Overall, about 88 percent of entrepreneurs in the WB and 94 percent in GS do not have any other enterprise. However, there is about 11 percent in the WB of informal enterprise entrepreneurs who own another enterprise compared to only 5.5 percent in the GS.

ii. Characteristics of the Enterprise

1. Ownership of the enterprise

Table 20: Type of ownership

WBGS	Type of Ownership	Location			Total
		City	Village	Camp	
WB	Individual	74	75	69	75
	Household	17	17	23	17
	Partnership	9	8	8	8
	Total	100	100	100	100
GS	Individual	78	82	77	78
	Household	16	15	14	15.5
	Partnership	6	4	9	6.5
	Total	100	100	100	100

- The literature on the subject suggests that most informal enterprises are family owned-businesses. However, this statement does not distinguish between individual owned family business and household family business.
- The majority of individual businesses are family ones but that the owner, especially male respondents, preferred to indicate that the business is his with respect to ownership and subsequent liabilities.
- On the other hand, household informal enterprise is mostly referred to women businesses mostly located at homes and those businesses that are secondary to the main job of the head of family.
- There are informal businesses that have some sort of partners from other household. Of the 8 percent of partnership businesses in the WB, 6.5 percent have just one partner; the rest 1.5 percent has two or more partners. In the GS, about 5 percent of the 6.5 percent have partnership with one partner outside the household; the rest 1 percent has two or more partners.

These results suggest that one major attribute of informal enterprise is the individualism type of ownership with and without the family. The tendency to have partners in the business is low.

2. Employment

Table 21: Employment in the informal enterprise

WBGS	Location type	Do you have employees?		Total
		No	Yes	
WB	City	69.5	30.5	100
	Village	68.5	31.5	100
	Camp	78.5	21.5	100
	Total	70	31	100
GS	City	70	30	100
	Village	49.5	50.5	100
	Camp	60.5	39.5	100
	Total	67	33	100

- On average, slightly more than two thirds of informal enterprises in the WBGS do not have employees. The tendency to have only the owner as the sole employee is greater

in the camps of the WB and cities of the GS. The rural informal enterprise is relatively more inclined to have employees other than the owner.

The distribution of employment in the informal enterprises that employ workers (about 30 percent of total enterprises) and relationship to owner is indicated in the following tables:

Table 22: Employment distribution in the West Bank

Number of employees	Percentage of total enterprise	Relationship to owner		
		Direct family relationship	Cousin and relative	No relationship
1	0.52	0.75	0.08	0.17
2	0.26	0.85	0.04	0.11
3	0.13	0.8	0.03	0.17
4	0.04	0.85	0.02	0.13
5	0.04	0.85	0.06	0.09
6	0.005	100.0	0.00	0.00

- As shown above, more than half of informal enterprises in the WB (52 percent) that has employees other than the owner employ one person. One quarter of informal enterprises with employment has an average of two employees. The rest employ three and more employees as shown above.
- About 75 to 85 percent of employees are direct family to owners. About two to eight percent of employees are relatives and cousins and 9 to 17 percent are employees from outside the family.

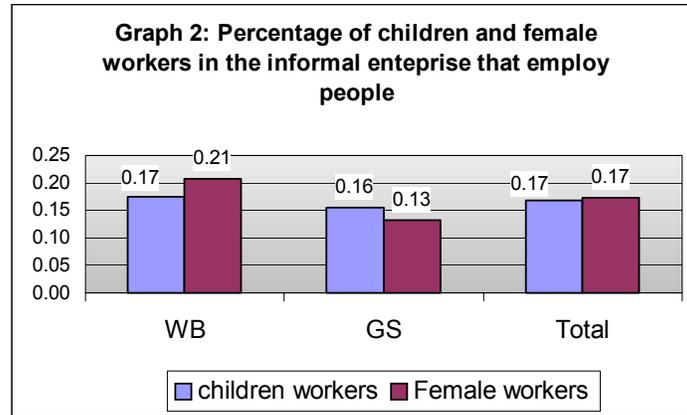
Table 23: Employment distribution in Gaza Strip

Number of employees	Percentage of total enterprise	Relationship to owner		
		Direct family	Cousin and relative	No relationship
1	0.53	0.71	0.12	0.17
2	0.34	0.68	0.12	0.20
3	0.04	0.89	0.05	0.06
4	0.05	0.63	0.02	0.35
5	0.04	0.70	0.03	0.27
6	0.004	0.39	0.17	0.44

- The vast majority (87 percent) of enterprises employ one or two at most. More than half of informal enterprises in the GS (53 percent) that has employees other than the owner employ one person. About one third of informal enterprises with employment have an average of two employees. The rest employ three and more employees as shown above.
- Most employees of the vast majority of enterprises are direct family members (68 to 71 percent). About 12 percent of employees are relatives and cousins of the majority of enterprises and 17-20 percent are employees from outside the family for the same enterprises.
- It is also notable that the higher the number of employees in the enterprise, the higher chance to have employees from outside family members or relatives as shown in the last four categories of number of employees in the first column.

It was also noted that about three percent of informal businesses have employees salaried at other businesses. The main conclusion is that the informal enterprise tends to have only its owner and when there are employees the majority comes from family members and relatives.

3. Children and female work



- The informal sector in the WBGS that has employees other than owners and partners uses children work. About 17 percent and 16 percent of employees are children with less than 16 years of age in the WBGS respectively.
- About 21 percent and 13 percent of total work force in the informal sector are females in the WBGS respectively.

Table 24: Average number of children workers

Number children/female workers	WBGS			
	WB		GS	
	Percentage of informal enterprises employing children	Percentage of informal enterprises employing females	Percentage of informal enterprises employing children	Percentage of informal enterprises employing females
0	79	73	77	87
1	14	21	20	8
2	5	3	3	3
3	2	2	0	0
4		1	0	2

- The results suggest that about 79 percent of informal enterprises that has employees do not have children work (less than 16 years of age). About 14 percent employ one child, five percent employs two children and two percent employs three children.
- In the GS, about 77 percent of informal enterprises that has employees do not have children work (less than 16 years of age). About 20 percent employ one child and three percent employs two children.

4. Time spent at work

Table 25: Number of hours spent at work

WBSG	Hours	Location			Total
		City	Village	Camp	
WB	Less than 2 hours	4.5	10	6.5	9
	From 3 to 5 hours	19	25.5	18	24
	From 6 to 8 hours	37	27	22.5	29
	More than 8 hours	39.5	38	53	38.5
	Total	100	100	100	100
GS	Less than 2 hours	1.5	3.5	7	3
	From 3 to 5 hours	17.5	20	25	19.5
	From 6 to 8 hours	29.5	24.5	31	29.5
	More than 8 hours	51	52	37	48.5
	Total	100	100	100	100

- The results indicate that more than two thirds of informal enterprises in the WB operates on fulltime bases where owners and employees spend more than six hours at work. This percentage increases in camps of the WB where about 53 percent of informal enterprises work for more than 8 hours a day.
- About one third of informal enterprises in the WB operate on part time basis, less than five hours a day.
- In the GS, the full time working hours of informal enterprises tends to be greater than the WB. More than three quarters of enterprises work on full time basis.

While others may argue that informal enterprise is generally another secondary source of living for the family and as such working hours in the enterprise tend to be low, the results suggest otherwise. This can be explained by the fact that most studies on informal businesses were conducted prior to the current *Intifada* where the general economic conditions were much better than today. At present, the majority of workers, employees and even owners of small businesses have lost their main jobs. It is reasonable to suggest that many of these people have struggled to find an alternative source of living by establishing an informal business. In addition, the fact that around half of existing informal enterprises were established in the last three years supports these results.

5. Compensation and form of payment

Table 26: Compensation of employees

Location	Compensate employees	Location type			Total
		City	Village	Camp	
WB	Yes	16	11	11	12
	No	18	24.5	13.5	23.5
	No employees	66	64	75.5	64.5
	Total	100	100	100	100
GS	Yes	23.5	36.5	26	24.5
	No	18	17	15	17.5
	No employees	58.5	46.5	58.5	58
	Total	100	100	100	100

- In the WB, the majority (two thirds) of enterprises with employees do not compensate them. It can be said these employees are mostly family members.

- In the GS, the majority (more than half) of enterprises with employees do compensate their employees in a form or another as explained below.

Table 27: Forms of payment

WBSG	Forms of payment	Location			Total
		City	Village	Camp	
WB	Salary	35	47.5	9	44
	Hours basis	1.5	16.5	36.5	12.5
	Piece basis	49.5	28	27.5	33.5
	Other	14	7	18	9
	Pocket money	0	1.5	9	1
	Total	100	100	100	100
GS	Salary	42.5	7.5	18	34.5
	Hours basis	8.5	4	25.5	12
	Piece basis	40.5	33.5	23	36
	Other	4.5	6	9.5	5.5
	Pocket money	4	49	24	11.5
	Total	100	100	100	100

- The most common form of compensation in the WB is salary (44 percent) then compensation by piece basis (33.5 percent). Compensation on hour basis is widely used in camps.
- In the GS, the most commonly form of compensation is compensation on piece basis (36 percent) then the salary (34.5 percent). It also clear that compensation in the form of pocket money is common in the GS (11.5 percent).

These results confirm the opinion that informal enterprises do not have a structured system of compensation and, as such, do not comply with labor regulations.

6. Training of employees

Table 28: Training of employees

WBSG	Received training	Location			Total
		City	Village	Camp	
WB	Yes	1.5	2.5	6.5	2.5
	No	98	97.5	93.5	97.5
	Total	100	100	100	100
GS	Yes	2.5	7	3.5	3
	No	97.5	93	96.5	97
	Total	100	100	100	100

- Informal enterprises with employees do not pay much attention to upgrading the skills of employees. Less than three percent of these enterprise stated that they provided some type of training to employees.

7. The enterprise is a main source of living

Table 29: Contribution to family income

Location	Contribution	Location			Total
		City	Village	Camp	
WB	All	48.5	43	44	44
	More than half	7.5	10	10	9.5
	About half	10.5	12	11	11.5
	Less than half	34	35	35	35
	Total	100	100	100	100
GS	All	51	35.5	38	47.5
	More than half	8.5	16.5	13	9.5
	About half	17	27	23.5	19
	Less than half	23.5	21	26	24
	Total	100	100	100	100

- As noted earlier, the majority spend significant time working in the informal enterprise and as such it is normal that large segments of the population depends on their informal enterprise as the sole source of income. About two thirds of owners of informal enterprises in the WB generate more than half of their income from the enterprise compared to three quarters in the GS.

8. Type of workplace

Table 30: Type of workplace

Location	Type of workplace	Location			Total
		City	Village	Camp	
WB	Home	38	51	57	49
	Street	33	14	20	18
	Market place	17	25	12	23
	Stall	5	5	2	5
	No fixed place	6	3	5	3
	Other	2	2	6	2
	Total	100	100	100	100
GS	Home	54	62	58	55
	Street	30	30	2	28
	Market place	7	3	15	9
	Stall	1	1	2	1
	No fixed place	8	45	4	7
	Other	0	0	2	0
	Total	100	100	100	100

- Most informal enterprises operate from home; about half of the WB informal enterprises have the home as their place of business compared to 55 percent in the GS.
- A significant proportion of enterprises operate on streets; 28 percent in the GS and 18 percent in the WB, most of which are found in cities.
- More enterprises in the WB (23 percent) operate in marketplaces than in the GS (9 percent).
- Enterprises operating from stalls are more found in the WB than in the GS.
- Mobile enterprises are found in the GS more than in the WB.

9. Frequency of operations and seasonality

Table 31: Frequency of operations

Location	Frequency of Operations	Location			Total
		City	Village	Camp	
WB	Permanent	70.5	77	72	75.5
	Seasonal	17.5	13	13.5	14
	Casual	12	10	14.5	10.5
	Total	100	100	100	100
GS	Permanent	84	93	73	82
	Seasonal	7	2.5	11	7.5
	Casual	9.5	5	16.5	10.5
	Total	100	100	100	100

- The results shown in the above table also reinforce the believe that the majority of informal enterprises became the main source of employment for a large portion of the Palestinian population. More than three quarters of these enterprises are considered permanent businesses with more in the GS.

The definition of permanent, seasonal, casual in terms of number of months is shown in the following table:

Table 32: Average months at work during the year

Location WBGS	Frequency of Operations	Average number of months
City	Permanent	12
	Seasonal	6
	Casual	6.5
	Total	11
Village	Permanent	12
	Seasonal	5
	Casual	7.5
	Total	10.5
Camp	Permanent	12
	Seasonal	6.5
	Casual	7.5
	Total	10.5
Total	Permanent	12
	Seasonal	5.5
	Casual	7.
	Total	10.5

The following table depicts the number of months of operation during the year by percentage of informal enterprises.

Table 33: Number of months of operation during the year

Number of months	Location		Total
	WB	GS	
1	0.5	0	0.3
2	0.3	0.4	0.3
3	2.1	0.9	1.6
4	4.7	1.4	3.2
5	2.3	1.5	1.9
6	6.1	4.3	5.3
7	2.5	1.3	1.9
8	2.8	5.0	3.8
9	1.5	3.0	2.2
10	0.8	0.3	0.6
11	1.4	0.1	0.8
12	75.0	81.8	78.0
Total	100%	100%	100%

The results shown in the above table show that just about 10 percent of informal enterprises in the WB and 12.5 percent in the GS operate less than six months during the year.

10. Type of customers

The results show that individual customers are by far the main market segment for informal enterprises.

- In the WB, around 85 percent of enterprises have more than 90 percent individual customers compared to 83 percent in the GS. The remaining targets are retailers, wholesalers and contractors.

11. Origin of main goods/inputs

Table 34: Origin of main goods and inputs used for further processing or resale

Location	Origin of main goods and inputs	Location Type			Total
		City	Village	Camp	
WB	Imports	6.5	4.5	2	4.5
	Other informal business	2.5	8.5	5.5	7.5
	Domestic market	91	87	93	88
	Total	100	100	100	100
GS	Imports	7	16	6.5	7.5
	Other informal business	3.5	2	7.5	4
	Domestic market	89.5	82	86	88.5
	Total	100	100	100	100

- Informal enterprises highly depend on domestic sources for raw material and goods. The vast majority (88 percent) of enterprises buy from formal enterprises in the local market.
- Informal enterprises also deal with each other. Important proportion in the WB (7.5 percent) depends on other informal enterprises to obtain the required inputs for

production or for resale of goods. Fewer enterprises (4 percent) deal with each other in the GS.

- Imports of raw material and goods from other regions are also notable. About 65 percent of imports come from Israel, 22 percent comes from Arab neighboring countries such as Egypt and Jordan and about 13 percent comes from Turkey, China, and other countries.
- Most imports in the GS come from Israel and Egypt while most imports in the WB come from Israel.

Informal enterprises that import raw material or goods are mostly engaged in apparel products where they are named “the bag merchants”. They travel to Jordan from the WB and to Egypt from the GS with two to three empty bags. They fill them with clothes and return to sell in the local market. This phenomenon was widespread before the current *Intifada*.

12. Technology employed

The general opinion suggests that the vast majority of informal enterprises use a simple technology in marketing and production. The owners cannot afford investing in modern technologies on one hand, and the nature and scope of operations does not require sophistications on the other hand.

Table 35: Percentage of informal enterprise using telephone or a fax in the enterprise

Location	Using a telephone or a fax	Location			Total
		City	Village	Camp	
WB	No	71.5	63.5	81	65
	Yes a telephone	28.5	35.5	18	34
	Yes a telephone and fax	0.1	1	1	1
	Total	100	100	100	100
GS	No	59.5	80	65	61.5
	Yes a telephone	40.5	20	30	37.5
	Yes a telephone and fax	0.1	0	5	1
	Total	100	100	100	100

- About two thirds of enterprises does not use a phone or a fax in the daily operations.
- About one third uses telephones at work.
- Insignificant or almost nil proportion of enterprises use telephone and fax.

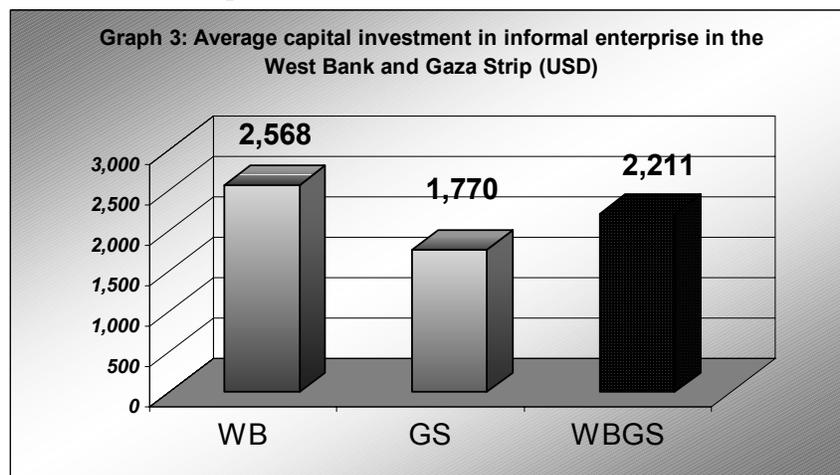
Table 36: Percentage of informal enterprises according to production technology

Location	Production Technology	Location			Total
		City	Village	Camp	
WB	Primarily Manual	59.8	61.3	71.4	61.1
	Semi automatic	20.2	26.3	21.4	25.0
	Primarily electric powered production	20.0	12.5	7.1	13.9
	Total	100	100	100	100
GS	Primarily Manual	71.5	56.0	63.6	69.2
	Semi automatic	18.0	25.3	23.9	19.5
	Primarily electric powered production	10.5	18.7	12.5	11.3
	Total	100	100	100	100

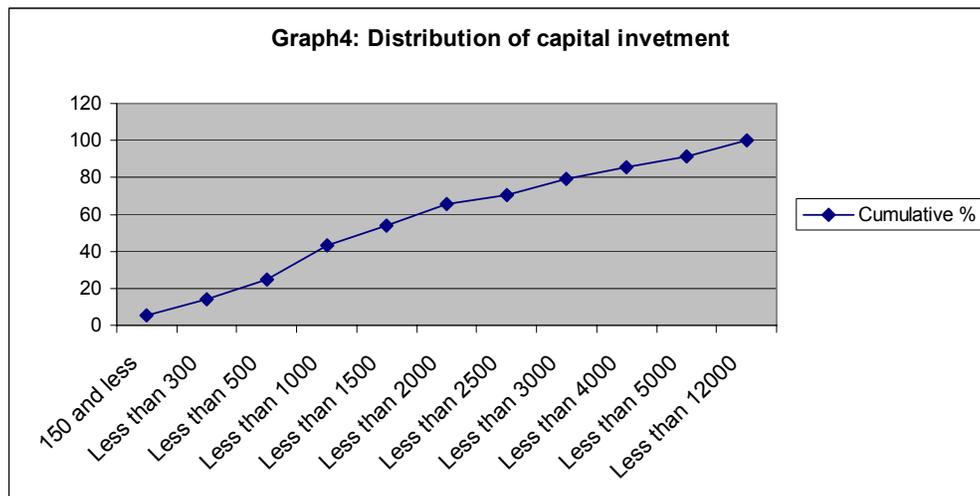
- The majority of enterprises (61 percent in the WB and 69 percent in the GS) primarily use simple manual tools and machinery in their operations.
- Around 20 to 25 percent use semiautomatic machinery and about 11 to 14 percent use electric power production. In this sense, the operation is simple such as electrical sewing machines or embroidery.

In conclusion, the informal enterprise in the WBGS is widely spread and it becomes the main source of income for the majority of poor and for those who lost their jobs or shut down their formal operation seeking businesses with lower burden and with more flexibility. These enterprises are characterized by simplicity without much attention to structure and systems. They operate from home and the street and use simple machines and tools and mainly target individual customers.

13. Capital investment, sales, profits and return on sales and investment



The average capital investment in WB enterprise is about \$2,500 while it is about \$1,700 in the GS. However, the average capital investment significantly varies from enterprise to another and from sector to another.



- About quarter of enterprises have less than \$500 value of capital investment.
- Around 43 percent of enterprises have less than \$1,000 value of capital investment.
- Slightly more than half of enterprise has less than \$1,500 in capital investment.
- Approximately two thirds of enterprises have less than \$2,000 value of capital investment.
- Slightly more than 90 percent of enterprises have less than \$5,000 value of capital investment.
- The maximum value of capital investment reported is \$12,000

Table 37: Estimated average annual sales and net profits

Location	Location	Average current annual sales	Average annual net profit	Return on sales
WB	City	9,141	3,064	0.34
	Village	7,967	2,914	0.37
	Camp	5,891	1,739	0.30
	Total	8,174	2,929	0.36
GS	City	7,397	2,770	0.37
	Village	5,268	3,364	0.64
	Camp	6,140	2,838	0.46
	Total	7,040	2,811	0.40
Total	City	7,822	2,842	0.36
	Village	7,848	2,934	0.37
	Camp	6,124	2,766	0.45
	Total	7,662	2,876	0.38

- The average annual sales revenue for the informal enterprise is relatively low with less than \$800 value of sales per month. Sales in cities are higher than sales in rural areas and camps and sales in the WB is higher than in the GS.
- Return on sales (net profit margin) is relatively high (range from 34 to 64 percent). However, the researcher is not aware if respondents included their salaries in their calculations of net profit given the fact that most owners of informal enterprises usually do not consider their salaries as part of cost.
- Profits are usually withdrawn from the enterprise and used for private consumption, which limits the potential for accumulation of capital and expansion. The results suggest that over 90 percent of informal enterprise owners use profits for private consumption. The remaining 10 percent uses profits for other investments and or reinvest in the enterprise.

The average return on investment (annual profits divided by capital investment) for an informal enterprise in the WBS is about 130%, in the WB is about 114 % and in the GS is about 159%. These percentages may increase in a normal economic situation. Indeed, the return on investment for a micro business such these might reach triple these figures. The return on investment of a micro informal enterprise is considerably high due to the small capital invested and the high turn over. It is unreasonable to suggest that an investment of \$1,000 would be justifiable for its owner if it yields 30 percent as the case of other larger attractive businesses. Such return may not be acceptable for a fulltime individual working in the enterprise and totally depends on it as a main source of living. This high return on investment explains the reasons why a micro business is able to bear the cost of high effective interest rates.

D. Informal Sector's Contribution to the Palestinian Economy

The Palestinian informal sector plays an increasingly important role in its contribution to income and employment. This section provides empirical statistical information for the first time in Palestine about the significance of the sector and its material contribution.

i. Employment and Income Generation

The following table provides employment figures by location and economic sector:

Table 38: Total employment excluding owners and partners from other households

WBGS	Location	Total/ Error	Animal Husbandry	Manufac. Of food	Manufac. Of other product	Trade	Services	Total
WB	City	Total	1,214	1,454	3,444	3,851	728	10,691
		Error	389	387	590	621	259	1,094
	Village	Total	6,014	2,442	2,240	7,519	2,252	20,467
		Error	594	347	415	660	336	1,099
	Camp	Total	102	153	483	613	148	1,499
		Error	169	274	526	520	192	863
	Total	Total	7,331	4,049	6,166	11,983	3,128	32,657
		Error	1,152	1,008	1,532	1,801	787	3,057
GS	City	Total	997	1,344	2,293	4,101	2,226	10,961
		Error	255	150	263	352	301	621
	Village	Total	2,024	359	729	1,798	900	5,810
		Error	700	239	352	377	302	992
	Camp	Total	1,265	3,179	4,236	6,424	2,352	17,456
		Error	339	629	901	1,089	475	1,699
	Total	Total	4,285	4,883	7,258	12,323	5,478	34,226
		Error	1,293	1,018	1,516	1,817	1,078	3,312
Total	Total	11,615	8,932	13,425	24,306	8,605	66,883	
	Error	2,445	2,026	3,048	3,618	1,865	6,368	

- In the WB, the informal sector employs about 32,000 individuals other than owners and partners. The trade sector is the largest employer among all where about one third of total employment is in this sector. More than 60 percent of these employees are in rural informal enterprises. This is normal given the fact that rural areas constitute more than 60 percent of total population in the WB.
- In the GS, the informal sector employs about 34,000 individuals other than owners and partners. The trade sector is the largest employer among all where about one third of total employment is in this sector. More than 50 percent of these employees are in refugee camps informal enterprises. This is normal given the fact that refugee camps constitute more than 60 percent of total population in the GS.
- Over all, an average of 66,000 employees work in informal enterprises.

Table 39: Total employment including owners and partners from other households

WBGS	Location	Total/ Error	Animal Husbandry	Food Production	Manfac. of other product	Trade	Services	Total
WB	City	Total	3,031	3,602	6,911	13,041	4,457	31,042
		Error	399	385	627	719	291	1,186
	Village	Total	14,325	7,156	5,808	24,450	8,316	60,053
		Error	629	348	422	750	382	1,188
	Camp	Total	551	597	977	3,965	736	6,827
		Error	188	274	503	644	209	943
	Total	Total	17,907	11,355	13,695	41,456	13,509	97,923
		Error	1,217	1,007	1,553	2,113	883	3,317
GS	City	Total	2,545	3,530	4,910	16,206	6,513	33,705
		Error	255	190	259	372	307	644
	Village	Total	3,630	1,452	1,863	4,810	2,154	13,910
		Error	700	258	352	363	312	989
	Camp	Total	4,607	6,593	8,288	16,715	6,989	43,193
		Error	342	721	1,166	1,494	473	2,167
	Total	Total	10,782	11,575	15,061	37,731	15,657	90,807
		Error	1,296	1,169	1,777	2,229	1,091	3,800
Total	Total	28,689	22,930	28,756	79,188	29,166	188,730	
	Error	2,513	2,175	3,329	4,342	1,974	7,117	

- In the WB, the informal sector employs about 98,000 individuals including owners and partners. The trade sector is the largest employer among all where about 40 percent of total employment is in this sector. More than 60 percent of these employees are in rural informal enterprises.
- In the GS, the informal sector employs about 90,000 individuals including owners and partners. The trade sector is the largest employer among all where more than one third of total employment is in this sector. Slightly less than 50 percent of these employees are in refugee camps informal enterprises.
- Over all, an average of 188,000 employees work in informal enterprises.

These results show the significance of the sector in terms of its ability to absorb employees and contribution to total employment. According to PCBS, the total employment in 1997 in the WBGS was 545,000 (PCBS, 1997). The total employment of the informal sector is therefore about one third of these figures. Furthermore, the informal sector employs about double the number of employees who used to work in the Israeli market prior to the break of *Al Aqsa Intifada* in September 2000.

ii. Value Added and Contribution to GDI

Based on the results of this research, the total capital investment of this sector is about 243 million dollars⁶. The value added of this sector constitutes of net profits and wages. As explained earlier, the owner of informal enterprise does not consider his/her salary in the calculations of costs, therefore the net profits declared earlier are assumed to include salaries and wages of owners. The salaries and other forms of compensation for other employees

⁶ This number was calculated based on the average capital investment in an informal enterprise (\$2,200) and the total number of informal enterprises in the West Bank and Gaza Strip (110,000)

from outside the family members is considered marginal and insignificant for the purpose of calculating the value added of this sector. Nevertheless, even if wages and salaries of other paid employees are included in the calculations, the effect would be positive and would increase the value added. However, because of the lack of data on this matter, these salaries and wages are excluded from calculations. Also worth mentioning is that these enterprises are not registered by the law and as such do not keep records for tax purposes neither they do pay taxes.

The average annual net profit of an informal enterprise as shown earlier is about \$2,800. That is each enterprise brings an average value of \$2,800 per year. The total number of informal enterprises in the WBGS is about 110,000. Therefore, it can be concluded that the added value of the informal sector is about 316 million dollars constituting about seven percent of Gross Domestic Income (GDI).

III. Major Constraints and Opportunities for Growth

Although the informal sector has internal strengths in terms of flexibility and ability to adapt to changing conditions, it has its own internal flaws and external problems, which hinder the potentials for growth and development.

A. Major Constraints to Growth of the Informal Sector

Two types of constraints/problems face the growth of the informal sector. Constraints and problems of its own features and characteristics and constraints and problems of the surrounding environment.

i. Internal Challenges

Several internal constraints related to the characteristics of the entrepreneur and the enterprise hamper the enterprise potential for growth and transformation.

1. Constraints of the entrepreneur
 - Limited managerial skills: management, finance and marketing
 - Low level of education
 - Dual responsibilities of women entrepreneurs
 - Social and psychological factors: Limited ambitions, no partners, rejection of loans because of interest or being in debt.
2. Constraints of the enterprise
 - Low level of organization
 - Small capital investment and lack of capital accumulation
 - Spontaneous projects responding to existing demand. It is not studied and was established to secure income.
 - Low level of technology
 - Low level of quality assurance and control
 - Lack of proper work place and space

ii. External Constraints

There are also prohibiting factors that constraint not only the growth of informal enterprise but also the formal one with more pressure on the informal enterprise.

1. Lack of finance (most indicated that - one third of respondents)
2. Lack of supporting policies
3. Lack of informal enterprise associations (information)
4. Lack of training programs
5. Increasing economic hardship and decrease in demand
6. Lack of proper infrastructure especially in rural areas and camps (electricity, transportation)
7. Access to raw material
8. Increased competition forces the enterprise to reduce prices and intensify labor exploitation
9. Political instability

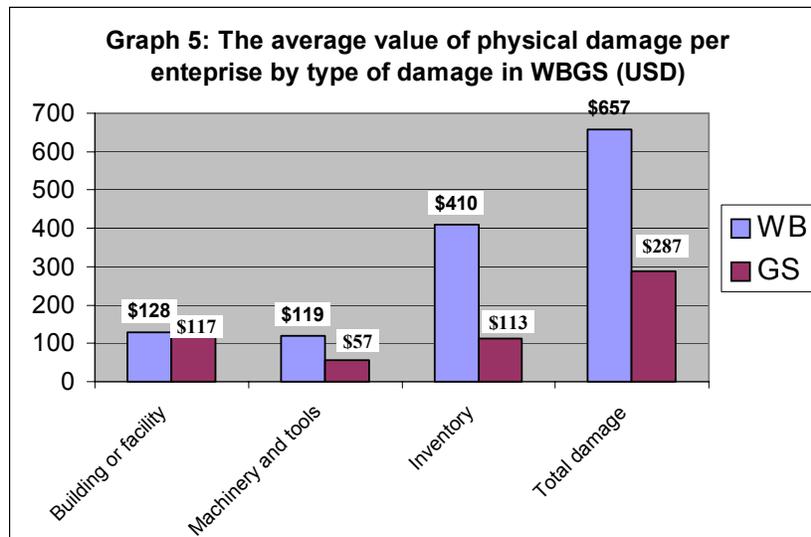
B. Impact of Israeli Incursions on the Informal Sector

Since the September 2000 outbreak of the *Al Aqsa Intifada*, the economic conditions has been deteriorating to unprecedented levels. Closures, curfews and tightened policies on movement of goods and people have resulted in severe economic losses for the Palestinian economy. The informal sector was not far from these effects.

Table 40: Percentage of informal enterprises experienced physical damage as a result of the Israeli incursions since April 2002

WBGS	Physical Damage as a Result of the Israeli Incursions Since April 2002	Location			Total
		City	Village	Camp	
WB	Yes	25.0	12.0	35	15
	No	75.0	88.0	65	85
	Total	100	100	100	100
GS	Yes	4.5	3.5	1	3.5
	No	95.5	96.5	99	96.5
	Total	100	100	100	100

- About 15 percent of informal enterprise in the WB reported physical damage due to Israeli incursions, most of which were in camps. Only 3.5 percent in the GS reported such damage. The larger percentage in the WB reporting damages is expected since the large invasion of April and reoccupying of the Palestinian National Authority areas was in the WB and not in the GS.
- The estimated number of informal enterprises in the WBGS, which suffered material physical damage, is about 7,500 and 1,800 respectively.



- The estimated average value of physical damage of each enterprise as a result of the Israeli incursions since April 2002 as reported by respondents is about \$657 in the WB and about \$287 in the GS. This is a significant amount of loss given the small size of capital investment of the informal enterprise. The inventory and raw material damage was the largest proportion of total damage.

- The total value of physical damage for the whole sector is about 5.5 million dollars distributed between the WB sector five million and GS sector about half a million dollars.

In addition to the direct physical damage experienced by a significant proportion of informal enterprises, especially in the WB, the sector also suffered from other losses such as lost sales and profits.

Table 41: Percentage of informal enterprises experienced financial losses as a result of the Israeli incursions since April 2002

WBGS	Financial losses	Location			Total
		City	Village	Camp	
WB	Yes	73	71	62	71
	No	27	29	38	29
	Total	100	100	100	100
GS	Yes	56	26	29	49
	No	44	74	71	51
	Total	100	100	100	100

- As a result of Israeli closures, siege and restrictions on movement, it appears that a large proportion of enterprises had suffered lost sales and profits. About 70 and 50 percent of the WB and the GS enterprises, respectively had suffered financial losses.

Table 42: Average sales and profit losses as a result of the Israeli incursions since April 2002 (USD)

WBGS	Sales losses	Percent of losses	Lost profits
WB	(340)	(30)	(134)
GS	(208)	(27)	(84)
Total	(292)	(29)	(116)

- An average of 30 percent of sales in the WB enterprises was lost every month since April 2002 compared to 27 percent in the GS.
- Profits fell down by \$134 per month in the WB and about \$84 in the GS for each enterprise, an average of about 30 percent down compared to profits prior to the *Intifada*.

C. Credit History and Demand

This section focuses on financing of informal enterprises and credit needs. It provides information on credit history of informal enterprises including sources of financing at the start of business and after. Furthermore, it provides information on potential credit demand and preferred features of loans.

i. Credit History

Table 43: Main source of financing the business at the start

Source	West Bank				Gaza Strip			
	City	Village	Camp	Total	City	Village	Camp	Total
Personal saving	0.64	0.73	0.65	0.71	0.60	0.62	0.74	0.63
Family heritage	0.02	0.03	0.02	0.03	0.02	0.10	0.02	0.02
Loan from family	0.16	0.06	0.12	0.09	0.16	0.11	0.06	0.14
Loan from friends	0.11	0.10	0.05	0.10	0.13	0.14	0.07	0.12
Loan from banks	0.01	0.01	0.08	0.01	0.02	0.01	0.07	0.03
Suppliers credit	0.02	0.04	0.02	0.04	0.03	0.01	0.01	0.02
Loan from money lender	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Loan from credit organizations	0.01	0.01	0.01	0.01	0.02	0.01	0.03	0.02
Insurance compensations	0.00	0.01	0.05	0.01	0.02	0.01	0.00	0.02
Many sources	0.02	0.02	0.00	0.02	0.00	0.00	0.00	0.00
Total capital	2,260	1,729	1,223	1,829	1,471	1,122	1,119	1,382

- As indicated in the above table, the majority of informal enterprises in the WB (71 percent) and GS (63 percent) used their own saving to finance the business when started.
- The second largest two sources of financing were loans from family and friends (19 percent in the WB and 26 percent in the GS).
- Only one percent obtained loans from banks in the WB and three percent in the GS. Only one percent obtained loans from credit organizations/NGOs in the West Bank and two percent in the GS. Overall, only two percent in the WB accessed formal credit sources and five percent in the GS.
- About four percent in the WB and two percent in the GS used credit suppliers to finance their own businesses at the start.
- Unexpectedly, the role of moneylenders seemed to be virtually nil.

As appears, the vast majority of informal enterprises were not able to access credit at the start of the business. The question is how many entrepreneurs tried to access formal credit? The results indicate that only three percent in the WB and about seven percent in the GS had indeed asked for loans, about half of them declined the application before they got the answer as shown in the following table.

Table 44: Asking for a loan from a credit institution at the start

Did you ask for a loan at the start of business	WBGS		Total
	WB	GS	
Yes and was refused	2.1	4.0	2.9
Yes but I decided to decline	1.2	3.0	2.0
No	96.7	93.0	95.1
Total	100	100	100

When respondents were asked if they tried to ask for a loan after they started the business, the results were also surprising as shown below:

Table 45: Asking for a loan after starting the business

WBGS	Asking for a Loan After Starting the Business	Location Type			Total
		City	Village	Camp	
WB	Yes and I got the loan	0.7	1.1	6.3	1.1
	Yes and was refused	2.8	3.4	2.7	3.3
	Yes but I decided to decline	0.8	0.7	1.8	0.8
	No	95.7	94.7	89.2	94.8
	Total	100	100	100	100
GS	Yes and I got the loan	7.7	6.6	7.0	7.5
	Yes and was refused	3.9	2.7	2.9	3.6
	Yes but I decided to decline	2.5	1.8	.9	2.1
	No	85.9	88.9	89.1	86.7
	Total	100	100	100	100

- Slightly more than five percent of informal enterprises in the WB asked for loan, the majority did not. In the GS, the results were somewhat different, slightly more than 13 percent of informal enterprises asked for loans.
- The informal enterprises in the GS had better chance of obtaining the loans than their counterparts in the WB. The results also suggest that the outreach in the GS was much better than it was in the WB.
- The amounts borrowed were as needed for about one third of borrowers and were below needs for the remaining two thirds.

When respondents were asked about reasons for not approaching credit organizations to obtain financing, the results were as follows;

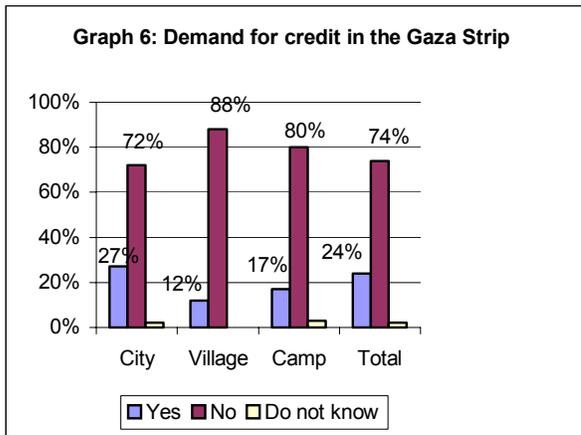
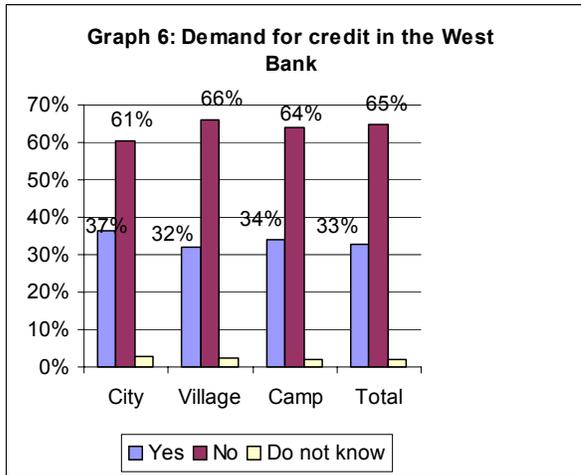
Table 46: Reasons of not asking for a Loan

The reason of not asking for a loan	WBGS		Total
	WB	GS	
No need	27.0	23.7	25.6
Risk of default	30.4	22.0	26.7
Religious reasons	24.0	45.1	33.2
Do not like to be in debt	11.1	5.6	8.7
Others	0.6	0.4	0.5
Lack of information	4.1	0.4	2.5
Lack of collateral	2.0	2.3	2.1
Difficulties of loan conditions	0.4	0.1	0.2
High interest	0.4	0.4	0.4
Total	100	100	100

- The results shown in the above table indicate that the most important three reasons for not asking for credit either that the entrepreneur believes that there is no need for a loan (about one fourth), or he/she is afraid that s/he will not be able repay the loan (about one fourth) and lastly about one third of respondents believes that credit is against their religious beliefs; mostly in the GS.
- It does not appear that the lack of information about credit organizations is a major problem. However, the entrepreneurs' fear of risk of default is a problem.
- Interest rates were not at all a problem.

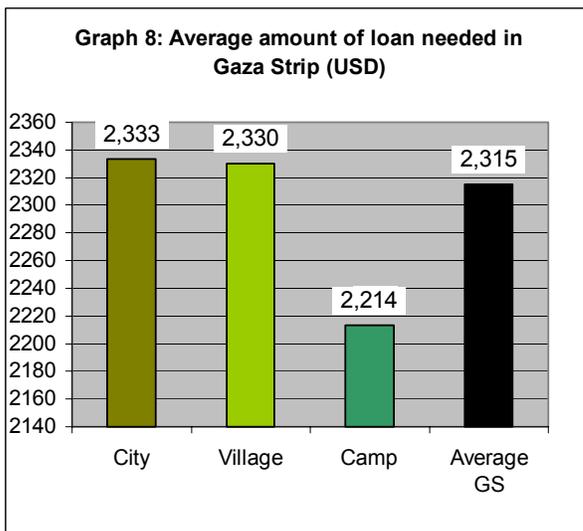
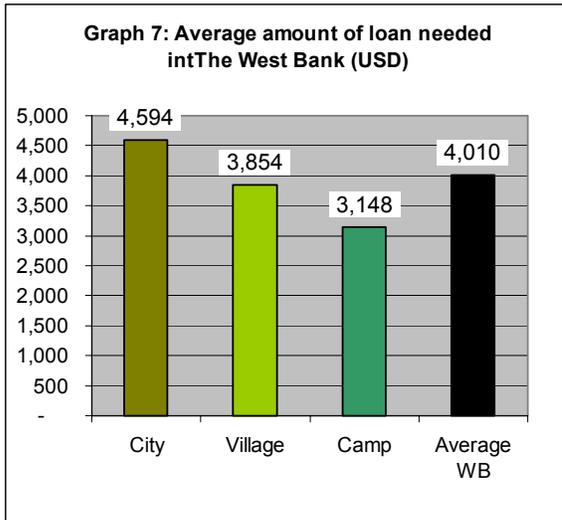
ii. Demand for Credit

The following section provides information about the potential demand for loans in the WBGS as well as features of the preferred loan.



- About one third of informal enterprises would ask for a loan in the WB without significant differences between urban, rural and refugee camps.
- In the GS, the potential demand for loans tends to be lower than the WB. On average about one fourth of informal enterprises would demand a loan, mostly in cities and camps.

The average amount of loan as stated by respondents would be as illustrated in the following graphs:



- The average loan amount required in the WB (\$4,000) is significantly higher than the average required in the GS (\$2,300).
- The amount of loan required in villages and refugee camps in the WB tends to be lower than what is required in cities. While in the GS, the loan amount in all locations is almost similar with more tendency to be lower in refugee camps.

However, the loan amounts varied from enterprise to another as shown in the following table:

Table 47: Percentage of loan amounts by category and location

Loan category	WBGS					
	WB		GS		Total	
	Average	Percent	Average	Percent	Average	Percent
150 thru 500	405	4	500	4	436	4
501 thru 1000	968	12	957	25	962	17
1001 thru 2000	1799	20	1891	39	1848	27
2001 thru 3000	2907	15	2953	18	2927	16
3001 thru 5000	4682	25	4706	10	4686	19
5001 thru 7000	6665	8	6500	3	6635	6
7001 thru 10000	8684	16	7931	2	8640	11
Total	4010	100	2315	100	3378	100

The following table depicts the potential demand for loans by districts of the WBGS:

Table 48: Demand for loan by districts of WBGS

Districts of WBGS	Need of Loan			Amount of loan (USD)
	Yes	No	Do not know	
Jenin and Tubas	27	72	2	2,976
Tulkarm	31	62	7	4,860
Qalqilya and Salfit	16	73	11	3,581
Nablus	29	67	4	3,548
Ramallah and Al-Bireh	44	53	3	4,252
Jericho	14	86	0	1,592
Bethlehem	32	68	0	1,891
Hebron	36	63	1	4,681
North Gaza	6	93	1	2,232
Gaza	28	70	2	2,335
Deir Al-Balah	13	86	1	1,713
Khanyunis	18	80	2	2,326
Rafah	15	81	3	2,494
Total	29	69	2	3,377

- The results show that there are differences between various districts of the WBGS in terms of potential demand for credit. Districts such as Ramallah and Al-Bireh, Hebron, Tulkarm, Nablus, Gaza city and Jenin are more likely to be with highest potentials for loans.

Table 49: Potential demand by economic sector

Sector	Need of Loan			Amount of loan
	Yes	No	Do not know	
Animal Husbandry	31	68	1	3,756
Manufacturing of food	31	65	4.2	3,260
Manufacturing of other product	34	63	3.3	3,837
Construction	25	75	0	4,527
Trade	29	69	2.1	3,160
Services	24	75	1.3	3,281
Total	29	69	2.2	3,377

The estimated total potential demand by sector of activity and location is depicted in the following table:

Table 50: Estimated total potential demand by sector and location in USD

WBGS	Location	Total /Error	Sectors					Average
			Animal Husbandry	Man. of food	Man. of other product	Trade	Services	
WB	City	Total	2,876,346	4,384,649	4,311,331	14,875,519	4,428,282	30,876,127
		Error	495,149	622,605	647,442	1,221,883	603,770	1,725,941
	Village	Total	11,836,034	4,985,751	5,168,447	16,410,501	5,499,583	43,900,315
		Error	816,177	571,666	621,143	929,933	461,918	1,567,503
	Camp	Total	22,189	373,932	858,774	3,429,791	446,193	5,130,879
		Error	12,595	611,371	662,911	1,913,814	625,706	2,158,693
	Total	Total	14,734,569	9,744,332	10,338,552	34,715,811	10,374,058	79,907,322
	Error	1,323,921	1,805,642	1,931,497	4,065,631	1,691,393	5,452,137	
GS	City	Total	305,799	1,637,091	2,940,052	6,583,937	2,172,605	13,639,485
		Error	26,403	292,395	255,444	276,439	153,129	552,888
	Village	Total	392,307	237,086	726,240	747,490	186,575	2,289,699
		Error	201,219	79,944	191,732	132,419	75,179	591,588
	Camp	Total	950,668	701,892	1,975,029	3,255,011	1,544,192	8,426,791
		Error	191,377	142,710	432,683	371,513	286,585	724,733
	Total	Total	1,648,774	2,576,070	5,641,321	10,586,438	3,903,372	24,355,975
	Error	418,999	515,049	879,859	780,371	514,893	1,869,209	
Total	Total	16,383,343	12,320,402	15,979,874	45,302,249	14,277,430	104,263,297	
	Error	1,742,920	2,320,692	2,811,355	4,846,002	2,206,286	7,321,345	

- The estimated total potential demand for of loans is about 105 million dollars distributed between the WB (about 80 million) and the GS (about 25 million).
- More than half of the demand will come from villages in the WB and from cities in the GS.

It is unrealistic to assume that all informal enterprises will ask for loans in reality. The experience tells that less than 50 percent will be really asking for loans and from those 50 percent, about half will actually obtain loans. Consequently, the real required supply may not exceed the amount of 25 million dollars to satisfy the expected demand.

As far as the loan features preferred, the following summarizes the results:

- Loan duration: the majority (about two thirds) preferred loans with more than 18 months loan term. About one quarter asked for loans with duration of less than one year, mostly in the GS.
- Repayment schedule: the majority in the WBGS (83 percent) preferred monthly payments. About eight percent preferred quarterly payments and six percent preferred semiannual payments.
- Interest rate: most respondents in the WB felt that an average of 1.74 percent per month would be acceptable while most of the GS respondents stated that an average of 1.9 percent per month would be reasonable.

IV. Conclusion and Recommendations

This study provides empirical evidence supporting the importance of the informal sector in Palestine. In only the last three years, about 50,000 informal enterprises have been established, doubling the number of informal enterprises existing previously. The increasing trend towards establishing informal businesses is not what the Palestinian were hoping for given that these enterprises are not viewed as a vehicle for economic development but rather as a spontaneous response to deteriorating economic conditions and increasing poverty.

The informal sector is significant both as a source of employment generation and income. The sector is now estimated to employ more than 180,000 people, of which a significant proportion (14 percent) is women, and to generate annually about \$300 million to the economy. On average it contributes more than 50 percent of the monthly income of about 100 thousand households, around 25 percent of the Palestinian population. More than 50 percent of interviewed owners of enterprises stated that they are looking forward for expanding their businesses into larger ones. The rest mentioned that they have no plans of leaving the enterprise and that there is no alternative employment source for them. Therefore, the sector needs attention, support, and development.

The inherent characteristics of the informal enterprise and the lack of a supporting environment impede the chances for growth and development and increase the burden on policy makers and donors towards more aggressive development strategies and policies. Hence, the challenge becomes evident in creating the required enabling environment for a smooth transformation into small businesses and eventually larger ones.

In spite of the structural development constraints facing the informal enterprise, there are potentials for improvement towards transformation. Three main areas of intervention can be identified.

A. Integration of the Informal Sector into the Development Process

So far, the development programs whether government or donor ones has neglected to incorporate policies and strategies targeting the informal sector in their development plans. This is partially explained by the fact that development policies and programs were designed to address more of upper private sector development issues guided by a vision of peace and stability. This might have been valid prior to September 2000. Today, the need for new development approach persists. Even, if a breakthrough in the political situation is to happen in the foreseeable future, there is no guarantee that that the private sector will regain confidence. The flexibility of the informal enterprise and its ability to absorb shocks and adapt to dramatic changes qualifies it to be the vehicle of survival for thousands of Palestinian entrepreneurs for several years to come. This is not to suggest that the informal sector is the alternative development strategy for Palestinians, but rather it is the alternative survival strategy at this stage of economic hardship and challenges and the natural response to war against poverty. This will require intervention in policy formulation and assistance programs to specifically target this sector not only to keep it surviving but also to flourish it and support its transformation into more sound businesses with higher potential for growth and development.

B. Financing and Credit

A significant proportion of respondents suggested that financing is a crucial area to address in the development process. There are some microcredit NGOs that target the informal sector beside other targets. However, the outreach is still far from covering the width and depth of thousands of informal enterprises spreading all over. The results of this research shows the need for credit in various areas and sectors translated into numbers and features. In order for the enterprise to grow and expand, it needs to increase its capital and sales. This is not possible without financing sources given that this type of enterprise does not accumulate capital. Credit programs might be designed to focus on informal enterprises with flexibility in the design and requirements. Moreover, the legal environment of micro lending should be developed and policies must be formulated in order to build a micro finance industry that also helps nourish this significant sector in Palestine. Experience worldwide has proven that access to liquid and safe (micro) savings services are just as important, and in some cases more important, than access to microcredit products. This has especially been shown to be true for poorer households and in environments affected by conflict. Some attention needs to be paid to the issue of access to savings services. However, the Palestinian laws do not allow MFIs to offer saving services, only banks are allowed to do so and banks are not yet interested in providing microfinance products and services. As such, the need to address this issue is crucial to the development of the informal sector.

C. Training and Technical Assistance

The low level of education, the lack of managerial and marketing skills, the low level of technology in use and the individualistic relationship with sources of input and the market require integrated programs to help informal enterprises upgrade and develop. Demand driven training and technical assistance programs primarily focusing on upgrading the skills of entrepreneurs and the structure of the enterprise may help in sustaining these enterprises and assisting in the transformation process. The assistance may take the form of tailored training activities targeting certain segments in the field of management, technical and vocational skills and knowledge. In addition, programs that target the upgrading of the tools and machines used in production may also help in expanding the opportunities for growth and development. Furthermore, the development of mechanisms that help alleviate part of the weaknesses resulting from the nature of relationship between the enterprise and the market would also strengthen it and increases its profitability. Such mechanisms may include the creation of networks between clusters that complement each other, marketing associations to help market products and increase bargaining power and some sort of collective buying for certain raw material.

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Annexes

Annex 1: Scope of Work

Annex 2: Survey Methodology and Sampling Technique

Annex 3: Line of Business According to International Standard Industry Code

Annex 1: Scope of Work

CHEMONICS INTERNATIONAL

ISAMI Project Scope of Work - #Massar-12-2002

Analytical Research of the Palestinian Informal Economic Sector: Significance, Size, Characteristics and Needs

I. Background

Through the FS IQC Task Order #802, “Building a Microfinance Industry in the West Bank and Gaza” (ISAMI Project) USAID is supporting a program of technical assistance and training to commercial banks and non-profit organizations to develop a sustainable microlending industry in the West Bank and Gaza, targeting its Strategic Objective #1, “expanded private sector economic opportunities”. Small and micro enterprises conduct approximately ninety-five percent of the business in the West Bank and Gaza. There is a need to make formal credit available to these enterprises. Chemonics International and its partners are implementing the Project to enhance the potential for rapid growth of microlending and to make the availability of this product and other related financial services a permanent and sustainable feature in the region. This Project consists of seven components that work to achieve the main objective of establishing a sustainable Palestinian microfinance industry.

II. Purpose of Assignment

The informal economic sector in the West Bank and Gaza is a hidden sector which is not accounted for in the economy’s GDP measurement; thus, no formal development policies exist to support its growth and transformation. The literature on the sector is very limited and little has been done to explore its potential, however the few available reports suggest that the sector is large, economically significant and contributes substantially to the welfare of poor Palestinians.

Because of the sector’s significance, particularly in these difficult economic times when the formal sector is faltering, a comprehensive study of the informal sector is essential to assist policy makers, development agencies and micro finance institutions, in their efforts to alleviate poverty and stimulate private sector economic opportunities. The rationale for such a study may be summarized as follows:

- There is an obvious shortage of information about the sector, with respect to its size, characteristics, concentration, contribution and needs.
- A recent survey conducted by Massar Associates suggests that there are about 50,000 informal business establishments in WBG and that they contribute significantly to the economic survival of the poor.
- There are no formal, systematic and focused efforts to assist this sector, due to the lack of information about its importance, nature and contribution to the welfare of Palestinians.
- It is likely that the informal sector has increased substantially during the past two years, due to the deterioration of the formal sector and rising unemployment.

- With proper support based on an understanding of the informal sector, informal businesses may gradually transform into formal small businesses and in so doing, create increased business opportunities and employment.
- Small and micro finance institutions, although targeting this sector, need additional insight and information in order to better focus marketing efforts and increase outreach. This is why the Steering Committee of the Palestinian Network for Small and Micro Finance, has designated as a priority a comprehensive study of the informal sector.

The purpose of this assignment, therefore, is to provide a comprehensive descriptive and analytical study of the Palestinian informal economic sector, so that the study can be made available to policy makers, NGOs, small and micro lenders, and donor agencies, to better enable them to make informed decisions and design appropriate interventions relative to the informal sector.

This assignment is Objective #2 under, “G. Research and Studies”, of the Network’s 2002 Work Plan and fits within Component 6, “Studies, Seminars & Analyses” of the ISAMI 2002 Work Plan.

III. Tasks of the Consultant

Task One: Review available literature on the subject and summarize in a brief report, to include:

- Profile studies available on the Palestinian informal sector.
- Description of the subject matter of each study.
- Preparation of an abstract of each study.

Task Two: Design and execute a study investigating and analyzing the Palestinian informal economic sector, to include:

- Definition of sample unit and characteristics.
- Definition of sampling techniques including type and size, with consideration given to multi-stage sampling technique.
- Design of methodology and research instruments, including questionnaire design, survey administration, instructions, and monitoring and quality assurance of collected information.
- Design SPSS database to conduct the necessary analysis.
- Undertake data entry, data cleaning, tabulation and analysis.
- Report findings.

IV. Deliverables

A detailed report addressing the following issues:

- Definition and criteria of the Palestinian informal economic sector.
- Evolution of the informal economic sector.
- Informal sector size, characteristics, management, structure, distribution, business-types, sector concentration.
- Contribution to the welfare of households.
- Contribution to the Palestinian Gross Domestic Product.
- Sector employment contribution.

- Sector capital investment.
- Sources of inputs and markets for outputs.
- Total revenues, cash flow and return on investment.
- Sources of finance, demand for credit and preferences, challenges and constraints, needs and requirements.
- Trends, growth potential, and possibilities for transformation into formal sector small businesses.
- Recommendations for interventions.

V. Qualifications

The consultant firm must have a history of successfully undertaking socio/economic studies within WBG and must be well known and regarded by ISAMI. The consultant firm ISAMI prefers for this assignment is Massar Associates.

VI. Personnel Requirements and Timing

- Project Leader/Analyst, with ample management experience in the field of research at a graduate level.
- Microfinance Specialist (expat from CI HO), with minimum of 10 years of microfinance experience and strong analytical skills to provide input to the development of study methodology and survey design, review survey process, and assist with finalization of study.
- Sociologist, with at least five years experience in development studies and research.
- Statistician, with expertise in survey design and SPSS application.
- Two Survey Supervisors, one in West Bank and one in Gaza.
- Ten Field Workers, with experience in field work and questionnaire administration.

Completion of this assignment should be three months from time of inception, provided closures and movement restrictions in WBG do not intensify.

VII. Reporting

The consulting firm will report to the chief of party or his designee.

Annex 2: Methodology

Methodology of the Informal Sector Survey

The following sections describes in details the methodology and research instruments used in conducting the survey.

Objective

To generate reliable and representative data that reflects the characteristics and the size of the informal sector in the West Bank and Gaza Strip.

Target Population

The informal enterprises in cities, villages and camps in the West Bank and Gaza Strip are the target population for the purposes of this survey.

Informal Sector

The Informal Sector consists of home-based enterprises, permanent establishments with physical structure, kiosks, mobile businesses such as street vendors and others. These enterprises produce products and services for the purpose of commerce and not for private consumption. Characteristics of informal business may include:

- Small businesses with limited capital
- Businesses with five employees or less with low wages, long work hours and poor working conditions
- Individually or family-operated businesses
- Businesses in which the owner also serves as the business manager
- Utilization of basic technology
- Dependence on local suppliers
- Lack of official registration with government institutions
- Simple organization and lack of bookkeeping
- Products directed to a specific, local geographic area
- Marketing based primarily on friendships and personal relationships

Sampling Procedures

The sample frame of informal enterprises is not clearly defined and in order to locate and access the elementary units (informal enterprises) a series of numeration units must were used. The number of households was used as the base for sampling and served as the final numeration unit for selecting sample elementary units.

Multi-stage sampling is the most practical technique for a large population where there is no need to list all the households in the population. The applied multi-stage sampling

methodology consists of three main stages: first, the population is divided into stratum of cities, villages, and camps. Second, the population of each stratum is divided into *clusters of households* and then a simple random sample of clusters is selected. Third, a systematic random sample of households is then selected from within each selected cluster.

The process started with listing of governorates in the West Bank and Gaza Strip. Cities, villages, and camps within each governorate were then listed. Each location was divided into neighborhoods and neighborhood-based “clusters” were selected to serve as the base for household field visits.

As such, the multi-stage sampling technique ensures coverage and considers the characteristics of distribution for each numeration unit.

The following section provides more details about the applied sampling technique:

Stage One

The *Cluster sample method* divides the population into a number of groups of elements. Each group represents a cluster and each element of the population belongs to only one cluster. The smaller the cluster size, the more reliable the sample as a greater number of clusters are selected. Cluster samples provide better results when the elements within the clusters are heterogeneous and the variance between clusters is less pronounced. Cluster sampling is the most appropriate technique for approaching sample units within segments of a large population, although it generally provides less reliability than a random sample or stratified sample of similar size. Therefore, certain steps must be taken to compensate for decreased reliability, such as increasing the sample size, increasing the number of selected clusters, stratification according to household distribution in cities, villages, and camps and reduction of the size of clusters to an accepted level of efficiency.

The following steps illustrate the number of sample clusters and sample size:

1. Size of stratified sample among governorates' cities, villages and camps

Assuming that the informal economic sector varies among governorates and type of location, cities, villages, and camps, due to the population size, availability of economic resources and standards of living. The *stratified sample* assures that each governorate and location-type is represented by an adequate size of selected sample units. Mathematically, based on the stratified sample method, the sample size (n) is determined by the following equation:

$$n = \frac{\left(\sum_{h=1}^H N_h \sqrt{\bar{P}_h (1 - \bar{P}_h)} \right)^2}{N^2 \left(\frac{B^2}{4} \right) + \sum_{h=1}^H N_h \bar{P}_h (1 - \bar{P}_h)}$$

Where

H = the number of strata

P_h = the sample proportion for stratum h

N_h = the number of elements in the population in stratum h

N = the total number of elements in the population : $N = N_1 + N_2 + \dots + N_h$

B = the bound error

In order to determine the standard random sample size of informal enterprises, the applied method is set to accept a bound error (B) of about 3% with a confidence level of 95%, and the expectation of the population proportion at 50% for any variable under the study. Using the distribution of households in the West Bank and Gaza Strip as the sample frame, the above stratified sample equation can be solved for the expression n resulting in 1,108 households. This sample size is used and adjusted as the base of the sample size required for cluster sampling.

2. *Intra-clusters correlation coefficient*

This is the key term to determine the design effect of the sample size. According to experts in the field of statistics and based on our experts' judgment when there is no information available on the variables of interest (informal sector), the sample size of the *stratified sample method* would increase by around 50% and the sample size per cluster is reduced to 10 informal enterprises to compensate for the decreased accuracy in cluster sampling. Therefore, the adjusted actual sample size equals 1577 informal enterprises and the number of selected clusters is 163.

3. *Cluster size and number*

Based on the preliminary results of previous studies, the informal sector size in the West Bank and Gaza Strip is estimated at 50,000 enterprises. This is equivalent to around 13% of the total number of households in the West Bank and Gaza Strip. Therefore, in order to locate and interview 10 informal enterprises, it is required to visit 77 households. Because the systematic random sample of informal enterprises is selected by interviewing each third household in the selected cluster, the required average cluster size increases to (77×3) equaling approximately 230 households.

As such, the population of households in the West Bank and Gaza Strip is divided into 1,682 clusters using the average size of 230 households per cluster.

Stage Two

The *stratified sample distribution of clusters* assures that the three types of residential areas (cities, villages and camps) in each governorate are represented of an adequate size of selected sample units. The required number of sample clusters is stratified among governorates and among cities, villages, and camps within each governorate based on the distribution of number of clusters per stratum. Then the method is drawn a random selection of the required sample of clusters per strata.

Stage Three

The required sample of households is drawn randomly by visiting the third house in each cluster until 10 informal enterprises have been interviewed. Upon completion of stage three, 9,512 households and 1,698 informal enterprises had been interviewed.

The following table, based on the 1997 census, summarizes the distribution of households in terms of governorates, location, actual number of clusters per location, number of selected random sample of clusters, number of households interviewed and number of informal enterprises interviewed in the West Bank and Gaza Strip.

Table 1: Distribution of households and applied sampling by governorates and location types (excluding East Jerusalem)

WBGS	Governorates	Location	Households 1997*	Cluster	Sample Cluster	Sample of Houses	Informal Projects
WB	Bethlehem	1- City	4158	18	2	140	20
		2- Village	16520	72	7	380	69
		3- Camp	1924	8	1	50	10
		Total	22602	98	10	570	99
	Hebron	1- City	18330	80	8	668	75
		2- Village	37792	164	16	1112	159
		3- Camp	1705	7	1	72	10
		Total	57827	251	25	1852	244
	Jenin and Tubas	1- City	6861	30	4	215	39
		2- Village	29445	128	12	1135	120
		3- Camp	2349	10	1	58	10
		Total	38655	168	17	1408	169
	Jericho	1- City	2394	10	1	33	10
		2- Village	1653	7	1	27	10
		3- Camp	1039	4	1	25	10
		Total	5086	21	3	85	30
	Nablus	1- City	17977	78	8	447	79
		2- Village	20550	89	9	1529	90
		3- Camp	4359	19	2	106	20
		Total	42886	186	19	2082	189
Qalqilya and Salfit	1- City	6955	30	3	80	30	
	2- Village	12288	53	5	130	50	
	Total	19243	83	8	210	80	
Ramallah & Al-Bireh	1- City	8685	38	4	165	40	
	2- Village	23816	103	10	355	100	
	3- Camp	2152	9	1	25	10	
	Total	34653	150	15	545	150	
Tulkarm	1- City	6139	27	3	115	28	
	2- Village	13573	59	7	250	59	
	3- Camp	2602	11	1	36	10	
	Total	22314	97	11	401	97	
Total WB		243266	1054	108	7153	1058	
GS	Deir Al - Balah	1- City	2007	9	1	29	10
		2- Village	2161	9	1	38	10
		3- Camp	16692	73	7	226	70
		Total	20860	91	9	293	90
	Gaza	1- City **	43757	85	11	792	200
		3- Camp	8654	38	4	171	40
		Total	52411	123	15	963	240
	Khanyunis	1- City	6515	28	3	129	30
		2- Village	10828	47	5	154	50
		3- Camp	11333	49	4	164	40
		Total	28676	124	12	447	120
	North Gaza	1- City	9718	42	4	131	40
		2- Village	3810	17	2	50	20
		3- Camp	11437	50	5	169	50
		Total	24965	109	11	350	110
	Rafah	1- City	2628	11	1	29	10
		2- Village	1713	8	1	36	10
3- Camp		13127	57	6	241	60	
Total		17468	76	8	306	80	
Total GS		144380	523	55	2359	640	
Grand Total		387646	1577	163	9512	1698	

* The source of household numbers is PCBS 1997 census. ** For practical reasons, the cluster size in Gaza City was increased 100% therefore the number of clusters decreased by about 100%.

Selection of Respondents

The questionnaires were administered to informal enterprise owners or managers (sample unit). The field workers selected the sample of informal enterprises randomly according to the following procedures:

1. The city, village, or camp area was mapped and divided into equal clusters based on the sampling distribution to a cluster size of 230 households and each cluster was assigned a name and a number.
2. The number of random sample of clusters is based on the sample distribution. This is achieved through a Microsoft Access database consisting of the sampling frame and containing all the numbers assigned to clusters. The database was then used to generate a random selection based on built-in randomization and random functions.
3. Within each cluster, the third household was selected and classified according to a contact sheet consisting of several screening questions to determine whether or not the household runs an informal enterprise. In cases where the household failed to meet the necessary criterion, the next household was selected.
4. The field worker then conducted interviews with the selected informal enterprises until the required number of informal enterprises had been surveyed.

Managing the field work:

In order to minimize human error and maximize reliability, the survey manager took the following steps and measures:

1. The survey objectives, methodology, administration, contact sheet and questionnaire were discussed with the surveyors; clear and comprehensive written instructions were provided to and discussed with the surveyors in the first step of orientation and training.
2. The written instructions explain and describe the following main issues:
 - Survey objectives, targeted population and distribution of the sample size.
 - List of names of business lines in each economic sector.
 - The procedures for selecting and interviewing cases.
 - The way to deal with the sensitivity of some necessary questions.
 - Steps and quality of filling the questionnaire.
3. The field workers were trained in and tested on conducting interviews and filling in the questionnaire.

4. In WB and GS, two survey managers coordinated the fieldwork with the help of one fieldwork coordinator in each governorate in the West Bank and Gaza Strip. Survey managers and coordinators managed and followed-up with the field workers on a daily basis through meetings, visits and telephone calls.
5. All the received questionnaires are audited and feedback was sent to the field workers. The survey manager ensured that the name and number of clusters, , date of the interview and name of the interviewer on each questionnaire are filled in correctly, and checked to make sure that the information on both questionnaire and contact sheet matched.
6. Upon completion, questionnaires were delivered to Massar’s main office in Ramallah. The Project Manager randomly checked and ensured that all questionnaires were completed properly and according to the established procedures.

Sample analysis

In order to estimate the percentage of informal enterprises per household and thereby determine the approximate number of informal enterprises in the West Bank and Gaza Strip, the sample analysis applies a two-stage cluster analysis formula at the level of each stratum, and a stratified sampling formula at the level of the entire West Bank and Gaza Strip.

In addition, since applying the cluster analysis formulas within informal enterprises for each variable is very complicated, the analysis set weights for cases based on both the stratified cluster random sample frame and the actual selection. The weight is the product of the ratios at each stage of sampling, as demonstrated in the following formula:

$$\text{Weight} = (\text{Interviewed Informal enterprises} / \text{Selected households}) * (\text{selected cluster sample} / \text{number of clusters}) * (\text{Number of household} / \text{Number of population households})$$

For example, the following table depicts a real example used for computing the weight for the interviewed informal sector businesses within one cluster in a village near Ramallah.

Households		Cluster		Informal enterprises	
Number of households in WBGS (h)	387,646	Selected cluster sample in village of Ramallah (c)	10	Interviewed informal enterprises (n)	10
Number of household in villages of Ramallah (H)	23,816	Number of clusters in villages of Ramallah (C)	103	Selected households (S)	103
W1= h/H	0.061	W2 = c/C	0.097	W3= n/S	0.097
W=W1*W2*W3	0.00058				

For future surveys of informal enterprises in the West Bank and Gaza Strip or any sub-population including cities, villages, and camps, based on the actual results of the survey, estimations of the intra-cluster correlation coefficient (*ICC*) and the design effect (*Deff*) of the cluster samples are computed based on *ANOVA* tables. The $ICC = 1 - (M / (M - 1)) * SSW / SST$ where *M*: the average size of cluster, *SSW*: sum square variance within clusters, and *SST*: sum square total variance. *ICC* measures how similar elements in the same cluster are compared. The cluster sampling is less efficient than simple random sampling of elements as the value of *ICC* increases. The $Deff = 1 + (M - 1) * ICC$ where *M*: the average size of cluster. The *Deff* quantifies the required increase of the standard sample size to compensate the inaccuracy of cluster sampling, the standard simple random sample estimates are multiplied by *Deff* for cluster sampling. The following table demonstrates the *ICC* and *Deff* for cluster sampling within different population and sub-population groups in the West Bank and Gaza Strip. The table shows that cluster sampling is more efficient than standard random sampling when it is stratified based on a particular type of location.

Population and sub-population	M	ICC	Deff
Within WBGS	246	0.06263	16.3
Within WB	230	0.05952	14.6
Within GS	276	0.01427	4.9
By types of location within WB	230	(0.00014)	1.0
By types of location within GS	276	(0.00172)	0.5
By types of location with WBGS	246	0.00738	2.8
Within cities within WB	230	0.04090	10.4
Within villages within WB	231	0.06466	15.9
Within camps within WB	237	0.03510	9.3
Within cities within GS	369	0.00933	4.4
Within villages within GS	229	0.00910	3.1
Within camps within GS	229	0.01694	4.9

ANNEX 3: LINE OF BUSINESS ACCORDING TO INTERNATIONAL STANDARD INDUSTRY CODE

Line of business according to International Standard Industry Code

ISIC	Line of Business	WBGS		Total
		WB	GS	
121	Farming of cattle, sheep & goats	3.4	3.9	3.6
122	Other animal farming; and animal products	15.7	5.3	11.1
1511	Production, & preserving of meat products	5.1	3.1	4.2
1513	preserving of fruit & vegetables	0.0	0.4	0.2
1520	Manufacture of diary products	1.6	1.2	1.4
1531	Manufacture of grain mill products	1.2	0.6	1.0
1541	Manufacture of bakery products	0.7	0.1	0.4
1543	Manufacture of chocolate & sugar products	0.6	1.4	1.0
1549	Manufacture of other food products n.e.c	3.1	3.9	3.4
1711	Spinning of textile fibbers	0.2	0.1	0.2
1722	Manufacture of carpets & rugs	0.2	0.0	0.1
1723	Manufacture of rope	0.2	0.0	0.1
1729	Manufacture of other textiles n.e.c	1.7	0.5	1.2
1810	Manufacture of wearing apparel	4.4	4.7	4.5
1920	Manufacture of footwear	0.6	0.4	0.5
2029	Manufacture of other products of wood	0.2	0.1	0.2
2102	Manufacture of paper containers	0.0	0.2	0.1
2424	Manufacture of soap and detergent	0.2	1.1	0.6
2610	Manufacture of glass & glass products	0.1	0.0	0.1
2699	Manufacture of other non metallic	0.4	0.0	0.2
2891	Forging, pressing roll-forming of metal	0.6	1.6	1.0
3190	Manufacture of other electrical equipment	0.0	0.3	0.2
3610	Manufacture of furniture	1.8	0.9	1.4
4540	Building completion	0.4	2.1	1.2
5020	Maintenance & ,repair of motor Vehicles	2.1	3.5	2.7
5121	Wholesale of agricultural raw materials	1.1	0.2	0.7
5141	Wholesale of solid, liquid fuels	0.3	0.0	0.2
5211	Retail sale in stores with food	12.1	9.4	10.9
5219	Other retail sale in non-specialized stores	1.6	2.6	2.1
5220	Retail sale of food in specialized stores	9.1	9.5	9.3
5231	Retail sale of pharmaceutical goods & cosmetics	0.3	0.8	0.5
5232	Retail sale of textiles, clothing & footwear	5.3	2.5	4.1
5233	Retail sale of household appliances	1.0	2.0	1.5
5239	Other retail sale in specialized stores	8.4	17.5	12.5
5252	Retail sale via stalls & markets	1.1	0.8	1.0
5520	Restaurants, bars & canteens	0.7	0.1	0.4
6023	Freight transport by road	0.4	0.0	0.2
7129	Renting of other machinery & equipment	0.2	0.4	0.3
7250	Maintenance of office, accounting	2.4	6.1	4.0
7290	Other computer related activities	1.1	1.5	1.3
7494	Photographic activities	0.9	0.9	0.9
7499	Other business activities	0.1	0.1	0.1
8090	Adult and other education	0.5	1.0	0.7
9231	Library and archives activities	1.1	1.9	1.5
9249	Other recreational activities	0.8	1.1	0.9
9301	Washing and cleaning of textile	0.1	0.1	0.1
9302	Hairdressing and beauty treatment	6.2	5.6	6.0
9309	Other service activities n.e.c	0.7	0.4	0.5
	Total	100	100	100